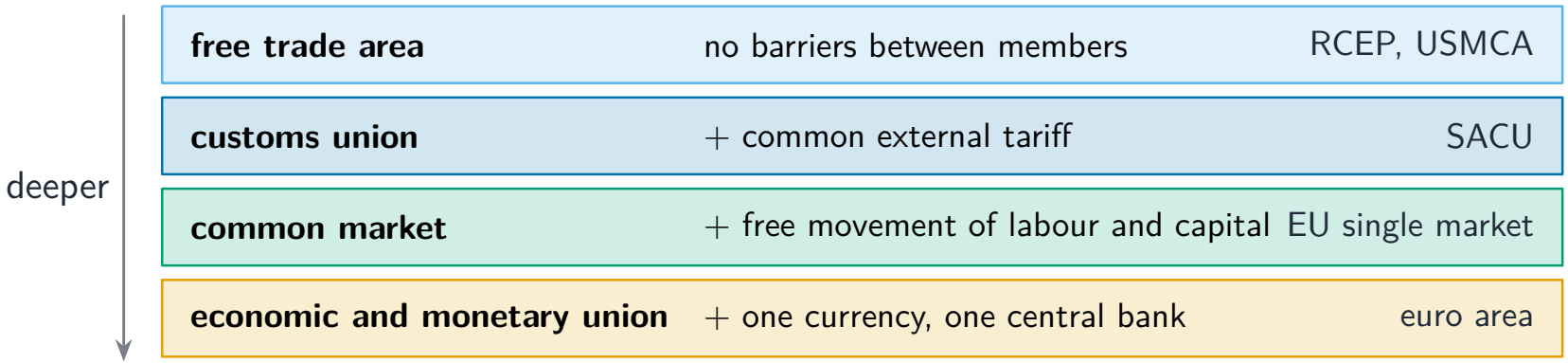
Exercise walk-through

6.2
Trade protection: types and arguments

International Baccalaureate · IB Diploma · Economics · HL

Figure: Economic integration



- Each stage adds to the last
- Match each part of the diagram to the text.

The balance of payments

- **Expenditure-switching policies** move spending from imports to domestic goods: protection, or a lower **exchange rate**.
- **Expenditure-reducing policies** cut total spending, and so imports: contractionary fiscal or monetary policy. These can cause unemployment.
- **Supply-side policies** make exports more competitive over the long run.

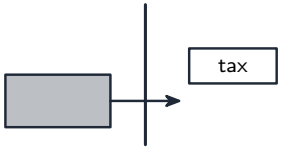
$$\text{terms of trade} = \frac{\text{index of average export prices}}{\text{index of average import prices}} \times 100$$

Key terms (2)

- **Exchange rate**: the price of one currency in terms of another.
- **Current account**: the record of a country's trade in goods and services, **primary income** and **secondary income**.
- **Terms of trade**: the average price of a country's exports relative to the average price of its imports, as an index.
- **Human Development Index**: a composite measure of development based on health, education and income.

Exercises 2.1·2.2

2.1 Define **tariff**. [2]

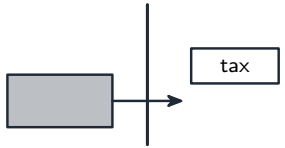


2.2 Distinguish between a tariff and a quota. [2]



Exercises 2.1·2.2

2.1 Define **tariff**. [2]



2.1

a tax; placed on imported goods

2.2 Distinguish between a tariff and a quota. [2]

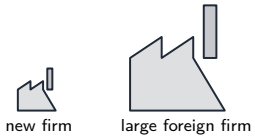


2.2

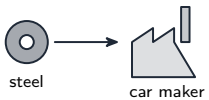
a tariff is a tax on imports, which raises their price and gives the government revenue; a quota is a physical limit on the quantity of imports, with no government revenue

