

LESSON DESCRIPTION

The class is divided into two groups that participate in a simulation making two types of postcards. In the first round, each group specializes and then considers possible results from trading for the postcard it didn't produce. In the second round, trade restrictions force each group to produce both types of postcards. Students see how free trade increases worldwide material standards of living and the effects of trade barriers. Different types of trade barriers are defined and examples of each type of trade barrier are presented.

ECONOMIC CONCEPTS

Imports
Exports
Trade Barriers
Tariff
Quota
Embargo
Subsidy
Standard
Specialization

OBJECTIVES – Students will:

- Define trade barrier, tariff, quota, embargo, subsidy, and standard.
- Explain why world output increases when countries specialize and trade freely.
- Explain the effects of trade barriers.

TIME REQUIRED

One to two class periods

MATERIALS

- Transparencies of Visuals 8.1, 8.2, and Activity 8.3
- One copy of Activities 8.3, 8.4, and 8.5 for each student
- Country A large resource bag with the following.
 1. Large supply of Activity 8.1
 2. Large supply of plain 8 ½" x 11" paper
 3. Pencil, one for every two students
 4. Markers, one for every two students
 5. Large supply of paper clips
 6. Scissors, one for every two students
- Country B large resource bag with the following.
 1. Large supply of Activity 8.2
 2. Large supply of plain 8 ½" x 11" paper
 3. Single hole punch, one for every two students
 4. Scissors, one for every two students
 5. Ruler, one for every two students
 6. Ball of yarn
 7. Markers, one for every two students
 8. Sample triangular and rectangular postcards

PROCEDURE

1. Tell the class that students will represent businesses in two countries that produce triangular postcards and rectangular postcards. Hold up an example of each product.
2. Divide the class into two groups. Give one group the resource bag for Country A and give the resource bag for Country B to the other group.
3. Tell each country to lay out the various resources in its bag. Have “citizens” of the country examine the resources.
4. Tell students that both countries have some resources in common – markers, scissors, pencils, and sheets of plain paper. However, Country A has pencils, paper clips, and paper with printed and decorated rectangles. Country B has paper with printed triangles, single-hole punches, rulers, and yarn.
5. Explain that Country A will specialize in the production of rectangular postcards and Country B will specialize in the production of triangular postcards because their resources are best suited to those products.
6. Tell students that **specialization** occurs when people concentrate their production on fewer kinds of goods and services than they consume.
7. Display Visual 8.1, revealing the instructions for Round 1 only, and review the production steps for each country.
8. Allow times for countries to organize their production. Tell them that they have five minutes to produce as many products as possible. Remind students that they must produce products of good quality.
9. After five minutes, stop production. Tell students to count the number of products produced. Check each country's products for quality and discard any that are poorly made.
10. Display Visual 8.2 and record the number of products each country produced.
11. Remind students that each country specialized in the production of one good over another because of available resources. Discuss the following.
 - a. What do you think might happen to the quality of each country's products, if it produced for another round? (*It would improve.*) Why? (*Workers improve their skills the more they practice.*)

- b. What do you think might happen to the number of products that are produced if each country produced for another round? (*increase*) Why? (*Workers may reorganize the production process. Some workers might switch jobs because of their skills. With practice, workers are usually able to produce more in the same amount of time.*)
 - c. What might each country do if it wanted both rectangular and triangular postcards? (*trade*)
 - d. If each trades one quarter of its postcards, how many cards of each type will Country A have? (*Answers will vary.*) Country B? (*Answers will vary.*) Record information on Visual 8.2.
12. Inform students that they will participate in one more production round. However, this time, trade restrictions between the two countries prohibit them from trading. Each country must produce both goods.
13. Display Visual 8.1. Review production procedures for Round 2. Allow students time to organize production. Remind them they must produce some of each good.
14. Tell students they have five minutes to produce both goods. When the time is up, stop production. Tell students to count up the number of each good produced. Record the numbers on Visual 8.2. Discuss the following
- a. What happened to worldwide production of triangular cards? (*decreased*) Rectangular cards? (*decreased*) Why? (*Each country had to shift resources into the production of another good in order to produce some of both goods.*)
 - b. What was the quality of triangular cards produced in Country A and rectangular postcards in Country B? (*These should be of poorer quality because each country had to produce the second type of postcards by folding and then cutting. They did not have the advantage of having pre-drawn lines. Country A had no hole punches. Country B had no paper clips and had to draw a flower on the postcards.*)
 - c. Why couldn't countries produce the second good so it would be exactly like the one imported? (*lack of resources, possible lack of skills on the part of workers in folding or drawing, poor technology resources for punching holes and securing pairs of postcards*)
 - d. In the first round, there was free trade. How did individuals in both countries benefit from free trade? (*When each specialized and traded for the cards they didn't produce, more goods of better quality were available for consumers in both countries.*)
 - e. How did restricting trade (imposing a trade barrier) affect production of goods in each country and worldwide output? (*Each country produced fewer of the products in which it*

