

Tariff wars: Context-rich problem

Assignment Description

In this activity, students listen to a podcast discussing a potential trade war between China and the U.S. Students consider a discussion/reflection prompt based on the podcast, which instructors can use to have an in class or on-line discussion, or to have students complete a written assignment or exam question. Students will consider the concepts of trade, tariffs, free trade vs. protectionism and the interaction of politics and economics. Prompts are provided that are appropriate for:

- A microeconomics principles course (prompt one), or
- Upper level economics courses focusing on trade or policy issues (prompt two or three)

Prompt One: Micro Principles Course

Listen to the Planet Money podcast, Revenge of the Tariffs (available at: http://www.npr.org/blogs/money/2009/09/podcast_1.html), which discusses a potential U.S. tariff on Chinese tires. Imagine you live in a state whose economy relies heavily on the automobile industry. Using your economic reasoning, write a letter to the editor of your local newspaper presenting your position on this proposal.

Prompt Two: (Upper-level Course)

Listen to the Planet Money podcast, Revenge of the Tariffs (available at: http://www.npr.org/blogs/money/2009/09/podcast_1.html), which discusses a potential U.S. tariff on Chinese tires. As discussed in the podcast, countries are using the “you pushed me first” rationale for engaging in protectionist policies / retaliatory trade barrier behavior. Until recent years, tariffs were diminishing with the promotion of free trade through the World Trade Organization and political/economic policies. Imagine that the scenario discussed in the podcast was a current debate, with the President debating imposition of that 35% tariff on Chinese tires. Using your understanding of economics, draft a letter to the President stating your position on this proposed tariff, and the economic rationale for that position.

Prompt Three: Harmonized Tariff Schedule Extension (Upper-level Course)

Listen to the Planet Money podcast, Revenge of the Tariffs (available at: http://www.npr.org/blogs/money/2009/09/podcast_1.html), which discusses a potential U.S. tariff on Chinese tires. As discussed in the podcast, the United States utilizes a Harmonized Tariff Schedule (HTS), which outlines all tariffs for the US. You can view the chapter from the HTS that applies to rubber at <http://www.usitc.gov/publications/docs/tata/hts/bychapter/1401c40.pdf>. Scroll through Chapter 40 to see how the “Rates of duty,” which are the tariff rates reported in the columns furthest to right in pages three and beyond. Note the differences among countries as indicated in the different duty rates reported in the ‘general’ column (applying to general trading partners) vs. those in the ‘special’ column (applying to countries with various special trade agreements with the U.S.).

Discuss the impacts that you think come from this system of tariffs. You might consider impacts on domestic producers, domestic consumers, foreign producers, and the overall impact on the trading system.

Note that the relevant portion of the podcast is between 1:20 – 3:50. A discussion of this prompt could be effectively facilitated by listening to those three minutes and then viewing a section of the Harmonized Tariff Schedule as linked in prompt three.

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Teaching Notes and Tips

Students will need to have discussed trade, tariffs, consumer surplus and producer surplus before completing this activity.

Students will need to listen to the podcast on their own before beginning the activity. The full podcast is 19 minutes in length.

This problem can be used to assess students' understanding of the effects of a tariff on economic surplus. Students should be able to describe how imposition of a tariff would impact consumer surplus, producer surplus and would create deadweight loss. Students could also consider the political complexities of international trade.

If your students are new to context-rich problems, it may be helpful to include additional prompts to guide students, such as "How will consumers be impacted by this tariff?" "How will producers be impacted by this tariff?" "Why would China propose a retaliatory tariff on goods in a different market? What impact do you think that action might have on consumers/producers in those markets?"

Assessment

If the problem will be graded, a rubric such as the following might be used:

- Grade=A: All economic reasoning in the answer is correct. All relevant graphs are included. All relevant economic terms are included. May have 1-2 minor mistakes, such as a missing label on a graph.
- Grade=B: Economic reasoning in the answer is correct, but some relevant economic terms are missing or graphs contain minor mistakes.
- Grade=C: Contains significant errors in the economic reasoning. Many relevant economic terms are missing or used incorrectly. Graphs contain some significant errors.
- Grade=D: Very little of the economic reasoning is correct and relevant to the problem. Nearly all relevant economic terms are missing or used incorrectly. Graphs are missing or contain several significant errors.
- Grade=F: None of the economic content is relevant to the question.