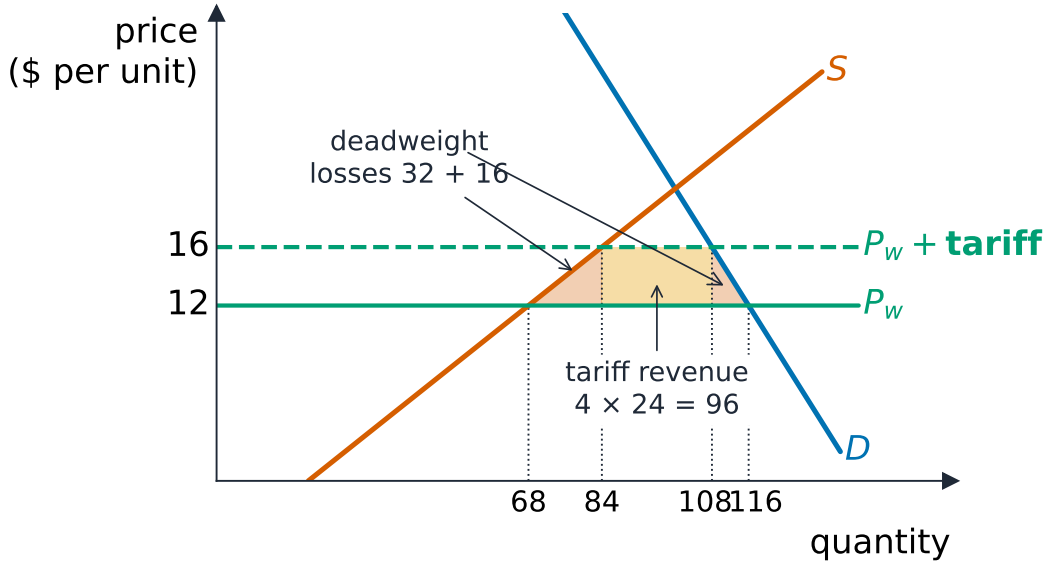
Exercise walk-through

5.2
Trade protection: types and arguments

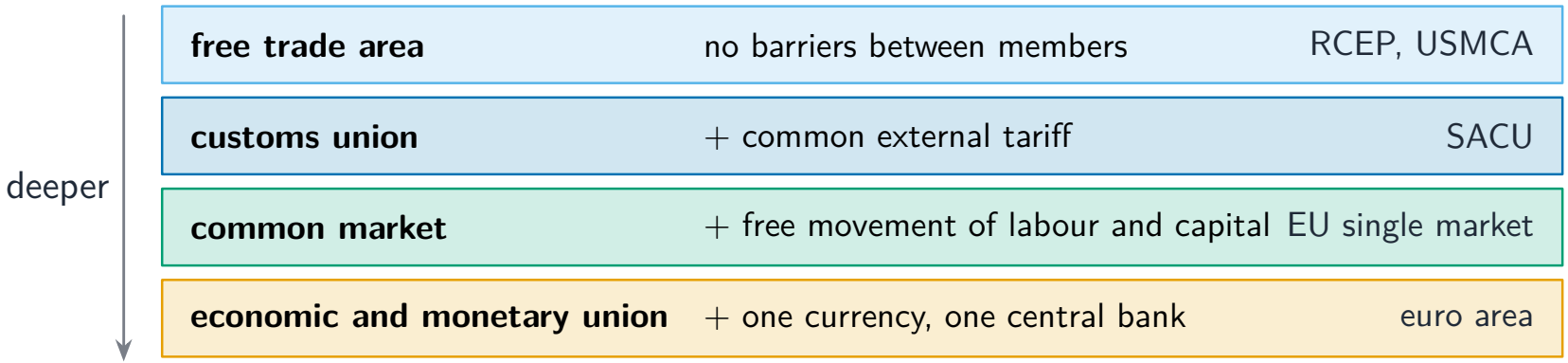
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Figure: Trade protection



- A **tariff** of 4 halves imports, raises 96 for the government and wastes 48
- Match each part of the diagram to the text.

Figure: Economic integration



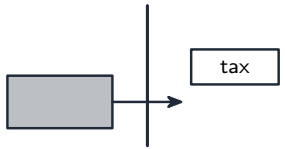
- Each stage adds to the last
- Match each part of the diagram to the text.

Common errors

- Confusing absolute and **comparative advantage**; trade depends on **lower opportunity cost**, not on being better at everything.
- Shading the wrong areas on a **tariff** diagram: the deadweight loss is two triangles, one for production and one for consumption.
- Saying a weaker currency is always good news: it helps exporters, but it raises the price of imported fuel, food and inputs.

Exercises 2.1·2.2

2.1 Define **tariff**. [2]

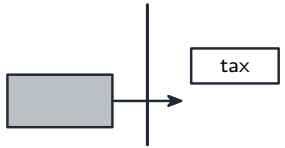


2.2 Distinguish between a tariff and a quota. [2]



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]

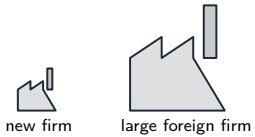


2.2

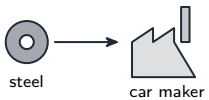
a tariff is a tax on imports, which raises their price and gives the government revenue; a quota is a physical limit on the quantity of imports, with no government revenue

Exercises 2.3·2.4

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

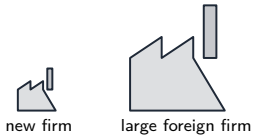


2.4 Explain **one** reason why a tariff on imported steel may harm domestic car makers. [3]



Exercises 2.3·2.4

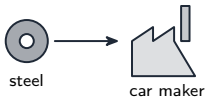
2.3 Explain the infant industry argument for protection. [4]



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]

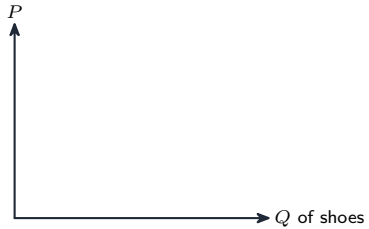


2.4

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

Exercise 3.1

3.1 A government places a tariff on imported shoes.

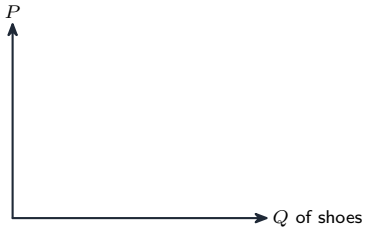


Using a tariff diagram, explain the effects of the tariff on different stakeholders. [10]

[[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