- originally specialized. Each country produced some of the product for which it traded in round one. World production of both products decreased.)*
- f. What do you think might happen to the price of goods when trade is restricted? (*increase*) Why? (*There are fewer goods available than before and a lack of competition.*)
15. Explain that individuals and businesses within countries tend to specialize in the production of specific goods and services based on the resources available, skills of their workers, and technology. These products are sold within the country and some amount may be exported to other countries.
16. Explain that **exports** are goods and services produced in one country and sold to buyers in other nations. In the first production round, which good did Country A export? (*rectangular postcards*) Country B? (*triangular postcards*)
17. Explain that when countries lack certain resources or are unable to produce enough of a good or service with their existing resources to meet the demand for the product within their country, they import goods and services. Tell students that **imports** are foreign goods and services purchased from sellers in other nations. In the first production round, which good did Country A import? (*triangular postcards*) Country B? (*rectangular postcards*)
18. Ask how free trade among individuals and organizations in many countries would affect worldwide material standards of living. (*The standards of living would increase. Individual countries would have more goods and services for their people.*)
19. Tell students that even though free trade increases worldwide material standards of living, governments sometimes choose to impose trade barriers. Define **trade barriers** as government policies that restrict or stop the flow of goods and services among countries.
20. Display a transparency of Activity 8.3. Distribute a copy of Activity 8.3 to each student. Review the types of government-imposed trade barriers by reading the information on Activity 9.3.
21. Divide students into small groups. Give a copy of Activity 8.4 to each student. Tell groups to read the examples of trade barriers and then determine which type of trade barrier each represents.
22. Review student answers. (*1 – standards, 2 – tariff, 3 – quota, 4 – standards, 5 – subsidy, 6 – tariff, 7 – embargo, 8 – quota*)

CLOSURE

Review the key points of the lesson using the following discussion questions.

