

# Workshop 5

## Trading Globally

### Description

Economists are accused of not agreeing on anything. Actually, economists agree on most principles of economics, and almost all economists agree on the issue of trade. Trade is good and protectionism is bad. Protectionism robs from the many to give to the few and violates the principles of fairness and efficiency. Limiting trade means lowering the standard of living for the world. Free trade is under fire today, but most economists vigorously defend it.

In this video workshop, Jay Grenawalt shows his students at George Washington High School in Denver how extensive international trade is and how it improves our standard of living. Dr. Eric Gernant from the New York City High School of Economics and Finance illustrates how the ingredients in a single candy bar come from around the world. He also illustrates the gains from trade, using the law of comparative advantage. Finally, Elaine Schwartz has her students from Kent Place School in Summit, New Jersey, participate in a “banana wars” simulation that illustrates the unintended consequences of protectionism.

## Key Concepts

- People and nations trade in order to improve their standard of living.
- Because trade is the voluntary exchange of goods and services, the decision to trade will occur only if both parties to the exchange expect to gain from it.
- Voluntary trade promotes economic progress because it allows people to specialize in what they do best.
- The law of comparative advantage explains why there are mutual gains from specialization and trade.
- Comparative advantage occurs when a nation can produce a good at a lower opportunity cost than another nation. Relative costs determine comparative advantage.
- Trade barriers such as tariffs and quotas limit the potential gains from trade. Generally, they protect domestic sellers at the expense of domestic buyers. They reduce efficiency in the allocation of scarce resources and slow down economic progress.

## Voluntary National Content Standards in Economics

The activities shown in this workshop illustrate the following standards:

- Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and usually among individuals or organizations in different nations. (Content Standard 5)
- When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase. (Content Standard 6)

# Workshop Session

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## Getting Ready (20 minutes)

1. Read Lesson 5.1, "Working and Living Together: The Importance of Trade."
2. Conduct the lesson. After making a list, locate each of the countries on a world map.
3. Going around the room, have each person answer one of the 16 questions in the lesson.

## Watching and Discussing the Video (90 minutes)

1. View Section One (global trade) and Section Two (gains from trade). (20 minutes)
2. Discuss Sections One and Two. (10 minutes)
  - What did the students learn from the label-search game?
  - How does the label-search game misrepresent trade with the United States? (Hint: Trade consists of imports and exports and involves far more than consumer goods.)
  - Do you think the label-search game would be effective with your students? Why or why not?
  - What examples did Jay Grenawalt use to illustrate the law of comparative advantage? Can you give additional examples?
  - How does trade disprove the economics cliché, "There is no such thing as a free lunch"?
  - What does the fact that Michael Jordan should hire a gardener and a lawyer should hire a typist have to do with comparative advantage and international trade?
  - How did Jay bring out the students' attitudes toward globalization? What techniques did he use?
  - In an interview, Jay said, "I don't care what opinion kids have as long as they use sound economics." Does "sound economics" preclude certain opinions?
3. View Section Three (comparative advantage and specialization). (15 minutes)
4. Discuss Section Three. (5 minutes)
  - Could a candy bar be produced without trade? Why is this important?
  - What activities besides the label search and candy bar example could be used to teach international trade?
  - What is the difference between absolute and comparative advantage?
  - Why is specialization important in economics?
  - True, false, or uncertain? Why? "Self-sufficiency is the road to poverty."
  - What would a world without trade be like?
  - Can nations trade if one nation does everything better than another nation?
5. View Section Four (protectionism). (19 minutes)

# Workshop Session, cont'd.

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6. Organize the entire group to conduct Lesson 5.2, the "Banana Wars" simulation, which was done in Elaine Schwartz's class at Kent Place School. (20 minutes) Follow the directions to set up and conduct the simulation, and then answer these questions about the simulation:

- What makes a simulation like this effective?
- What are some of the unintended consequences of banana quotas?
- Who benefited and who suffered from banana quotas?
- If tariffs and quotas always lower the world's standard of living, why do nations impose them?

## Closure (15 minutes)

Break into small groups. Each group should evaluate one of the following arguments against trade and give an example of how they would teach this in class. A spokesperson from each small group will report to the entire group.

- Tariffs protect jobs.
- International trade hurts the environment.
- International trade allows the governments in poor countries to suppress their people.
- If nations trade, someone gains and someone loses.
- It is best if a country is self-sufficient.

## Lesson 5.1:

# Working and Living Together: The Importance of Trade

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"Working and Living Together: The Importance of Trade" is from *Trading Around the World, Introducing Economics Into the Middle School Curriculum*, by Harlan R. Day, National Council on Economic Education, 1997.

