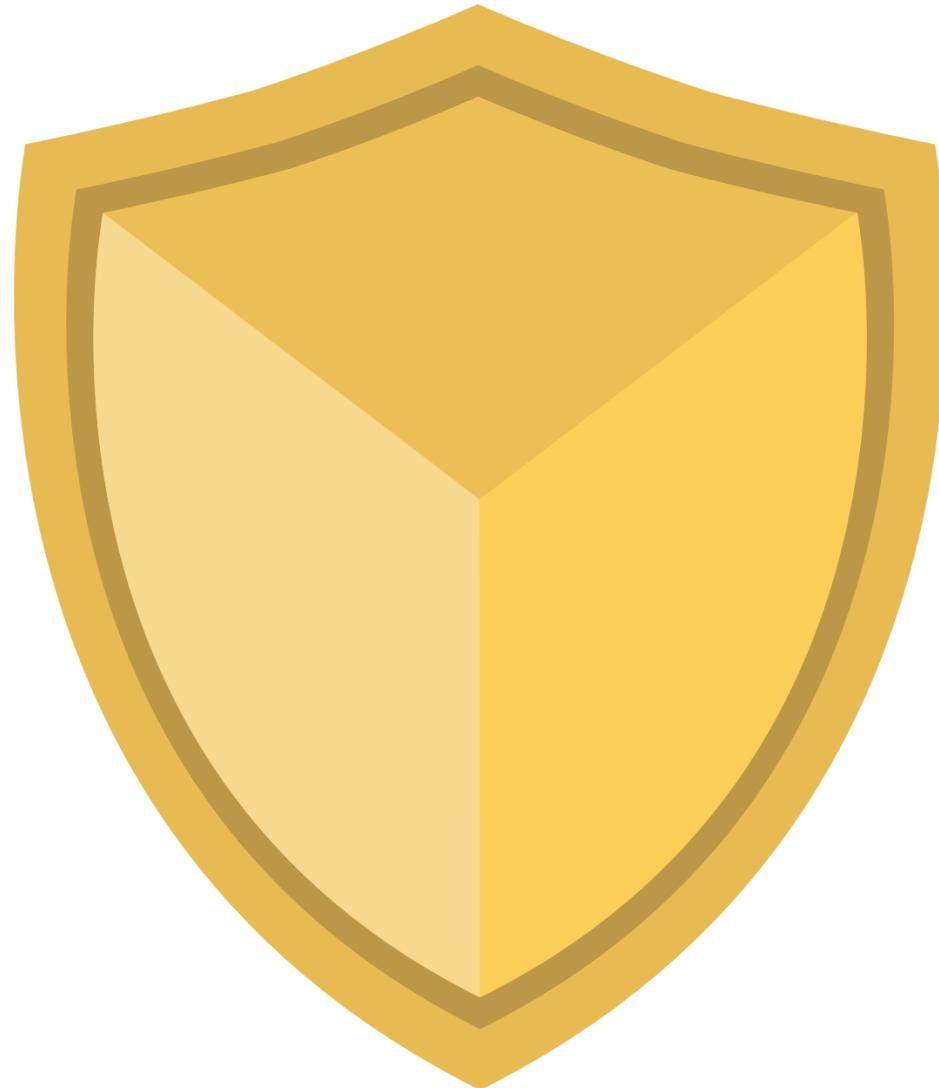


Types of Trade Protectionism

4.2



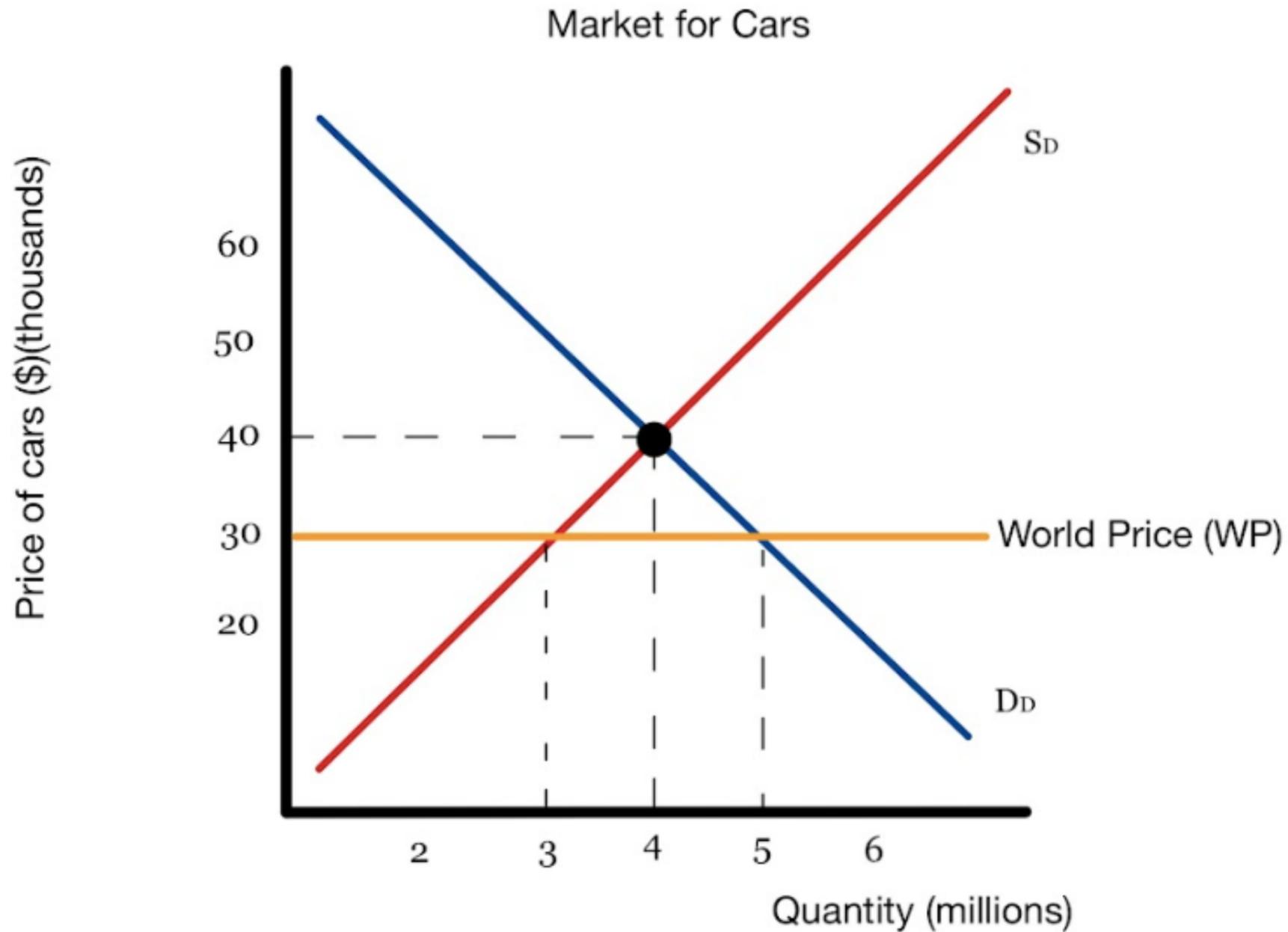
Definition

Free Trade

No barriers to trade between countries



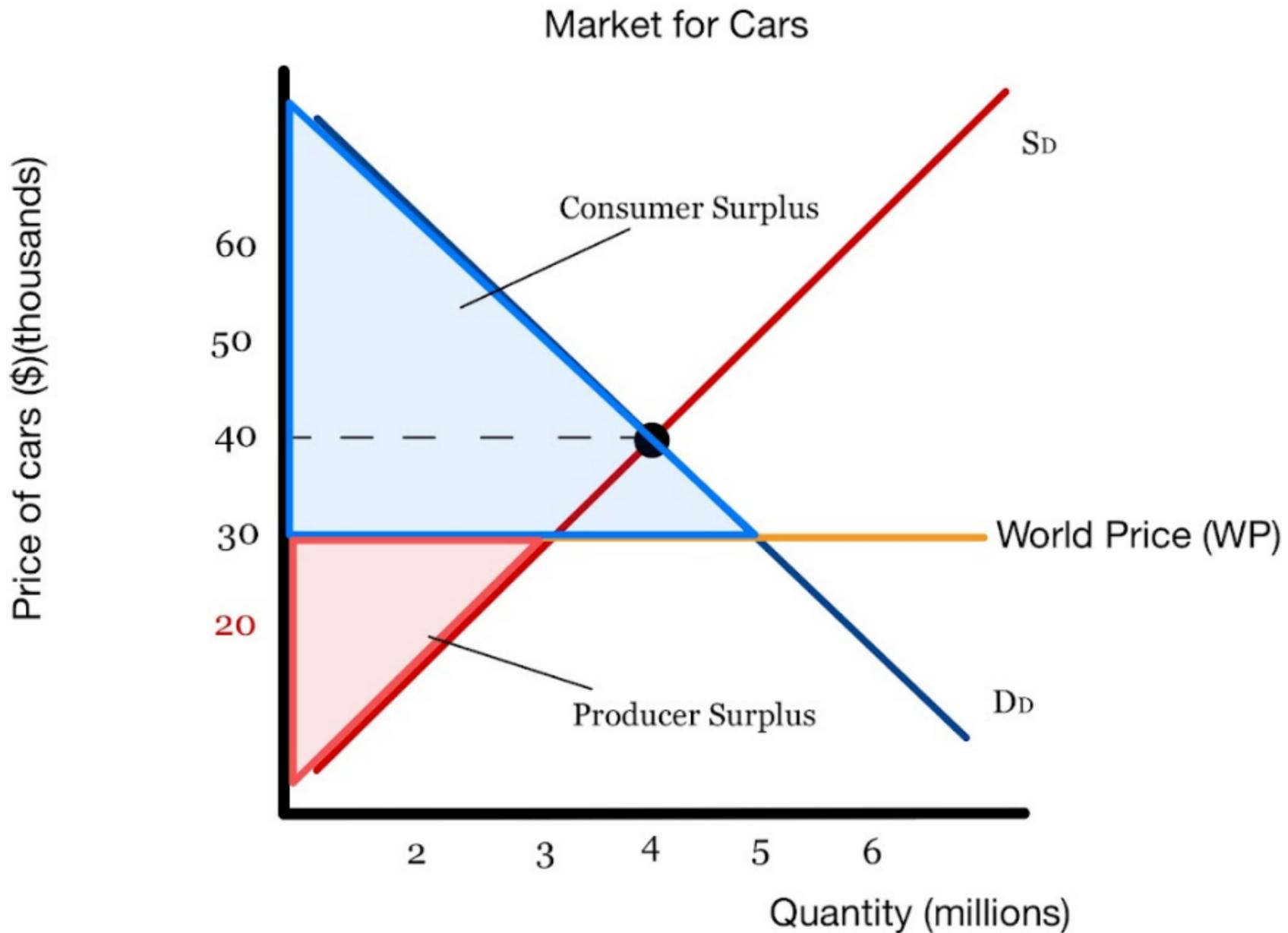
Free Trade



Using a free trade diagram, show the impacts on each main stakeholder:

- **Consumer Surplus**
- **Producer Surplus**
- **Government**
- **Total Welfare/Surplus**

