Topic 4. International trade policy.

Match the Terms and Definitions
In the space after each of the 43 terms, note the matching definition from among A through QQ:

1. adding machine model ______
2. antidumping duty ______
3. common market (CM) ______
4. corn laws ______
5. countervailing duties ______
6. customs union (CU) ______
7. Doha Round ______
8. economic union ______
9. endogenous tariff model ______
10. fast-track authority ______
11. free rider problem ______
12. free trade area (FTA) ______
13. General Agreement on Trade and Tariffs (GATT) ______
14. Hanseatic League ______
15. intellectual property rights ______
16. International Trade Organization (ITO) ______
17. Kennedy Round ______
18. Long-Term Arrangement on Cotton Textiles (LTA) ______
19. market segmentation ______
20. median voter model ______
21. mercantilism ______
22. most favored nation principle ______
23. Multi-Fiber Arrangement (MFA) ______
24. multilateral trade negotiations ______
25. North American Free Trade Agreement (NAFTA) ______
26. political economy ______
27. preferential trade area ______
28. Reciprocal Trade Agreements Act (RTAA) ______
29. rent-evading activities ______
30. rent-seeking activities ______
31. retaliatory tariffs ______
32. Smoot-Hawley Tariff Act ______
33. Stolper-Samuelson theorem ______
34. tariff escalation ______
35. Tokyo Round ______
36. trade adjustment assistance ______
37. trade blocs ______
38. trade creation ______
39. trade diversion ______
40. trade sanctions ______
41. uninformed voter model ______
42. Uruguay Round ______
43. World Trade Organization (WTO) ______

Definitions:

A. The economic system popular in Europe during the 16th , 17th, and 18th centuries, which considered international trade to be a beneficial activity provided that it was regulated by government so that it benefitted domestic merchants, manufacturers, and other groups allied with the central monarch.

B. One of the principles often included in trade agreements, it eliminates discrimination by requiring that any reductions in trade barriers offered to any single country be immediately extended to all other countries.

C. The commitment by the legislature to quickly vote "yes" or "no" on the ratification of a treaty brought to it by the country's negotiators and to not alter the document in any way through amendments or revisions.

D. The agreement signed by the major market economies after World War II (1947), which set the legal framework within which international trade policy was to be set and trade negotiations were to be conducted.

E. A voluntary export restraint arrangement limiting exports of cotton textiles and clothing from developing countries to the United States that went into effect in 1962.

F. Financial aid to those people who suffer short-run or long-run losses from a country's policy shift toward freer international trade.

G. The conclusion that, in a simple two-factor, two-good general equilibrium model of trade, free trade causes the return to the factor used intensively in the growing export industry to rise and the return to the factor used intensively in the shrinking import-competing industry to fall.

H. The permanent organization that replaced the General Agreement on Trade and Tariffs.

I. A voluntary export restraint arrangement limiting exports of nearly all textiles and clothing from developing economies to the United States that went into effect in 1973.

J. The GATT Round of trade negotiations that took place during 1974-79 and lowered tariffs for most manufactured goods and some other products by about one third.

K. The practice of levying higher ad valorem tariffs for processed goods than for raw materials, and the higher the value added, the higher the tariffs.

L. The ambitious GATT Round of trade negotiations that took place during 1987-94, which attempted to negotiate trade restrictions that had heretofore been ignored, such as those on agricultural trade, clothing trade, services trade, and intellectual property rights.

M. The sharp increase in U.S. tariffs authorized by the U.S. Congress in 1930 and signed into law by President Hoover after a year of lobbying by special interests and political maneuvering by U.S. politicians.

N. The latest multilateral round of trade negotiations, scheduled to be completed by 2005.

O. The 1934 U.S. law passed by Congress giving the U.S. president fast-track authority to negotiate tariff reductions with other countries, marking the first time that the Congress of the United States gave the executive branch of government the authority to negotiate tariffs without direct Congressional involvement.

