

Arguments For and Against Trade Control/Protection

4.3





**Do you think free trade or trade protectionism is better?
Explain your answer to a partner.**

Arguments For Trade Protectionism

- **protection of infant (sunrise) industries**
- **national security**
- **health and safety**
- **environmental standards**
- **anti-dumping**
- **unfair competition**
- **balance of payments correction**
- **government revenue**
- **protection of jobs**
- **Economically least developed country (ELDC)
diversification**



Protect Infant Industries

Infant Industry

An industry that has just entered the market and is not large enough to use economies of scale.

Due to this lack of economies of scale, infant industries have higher costs than more established firms. Governments may use administrative barriers to slow down more efficient firms with lower costs.



National Security

The government may want to produce its vital and necessary goods in its own countries. Food is typically subsidized to ensure there is enough for the population. Military equipment is also typically produced domestically.



Maintenance of Health & Safety

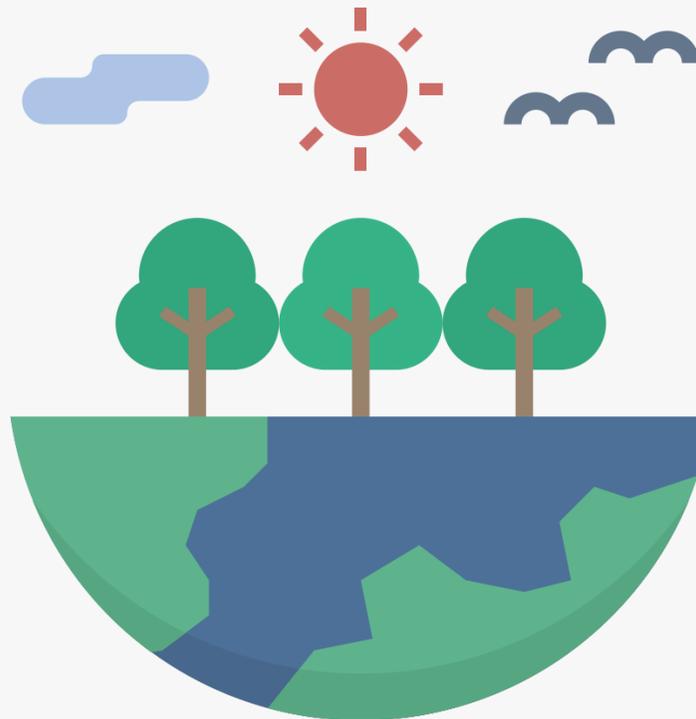
A country may impose certain health and safety regulations in order to keep its citizens safe.

Certain countries may not allow certain goods or ingredients for import.



Environmental Standards

A country may restrict importing products that are damaging to the global or domestic environment



Anti-Dumping

Dumping

The situation when foreign firms export their goods at a price below production costs. Typically, established firms will do this and take the loss in revenue to establish grounding in a new market.

Certain protectionist measures could be put in place to reduce dumping.



Unfair Competition

Some countries value patents and intellectual copyright more than others. Certain countries may not chose to allow imports that they deem to be "unfair" or "immoral".



Balance of Payments Correction

Balance of Payments

In simple terms, the balance of payments is the flow of payments or money in and out of a country.

A country could use protectionist policies to limit the amount of money flowing out of the country.



Government Revenue

Governments earn revenue from tariffs and therefore may choose to implement a tariff to create more revenue to fund government spending domestically.



Protection of Jobs

When consumers choose to purchase foreign products, domestic producers earn less. Some domestic producers may be forced to lay off some workers due to a lack of revenue.

A government may implement protectionist policies to combat unemployment.



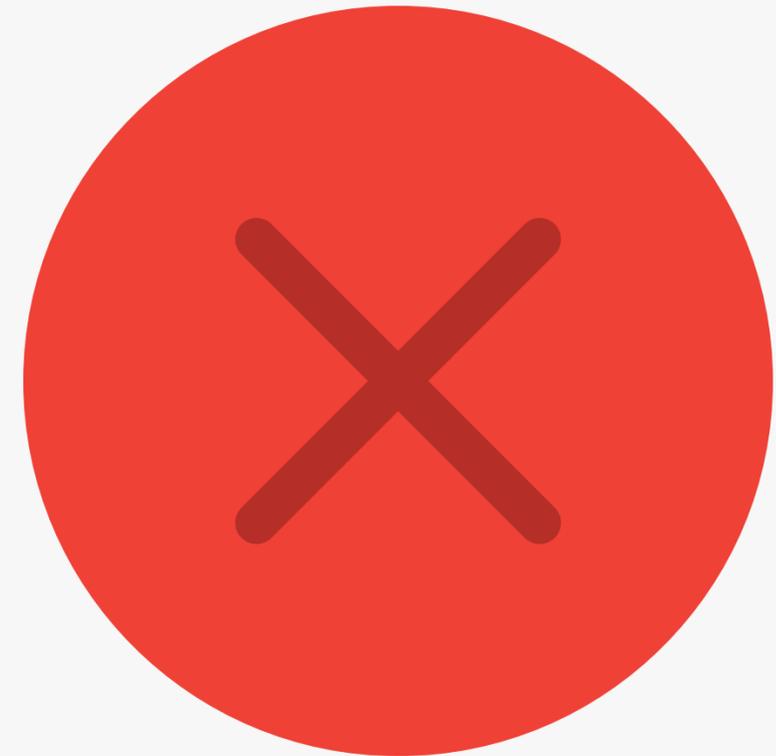
ELDC Diversification

Economically Least Developed Countries may specifically choose against free trade as they need domestic producers to develop and grow their economy.



