

# Interventionism

## Lesson 19:

# Tariffs and Quotas

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## 1. Lesson 19: Tariffs and Quotas

## 4. Chapter: Lesson 19: Tariffs and Quotas

### 1. Lesson 19: Tariffs and Quotas Questions

#### 4.1.1. \*Could every government successfully implement mercantilist policies?

Author: Robert Murphy

\*Could every government successfully implement mercantilist policies?

- No, because it's impossible for every country to run a trade surplus with every other country. In contrast, the argument for free trade can apply to all countries; every government can consistently enrich its own citizens by enacting free trade policies.

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#### 4.1.2. What historical role did Adam Smith play with respect to mercantilism?

Author: Robert Murphy

What historical role did Adam Smith play with respect to mercantilism?

- Adam Smith showed that a country impoverishes itself if it tries to produce at home, what could be purchased abroad more cheaply. Smith's arguments focused on the logic of absolute advantage, where each country was best at producing at least one particular good. In that setting, it naturally made sense for all countries to specialize in those goods in which they had the absolute advantage.

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#### 4.1.3. Explain the meaning (not the cause) of this statement: "The U.S. ra..."

Author: Robert Murphy

Explain the meaning (not the cause) of this statement: "The U.S. ran a trade deficit with Japan last year."

- During the course of the previous year, people in the United States spent more money on goods and services produced in Japan, than the people in Japan spent on goods and services produced in the United States.

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#### 4.1.4. Explain: "The economic case for free trade is unilateral."

Author: Robert Murphy

Explain: "The economic case for free trade is unilateral."

- If Country A and B initially have tariff barriers erected against each other, Country A grows richer by lowering its own tariffs even if Country B doesn't reciprocate. In other words, the benefit of a free trade agreement is not simply that lowering your own barriers gives your diplomats leverage when they try to convince other governments into reducing barriers against exports from your own country.

Check the answer of this question online at QuizOver.com:

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#### 4.1.5. Explain: "A tariff doesn't increase employment, it just rearranges ..."

Author: Robert Murphy

Explain: "A tariff doesn't increase employment, it just rearranges it."

- So long as wages are allowed to adjust, workers can always find employment in the market economy. When a tariff causes employment to expand in a particular sector, therefore, this doesn't "create jobs" on net, but merely sucks workers out of other sectors.

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#### 4.1.6. Could every country successfully implement mercantilism? What about...

Author: Robert Murphy

Could every country successfully implement mercantilism? What about free trade?

- No, only a few countries could successfully implement mercantilism, because if some countries run trade surpluses, then others have to run deficits. It's impossible for them all to export more than they import, or (what is the same thing) for them all to accumulate more money at the expense of other countries. In contrast, every country can successfully lower trade barriers and enjoy the advantages of free trade.  
Sample Partial Credit Answer  
If one country wins at mercantilism, it's only because another country loses.

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#### 4.1.7. Explain how tariffs are taxes on domestic citizens, not foreign com...

Author: Robert Murphy

Explain how tariffs are taxes on domestic citizens, not foreign companies.

- A tariff takes money that citizens want to spend on foreign goods, and diverts some of it to the government. In that sense, a tariff taxes domestic consumers.

Sample Partial Credit Answer

Tariffs hurt the consumers.

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#### 4.1.8. Explain how penalizing U.S. imports simultaneously penalizes U.S. e...

Author: Robert Murphy

Explain how penalizing U.S. imports simultaneously penalizes U.S. exports.

- Ultimately a country pays for its imports with its exports. So if the U.S. government makes it harder for consumers to spend dollars on foreign goods, then foreigners have fewer dollars with which to buy U.S. exports.

Sample Partial Credit Answer

You buy imports with exports.

Check the answer of this question online at QuizOver.com:

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