The effect on the economic economics essay

Tariffs are a boon to domestic producers who now face reduced competition in their home market. The reduced competition causes prices to rise. The sales of domestic producers should also rise. The increased production and price causes domestic producers to hire more workers which causes consumer spending to rise. The tariffs also increase government revenues that can be used to the benefit of the economy.

There are costs to tariffs, however. Now the price of the good with the tariff has increased, the consumer is forced to either buy less of this good or less of some other good. The price increase can be thought of as a reduction in consumer income. Since consumers are purchasing less, domestic producers in other industries are selling less, causing a decline in the economy.

Generally the benefit caused by the increased domestic production in the tariff protected industry plus the increased government revenues does not offset the losses the increased prices cause consumers and the costs of imposing and collecting the tariff.

In almost all instances the tariff causes a net loss to the economies of both the country imposing the tariff and the country the tariff is imposed on. A foreign tariff raises the costs of domestic producers which causes them to sell less in those foreign markets.

In the case of the softwood lumber dispute, it is estimated that recent American tariffs have cost Canadian lumber producers 1. 5 billion Canadian dollars. Producers cut production due to this reduction in demand which causes jobs to be lost. These job losses impact other industries as the demand for consumer products decreases because of the reduced employment level. Foreign tariffs, along with other forms of market restrictions, cause a decline in the economic health of a nation.

(Tariffs – The Economic Effect of Tariffs, How Tariffs Effect The Economy, Mike Moffatt)

What does the domestic price that prevails without international trade tell us about a nation’s comparative advantage?

When you compare the domestic price to the world price, you can determine that nation’s comparative advantage. If the domestic price is lower than the world price then the nation has a comparative advantage over foreign countries. However, if the domestic price is higher than the world price then foreign countries would have a comparative advantage over that nation.

What is the difference between the unilateral and multilateral approaches to achieving free trade? Give an example of each.

The unilateral approach to achieving free trade is when a country decides to remove it’s own trade restrictions. Some countries, such as Britain in the nineteenth century and Chile and China in recent decades, have undertaken unilateral tariff reductions. The advantage of unilateral free trade is that a country can feel the benefits of free trade immediately. Countries that lower trade barriers by themselves do not have to postpone reform while they try to persuade other nations to follow suit. The gains from trade liberalization are substantial: several studies have shown that income grows more rapidly in countries open to international trade than in those more closed to trade. Dramatic illustrations of this phenomenon include China’s rapid growth after

1978 and India's after 1991, those dates indicating when major trade reforms took place.

The multilateral approach is when a number of countries agree to remove trading restrictions at the same time. Economic gains from international trade are reinforced and enhanced when many countries or regions agree to a mutual reduction in trade barriers. By broadening markets, concerted liberalization of trade increases competition and specialization among countries, thus giving a bigger boost to efficiency and consumer incomes.

In addition, multilateral reductions in trade barriers may reduce political opposition to free trade in each of the countries involved. That is because groups that otherwise would oppose or be indifferent to trade reform might join the campaign for free trade if they see opportunities for exporting to the other countries in the trade agreement. Consequently, free trade agreements between countries or regions are a useful strategy for liberalizing world trade.

After World War II, the United States helped found the General Agreement on tariffs and Trade (GATT), which quickly became the world's most important multilateral trade arrangement.

The GATT substantially reduced the tariff barriers on manufactured goods in the industrial countries. Since the GATT began in 1947, average tariffs set by industrial countries have fallen from about 40 percent to about 5 percent today. These tariff reductions helped promote the expansion of world trade after World War II and the rise in real per capita incomes among developed

and developing nations. — (econlib. org, International trade Agreements, Douglas Irwin)

http://economics. about. com/cs/taxpolicy/a/tariffs. htm

http://economics. about. com/cs/agriculture/a/softwood_lumber_2. htm

http://economics. about. com/cs/taxpolicy/a/tariffs_3. htm