Name______________________________ Date__________ Class__________

Latin America

Geography and Economics Activity

Barriers to Free Trade

Free trade is a government's policy to allow unrestricted trade with other nations. Trade is seldom completely free, however. Nations often set up barriers that discourage or limit trade. Two common trade barriers are quotas and tariffs.

A **quota** is a limit set on the amount of a product that can be brought into the country. For example, Brazil might allow only 1 million pounds of U.S. beef to enter Brazil each year.

A **tariff** is a tax on an imported product. A tariff discourages trade by increasing the price of the imported product. Suppose a soccer ball costs $20 to produce in the United States and $15 to produce in Mexico. After adding $10 for profit, the price of the U.S. ball is $30, whereas the imported Mexican ball costs only $25. Americans would buy more Mexican soccer balls because they are less costly. However, if the U.S. government puts a 30 percent tariff on Mexican soccer balls, they would become more expensive than the U.S. ball. Americans would then buy more U.S. soccer balls than Mexican ones.

Why would the government want to make imported products more expensive? Nations use trade barriers for many reasons. One reason is to give producers in the home country an advantage. U.S. producers, for example, would sell more soccer balls with a tariff than without one. Another reason is to save jobs in the home country. U.S. soccer ball companies might go out of business if they could not compete with the lower price of Mexican soccer balls. The companies' workers would then lose their jobs.

Still, free trade brings many benefits. Foreign competition results in lower prices. It also forces home-country producers to improve their products to attract buyers and find ways to produce at lower costs.

To promote free trade, nations make agreements with one another. The 1993 **North American Free Trade Agreement (NAFTA)** removed tariffs on goods traded among the United States, Canada, and Mexico. Since then, trade among NAFTA nations has more than doubled. Talks are now underway on a proposed *Free Trade Area of the Americas (FTAA).* This agreement would remove barriers in the entire Western Hemisphere.

Effect of a Tariff on Soccer Balls

Cost to produce in U.S.	+	**Profit**	=	**Price to U.S. consumers**		
$20		$10		$30		
Cost to produce in Mexico	+	**Profit**	+	**Tariff**	=	**Price to U.S. consumers**
$15		$10		$7.50 (30% of $25)		$32.50

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Geography and Economics Activity

continued

Thinking Economically

Directions: Read the information and chart on the previous page. Then answer the questions that follow.

1. **Explaining** How does a tariff discourage trade?

2. **Describing** How do trade agreements affect trade among the participating nations?

3. **Calculating** Suppose a particular type of wool blanket costs $56 to produce in the United States and $50 to produce in Peru. Companies in both countries add $14 to each blanket for profit.

   (a) How much would U.S. consumers have to pay for a U.S.-made wool blanket?

   (b) How much would U.S. consumers have to pay for a wool blanket imported from Peru?

   (c) If there were a 20 percent U.S. tariff on imported blankets, what would be the tariff on one blanket?

   (d) How much would U.S. consumers have to pay for a Peruvian blanket with the tariff?

   (e) **Drawing Conclusions** In this case, do you think Americans would buy more U.S.-made blankets or Peruvian blankets? Why?

   (f) **Speculating** Do you think Americans would benefit from this tariff? Why or why not?

4. **GOING FURTHER ▸** To protect U.S. sugarcane producers, the government put a quota on sugar imports. By law, the U.S. Department of Agriculture allows only 1 million tons of sugar imports yearly. Hurricane Katrina ruined much of the U.S. sugar harvest in 2005, however. And earlier, in 2004, droughts reduced sugar output worldwide. Shortages of sugar occurred in the United States and elsewhere.

   Write a paragraph describing the effect that the shortage will have on the price of sugar. Explain what you think the U.S. government should do to establish free trade in the sugar industry.

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