

Key Terms

Instructions: Read the following key terms. If there are words in the definitions of each term that you do not understand, underline them and ask your classmate or your teacher to explain them to you.

Imports—Foreign goods and services purchased from sellers in other countries.

Exports—Domestic goods and services sold to buyers in other countries.

Protectionism—An economic strategy to limit trade. Governments construct “barriers” to restrict trade in order to help protect domestic businesses.

Tariffs—Tariffs are taxes on imported goods that make goods from other countries more expensive than domestically-made goods. Tariffs are an example of a protectionist barrier. Tariffs also can be used to punish other countries for engaging in unfair trade practices and pressure them to change these policies.

Free trade—Free trade, as opposed to protectionism, is trade that is conducted without barriers of any kind. Governments lower barriers in order to increase international trade. Free trade has been promoted by the United States since the end of World War II.

Trade deficit—The amount by which a country’s imports exceeds the value of its exports. In 2017, the United States had a \$375 billion trade deficit in goods with China, meaning that it imported \$375 billion more from China than it exported to China.

Subsidies—Subsidies are another form of barrier, in which the government gives money to certain industries so those businesses can charge lower prices and be more competitive on the world market.

World Trade Organization (WTO)—An international organization that oversees the rules and regulations negotiated by countries about international trade. The WTO provides a forum for governments to negotiate trade agreements and settle trade disputes.

Intellectual property—A term that refers to legal protection of ideas, inventions, and artistic works. There are different areas of intellectual property rights including copyrights, trademarks, patents, and trade secrets.

Trade war—A dispute in which a country imposes trade restrictions (such as tariffs or quotas) on certain imports from another country, and that country imposes restrictions in return. This often results in retaliation and escalating economic and political tensions.

Quota—A government limitation on the quantity of a product that may be imported during a particular period of time. Quotas are an example of a protectionist barrier. Unlike a tariff, a quota does not generate revenue for the government.