P. An institution proposed by the several countries at the close of World War II that was to serve as a permanent international organization to promote trade liberalization and set the rules for international trade.

Q. The GATT trade round held in Geneva during 1964-67, which revived post-World War II tariff reductions by lowering tariffs, on average, by about a third

Q. The increase in trade that results from a shift in trade policy and is, all other things equal, welfare enhancing.

R. The field of study that combines economics and political science in order to explain the relationship between political activity and its economic effects.

S. Trade negotiations aong a large group of countries.

T. A trade restriction imposed by one country in order to punish another country or persuade another country to change objectionable policies or behavior.

U. A trade bloc that establishes completely free trade among member countries, sets common tariffs and other trade restrictions against outside countries, and permits the free movement of factors of production such as capital and labor.

V. Activities that use costly (scarce) resources to obtain transfers but which do not add to output or

overall welfare. Included among rent-seeking activities are things like lobbying, bribery, public relations, and political campaign contributions.
W. A common marketing practice of charging different prices in different markets, depending on the elasticity of demand in each market.
X. A trade bloc within which member states completely liberalize trade among themselves but maintain their own trade barriers against outside countries.
Y. A political economy model that suggests that small special interest groups will have a disproportionately large influence on government policies because most voters have little information on most issues that do not directly affect them.
Z. A regional trade area that has all the characteristics of a common market plus members agree to a uniform set of macroeconomic and microeconomic policies. This is the highest form of regional economic integration.
AA. A tariff imposed by an importing country that believes it is the target of foreign dumping in order to offset the margin of dumping and raise the domestic price to where it would fall if the foreign supplier charged a price that reflected true costs and a “fair” profit.
BB. The redirection of a country’s foreign trade away from the world’s low cost suppliers and high-priced markets as a result of a discriminatory regional trade agreement, which, all other things equal, reduces the welfare gains from trade.
CC. A network of cities along the Baltic and North Seas and throughout northern Germany during the fourteenth, fifteenth, and sixteenth centuries that established a type of free trade area.
DD. Tariffs levied on imports of goods or services that have benefitted from government subsidies in order to cancel the advantage that such subsidies give the foreign exporter.
EE. The agreement reached by the major economies after World War II (1947) that established the legal framework within which international trade policy was to be set and trade negotiations were to be conducted. It provides the fundamental rules that govern the World Trade Organization (WTO) today.
FF. A common problem for voluntary organizations, where individuals or groups who stand to benefit from the activities of the organization do not contribute to its operating costs because they figure everyone else will contribute and they will still get to enjoy the benefits.
GG. A key principle included in most trade agreements, which mandates that nations refrain from discriminating in how they treat different trade partners.
HH. A political economy model that links the likelihood of an economic policy being enacted to the absolute number of people directly affected by the policy.
II. - An attempt to carry out mutually beneficial transactions in violation of rules, laws, or other institutions that restrict them.
JJ. Tariffs imposed in response to another country’s increase in trade barriers.
KK. A political economy model in which trade policies are the result of the trade-off between politicians’ need to raise campaign funds to influence uninformed voters and their need to minimize the politically unpopular welfare losses from trade restrictions enacted to satisfy campaign contributors seeking protection.
LL. A trade bloc in which the member countries agree not only to allow the free trade of goods between their economies, but also to maintain a set of common tariffs and other trade restrictions against nonmember countries.
MM. A common name for an integrated regional trade area, such as a free trade area, a customs union, a common market, or an economic union.
OO. A regional trade area in which the member countries agree to lower trade barriers within the group to levels below those erected against outside economies.
PP. British seventeenth and eighteenth-century laws that kept wheat prices artificially high in Great Britain.
QQ. Consisting of Canada, Mexico, and the United States, this trade bloc became a true free trade area at the end of the first decade of the 2000s, when virtually all remaining tariffs and trade barriers on goods were eliminated.