Exercises 2.3·2.4

2.3 Explain the infant industry argument for protection. [4]

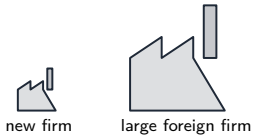


2.4 Explain **one** reason why a tariff on imported steel may harm domestic car makers. [3]



Exercises 2.3·2.4

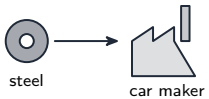
2.3 Explain the infant industry argument for protection. [4]



2.3

a new industry has high average costs because it is small and inexperienced; it cannot yet compete with large foreign firms that have economies of scale; temporary protection lets it grow, gain scale and learn, so its costs fall; once it can compete, the protection should be removed

2.4 Explain **one** reason why a tariff on imported steel may harm domestic car makers. [3]



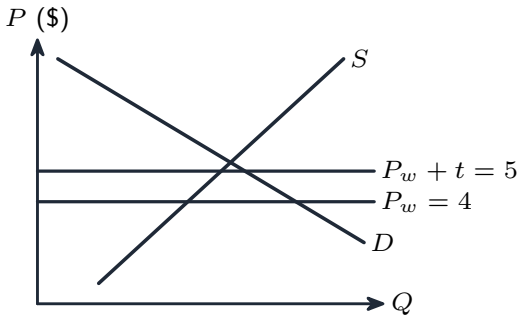
2.4

steel is an input for car makers; the tariff raises the price of steel, so their costs rise; car makers become less competitive at home and abroad, so they may sell less and cut jobs

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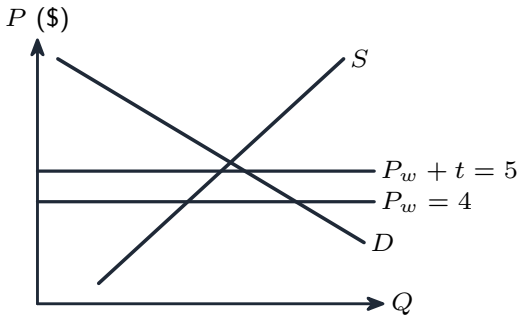
Exercise 2.5

2.5 The world price of a good is \$4. At \$4, domestic demand is 100 units and domestic supply 40. A \$1 tariff raises the price to \$5, where demand is 90 and supply 50. Calculate the tariff revenue and the total welfare loss. [3]



Exercise 2.5

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2.5

imports after the tariff $= 90 - 50 = 40$; revenue $= 1 \times 40 =$ \$**40**; welfare loss: production triangle $\frac{1}{2} \times 10 \times 1 = 5$; consumption triangle $\frac{1}{2} \times 10 \times 1 = 5$; total = \$**10**

Exercise 3.1

3.1 A government places a tariff on imported shoes.



Using a tariff diagram, explain the effects of the tariff on different stakeholders. [10]

[[drawlines:12]]

Exercise 3.1

3.1 A government places a tariff on imported shoes.



Using a tariff diagram, explain the effects of the tariff on different stakeholders. [10]

[[drawlines:12]]

3.1

award up to [10]: diagram: domestic D and S, world price P_w, price with tariff $P_w + t$; quantities Q_1–Q_4 and imports before and after correctly shown; consumers: pay a higher price and buy less; consumer surplus falls; domestic producers: sell more at a higher price; producer surplus and employment rise; government: gains tariff revenue = $t\times$ imports, shown as a rectangle; foreign producers: sell fewer shoes; society: welfare loss triangles from inefficient domestic production and lost consumption; clear, structured explanation of the full diagram

Exercise 3.2

3.2 Some economists say that protection to save jobs often costs more than it is worth.

Evaluate the use of tariffs to protect jobs. [6]



Exercise 3.2

3.2 Some economists say that protection to save jobs often costs more than it is worth.

Evaluate the use of tariffs to protect jobs. [6]



3.2

tariffs can save jobs in the protected industry, at least in the short run; but consumers pay higher prices; the total cost per job saved can be very high; jobs may be lost in industries that use the protected good as an input; trading partners may retaliate, cutting exports and export jobs; protected firms have less pressure to become efficient; judgement: retraining and support for workers may cost less than protection