1. Introduction
   a. This is an important chapter for understanding the world in which we live.
   b. All countries can benefit from trading with one another because trade allows each country to specialize in doing what it does best.
   c. Mankiw talks about Chapter 3 that develops the concept of comparative advantage.
      i. Comparative advantage just means that each country (or a person for that matter) is a relatively lower cost producer of something.

2. The Determinants of Trade
   a. Countries benefit from specializing in the production of goods for which they have a comparative advantage.
   b. The Equilibrium Without Trade
      i. Figure 1: The Equilibrium without International Trade. P. 168.
   c. The World Price and Comparative Advantage
      i. The world price is the price of a good that prevails in the world for that good. P. 169.
      ii. When the world price differs from the domestic price there are gains from trade.

3. The Winners and Losers from Trade
   a. Mankiw assumes that the country being observed is a “small country” but most countries are price takers as far as their effect on international prices.
   b. The Gains and Losses of an Exporting Country
      i. Producers are better off and the consumers are worse off, but overall the country is better off.
      ii. Figure 2: International Trade in an Exporting Country. P. 170.
   c. The Gains and Losses of an Importing Country
      i. The consumers are better off and the producers are worse off, but overall the country is better off.
      ii. Because producers are more focused than consumers, support for increasing imports is much weaker than for increasing exports.
      iii. Figure 3: International Trade in an Importing Country. P. 172.
   d. The Effects of a Tariff
      i. A tariff has two effects:
         1. The price and domestic production increase.
         2. The higher price reduces domestic consumption.
      ii. The country is worse off because of the deadweight losses.
      iii. Tariff is a tax on goods produced abroad and sold domestically. P.
iv. **Figure 4: The Effects of a Tariff.** P. 174.

v. **FYI: Import Quotas: Another Way to Restrict Trade, P. 175.**
   (1) While a tariff generates income for the government, a quota benefits the group that gets the quota.

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e. The Lessons for Trade Policy
i. Educating the President about free trade.

f. Other Benefits of International Trade
i. Increased variety of goods
ii. Lower costs through economies of scale
iii. Increased competition and
iv. Enhanced flow of ideas.

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g. **In the News: Trade as a Tool for Economic Development, P. 177.**

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4. The Arguments for Restricting Trade

   a. The Jobs Argument
      i. *Always be careful about arguments based on creating (or destroying) jobs.*
         (1) *Were the workers just standing around before?*
         (2) *Labor markets tend to clear in most industrial countries, so the better argument is that a policy increases the demand for labor and, therefore, the wages that workers can command.*
         (3) *With trade, workers will tend to shift toward the production of goods for which the country has a comparative advantage which means that the workers should be more productive and able to command a higher wage.*
      ii. *Some argue that everything can be produced more cheaply abroad.*
         (1) *This ignores the effect of exchange rates.*
         (2) *If we buy more goods from China, we increase the demand for their currency causing its value to rise and ours to fall.*
         (3) *This eventually makes additional goods from there too expensive.*
      iii. **In the News: Should the Winners from Free Trade Compensate the Losers?, P. 179.**
         (1) *Protectionism is like extortion.*

   b. The National Security Argument
      i. *In most cases, this argument is used to protect a domestic industry rather than to pursue a true national security interest.*
      ii. *Ever hear of the Jones Act that protects the US merchant marine in the name of national security?*
      iii. Less educated workers in high wage countries are hurt by trade.

   c. The Infant Industry Argument
Chapter 9: Application: International Trade
Principles of Economics, 8th Edition
N. Gregory Mankiw
Page 3

i. Seldom do industries admit that they are no longer infants.

d. The Unfair Competition Argument
   i. As noted above, restrictions on imports hurt the country imposing the restrictions more than foreigners.
   ii. Meanwhile, subsidies on exports—if they exist—benefit foreigners more often than citizens of the country providing the subsidy.
   iii. The taxpayers providing the subsidy are definitely losers.

e. The Protection as a Bargaining Chip Argument
   i. The worse disasters occur when countries get into increasing tariffs in retaliation for similar acts abroad.
   ii. Case Study: Trade Agreements and the World Trade Organization, P. 181.
      (1) Some economists have argued for unilateral commitment to free trade.
      (2) This is politically unattractive because of the opposition of some domestic producers.
   iii. An alternative has been to become involved in collective attempts to lower tariffs.
   iv. Consider the problems of getting industrial countries to lower their tariffs on food.
   v. Ask the Experts:
      (1) Past Trade Deals have benefitted most Americans
          (a) 93% agree
      (2) Requiring labor and environmental changes in trade agreements is bad policy.
          (a) 25% disagree,
          (b) 26% uncertain and
          (c) 49% agree.

1. Conclusion
   a. Economists overwhelmingly support freer trade.

2. Summary