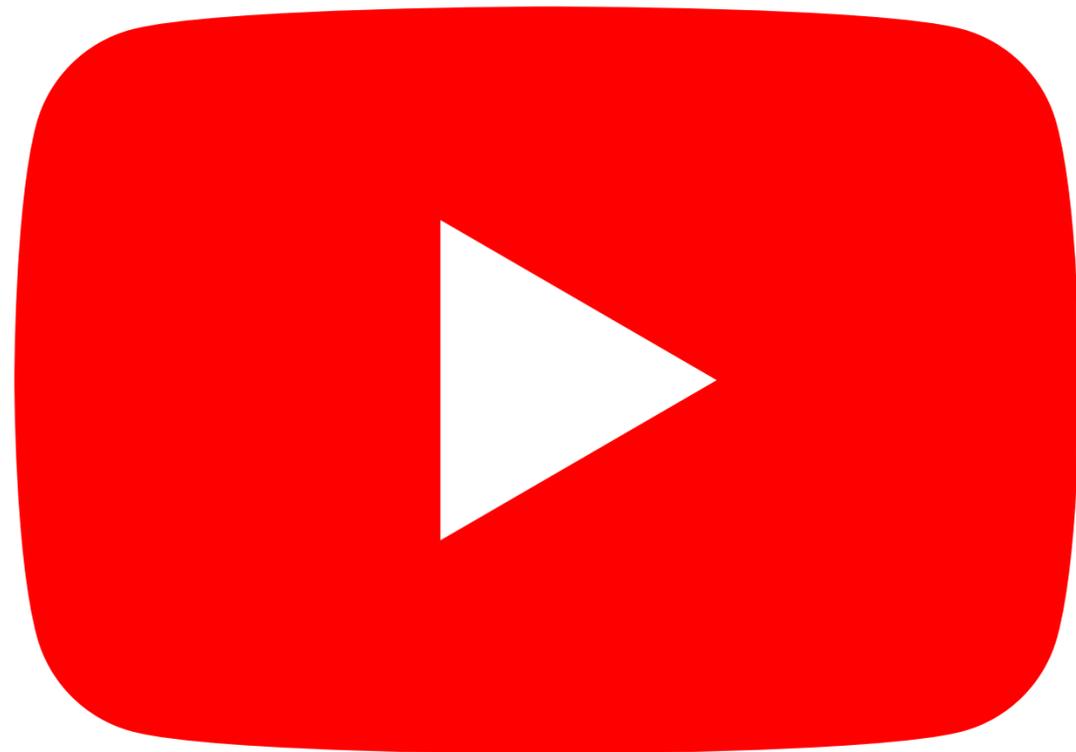
Free Trade Surplus Diagram



- 1. Consumer surplus increases**
- 2. Domestic producer surplus decreases**
- 3. Total welfare/surplus increases**

Winners: Consumers, Society

Losers: Domestic producers, Domestic unemployment rate and GDP



Free Trade - EconplusDal



Why would countries not want free trade? Discuss for 2 minutes with a partner.