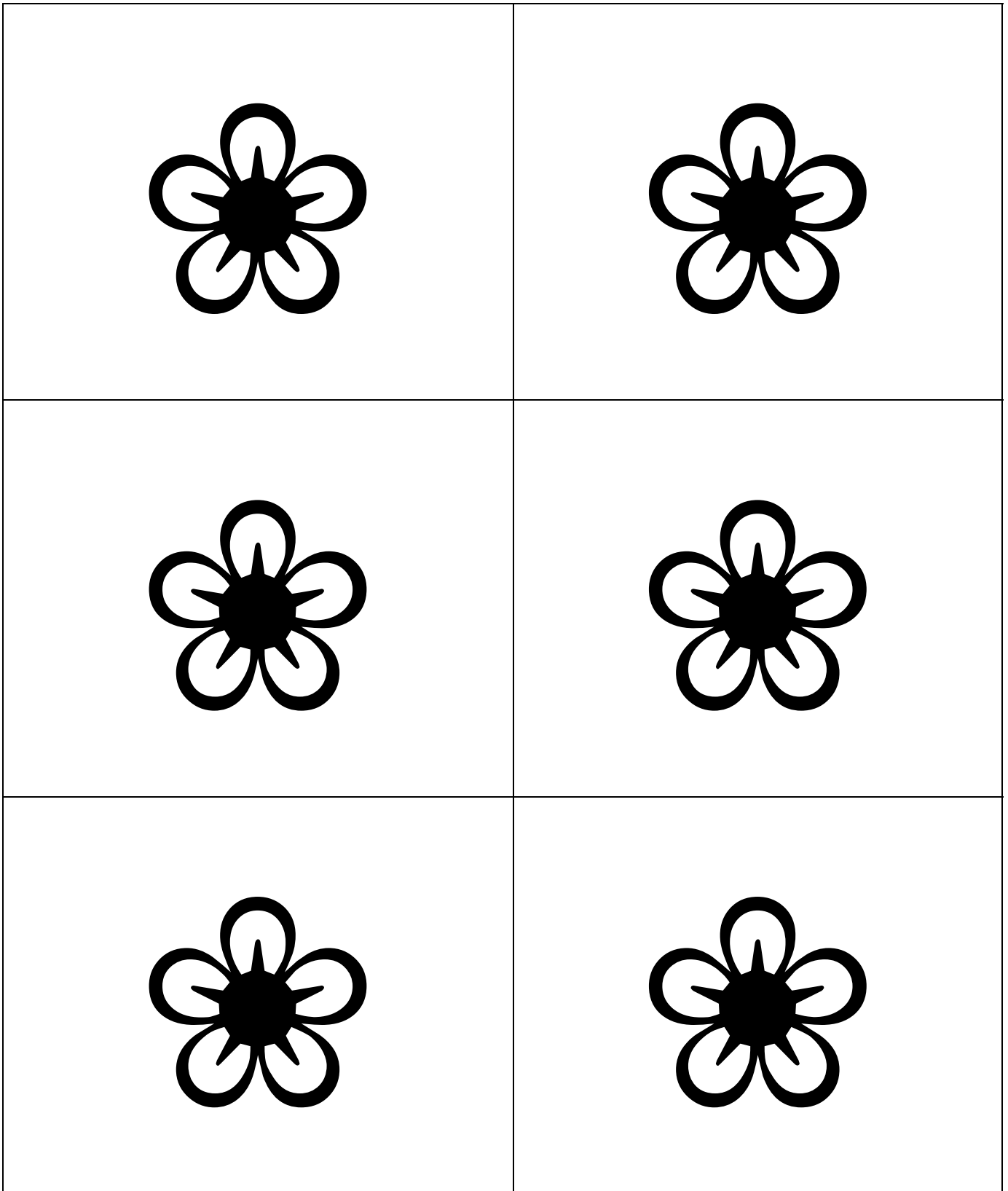
1. How do individuals and businesses in countries decide which products to produce when they specialize? (*They specialize in what they are best at producing based on their available resources, technology, and the skill and knowledge of their workers.*)
2. How does specialization and trade affect worldwide material standards of living? (*Standards of living will increase.*) Explain. (*When individuals or organizations in a country specialize and produce goods for which they have the resources, skills, and knowledge, they tend to produce more goods of better quality than if they choose not to specialize. Then they are able to trade for products they didn't produce.*)
3. What are imports? (*Foreign goods and services purchased from sellers in other nations.*)
4. What are exports? (*Domestic goods and services sold to buyers in other countries.*)
5. What are trade barriers? (*Government policies that restrict or stop the flow of goods and services among countries.*)
6. What is a tariff? (*A tariff is a tax on imports.*)
7. What is a quota? (*A quota is a limit on the amount of a foreign good or service that may be legally imported.*)
8. What is an embargo? (*An embargo prohibits all trade with people and businesses in a specific country.*)
9. What are subsidies? (*Subsidies are government payments to exporters, which help reduce an exporter's cost of production.*)
10. How can standards serve as trade barriers? (*Standards are safety, environmental, health, or other technical requirements set by a government. It may be difficult for foreign producers to meet these requirements.*)
11. How do trade barriers affect worldwide material standards of living? (*They cause standards of living to decrease.*) How? (*There are fewer goods available for everyone. There's less competition, so consumers pay higher prices. Some goods and services are of poorer quality.*)

