

12 Multiple choice questions

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How are domestic subsidies, currency manipulation and non-tariff barriers lead to protectionism?

- There is increased consumer surplus of areas 2+4. Since there is an increase in consumer surplus of 1+2+3+4; however domestic produces will sell less as consumers buy cheaper imports (decline in producer surplus is area 1) and the governments lost tax revenue is area 3.
- Domestic subsidies - lead to foreign exporters not being able to compete in the market due to cheap domestic produce thanks to the subsidies.
- Currency manipulation - See exchange rates set.
Non-tariff barriers - can lead to countries refusing to import certain goods from countries due to environmental reasons for example.
- There are domestic job losses, and domestic producers could lose out significantly, although this is more than offset by the decrease in prices it may be more visible and could lead to structural unemployment.
- Tariffs and quotas are the main two.
- However there is also domestic subsidies, currency manipulation and non-tariff barriers (usually regulations which make exports from one country unsuitable for another country)

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How reduction in tariff barriers can lead to lower prices and higher consumer surplus.

- Domestic subsidies - lead to foreign exporters not being able to compete in the market due to cheap domestic produce thanks to the subsidies.
- Currency manipulation - See exchange rates set.
Non-tariff barriers - can lead to countries refusing to import certain goods from countries due to environmental reasons for example.
- There are domestic job losses, and domestic producers could lose out significantly, although this is more than offset by the decrease in prices it may be more visible and could lead to structural unemployment.
- There is increased consumer surplus of areas 2+4. Since there is an increase in consumer surplus of 1+2+3+4; however domestic produces will sell less as consumers buy cheaper imports (decline in producer surplus is area 1) and the governments lost tax revenue is area 3.
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What are the negatives of protectionism?

- Generally the benefits of protectionism are very similar to the negatives of free trade.
- 1) Diversify the economy - tariffs and protectionism can help develop new industries to give more diversity to economy.
- 2) Raise revenue for the government.
- 3) Infant industry argument.
- 4) Protect certain key industries from international competition to try and safeguard jobs.
- 1) Infant industry argument - if developing countries have industries that are relatively new, then at the moment these industry's would struggle against international competition. However if they invested in the industry then in the future they may be able to gain Comparative Advantage; protection allows them time to gain experience and be able to compete in the future.
- 2) Help the Balance of Payments - reducing imports can help the current account as it restricts imports. However in the long term this is likely to lead to retaliation and also cause lower exports so it might soon prove counter-productive.
- 3) Senile industry argument - if industries are declining and inefficient they may require large investment to make them efficient again. Protection for these industries would act as an incentive to for firms to invest and reinvent themselves. However protectionism could also be an excuse for protecting inefficient firms.
- Protectionism is the economic policy of restraining trade between countries through protectionist policies.
- Negatives of protectionism similar to the benefits of free trade.
- 1) **Retaliation** - Protectionism leads to retaliation and therefore higher import prices and higher consumer prices, it can also lead to job losses as export industries goods are uncompetitive due to the tariffs.
- 2) **Higher prices** lead to lower overall demand causing job losses in other industries (Due to domestic produce being produced at a higher cost to imported goods).
- 3) Protectionism can encourage **inefficient firms to stay in business**.
- 4) Leads to a **loss of consumer surplus** as the price has increased and an overall welfare loss.

What are the benefits of protectionism?

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 - 2) **Higher prices** lead to lower overall demand causing job losses in other industries (Due to domestic produce being produced at a higher cost to imported goods).
 - 3) Protectionism can encourage **inefficient firms to stay in business**.
 - 4) Leads to a **loss of consumer surplus** as the price has increased and an overall welfare loss.
- It raises the price of supply from the rest of the world vertically. This has the effect of increasing domestic production of the good from Q1 to Q3 reducing world supply of the good from Q2 to Q4 and increasing the price of the good.
- Generally the benefits of protectionism are very similar to the negatives of free trade.
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What are the problems with trade creation from lower tariff barriers?

- There is increased consumer surplus of areas 2+4. Since there is an increase in consumer surplus of 1+2+3+4; however domestic produces will sell less as consumers buy cheaper imports (decline in producer surplus is area 1) and the governments lost tax revenue is area 3.
- Tariffs and quotas are the main two.
- However there is also domestic subsidies, currency manipulation and non-tariff barriers (usually regulations which make exports from one country unsuitable for another country)
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What is the effect of a tax on a tariff diagram?

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- It raises the price of supply from the rest of the world vertically. This has the effect of increasing domestic production of the good from Q1 to Q3 reducing world supply of the good from Q2 to Q4 and increasing the price of the good.
- This shows the supply of the rest of the world at a tariff of 0. Where Q1 equals domestic production and Q2-Q1 equals the production of the rest of the world.

What are the negatives of free trade?

- There are domestic job losses, and domestic producers could lose out significantly, although this is more than offset by the decrease in prices it may be more visible and could lead to structural unemployment.
- Tariffs and quotas are the main two.
- However there is also domestic subsidies, currency manipulation and non-tariff barriers (usually regulations which make exports from one country unsuitable for another country)
 - 1) Comparative advantage - by countries specialising in goods where they have a lower opportunity cost, there can be an increase in economic welfare for all countries.
 - 2) Trade creation - refers to the increase in economic welfare from joining a free trade union, this is due to a reduction in tariff barriers leading to lower prices.
- 3) Increased exports - Firms exporting goods where the UK has a comparative advantage will also see a significant improvement in economic welfare. Lower tariffs on UK exports will enable a higher quantity of exports boosting UK jobs and economic growth.
- 4) Economies of Scale - countries specialising in certain goods can benefit from economies of scale; this is especially true in industries that require high levels of investment. The benefits of economies of scale will ultimately lead to lower prices for consumers and greater efficiency for exporting firms.
- 1) Infant industry argument - if developing countries have industries that are relatively new, then at the moment these industry's would struggle against international competition. However if they invested in the industry then in the future they may be able to gain Comparative Advantage; protection allows them time to gain experience and be able to compete in the future.
- 2) Help the Balance of Payments - reducing imports can help the current account as it restricts imports. However in the long term this is likely to lead to retaliation and also cause lower exports so it might soon prove counter-productive.
- 3) Senile industry argument - if industries are declining and inefficient they may require large investment to make them efficient again. Protection for these industries would act as an incentive to for firms to invest and reinvent themselves. However protectionism could also be an excuse for protecting inefficient firms.

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What is protectionism?

- Protectionism refers to the strategy of increasing foreign investment in domestic markets.
- Protectionism is the practice of promoting free trade and reducing tariffs between nations.
- Protectionism is the act of encouraging competition by eliminating trade barriers altogether.
- Protectionism is the economic policy of restraining trade between countries through protectionist policies.

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How do you show tariffs diagrammatically?

- Tariffs and quotas are the main two.
- However there is also domestic subsidies, currency manipulation and non-tariff barriers (usually regulations which make exports from one country unsuitable for another country)
- This shows the supply of the rest of the world at a tariff of 0. Where Q1 equals domestic production and Q2-Q1 equals the production of the rest of the world.
- A tariff is effectively a tax on an imported good.
- A quota is a limit on the quantity of imports, this could be on the physical number of cars or a financial limit.
- It raises the price of supply from the rest of the world vertically. This has the effect of increasing domestic production of the good from Q1 to Q3 reducing world supply of the good from Q2 to Q4 and increasing the price of the good.

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What are the main policies used in protectionism?

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