

Activity 3

Vocabulary

Voluntary Exchange: Voluntary exchange occurs when a person or organization trades something of value with another person or organization in order to benefit. People or organizations trade because it benefits them. For example, people voluntarily exchange work for wages or salaries, and they use the income earned to buy food, clothing, and other goods and services.

Gains from Trade: Voluntary exchange occurs because both sides in the trade expect to benefit. The benefits that result from trade can be counted as gains from trade. For example, farmers may sell their harvests to buy cars. They benefit more from the cars than from keeping bushels of grain. The grain buyer benefits more from the grain than from the money exchanged with the farmer. Without trade, these benefits would not be realized. Any policies, such as tariffs or quotas that interfere with free trade, will reduce these benefits.

Imports: Imports are goods or services that are produced in one country and sold in another country. For example, coats made in Poland and sold in the United States are counted as imports into the U. S. Grain produced in the U. S. and sold in Poland is an import in Poland.

Exports: Exports are goods or services that are sold in one country but produced in another. For example, a Russian traveling on a Japanese airline is buying an export of Japanese travel services. Grain produced in the U. S. and sold in Poland is an export of the United States.

Protectionist policies: These are policies that a country enacts to prevent or to limit imports that may compete with domestic goods or services. These policies "protect" local workers and firms producing things that compete with these imports. The purpose of these policies is to raise the price of imports or to limit their availability so consumers will decide to buy more locally produced products. The two main forms of protectionism are tariffs and quotas. Protectionism interferes with free trade.

Tariff: A tariff is a tax on imports. When a tariff is imposed, the price of the import increases for local consumers. This means that they will buy fewer imports and probably will buy more local, competing products. Prices for consumers will rise on imports because of the tax. The demand for local products will increase, causing the price of those products to rise as well.

Quota: A quota is a limit placed on the number of imports. When a quota is imposed, the supply of foreign products falls, causing the price of imports to rise. At the same time, the demand for locally produced goods will rise, causing the price of those goods to rise.