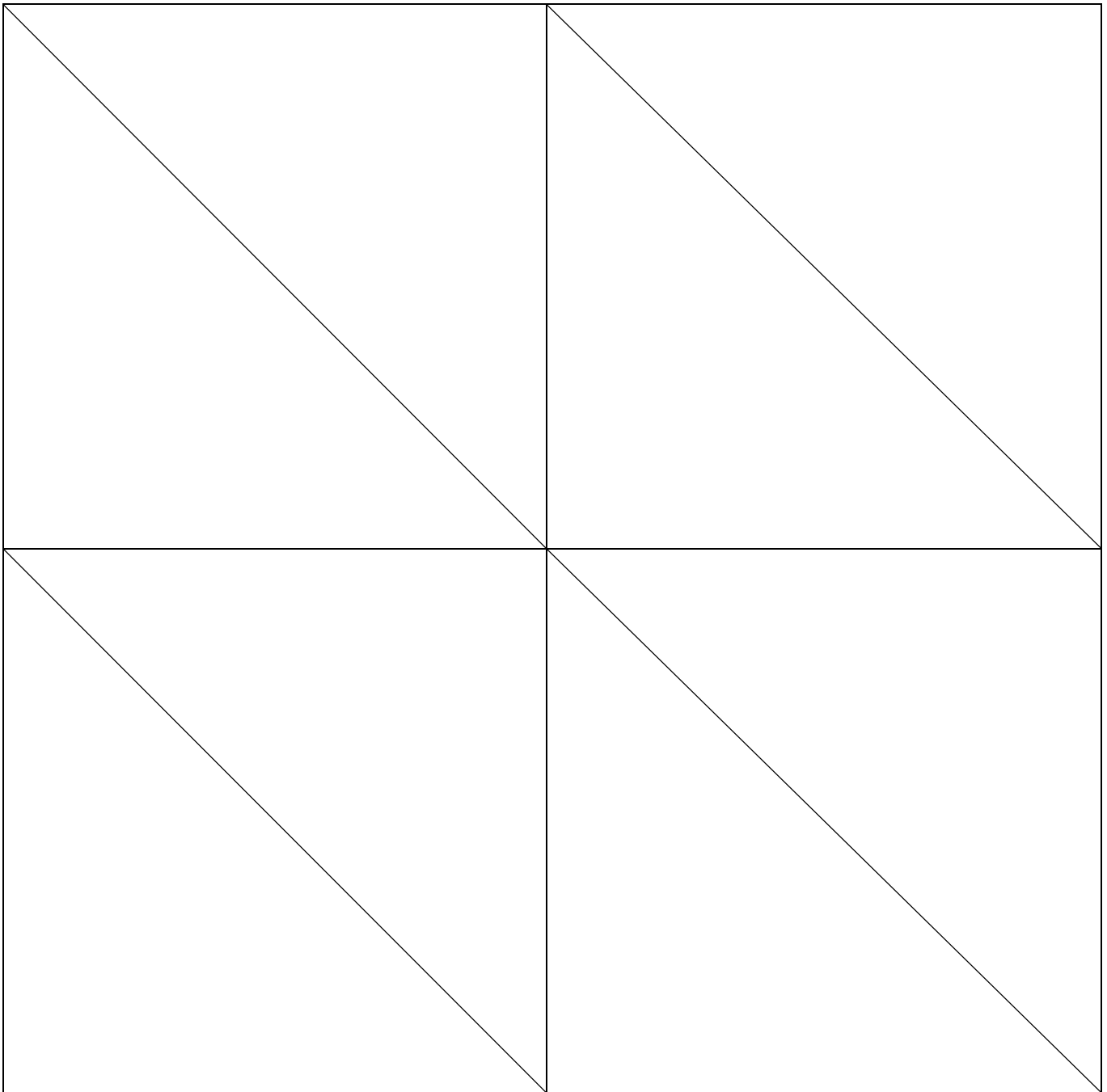
ASSESSMENT

Distribute a copy of Activity 8.5 to each student. Student answers should explain how the trade barrier they selected would help the orange growers achieve their goal of reducing competition from imported oranges.

EXTENSION

1. Have students use the Internet to locate different examples of the types of trade barriers in place today and in the past.
2. Show the video, "The Protective Tariff Issue, 1832," from *Taxes in U.S. History*, Internal Revenue Service, and teach the lessons that accompany the video.





