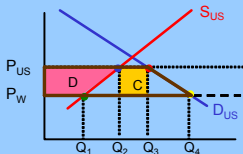


# Consumers and Producers



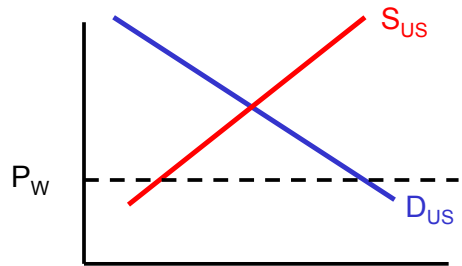
# Two Arguments

- American Workers Lose from Free Trade
- All of our Jobs are going overseas

Widget Supply and Demand  
**In fact, some American Workers lose by some free trade measures, but the gains to consumers exceed the losses**

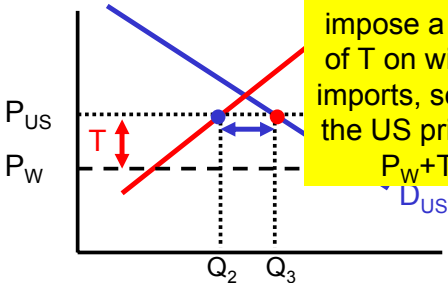


# Widget Supply and Demand



# Widget Supply and Demand

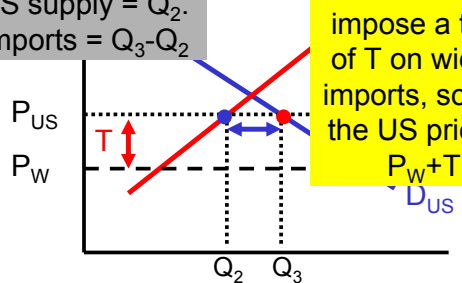
We currently impose a tariff of T on widget imports, so that the US price is  $P_W + T$

