Tarrifs and trade

Business, Marketing

Tariffs and Trade Lecturer Impacts of an import tariff in small nations Consumers of a good in an importing country are worse off due to the tariff imposition. An increase in the domestic price of imported and domestic substitutes will reduce the consumer’s surplus in the market. Producers of the importing nation will be better due to the tariff as increases in price increases the producer’s surplus in the industry (Irwin, 2010). The total welfare results of a nation can be determined by adding up the losses and gains of producers, consumers and government. Two components consists the net effect that is a negative consumption efficiency loss plus a negative production loss; thus, the net national effect resulting from the tariff is negative. Thus, the overall effect of a tariff implemented by a small nation must reduce the national welfare (Nunn & Trefler, 2010). Thus, whenever a small country will implement the tariff, the national welfare is bound to fall, and the higher the tariff will be set, the more the loss will be experienced and consumers will lose as government recipients and producers spending gain.

Impacts of an import tariff in large nations

In a large country, consumers of the good suffer from the price increase, as the producers will experience a well-being increase from the tariff. Thus, the tariff net effect is composed of three major results that are a negative distortion in production, positive trade effect terms as well as a negative consumption distortion. Thus, there are both positive and negative elements as the effect can be either negative or positive. However, the overall result is that it can be positive implying that a tariff that is implemented by a large nation may increase the national welfare (Debaere & Mostashari, 2010).

Main reasons why governments prefer using a tariff to restrict imports versus quotas

Unlike quotas, tariffs are important as they generate the government some revenue. The US according to statistics collects over 20 billion a year from revenue from tariff that could be lost with quotas (Motoshige Itoh & Yoshiyasu Ono, 1982). Another reason is that quotas may result in administrative corruption. Tariffs provide customs officials with authority and power providing access to favored organizations and denying the lesser-favored ones as opposed to import quotas. Moreover, import quotas have a high probability of causing smuggling especially when set at unreasonable values (Grant, Hertel, & Rutherford, 2009).

Utilization of a weak dollar exchange rate policy to make imports more expensive for the benefit of the exporters

A strong dollar is good while, on the other hand, weak is bad. As the generalization sounds simple, it is very different and confusing when it comes to the dollar. A strong dollar is very strong when compared to other foreign currency, and the vice-versa is true. For business matters, a weak dollar is essential since it makes exports cheaper for the foreign buyers. Moreover, it makes it very cheap and easy making imports from foreign countries like China to be more expensive for American consumers. These lenders the U S households to debt and thus there is a need to increase their savings. Thus, a weak dollar trade is important in helping to bolster the economy (Qiao, 2007).

Roles of IMF and WTO in trade and the use of tariffs

Both WTO and IMF are organizations that are international with over 150

members that are common. The two organizations play a significant role in trade. The IMF main role is the central focus on international monetary as well as the financial systems while the world Trade Organization role is on the international trading system (Bagwell & Staiger, 2010). Both organizations work in Unisom in ensuring a sound global system for trade and payments. Other roles played by IMF entail facilitating expansion and growth of international trade, enhancing exchange stability and enhancing orderly correlations of nation's balance of payment difficulties (Broda, Limão, & Weinstein, 2008).

References

Bagwell, K., & Staiger, R. W. (2010). The World Trade Organization: Theory and Practice. Annual Review of Economics. doi: 10. 1146/annurev. economics. 102308. 124500

Broda, C., Limão, N., & Weinstein, D. E. (2008). Optimal tariffs and market power: The evidence. American Economic Review, 98, 2032–2065. doi: 10. 1257/aer. 98. 5. 2032

Debaere, P., & Mostashari, S. (2010). Do tariffs matter for the extensive margin of international trade? An empirical analysis. Journal of International Economics, 81, 163–169. doi: 10. 1016/j. jinteco. 2010. 03. 005

Grant, J. H., Hertel, T. W., & Rutherford, T. F. (2009). Dairy tariff-quota liberalization: Contrasting bilateral and most favored nation reform options. American Journal of Agricultural Economics, 91, 673–684. doi: 10. 1111/j. 1467-8276. 2009. 01263. x

Irwin, D. A. (2010). Trade Restrictiveness and Deadweight Losses from US Tariffs. American Economic Journal: Economic Policy. doi: 10. 1257/pol. 2. 3.

111

Motoshige Itoh, & Yoshiyasu Ono. (1982). Tariffs , Quotas , and Market. The Quarterly Journal of Economics, 97, 295–305.

Nunn, N., & Trefler, D. (2010). The Structure of Tariffs and Long-Term Growth. American Economic Journal: Macroeconomics. doi: 10. 1257/mac. 2. 4. 158

Qiao, H. (2007). Exchange rates and trade balances under the dollar standard. Journal of Policy Modeling, 29, 765–782. doi: 10. 1016/j. jpolmod. 2007. 06. 011