Tariff – A tariff is a tax on imports. For example, in 1996 the US government imposed a 5.1-cent tariff on every wristwatch imported into the US. If 1000 watches were imported, the US government collected \$51.

Quota – A quota is a limit on the amount of a foreign good or service that may be legally imported. Some quotas are voluntary and governments impose some. In the 1980s, the Japanese agreed to export only a certain number of cars to the United States. For many years, the US government has imposed a quota on sugar.

Embargo – An embargo prohibits all trade with people and businesses in a specific country. For example, on August 2, 1990, President Bush imposed a trade embargo on Iraq. Iraqi products could not be imported into the U. S. either directly or through third countries. U.S. products could not be exported from the U.S. or reexported from a third country to Iraq.

Subsidies – Subsidies are government payments to exporters. This payment helps reduce an exporter's cost of production. For example, many countries subsidize the production of cold-rolled steel. Businesses in these countries can export their steel at a lower price than steel produced in the United States.

Standards – Standards are safety, environmental, health, or other technical requirements set by a government. Imports must meet these requirements before they are allowed to come into the country. For example, in the 1990s the US banned the import of all French apples because of a concern over Med fly infestations.

For each example below, identify the type of trade barrier described and write the name of that barrier (tariff, quota, embargo, subsidy, standard) in the space provided.

1. United States refuses to import shrimp from Southeast Asian countries because their shrimpers do not use the types of nets used by U.S. shrimpers that protect sea turtles. _____
2. The United States taxes all softwood coming into the US from Canada. _____
3. The U.S. president increases the amount of imported peanuts allowed into the country by 100 million pounds per year.

4. The European Union prohibits the importing of meat products from animals treated with growth-promoting hormones.

5. The Australian government gives a grant to manufacturers who produce and export automotive leather. _____
6. In 1996 the US taxed imported grapes, ceramic tableware, motorcycles, bicycles with wheels not exceeding 63.5cm in diameter, and sports footwear of which over 50% of the external surface area was leather. _____
7. In 1963, President Kennedy issued sanctions, which prohibited all trade with Cuba. _____
8. The United States limits the amount of wool suits that Macedonia can ship to the U.S. _____

The United States Orange Growers Association is concerned about increased competition from imported oranges that are larger than those grown in the United States. The Association wants to lobby for a trade barrier.

Some members think a tariff or quota would be most beneficial. Others disagree and suggest an embargo or standards. The largest grower of oranges thinks that none of these trade barriers would be necessary if the United States government would provide growers with a subsidy.

The president of the association must send a letter to the membership explaining which trade barrier, tariff, quota, standard, embargo, or subsidy, he thinks would help the growers achieve their goal to reduce competition from imported oranges. He wants your advice.

Which trade barrier would you recommend? Explain how this barrier will help the orange growers achieve their goal.

Round 1

Country A: Production Steps for Rectangular Postcards

1. Cut out two rectangular postcards.
2. Place two postcards together.
3. Secure with a paperclip.
4. Outline the flowers with a marker.

Country B: Production Steps for Triangular Postcards

1. Cut out two triangles.
2. Place two triangles together and punch a hole.
3. Cut a piece of string 12" long.
4. Place the string through the hole and tie in a bow.

Round 2

Country A: Production Steps for Triangular Postcards

1. Fold the paper into quarters and tear apart.
2. Tear each quarter sheet on the diagonal to make a triangle.
3. Place two triangles together.
4. Punch a hole in the triangles with a pencil.
5. Place a paper clip through the hole.

Country B: Production Steps for Rectangular Postcards

1. Fold the plain paper in half lengthwise cut apart.
2. Fold each half into thirds to make small rectangles and cut apart.
3. Place two rectangles together.
4. Secure the two rectangles by folding down one corner.
5. Draw a flower on the top rectangle with a marker.

Production with Specialization

	Output of Rectangular Cards	Output of Triangular Cards
Country A		
Country B		
Total World Output		

Number of Cards after Trade

	Number of Rectangular Cards	Number of Triangular Cards
Country A		
Country B		

Production Without Specialization

	Output of Rectangular Cards	Output of Triangular Cards
Country A		
Country B		
Total World Output		

