Specific products

Business

Many economies will encourage exports of specific products. This is because they want to maximize their foreign exchange earnings. For them to achieve this objective, they may use export subsidies. Export subsidies are those payments that the government makes in promoting export of locally produced goods. This normally happens when the locally produced goods are not successfully competing with those from other economies due to high price. Their high prices are normally attributed to high cost of production.

The solution can only be obtained by involving the government. In order to protect such an industry from being driven out of operation, protectionism is very vital. One way of doing so is by introduction an export subsidy. Such a decision has its own costs. The government must provide the necessary funds from its budgetary allocations. The domestic prices of the commodity will then increase. Consequently, consumer surplus will decrease. As a result there will be a negative impact on consumer well-being in the country in which the export subsidy has been introduced.

(Robert C. Feenstra, Alan M. Taylor, 2008, chap. 10, http://internationalecon. com/Trade/Tch90/T90-27. php) A government may also introduce an import tariff as a way to protect its infant industries which may not be in a position to compete with other industries in the world market. Infant industries lack efficienttechnologyand sufficient capital. As a result they incur high costs in production. They cannot therefore reap the full benefits of economies of scale.

Their products are therefore sold at a higher price in the domestic market than the cheaply produced goods from other countries whose industries are already well established. An import tariff will therefore increase the domestic

price of not only imported goods but also the substitute goods that are produced domestically. This will therefore mean that consumer surplus in the domestic market will be reduced, thus reducing the general consumer well-being. (http://www. amazon. com/International-Economics-Robert-C-Feenstra/dp/0716792834 & http://internationalecon.

com/Trade/Tch90/T90-11. php) Both export subsidy and import tariff will impact negatively on the consumer welfare in that specific country where they have been introduced. They will tend to increase the prices of imports at a higher rate than export prices and thus worsen the terms of trade. If the growth of any country is biased in favor of its imports, it means that the products to be imported favor its developmentgoals. The imported products should comfortably suit the countries level of technology as well as the locally available resources.

Importation of raw materials should be encouraged much more than importation of final goods. This is because intermediary goods will lead to job creation and final goods which will cost less and hence improvement in the welfare of the people. Final goods should be imported after considering the people's average level of income. Importation of extremely expensive goods will deny many people the access to them and limit their choice and preferences. Their welfare will therefore deteriorate.

Imports should breach the gap between the demand and supply of goods and services. In case of intermediary goods, the production of more goods should be stimulated. This will enable the people to import goods at lower price than they did previously. The surplus can also be exported at a higher price than before. This will actually mean that for the country to import a

certain good, they will only need to forgo few exports. As a result, the terms of trade will improve and the peoples level of economic welfare will improve.

Works cited

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