Definition

Trade Protection

Government intervention aiming to limit imports and/or encourage exports by setting up trade barriers that protect from foreign competition



Types of Trade Protectionism

Tariff

A tax placed on imported goods

Quota

A physical limit on the number or value of goods that are allowed to be imported

Subsidy

Money is given to domestic producers to increase competition and reduce domestic price.

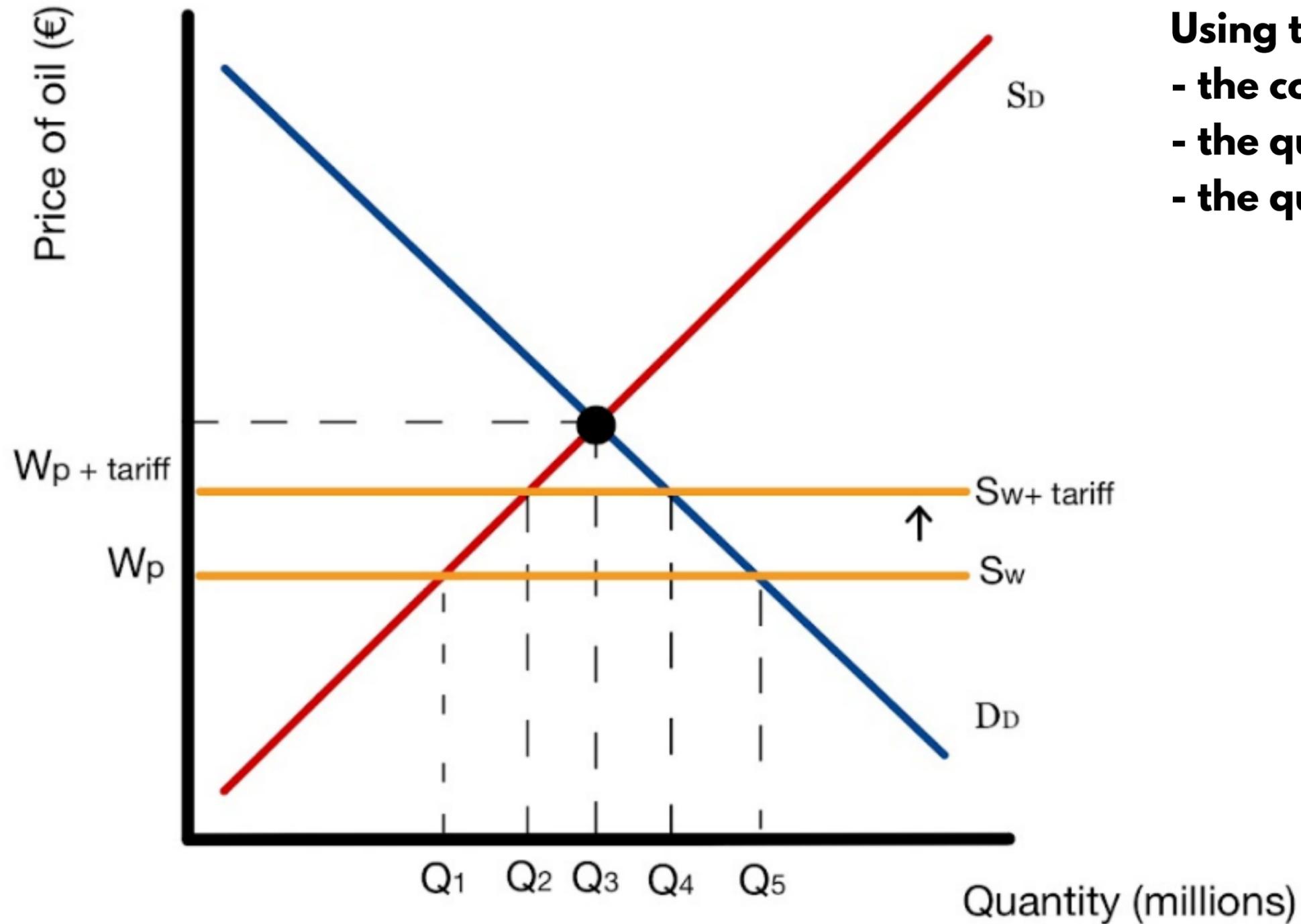
Administrative Barriers

Health standards, paperwork "red tape", embargo



Tariff

Market for Oil

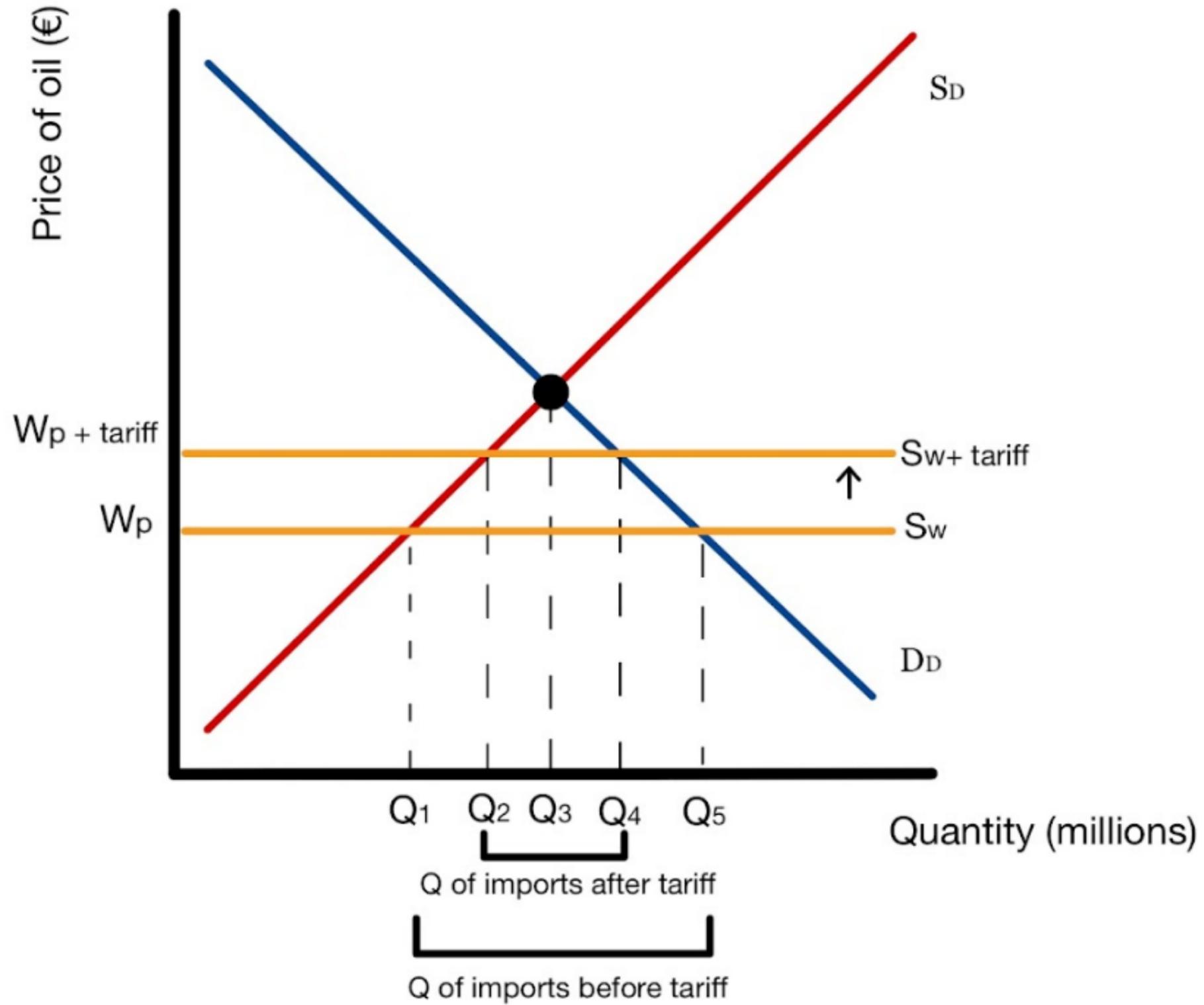


Using the trade diagram, determine:

- the consumed quantity
- the quantity domestically sold
- the quantity imported

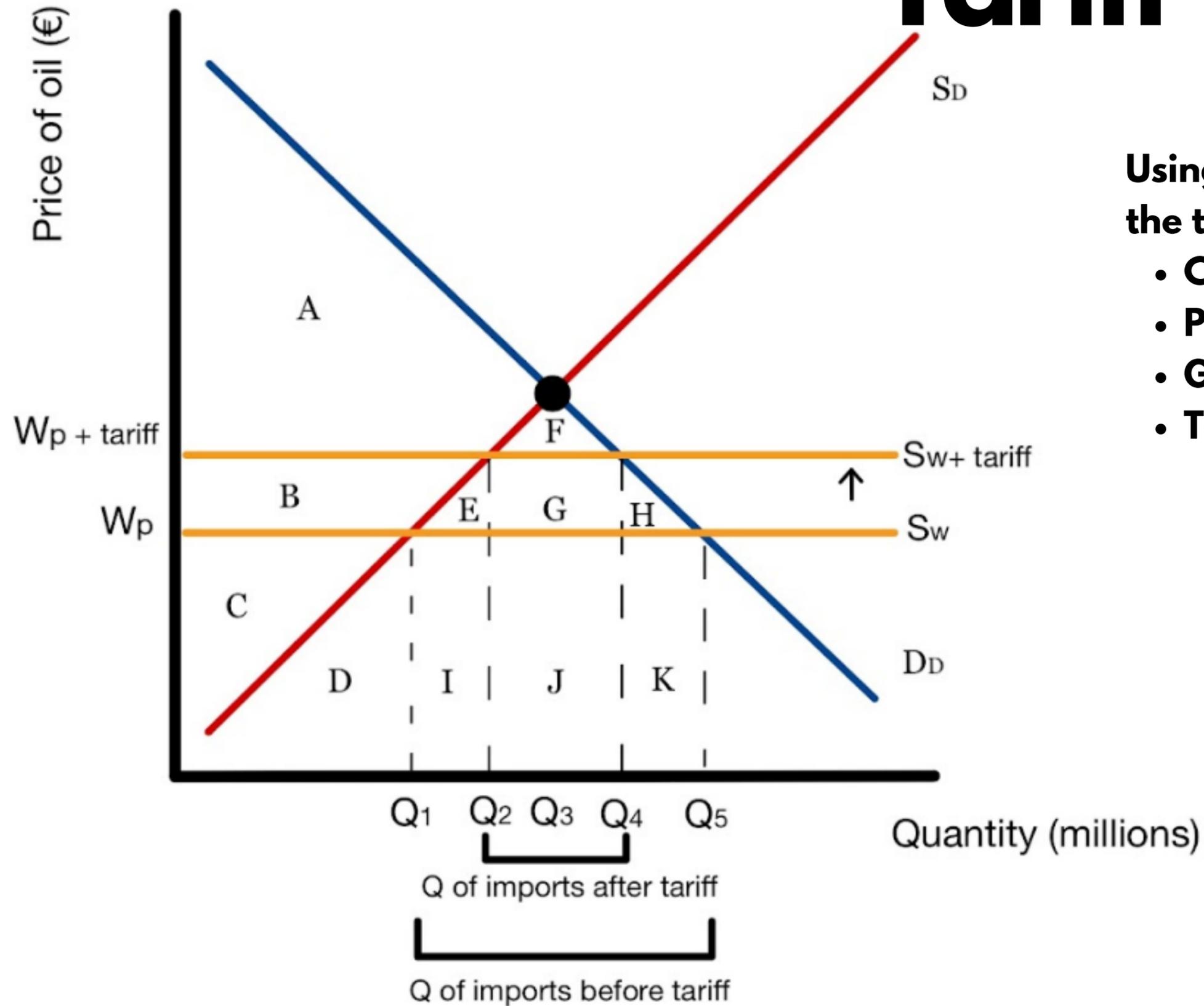
Tariff

Market for Oil



Tariff

Market for Oil

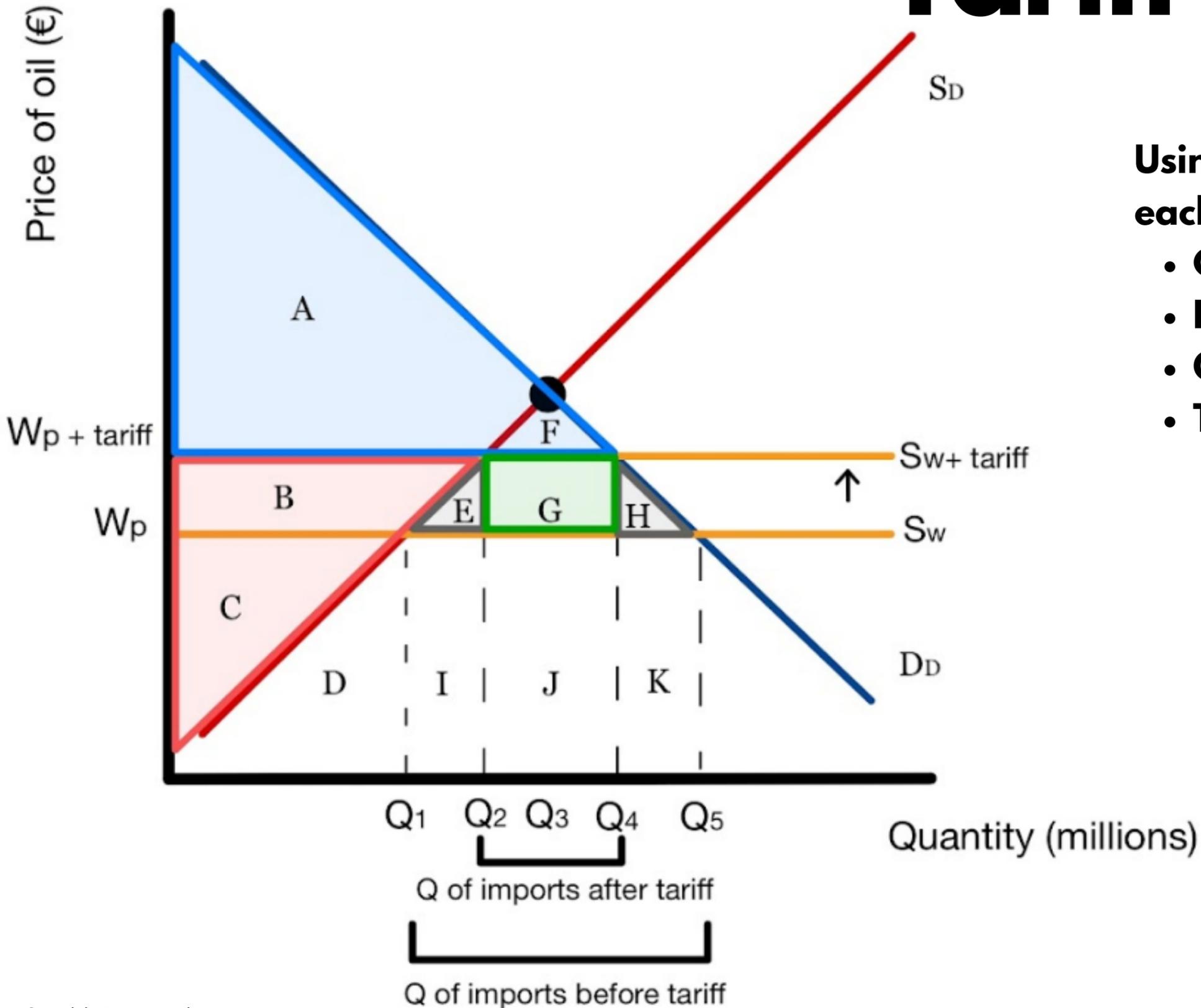


Using the trade diagram, label the following after the tariff has been implemented:

- **Consumer Surplus**
- **Producer Surplus**
- **Government**
- **Total Welfare/Surplus**

Tariff

Market for Oil

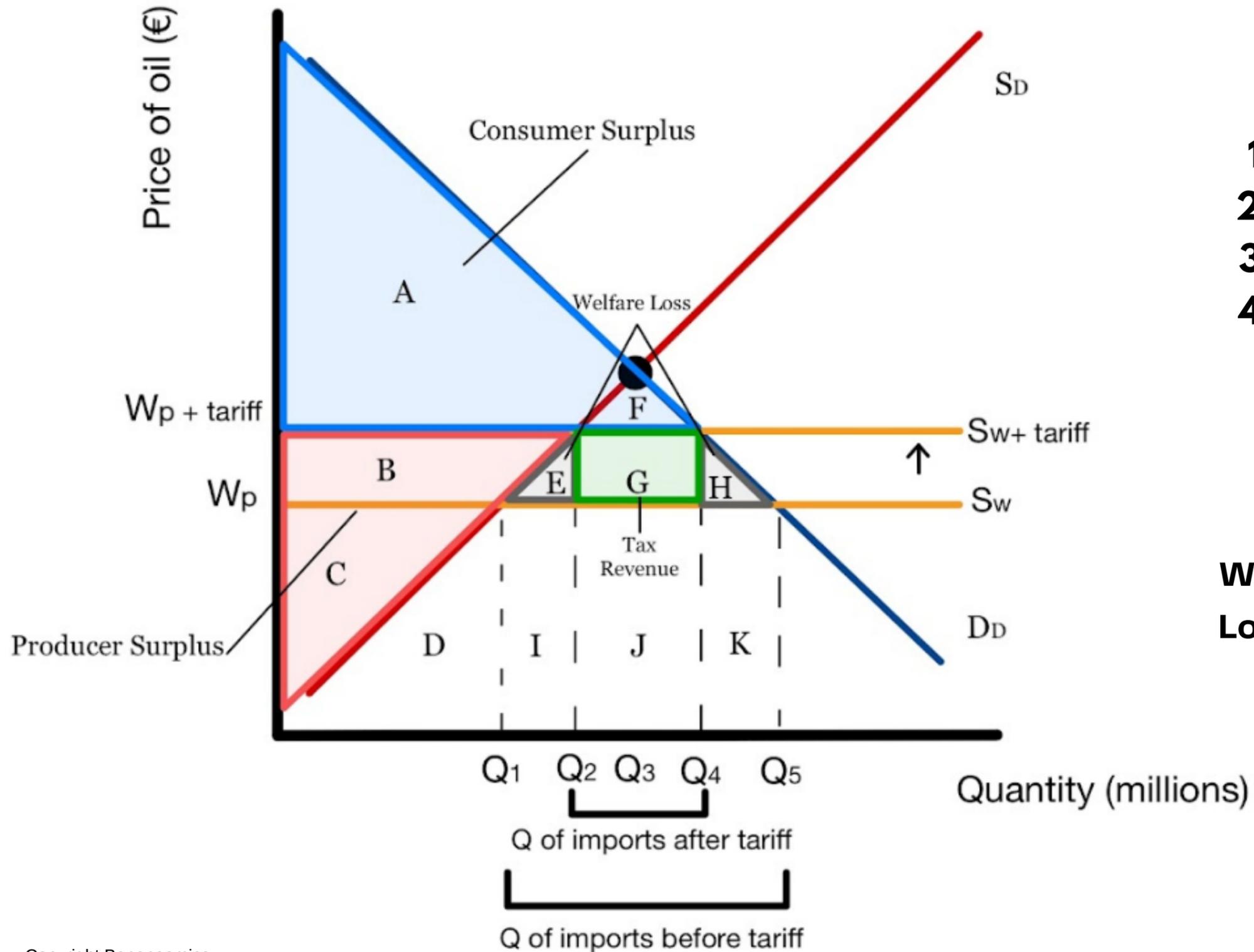


Using the trade diagram, describe the impacts on each main stakeholder of enacting a tariff:

- **Consumer Surplus**
- **Producer Surplus**
- **Government**
- **Total Welfare/Surplus**

Tariff

Market for Oil



- 1. Consumer surplus decreases**
- 2. Domestic producer surplus increases**
- 3. Government receives revenue**
- 4. Total welfare/surplus decreases (2 areas of Deadweight Loss)**

Winners: Domestic Producers, Government

Losers: Consumers, Foreign Producers, Society

Tariff Effectiveness

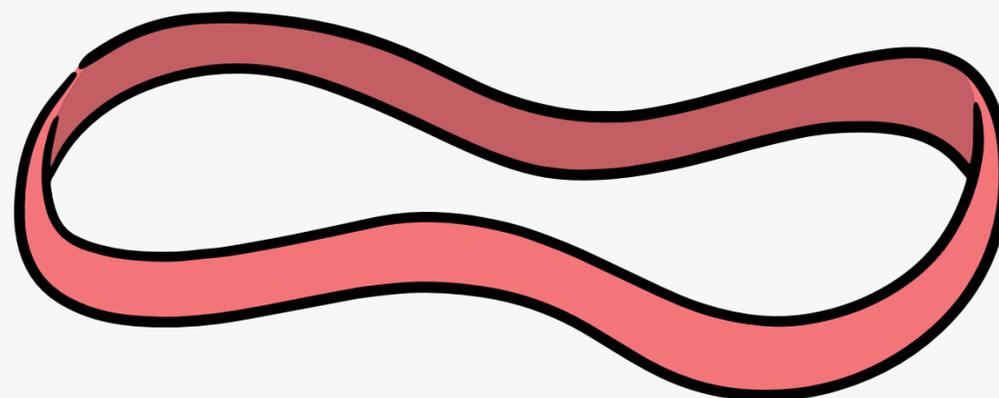
Governments will also consider the elasticity and availability of goods that they put a tariff on.

Goods with elastic demand (Example: Steel)

Any tariff on a good with elastic demand generates a large change in quantity demanded and encourages consumers to switch to domestic producers as they offer a readily available substitute. Tariffs are **more effective** with elastic goods.

Goods with inelastic demand (Example: Insulin)

Due to the lack of available substitutes from domestic producers, tariffs on inelastic goods are **not effective**.