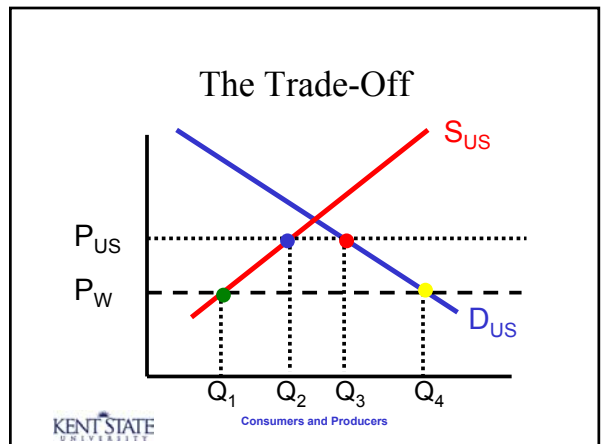
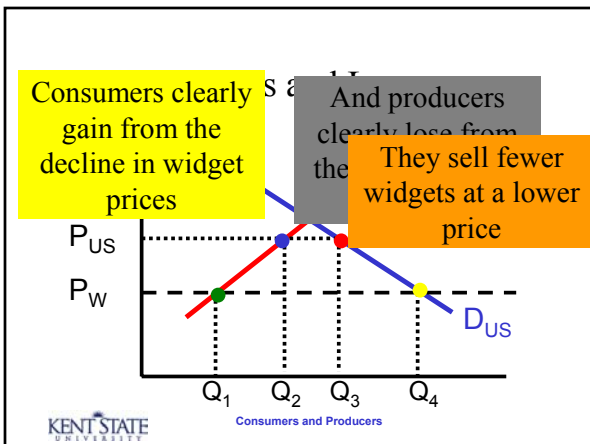
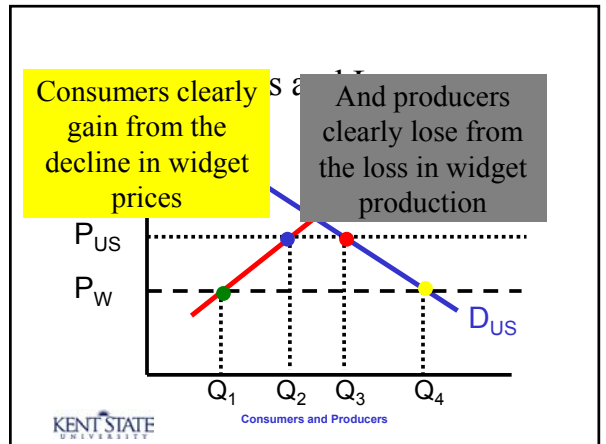
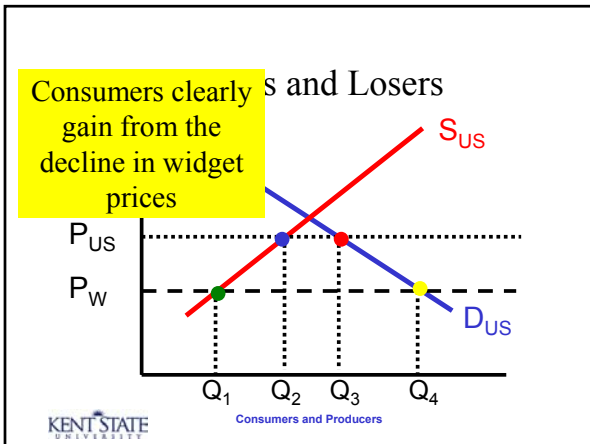
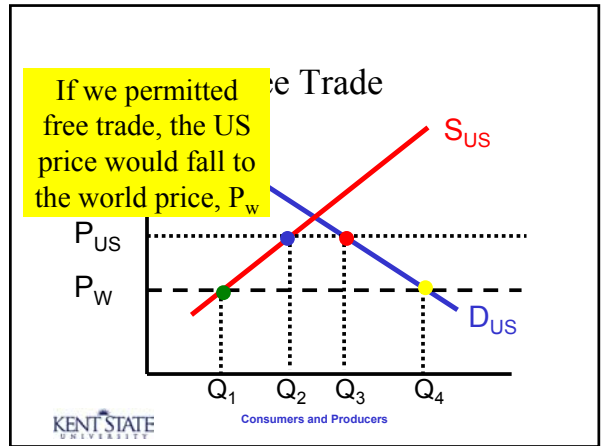
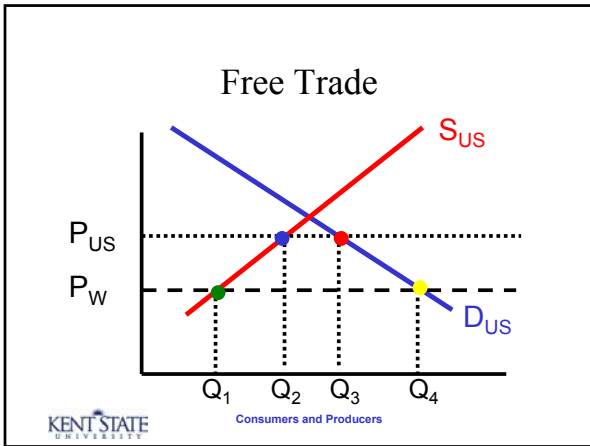


# Widget Supply and Demand

US demand =  $Q_3$   
 US supply =  $Q_2$   
 Imports =  $Q_3 - Q_2$

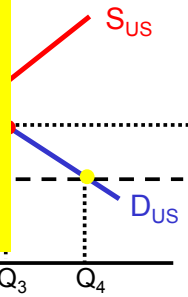
We currently impose a tariff of T on widget imports, so that the US price is  $P_W + T$





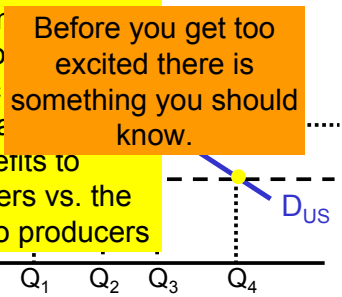
### The Trade-Off

This seems to be the stuff of which economic arguments are made: the benefits to consumers vs. the benefits to producers



### The Trade-Off

This seems to be the stuff of which economic arguments are made: the benefits to consumers vs. the benefits to producers



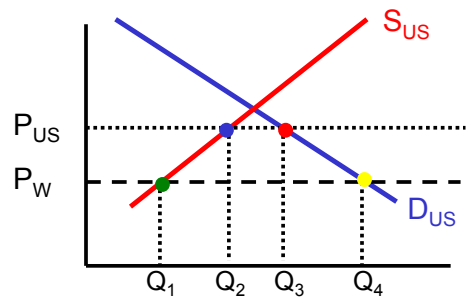
### The Trade-Off

This seems to be the stuff of which economic arguments are made: the benefits to consumers vs. the benefits to producers

Before you get too excited there is something you should know. The gains to the consumers from free trade always offset the losses to the producers!