### Label Search!

#### Overview

In this activity, your group must conduct a "label search" in your classroom. This activity will help you realize how much we trade with other countries. The activity also will help you realize how much we benefit from trade.

#### Your Group Task

Here's how to do your "label search."

1. Choose a group leader and recorder. Each group member must search the classroom and identify at least five articles of clothing or other items that have been produced in another country. (Try to identify clothing or items that have not been identified by members of another group.) Use scrap paper to record the name of the item and the country. *Be specific* with your descriptions. For example, instead of recording just "coat," give a more precise response, such as "John's blue coat."
2. After your group members have conducted their search, meet together as a group and complete the "Group Activity Response Sheet" (next page). Using your newly gathered information, list 10 articles of clothing or items that have been produced in 10 *different* countries.
3. Using colored transparency markers, your group recorder should locate each of your 10 countries on a transparency of a world map. The other group recorders will do likewise.
4. Discuss and answer Questions 11-16.

## Lesson 5.1, cont'd.

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# Group Activity Response Sheet

Leader: \_\_\_\_\_ Recorder: \_\_\_\_\_

Group Members: \_\_\_\_\_

**Your Group Task:** Use the data gathered by group members to fill in the blanks below. Be specific in your clothing and item descriptions.

CLOTHING OR ITEM DESCRIPTION	COUNTRY WHERE PRODUCED
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
9. _____	_____
10. _____	_____

11. Analyze your list carefully. What are some specific reasons why these countries specialize in the production of these clothing items?

12. What patterns do you notice with the locations on the map? Do they cluster in a particular part of the world?

13. When you or someone else buys the clothing or items produced in a foreign country, who benefits? Explain your answer.

14. Do you think trade makes our country *more* or *less* dependent on other countries for the things we want and need?

15. Do you think it is good or bad to be dependent on other countries for the things we want to buy? Explain why you think so.

16. Discuss this statement, "To save American textile jobs, Congress should put a quota (limit) on the number of foreign clothes that are imported into our country." Present your group's views to the class.

## Lesson 5.2: Banana Wars

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The “Banana Wars” lesson was written by Elaine Schwartz, Kent Place School, Summit, N.J.

### Overview

The European Union passed legislation that used quotas (a trade barrier) to favor importing bananas from their former colonies in Africa, the Caribbean, and the Pacific rather than from nations in Central and South America. This hurt Chiquita Bananas, which produced bananas in Central America and Ecuador. In this activity, students sequence a series of events from a grab bag and then line up in the chronological order of events. The activity vividly illustrates the secondary effects of trade barriers.

### Materials

- Activity 1: Events for Grab Bag
- Activity 2: Banana Wars Chart and Questions

### Procedures

1. Discuss the definitions of some of the terms that are used in this lesson.
  - comparative advantage
  - imports
  - exports
  - world price (graph)
  - tariffs (graph)
  - quotas (graph)
  - EU (European Union)
  - WTO (World Trade Organization)
2. Discuss the basic facts of the simulation with the students.
  - The year is 1990.
  - In Europe, approximately 40% of the banana market is controlled by Chiquita.
  - Chiquita Banana is a U.S. company, based in Cincinnati.
  - Chiquita grows bananas in the Caribbean. As the largest grower of bananas in the world, Ecuador is a major source of Chiquita bananas.
  - Combined, the nations that compose the European Union (EU) make it the largest importer of bananas in the world.
  - The year is 1993.
  - The nations that compose the European Union have decided to favor their former colonies in Africa, the Caribbean, and the Pacific (ACP countries) by importing more of their bananas.
  - The EU will primarily use quotas.
  - Ecuador and other nations that grow for Chiquita are not ACP countries. Consequently, Chiquita’s exports to the EU decline by approximately 50%.
  - As the lowest-cost producer in the world, Ecuador can produce bananas for close to \$162 a metric ton.