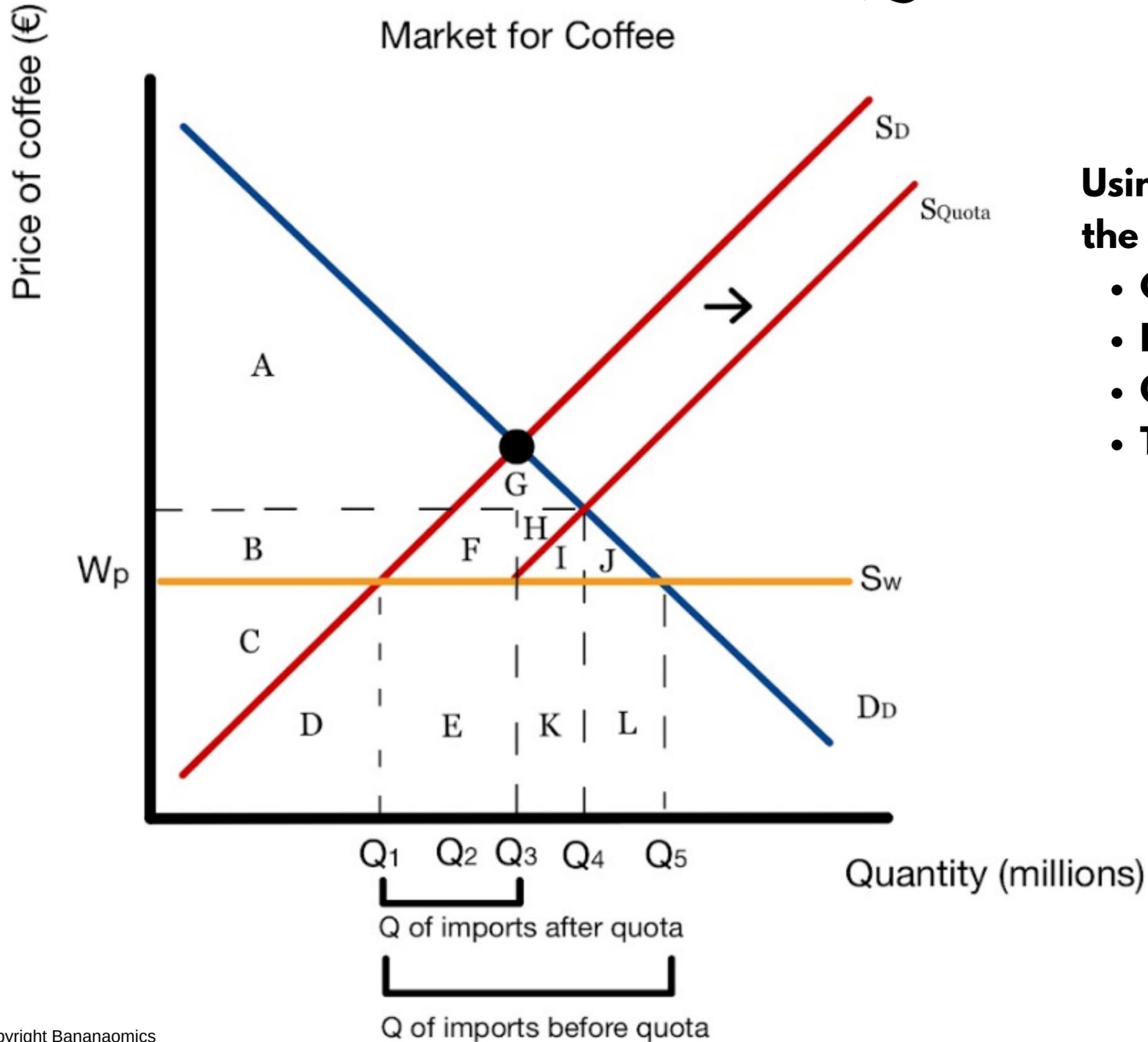
Quota

Market for Coffee



Quota

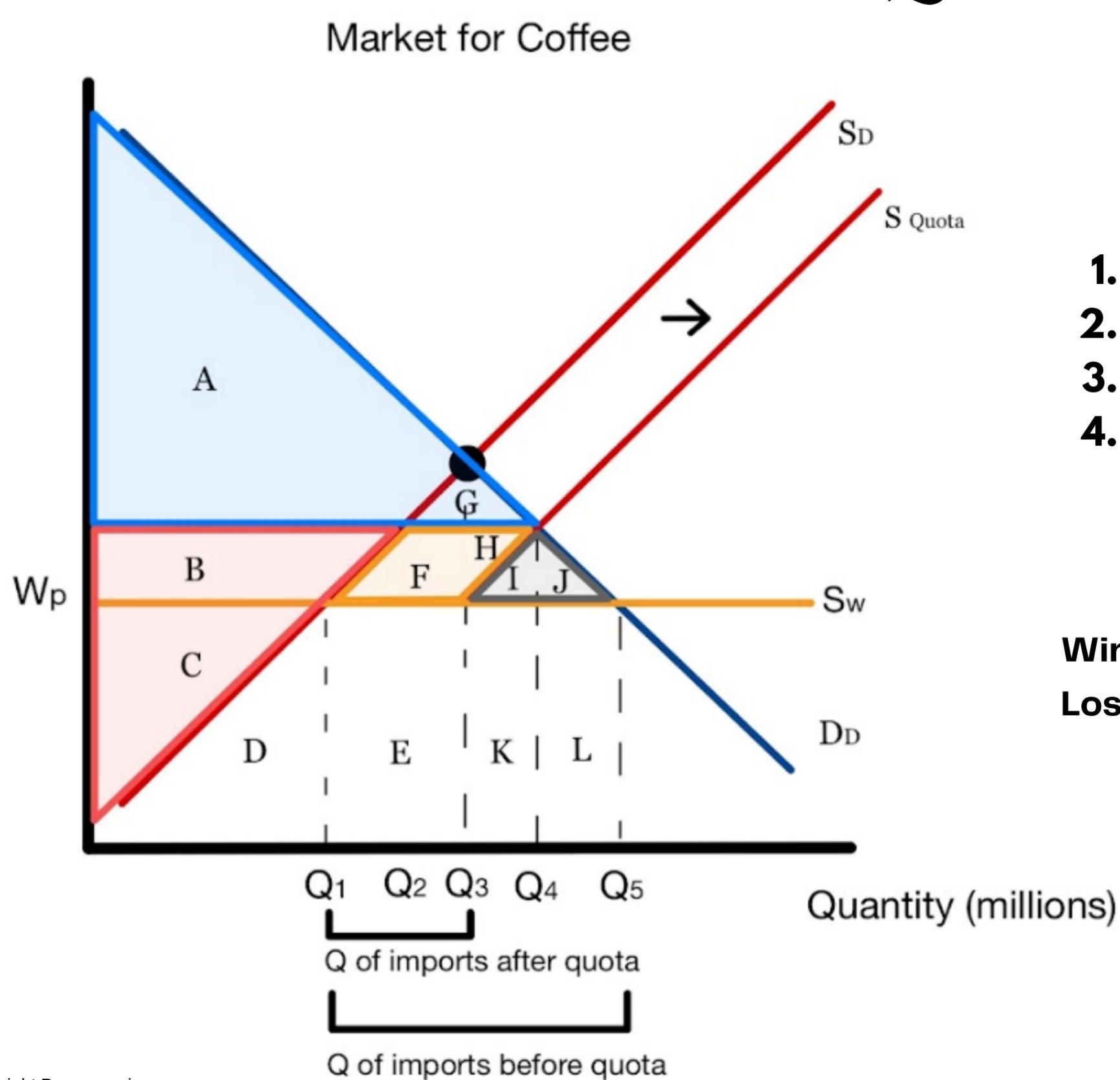
Market for Coffee



Using the trade diagram, label the following after the quota has been implemented:

- **Consumer Surplus**
- **Producer Surplus**
- **Government**
- **Total Welfare/Surplus**

Quota



1. **Consumer surplus decreases**
2. **Domestic producer surplus increases**
3. **Government receives no revenue**
4. **Total welfare/surplus decreases**

