Latin America Economics

SS6E1 The student will analyze different economic systems.

a. Compare how traditional, command, and market economies answer the economic questions of (1) what to produce, (2) how to produce, and (3) for whom to produce.

b. Explain how most countries have a mixed economy located on a continuum between pure market and pure command.

c. Compare the basic types of economic systems found in Canada, Cuba, and Brazil.

SS6E2 The student will give examples of how voluntary trade benefits buyers and sellers in Latin America and the Caribbean and Canada.

a. Explain how specialization encourages trade between countries.

b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargos.

c. Explain the functions of the North America Free Trade Agreement (NAFTA).

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

SS6E3 The student will describe the factors that cause economic growth and examine their presence or absence in Latin America.

a. Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP).

b. Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP).

c. Describe the role of natural resources in a country's economy.

d. Describe the role of entrepreneurship.

Latin America & the Caribbean

Economic Systems

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Economic questions:

- What to produce?
- How to produce?
- For whom to produce?

- Who decides?….that determines the type of economy a country has….

3 basic types… + mixed

- **Command Economy**
- **Traditional Economy**
- **Market Economy**
- **Mixed**

Command Economy

- All major decisions related to the production, commodity and service prices are all made by the central government.
- Cuba is a country that has a centralized command economy.

Command Economy

- Workers in a command economy are told what to produce and how much to produce at a given time. This is called a quota.
- Governments own most or all of the factories and farms, etc.
- In Cuba, there are black-out times when factories are closed to save power.

Market Economy

- Buyers and sellers control or make decisions. People are fair and need little or no government control/intervention.
- Other words for market economy are free enterprise, capitalism, and laissez-faire.
- Businesses and farms are usually owned by individuals or corporations.
  - **A Close Example: Mexico- The government does make some laws to make sure that businesses run smoothly, but it does not set prices or own most of the businesses or farms.**

Traditional Economy

- Follows the customs and traditions of a particular culture and the past.
- **Members of this society know early in life what his or her role in the larger group will be. Jobs are handed down from generation to generation. Farming, hunting, and gathering are common jobs in this type of economy.**
- **Elders of the culture are in control.**
- **Examples: native cultures like with the Yanomamo Indians in Brazil and Venezuela-**

Mixed Economy
(supply and demand)

- A mixed economy blends components of two or more of the following economic systems to varying degrees. Decisions are made by consumers/buyers; producers/sellers; and government.
- **Examples: Brazil**
- **Most popular in the world—United States, Israel, and India**

Mixed Economy

Most countries in the world have a mixed economy.

Cuba is considered a command economy even though their government does allow some farmers to sell extra farm goods after their quota has been met.

Mexico is considered a market economy, in spite of the government owning and operating the energy companies.

Most economies are closer to one type of economic system than others.

Latin America & the Caribbean

Voluntary Trade

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What is Specialization?

- Specialization occurs when one nation can produce a good or service at a lower opportunity cost than another nation.
- An expert in the work done.

Explain how specialization encourages trade between countries.

- With trade, the volume of a country's production of a good can be substantially higher than what its internal (domestic) market can use, increasing the opportunity for that country to make money. A larger market means that goods can be produced more cheaply too. Free trade gives countries the incentive to produce goods that will make money on the world market. This may encourage competition and innovation, to the ultimate benefit of all.

Specialization Encourages Trade

- Each person or country makes money from something they are really good at.
- They specialize in what they do well which creates a division of labor.
- Dividing the work into different parts is more efficient and cost-effective.
- Less equipment is needed, time is saved, and generally better products are produced.
- People/countries trade for other items that are needed.
- Examples**:**
  - OPEC- organization to influence price of oil – Saudi Arabia, Iran, Iraq, **Venezuela**, Kuwait,… Nigeria, Indonesia…
    - Cuba = tobacco and sugar cane
    - Brazil = coffee, oranges, soybeans, etc.
    - Venezuela = oil & natural gas
    - Mexico = oil & silver

TARIFF

- A tariff is a tax placed on goods when they cross a political boundary. Tariffs are usually imposed on imported goods, but they may also be placed on exported goods.
- Tariffs may be of various kinds:
- An ad valorem tariff is a set percentage of the value of the good that is being imported. Sometimes these are problematic as when the international price of a good falls, so does the tariff, and domestic industries become more vulnerable to competition.
- A specific tariff is a tariff of a specific amount of money that does not vary with the price of the good.
- A "revenue tariff" is a set of rates designed primarily to raise money for the government. Example: A tariff on sugar imports, for example (imposed by countries where sugar cannot be grown) raises a steady flow of revenue.
- A "protective tariff" is intended to artificially inflate prices of imports and "protect" domestic industries from foreign competition.
- A "prohibitive tariff" is one so high that no one imports any of that item.

Quota

- A quota is a limit on the quantity of goods that can be imported into a country.
- Import quotas are a form of protectionism. An import quota fixes the quantity of a particular good that foreign producers may bring into a country over a specific period, usually a year. The U.S. government imposes quotas to protect domestic industries from foreign competition. Import quotas are usually justified as a means of protecting workers who otherwise might be laid off. They also can raise prices for the consumer by reducing the amount of cheaper, foreign-made goods imported and thus reducing competition for domestic industries of the same goods.

Embargo

- Government prohibition of exports or imports with respect to specific products or specific foreign countries. Usually imposed during times of war.
- The US had an embargo in place against Cuba. US companies were not allowed to trade with Cuba. US citizens were prohibited from traveling to Cuba (except under special circumstances). Congress passed a bill that made the embargo even stronger by imposing sanctions against any country that traded with Cuba.

Barriers To Trade

- **Physical barriers**: geographical features that prevent people from easily reaching another location. Land-locked countries, countries that have no ocean coastline, have difficulty trading because many important goods are shipped by way of the world's oceans. For example, Bolivia is a land-locked country, making trade with any country not sharing a border extremely difficult.

  Economic barriers: economic features that prevent trade between two locations. In the Western Hemisphere, trade blocks are used to combat tariffs.
- **Tariff**: a tax on important goods. Tariffs make trade more difficult because they raise the price of goods imported between countries.
- **Quota**: a limit on the quantity of a given product that can be imported from a particular country.
- **Embargo**: the act of not allowing trade ships to enter or leave a country's ports. A country that declares an embargo can stop all trade with other countries. More frequently, an embargo can be used by one country or group against another specific country or group. When this happens, it blocks all trade between those two groups. Because the United States disapproves of Cuba's Communist rule, the U.S. has had a trade embargo against Cuba since 1962.

Trade Barriers

- Tariffs – a tax imposed on imported goods (limits the amount of imported goods in a country)
- Qu~~otas – limit on quantity of goods imported to a~~ country (reduces foreign goods in a country)
- Embargo – a government order to stop trade with another country
- Examples: United States Embargo against Cuba to pressure it to become a democratic country instead of a communistic one.
- Other examples: United Nation Arms Embargo on Iraq (1990), Afghanistan (2000), and Iran (2006)

NAFTA

- North American Free Trade Agreement

1994- governments of United States, Canada, and Mexico signed an agreement to do away with all tariffs on goods traded among the three countries.

- Created the largest free-trade zone
- Included rules to protect artists from plagiarism and pirating their work

How do countries trade if they have different kinds of money?

- **Currency (money) exchange** – convert/change money between currencies using an **exchange rate** – how much one currency (money) is worth in terms of others

The Yen
The Dollar
The Euro