International Economics

Unit 22: Free Trade and Protectionism

- Gains From Trade
    - Economies of Scale
        - Lowered Costs
        - Greater Consumer Choice
        - Increased Firm Accessibility to FOP
    - Competition and Rising Efficiency as a Result
        - Allocative Eff.
    - Source of Foreign Exchange

- Forms of Protectionism
    - Supply Side
        - Tariff
        - Subsidy
        - Quota
    - Admin. Barriers
        - Quality Check
        - Embargo
        - Nationalistic Campaigns
        - Red Tape

- <u>Arguments Against Protectionism</u>
    - Rising Prices of Goods
        - Harm Producers and Consumers of that good
    - Lowered Choice for Consumers
    - Inefficiencies and Lower Innovations for Local Firms
    - Global Allocative Inefficiencies
    - Hinder Growth
    - International Relations
    - Lowered Consumer Surplus
    - Lowered Global Supplier Surplus

Developmental Economics

Unit 30: International Trade and Economic Development

- Advantages and Disadvantages of Different Trade Strategies

	Advantage	Disadvantage
Import Substitution	- Protect jobs in domestic markets from foreign competition - Preserve local customs and cultures - Avoids MNC domination	- Protects Jobs in short run only - Lack of domestic spending - Does not benefit from comparative advantages and specialization - Lack Innovation - Inflationary, AS constrained - Retaliatory Tariffs

Export Promotion	- Everything that goes with economic development
	- Benefit from comparative advantages and specialization
		- Tariff Escalation
		- Lowering Revenue from Primary Goods
		    - Increase Supply
		    - Increasing Substitutes
		- Vulnerable to Protectionism
		- MNC Overpower
		- Inequality

Trade Liberalization	- Lowered government intervention
	    - Lowered allocative efficiency caused by the government
	    - Increased incentive for profit creation as taxes decrease
	    - Lowered barriers to profit creation, Lowered paperwork and bureaucracy
		- Loss of domestic culture due to strong MNC influence
		- Inequality
		- Might not take effect as the MNC might not have the trickle down effect

Preferential Trade Agreement	- Everything that goes with economic development - Benefit from comparative advantages and specialization	- Does not guarantee growth - Even if there is a lowered barrier to access market in another country, domestic environments might not be favourable to utilize it.
Diversification	- Everything that goes with economic development - Avoid Overspecialization - Influence ToT (commodity)	- Vulnerable to Tariff Escalation - Required a well trained workforce and capital for developing more sophisticated industries