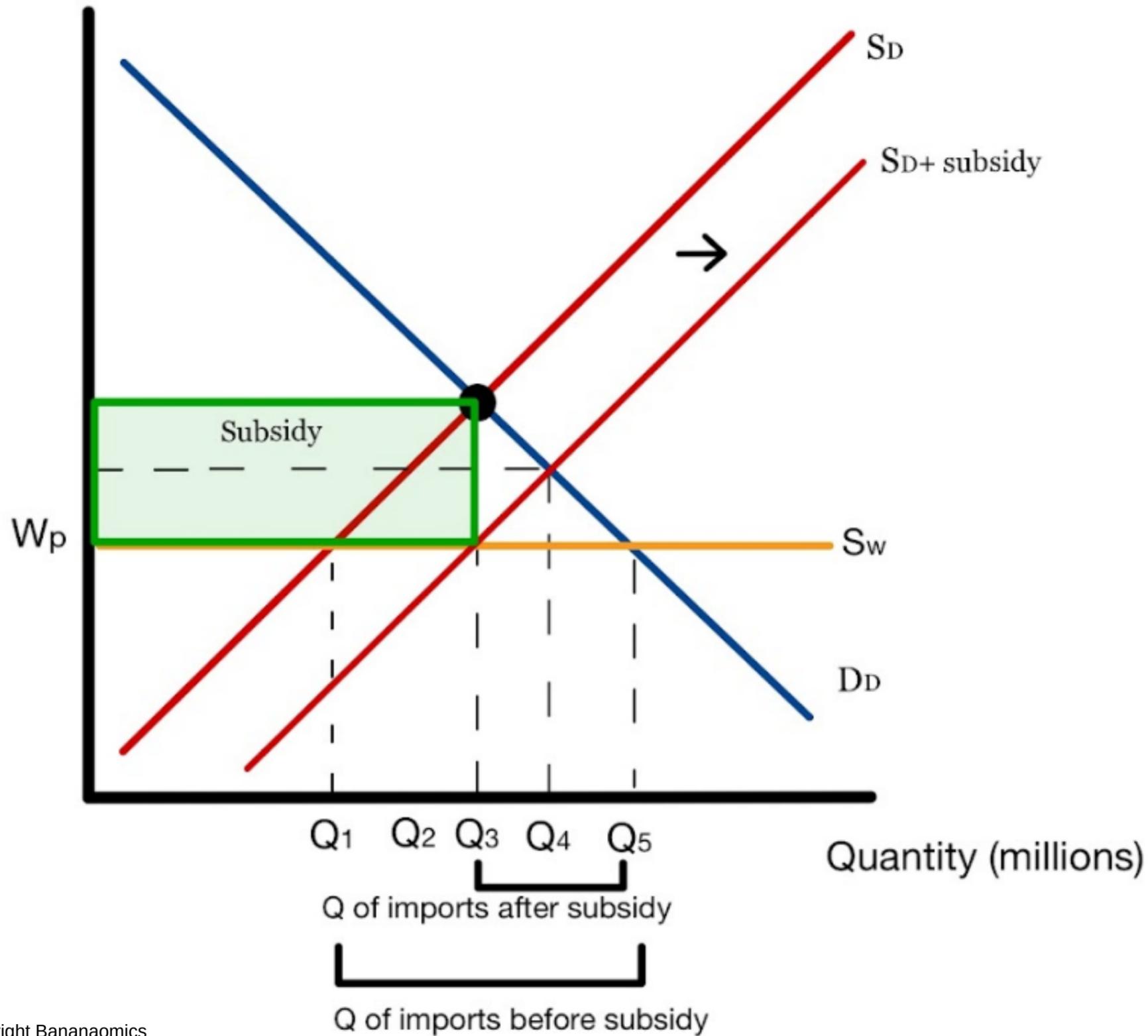
Winners: Domestic Producers

Losers: Consumers, Foreign Producers, Society

Subsidy

Price of coffee (€)

Market for Coffee



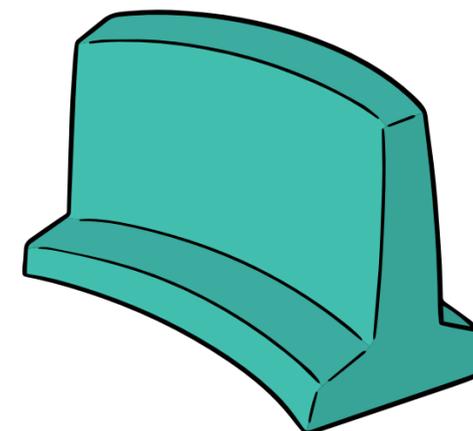
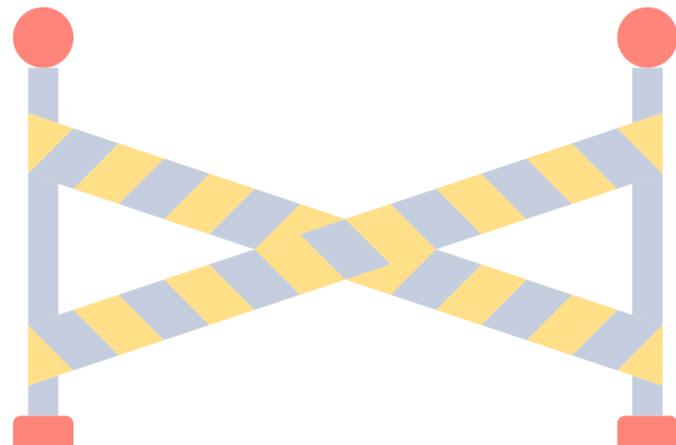
Using the diagram, show the impacts on each main stakeholder:

- **Consumer Surplus**
- **Producer Surplus**
- **Government**
- **Total Welfare/Surplus**

Administrative Barriers

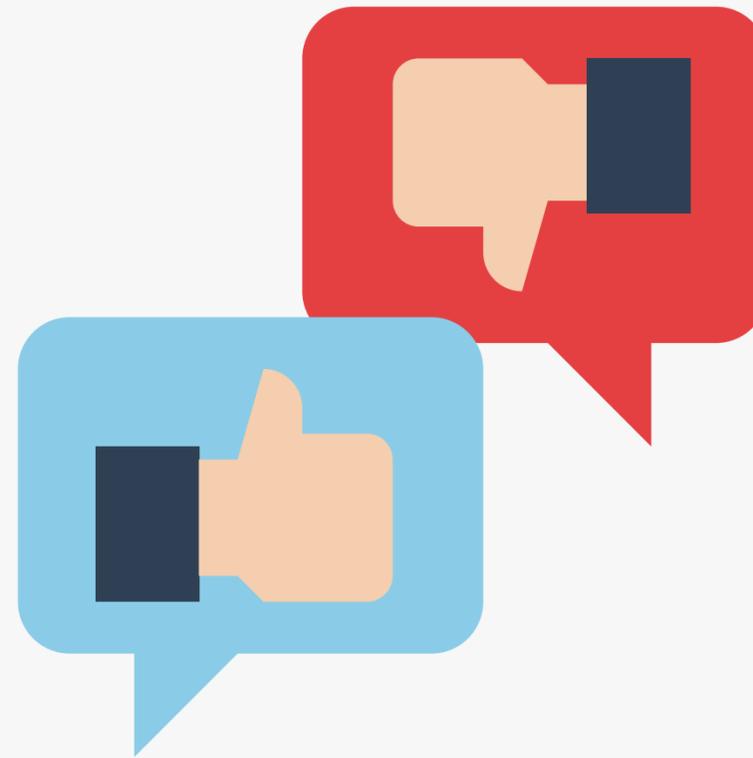
Countries may choose to establish bureaucratic barriers preventing or disincentivizing foreign producers from importing goods or services.

- **Product Standards**
 - Health and safety regulations
- **Voluntary Export Restraint Agreement**
 - Agreement between two countries to limit the amount of exports/imports.
- **'Buy National' Policies**
 - A marketing campaign to encourage domestic consumers to support local, domestic firms.



Evaluation

All forms of protectionism result in some type of allocative inefficiency and reduction of total surplus/welfare.



Practice Question



Paper 1

a. Explain how the theory of comparative advantage can result in two countries improving economic well-being through international trade.

[10]



Mark Scheme

3. (a) Explain how the theory of comparative advantage can result in two countries improving economic well-being through international trade.

[10]

Answers may include:

- Definition: comparative advantage, economic well-being and/or international trade.
- Explanation: of theory of comparative advantage with countries producing at a lower opportunity cost that creates greater social surplus with lower prices for imports and greater choice for consumers.
- Diagram: PPC diagrams illustrating comparative advantage or import/export diagrams for international trade..

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