## Lesson 5.2, cont'd.

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- As higher-cost producers because of soil quality and other less-optimal growing conditions, banana growers such as the Ivory Coast produce bananas for as much as \$515 a metric ton.
  - The U.S. supports Chiquita and takes the case to the WTO.
  - The WTO supports the U.S. and says it can retaliate if the EU does not eliminate its trade barriers.
  - The EU ignores the WTO.
  - The year is 1999.
  - The U.S. retaliates by levying 100% tariffs on such European goods as French handbags, Italian pecorino cheese, Scottish cashmere sweaters, and British short bread.
  - The year is 2001.
  - The EU and U.S. agree to settle their differences. Over a five-year period, the EU will eliminate the present system. In 2006, it will be replaced with a new, less discriminatory system.
3. Cut up the events in Activity 1 and place them in a grab bag. Any container will do. Each entry should be on a separate strip of paper and folded in a box for students to draw.
4. Have the students draw the slips, and line up in what they think is the proper order of events. The correct order should be approximately as follows:
1. The year is 1990.
  2. Banana prices in EU countries equal the world price.
  3. The year is 1993.
  4. Banana quotas that favor ACP nations are imposed.
  5. Banana prices in EU countries are higher than the world price.
  6. 4,000 Chiquita workers lose their jobs.
  7. Low-cost banana growers in Ecuador experience less demand.
  8. High-cost banana growers in the Ivory Coast experience greater demand.
  9. European consumers pay more for bananas.
  10. The year is 1999.
  11. A 100% tariff is levied on pecorino cheese.
  12. U.S. cheese makers experience more demand.
  13. U.S. consumers pay more for pecorino cheese.
  14. Italian producers of pecorino cheese experience less demand.
  15. Italian pecorino cheese makers fire workers.
  16. The U.S. and EU agree to diminish banana barriers.
  17. The U.S. eliminates pecorino cheese tariff.
  18. U.S. pecorino cheese prices decline.
  19. EU banana prices move closer to the world price.
  20. U.S. government collects more customs revenue.

## Lesson 5.2, cont'd.

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5. Debrief the simulation.

- a. Have the students fill in the chart in Activity 2 to show who benefits and who suffers from tariffs and quotas. The suggested solutions are:

	<b>Benefit</b>	<b>Suffer</b>
<b>Without quotas</b>	Chiquita Ecuador banana growers Ecuador banana workers EU banana consumers	Ivory Coast banana growers Ivory Coast banana workers
<b>With quotas</b>	Ivory Coast banana growers Ivory Coast banana workers	Chiquita Ecuador banana growers Ecuador banana workers EU banana consumers
<b>Without tariffs</b>	Italian pecorino cheese producers U.S. pecorino cheese consumers	
<b>With tariffs</b>		Italian pecorino cheese producers U.S. pecorino cheese consumers

b. Using the completed chart, have students answer these questions, which are at the bottom of the chart.

1. Who benefits from trade barriers? (*Producers who are protected*)
2. Who is hurt by trade barriers? (*Consumers*)
3. On balance, do trade barriers benefit or harm the economy? Why? (*The costs to consumers and economic efficiency outweigh the benefits for protected producers. Many people believe an economic system should encourage efficiency and equity or fairness. Sometimes these goals are in conflict. However, trade barriers hurt both. Trade barriers favor some producers over others. They hurt all consumers, and less competition hurts business efficiency and businesses become less responsive to consumers.*)

## Lesson 5.2: Activity 1

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# Events for Grab Bag

Cut up these events and put them in a grab bag.

The year is 1999.

Italian pecorino cheese makers fire workers.

Banana prices in EU countries equal the world price.

Banana prices in EU countries are higher than the world price.

The year is 1993.

The year is 1990.

EU banana prices move closer to the world price.

High cost banana growers in the Ivory Coast experience greater demand.

Low cost banana growers in Ecuador experience less demand.

A 100% tariff is levied on pecorino cheese.

European consumers pay more for bananas.

4000 Chiquita banana workers lose their jobs.

Italian producers of pecorino cheese experience less demand.

U.S. cheese makers experience more demand.

U.S. consumers pay more for pecorino cheese.

The U.S. eliminates pecorino cheese tariff.

The U.S. and EU decide to diminish banana barriers.

U.S. government collects more customs revenue.

U.S. pecorino cheese prices decline.

Banana quotas that favor ACP nations are imposed.

## Lesson 5.2: Activity 2

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# Banana Wars Chart and Questions

Using the “banana wars” chart (below), note where each of the following belongs.

- Chiquita
- Ecuador banana workers
- Ivory Coast banana workers
- Italian pecorino cheese producers
- Ecuador banana growers
- Ivory Coast banana growers
- EU banana consumers
- U.S. pecorino cheese consumers

	<b>Benefit</b>	<b>Suffer</b>
<b>Without quotas</b>		
<b>With quotas</b>		
<b>Without tariffs</b>		
<b>With tariffs</b>		

Answer the following questions:

1. Who benefits from trade barriers?
2. Who is hurt by trade barriers?
3. On balance, do trade barriers benefit or harm the economy? Why?

# Notes

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