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RIPPLES: TRADE BARRIERS AND UNINTENDED CONSEQUENCES

Despite a long-standing and widespread consensus among economists regarding the benefits of free trade in improving living standards domestically and globally, there are strong pressures for political leaders to adopt trade barriers to help some groups of businesses and workers in their countries. The problems (especially higher prices) trade barriers create for consumers of the protected products, including businesses that use those products to produce other goods and services, were described in the previous lesson. In this lesson, the indirect consequences of trade barriers, which are often unexpected because they appear in many markets that seem to have no direct relationship with the protected market, are illustrated.

Business owners and workers in market economies are free to move their resources from the production of one product to another in search of higher profits, wages, or other benefits. When trade barriers create artificially high profit and wage opportunities in protected markets, some firms that have been producing other things, and some workers in these other industries, will leave those markets to pursue new opportunities in the protected markets. That leads to higher price levels for consumers and lower employment levels in the other, unprotected markets. These additional distortions, and others illustrated in this lesson, spread through the economy like the ripples caused when a rock is thrown into a pond. The secondary effects substantially increase the costs of the trade barriers, and offset employment gains in the protected markets.

The overall result is typically no net change in employment, higher prices, less international trade, and a lower standard of living. These negative results occur because trade barriers direct production away from a nation's most efficient and competitive industries to less effi-

cient ones. The inefficient firms will produce more than they otherwise would and perhaps be able to stay in business only because of the special protection they have received through the political process. In most cases such protection can not be continued indefinitely, and the adjustments that occur when the protection eventually fails or is removed are more severe than they would have been before the trade restrictions were adopted.

CONCEPTS

Trade barriers (e.g., tariffs and quotas)
Supply and demand
Special-interest effects

CONTENT STANDARDS

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Although barriers to international trade usually impose more costs than benefits, they are often advocated by people and groups who expect to gain substantially from them. Because the costs of these barriers are typically spread over a large number of people who each pay only a little and may not recognize the cost, policies supporting trade barriers are often adopted through the political process.

OBJECTIVES

- ◆ Identify both the short-run and long-run effects of trade barriers, and who gains and who loses from such policies.
- ◆ Recognize that markets are interconnected so that, over time, changes in one market often lead to changes in many other markets.

LESSON NINE

LESSON DESCRIPTION

First in small groups and then in two large groups, students try to identify which people and organizations would support, or oppose, trade barriers on sugar imports into the United States. When these lists have been completed, the students are given a one-page reading based on a series of *Wall Street Journal* articles dealing with the actual consequences of such trade barriers from 1985-1990. All of the effects are easy to understand after the fact, and some of them were easy enough to predict (these may be reflected in the students' lists). Other effects are much more surprising, affecting markets, people, and organizations seemingly unrelated to the U.S. sugar market. As a general principle, students should recognize that because changes in one market typically lead to a chain reaction in many other markets, it is difficult for policy makers to anticipate all of the effects of trade barriers or other policies that attempt to regulate market activities.

TIME REQUIRED

One class period.

MATERIALS

- ★ One copy of Activity 1 for each student
- ★ Several sheets of flip-chart paper or blank overhead transparencies, and two marking pens

PROCEDURE

1. Divide the class into two groups, and divide those two groups into smaller groups of three or four students. Have the groups from the first half of the class make a list of the firms and groups of people who would be likely to support a tariff or quota on sugar that is imported into the United States, and have them list as many benefits of such policies as they can. Have the groups in the second half of the class make a list of the firms and groups of people who would oppose a tariff or quota on sugar imports, and have them list as many costs of such policies as they can. (*Students will often be able to identify the groups most directly affected by the trade barriers. E.g., U.S. sugar cane and sugar beet farmers, and U.S. sugar refining companies, will usually support the tariffs or quotas. They*

will benefit from the decrease in supply of foreign sugar and the increase in demand for U.S. sugar, which will lead to higher prices, profits, and output and employment levels for the U.S. sugar industry. On the other hand, the higher prices for sugar will hurt U.S. sugar consumers and the foreign companies and foreign workers who produced sugar that was sold in the U.S. It is possible that students will also identify some of the groups who are helped or harmed by the secondary effects of the trade barriers [see Activity 1, which will be distributed to students later in the lesson], but it is very unlikely that they will identify all of these effects.)

