Chapter 26

SS6E6 The student will analyze the benefits of and barriers to voluntary trade in Europe.

a. Compare and contrast different types of trade barriers such as tariffs, quotas, and embargoes.

b. Explain why international trade requires a system for exchanging currencies between nations.

It's Time to Trade

Countries sometimes set up trade barriers to restrict trade because they want to sell their own goods to their own people. They don't want foreign competition to come in with lower prices! Just about every country has some restrictions on foreign imports. Trade barriers include:

- **Tariffs** are taxes placed on imported goods. Tariffs cause the consumer to pay a higher pric for an imported item, increasing the demand for a lower-priced item produced domestically.

- **Quotas** are restrictions on the amount of a good that can be imported into a country. Quotas can cause shortages that cause prices to rise.

- Trade **embargoes** forbid trade with another country.

Trade in Europe

The European Union (EU) was primarily established to set up free trade among countries Europe. Today, the EU is a powerful trade bloc, making up one-fifth of the world's trade. Products produced in Europe can now move freely, without tariffs, to other EU member natic This free trade leads to tremendous cost savings for European consumers and businesses!

In order to protect its members, the EU sometimes establishes quotas on trade with othe nations. For example, the EU placed quotas on clothing imports from China when EU meml with strong textile industries (like France and Italy) complained about cheap import prices. EU also has internal quotas. For example, the EU strictly limits the amount of fish a boat can bring to port in order to give countries equal fishing advantage.

The EU will also embargo imports from foreign countries if that country doesn't follow specific quota rules. Embargoes are also put in place for safety reasons, such as an embargo against African fish products due to unsanitary water conditions. The EU may also embargo imports from countries for political reasons, such as a country that violates its citizens' human rights.

Quick Quiz

Decide if the examples below represent a tariff, quota, or embargo. Write the correct word next to each example.

_______________ 1. Only 3,000 pairs of American blue jeans can enter France.

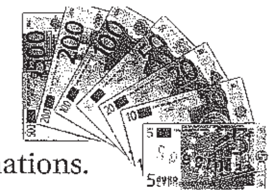
_______________ 2. The U.S. charges an extra 10 cents per pound on bananas from Costa Rica.

_______________ 3. No Brazilian beef can be sold to Spain.

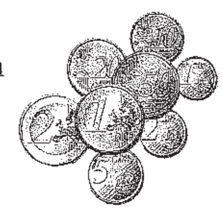
_______________ 4. Only 10,000 barrels of oil can be delivered from Saudi Arabia to Italy this month.

_______________ 5. The EU will not accept any products from an African nation because its government will not allow free speech or freedom of religion.

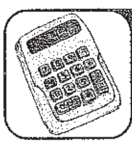
Your Money = My Money!



Because every country does not use the same type of money, international trade requires a system for **exchanging currencies** between nations. Money from one country must be converted into the currency of another country to pay for goods in that country. This system is called **foreign exchange**. The exchange rate is how much one currency is worth in terms of the other. For example, an exchange rate of 5 euros to the dollar means that five euros are worth the same as one dollar.



The European Union took a big step in simplifying currency exchange when it established the **euro** as the common currency for its member nations. This one common currency has made trade—and travel—much easier within Europe! The euro bills all look the same, but the coins have a standard euro design on one side and symbols from individual countries on the other side.



Special Economics Info

The value of the euro in relationship to the dollar changes frequently. Let's say that one euro is equal to 1.5 American dollars. Using that exchange rate, answer the questions below.

1. Which is worth more: one euro or one American dollar?____________ Explain your answer.

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2. You want to buy a purse in Italy that costs 30 euros. How much do you need in American dollars to buy the purse? ____

3. You have $75 dollars. Do you have enough money to buy a jacket in France that costs 55 euros?

Yes No

4. Your friend from Spain has 4 euros. Does he have enough money to buy a hamburger and fries for $5.95?

Yes No

5. Considering the exchange rate listed above, would an American traveling in France be pleased about the exchange rate? Why or why not? ______________________________________