

International Trade and its Consequences

PS/IR 101z: Introduction to International Relations

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The Puzzle of Protectionism

1. What is protectionism? What are some examples of protectionist policies?
2. Why, from a traditional economic standpoint, is protectionism puzzling?
3. What is comparative advantage? How does it differ from absolute advantage?
4. Aside from the classical argument for free trade, what other major arguments against protectionism exist?

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b. True/False. Protectionism in other countries hurts export-oriented firms.

c. True/False. Protectionism hurts import-competing firms.

2. Many in the United States claim that China is a currency manipulator and that it artificially deflates the value of the RMB to the U.S. dollar. If true, why would it be considered a form of protectionism? Who benefits from an undervalued RMB? Who loses?

3. On recurring complaint about free trade is that it causes people's wages to drop or people to lose their jobs entirely. But others have seen their wages increase due to free trade. Who does the Stolper-Samuelson theory predict will win and lose from free trade? RV model? Explain why these models reach different predictions about the winners/losers of free trade.

	Stolper Samuleson Theory	Ricardo Viner (RV) Model
Assumptions		
Who wins and who loses from free trade?		
<u>Example:</u> Who wins and who loses from free trade – Computers versus Mining in the United States		

4. Which model for understanding trade preferences (Stolper Samuelson versus Ricardo Viner) underlies Scheve and Slaughter's (2007) argument?

Discussion

1. Protectionism can impose pretty high costs on society as a whole, even if it does prevent people from losing their jobs in certain sectors or industries. Do you think that protectionism is justified, given these high costs?
2. Do you think there are other reasons why these costs would be justified other than “saving people’s jobs”?
3. Do you think protectionism is a good way to redistribute income? Why or why not?
4. We know that free trade is more efficient overall and better for society at large, but we started this unit by pointing out that most people want some kind of protectionism. Should the government listen to the people? What other options are available to a government that wants to engage in free trade?