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