EVALUATING GOVERNMENT INTERVENTION IN TRADE

Government intervention in trade is essentially to try and improve and even maximize the social welfare of the wider community. When they intervene in the market, oftentimes the goal is to correct one or more market failures, and make sure the market economy works efficiently and equitably. Intervention helps to correct a market failure. Market failure is when the price mechanism leads to an inefficient allocation of resources and a deadweight loss of economic welfare.

Common Forms of Government Intervention in International trade

Import Tariffs

By definition, an import tariff is a tax placed by governments on some specific imported goods. It is the approach mostly used for international trade intervention. Import tariffs increase the price of the imported product thus disrupting the balance of international trade.

Bans and Restrictions

This is usually placed on specific goods entering a country. In most cases, it is used to protect peace and lives of a country´s citizens. Weapons and illicit drugs are at the top of banned and restricted goods list.

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Governments intervene in international trade for various reasons

a) **Protecting Young Industries**- Tariffs, bans and restrictions when imposed tend to protect infant companies from stiff competition from other larger and internationally established companies. In so doing, the government promotes entrepreneurship as customers now turn their attention to local companies and their products. As start-ups grow, the problem of unemployment is solved.
b) **Security**- Tariffs may be aimed at protecting the interest of a country´s own production of ammunitions. This move protects and secures their own domestic production of these products and services. This helps in keeping national defence and security information confidential and out of reach from any other country. Domestic production ensures that a country has a stockpile of weapons in times of attack and do not rely on imports.