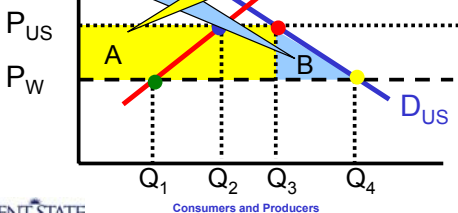
### The Proof



Benefits from Additional Widgets Purchased

Consumers

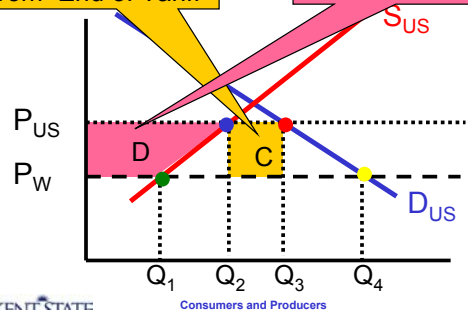
Lower Price for Widgets Previously Purchased

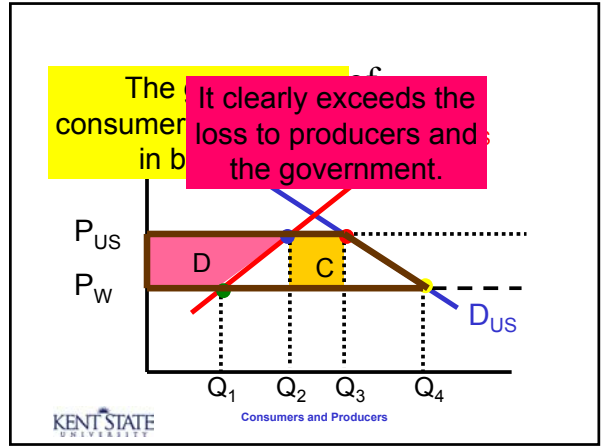
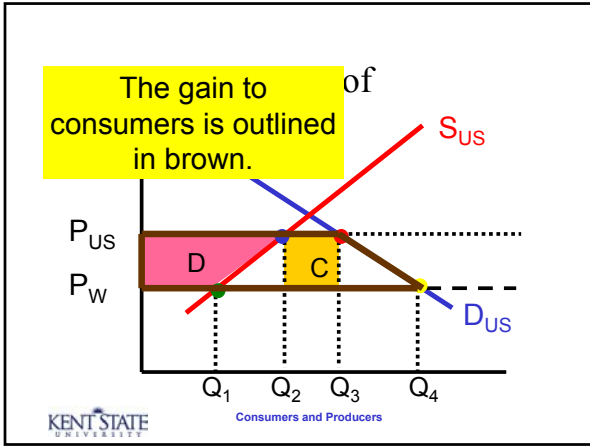


Loss to Taxpayers from End of Tariff

Producers

Loss to Producers





### The Intuition

- 100,000,000 Americans consume widgets
- 50,000 Americans make widgets

KENT STATE UNIVERSITY Consumers and Producers

### The Intuition

- 100,000,000 Americans consume widgets
- 50,000 Americans make widgets
- When we move to free trade,
  - The average consumer gains \$10
  - The average worker loses \$5,000

KENT STATE UNIVERSITY Consumers and Producers

### The Intuition

- 100,000,000 Americans consume widgets
- 50,000 Americans make widgets
- When we move to free trade,
  - The average consumer gains \$10
  - The average worker loses \$5,000

**Gains to American consumers: \$1 Billion**

KENT STATE UNIVERSITY Consumers and Producers

### The Intuition

- 100,000,000 Americans consume widgets
- 50,000 Americans make widgets
- When we move to free trade,
  - The average consumer gains \$10
  - The average worker loses \$5,000

**Losses to American workers: \$250 Million**

**Gains to American consumers: \$1 Billion**

KENT STATE UNIVERSITY Consumers and Producers

## The Intuition

Gains to

**Query: who is more likely to protest and write their congressman? The consumer or the worker?**

workers.

\$250 Million

loses \$5,000

## The Loss of Jobs

- Thanks to free trade, American widget makers shut down.

## The Loss of Jobs

- Thanks to free trade, American widget makers shut down.
- People note all the dollars flowing to Mexico to buy widgets, and claim that “pretty soon all of our jobs will have gone to Mexico (or China or India or...)”

## The Loss of Jobs

- The ma
  - Pe
  - M
  - “p
  - to
- But why do the Mexicans (or Indians or Chinese) want pictures of George Washington? At some point those dollars will be returned to purchase goods and services in the US**

End

©2005 Charles W. Upton.  
All rights reserved