2. Arrange for the groups that listed the supporters and advantages of the tariffs or quotas to meet together, to prepare one master list to present to the full class. If some groups listed supporters or advantages that other groups did not, have them explain their reasoning to the other groups, and then discuss whether or not to include the new items on the combined list. Have the students prepare a good copy of their final list on a sheet of flip-chart paper or an overhead transparency. Do the same thing with the groups that listed the opponents and disadvantages of the tariffs or quotas.

3. Assign the groups to choose speakers to present and explain the master lists prepared in procedure 2. After these presentations, see if any students from either half of the class can add additional items to either list. Let all of the students discuss whether or not a suggested item should be added to a list, and whether any of the items that were included on either list should be removed. When the class agrees on the final version of the two lists, conduct a straw poll to see how many students would favor a tariff or quota on imported sugar, and how many would oppose the trade barriers.

4. Distribute one copy of Activity 1 to each student. This activity is based on a series of *Wall Street Journal* articles dealing with the effects of U.S. trade barriers on imported sugar that appeared on September 26, 1986 (pp. 1, 20), October 9, 1986 (p. 39), December 16,

LESSON NINE

1986 (p. 14), and July 26, 1990 (pp. 1, 11). After students have read the activity sheet, have them modify the two lists they prepared in Procedures 2 and 3 to add any benefits/supporters and costs/opponents they failed to list. Then conduct another straw poll to see how many students now support or oppose the trade barriers, and note whether the vote changed. *(In classes where the case for free trade has been made in earlier lessons, it is possible that most or all of the class will vote to oppose the trade barriers before and after reading Activity 1. On the other hand, classes in areas where employment has been adversely affected by increased competition from imports may have many students who continue to favor trade barriers. In these cases,*

discuss how the material in Activity 1 has affected the intensity of students' support for, or opposition to, trade barriers.)

ASSESSMENT

Have students research the history of trade barriers in the U.S. and/or Australian automobile industries in the 1980s, and compare and contrast the effects of those trade barriers with the trade barriers on sugar that were discussed in this lesson. Be sure to identify the groups that were helped and hurt by these import restrictions.

ACTIVITY 1

TRADE BARRIERS FOR SUGAR ATTRACT MORE FLIES

When the United States federal government limited the amount of sugar that could be imported from other nations, sugar cane and sugar beet farmers in Louisiana, Hawaii, Colorado, and other states were understandably happy. Sugar prices in the U.S. soared to more than twice the world price. That made U.S. companies that refined sugar more profitable, too, so they refined more sugar and hired more workers. That was exactly what the trade barriers were designed to do. But the trade barriers also caused many other things to happen—some of them good, some of them very bad.

First, the higher sugar prices were bad news for U.S. sugar consumers, including many companies that used sugar to produce other goods (such as candy, soft drinks, and breakfast cereals). The higher cost for sugar led to price increases for the products made with sugar, and the higher prices resulted in decreased sales, output, and employment levels in these firms. Many of these companies switched to sugar substitutes, such as sweeteners made from corn. That was good news for U.S. corn farmers in states like Indiana and Illinois, and for companies that refined the corn sweetener from corn. These farmers and firms now joined the sugar farmers and sugar refining companies in supporting the trade barriers on imported sugar.

Other effects were felt far away from the United States, and these effects were almost always bad news. For example, sugar companies and workers in the Caribbean were hurt because most of the sugar they produced had been sold in the United States. Now, with the trade

barriers sharply reducing the amount of sugar they could sell in the United States, less sugar was grown and refined, and many workers were laid off. Some of these former sugar growers and workers switched to other products that were still being sold in the United States, including marijuana. Illegal immigration from the Caribbean to the United States also increased as the unemployment rate rose among unskilled workers who had worked on the Caribbean sugar farms.

Back in the United States, the higher prices for sugar led more farmers to grow sugar cane, sugar beets, and corn, but to do that they had to plant less wheat and soybeans. That allowed foreign producers to grow more wheat and soybeans. Some observers pointed out that the trade barriers on sugar put more U.S. farmland into sugar products that could be grown at a lower cost in other countries, and less U.S. farmland into wheat and soybeans, even though these crops could be grown at a lower cost here than in other countries. Many worried that when the sugar trade barriers were removed, the increased foreign competition in wheat and soybean markets would not disappear. The higher prices for sugar, corn, and other agricultural products also increased rents on U.S. farm land.

DISCUSSION QUESTIONS:

1. In the U.S., who was hurt and who was helped by the trade barriers on sugar?
2. In the Caribbean, who was hurt and who was helped by the trade barriers on sugar?



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