**Prefatory Remarks:**

President Trump has tweeted multiple times about trade during his campaign and while in office. He expressed his rejection for the TPP and he wants to renegotiate NAFTA. He has questioned the benefits of trade for the U.S. and has advocated for protectionist policies such as tariffs. Today, you are asked to use microeconomic theory to consider the benefits and costs of free trade and ways in which current trade policies can be improved.

**Information Given to Student Groups for this Application Exercise:**

We have learned about the benefits of trade. While economic analysis shows that free trade increases consumption for all trading partners, criticism against free trade has been expressed by several policy makers and voters. Trade proponents emphasize the positive net benefits of trade, increasing the economic pie for each trading partner and benefiting each country as a whole. Critics point to the distributional effects of trade in primarily importing countries, benefiting consumers with lower prices and harming some producers. In the U.S. some manufacturing workers have been made worse off as their labor is demanded less.

What is the **best** policy for the U.S. to follow to maximize the well-being of all U.S. workers?

1. Pull out of free trade agreements such as NAFTA that potentially harm U.S. manufacturing workers, in the hope that jobs in the manufacturing industries will return to the U.S.
2. Impose tariffs on imported manufactured goods to protect domestic manufacturing jobs that will reemploy workers.
3. Maintain free trade agreements such as NAFTA but provide special unemployment insurance for workers who lose their jobs due to free trade agreements in order to guarantee displaced workers retain their same living standard while they find a new job.
4. Maintain free trade agreements such as NAFTA but establish and subsidize educational, training, and placement programs for workers who lose their jobs due to free trade agreements.