6.2 Trade protection: types and arguments

Name: _____ Class: _____ Date: _____ **Total: 30 marks**

KEY WORDS tariff • quota • infant industry • dumping • retaliation • world price

Objective

Build the skills to answer exam questions on **trade protection** : tariffs, quotas, subsidies and administrative barriers, their effects on stakeholders, and the arguments for and against protection.

You must be able to:

- explain tariffs, quotas, production subsidies and administrative barriers
- use a tariff diagram to show the effects on consumers, producers, the government and welfare
- evaluate arguments for and against trade protection
- calculate the effects of a tariff from a diagram

1 Key knowledge and worked examples

Trade protection

tool	what it is	main effects
tariff	a tax on imports	domestic price rises; imports fall; domestic output rises; government revenue
quota	a limit on the quantity of imports	price rises; foreign firms with licences gain the higher price (no tax revenue)
production subsidy	payment to domestic producers	domestic output rises; price to consumers unchanged; costs the government
administrative barriers	strict standards, slow customs, complex rules	make importing harder and dearer

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Tariff diagram (small country, world price P_w): before the tariff, domestic firms supply Q_1, consumers buy Q_2, and imports are $Q_2 - Q_1$. A tariff raises the price to $P_w + t$: domestic supply rises to Q_3, demand falls to Q_4, imports shrink to $Q_4 - Q_3$. **Consumers** lose (higher price); **domestic producers** gain; the **government** gains revenue $t \times (Q_4 - Q_3)$; **foreign producers** lose sales; there is a **welfare loss** (two triangles: inefficient domestic production and lost consumption).

Arguments for protection: protect **infant industries** until they can compete; **national security** (food, energy, defence); protect **jobs**; **anti-dumping** (stop foreign firms selling below cost); health, safety and environmental **standards**; raise **revenue** (important in low-income countries); improve the **current account**.

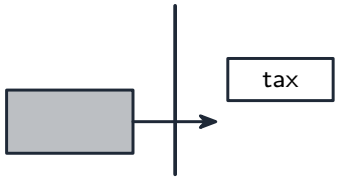
Arguments against: higher prices and less choice; **inefficient** domestic firms are protected; misallocation of resources and welfare loss; **retaliation** and trade wars; higher input costs for firms that use imports; may protect jobs in one industry but cost jobs elsewhere; infant industries may never "grow up".

AHL – calculations: with a diagram's numbers, find the change in consumer spending, domestic producer revenue, imports, tariff revenue, and the welfare loss (triangles: $\frac{1}{2}\times$ base $\times$ height).

Answer shapes: diagram with P_w, $P_w + t$, Q_1–Q_4 → effects on each stakeholder → evaluate the argument with an example.

2 Practice

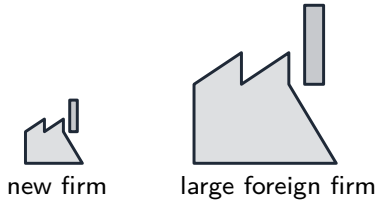
2.1 Define **tariff**. [2]



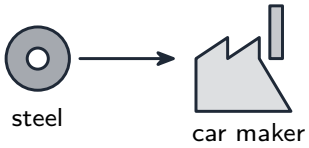
2.2 Distinguish between a tariff and a quota. [2]



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

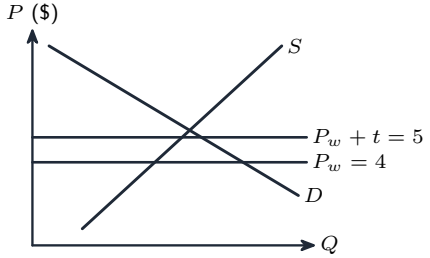


2.4 Explain **one** reason why a tariff on imported steel may harm domestic car makers. [3]



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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]



3 Exam-style questions

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]]

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



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

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Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

a tax; placed on imported goods

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

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

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

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**

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

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

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