

Exercise walk-through

6.2

Protectionism

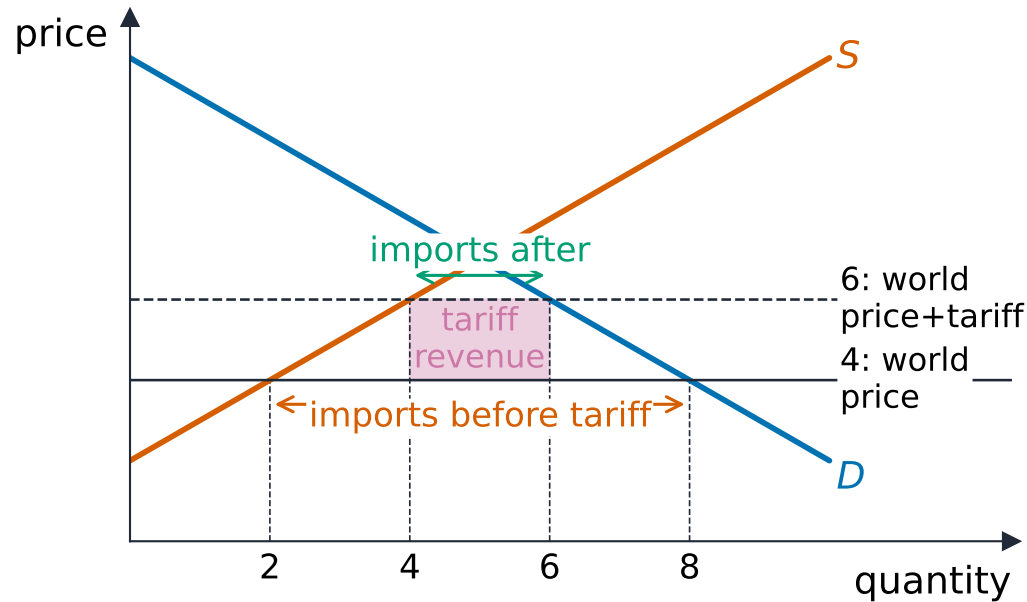
A-Level Economics

Compare the mechanism of each protection tool

Protectionism shields domestic producers from foreign competition.		
Tool	Direct mechanism	A condition or cost
Tariff	Taxes imported units.	Revenue needs taxable imports.
Quota	Caps import quantity.	Licence allocation affects gains.
Export subsidy	Pays exporters, lowering effective costs.	Requires public funding.
Embargo	Bans specified trade.	Alternatives may be costly.
Administrative barriers	Excessive procedures hinder imports.	Distinguish useful safety rules.

The tools differ: an export subsidy does not automatically raise every domestic price. Explain the specified market and response.

Read the tariff diagram under stated assumptions



Small-country model, unchanged world price and **tariff** passed into the domestic price:
compare demand, domestic supply and the import gap before and after the tariff.

Compute imports and revenue after the tariff

Illustrative market: prices £/unit, quantities million units/year

World price 4: domestic supply 2, demand 8. Tariff 2 raises price to 6: supply 4, demand 6. Find imports before/after and annual tariff revenue.

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$$M_0 = Q_{d0} - Q_{s0} = 8 - 2 = 6 \text{ million units/year}$$

$$M_1 = Q_{d1} - Q_{s1} = 6 - 4 = 2 \text{ million units/year}$$

$$R = t \times M_1 = £2/\text{unit} \times 2 \text{ million units/year}$$

$$R = £4 \text{ million/year}$$

Use imports after the tariff. Revenue is not the tariff multiplied by all domestic consumption, nor by the old import quantity.

Trace gains and losses for each stakeholder

A **stakeholder** is a person or group affected. In the stated tariff market:

Group	Mechanism and qualification
Home consumers	Pay 6 rather than 4; buy 6 rather than 8 million units. Higher prices reduce purchasing power.
Home producers	Sell 4 rather than 2 million units at a higher price; higher-cost production may expand.
Government	Receives £4 million/year while imports remain taxable. This is a transfer, not proof of a net national gain.
Foreign suppliers	Export fewer units in this model; their revenue effects depend on price received and quantity.

Firms using imported inputs can also face higher costs. Judgement needs the balance of gains, losses and wider responses.

Exercises 2.1-2.3

2.1 Define the term *tariff*.

[2]

2.2 State the difference between a *tariff* and a *quota*.

[2]

2.3 State one argument in favour of protectionism.

[1]

Exercises 2.1-2.3

2.1 Define the term *tariff*. [2]

2.1

- a tax on imports, which raises their price (2 for a clear definition; 1 for a partial idea)
-

2.2 State the difference between a *tariff* and a *quota*. [2]

2.2

- a tariff is a tax that raises the price of imports; a quota is a legal limit on the quantity of imports (2 for a clear difference; 1 for a partial idea)
-

2.3 State one argument in favour of protectionism. [1]

2.3

- any one of: protect an infant industry; save jobs; prevent dumping; raise government revenue (1)

Exercises 3.1-3.2

3.1 A **quota** is best described as:

[1]

☐

A a tax on imports

B a legal limit on the quantity of imports

C a payment to domestic producers

D a complete ban on trade

3.2 Using a tariff diagram, explain how a tariff affects domestic producers and consumers.

[8]

Exercises 3.1-3.2

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- A a tax on imports
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3.1 B

- A quota limits the quantity of imports

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[8]

3.2

- [8] AO1 1 + **AO3 diagram up to 4** (domestic S and D, world price, world price + tariff, imports shrink, revenue box) + AO2/AO3 up to 3 – the tariff raises the price
- domestic producers supply more and gain, but consumers pay more and buy less, so consumer surplus falls; the government collects tariff revenue

Exercise 3.3

3.3 Discuss whether a government should use protectionism to support its domestic industries.

[12]

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3.3

- [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** protects infant industries and jobs, prevents dumping, raises revenue. **Against:** higher prices for consumers, protects inefficient firms, risks retaliation and a trade war that harms exporters. Judgement: limited, temporary protection of a genuine infant industry can be justified, but broad long-term protection usually lowers welfare – it depends on the industry and the risk of retaliation