Arguments Against Trade Protectionism

- **misallocation of resources**
- **retaliation**
- **increased costs**
- **higher prices**
- **less choice**
- **domestic firms lack the incentive to become more efficient**
- **reduced export competitiveness**



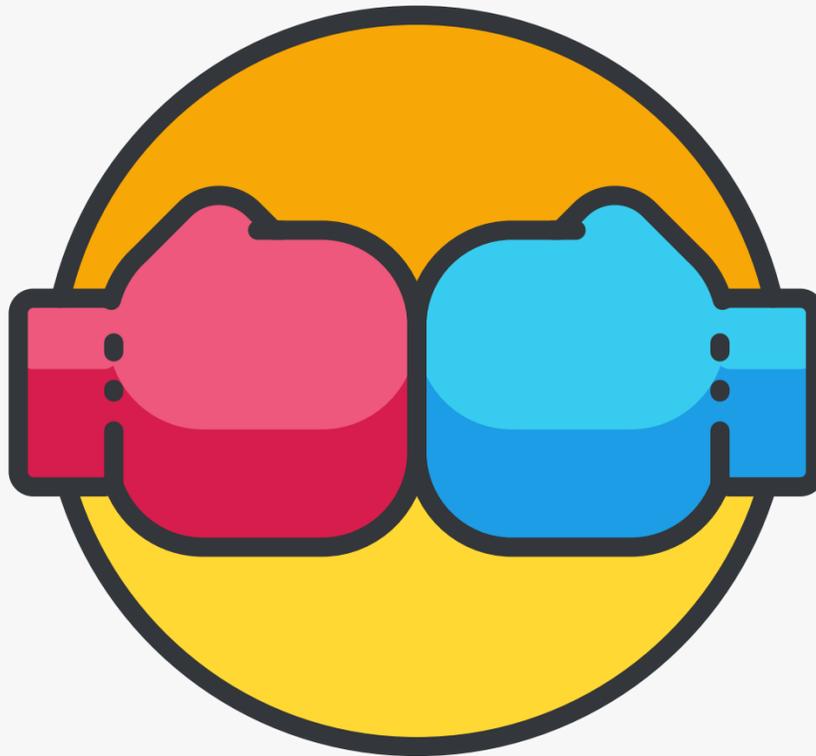
Misallocation of Resources

Consumers demand greater quantities of goods at lower prices. Foreign importers can typically offer those goods at lower prices compared to domestic producers but protectionist policies prevent the allocation of resources.



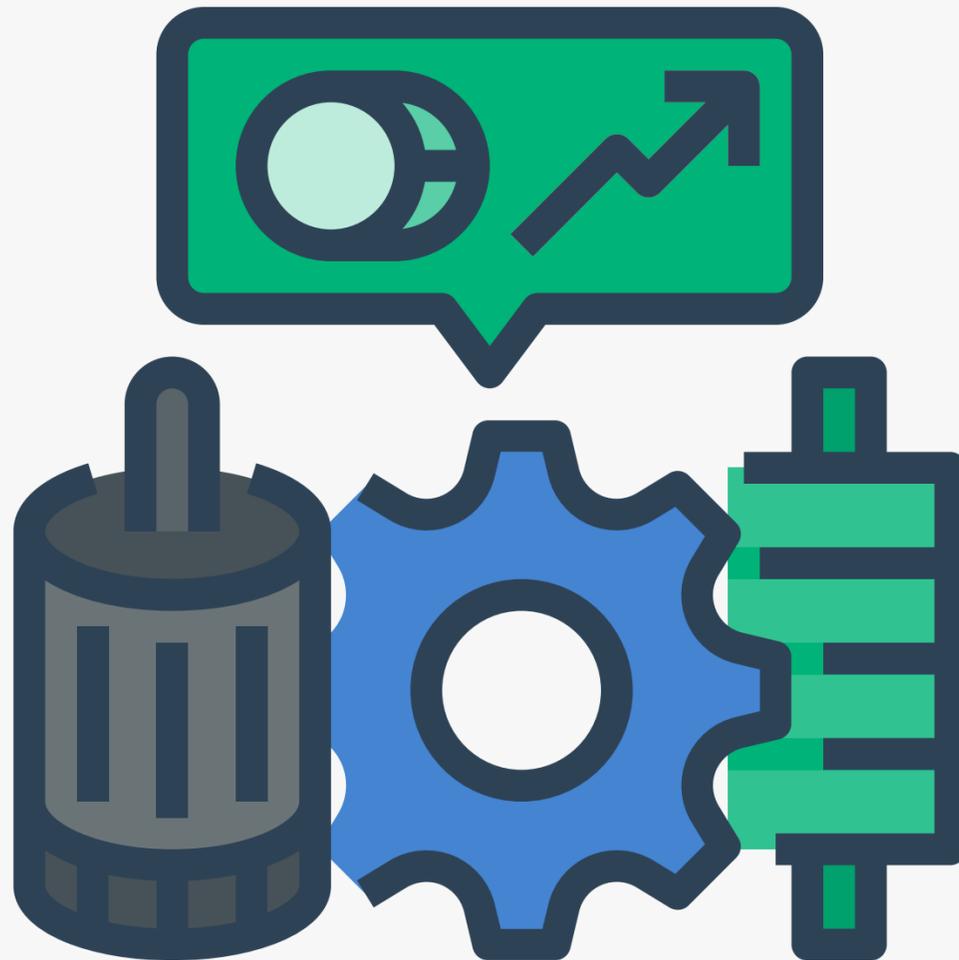
Retaliation

When one country imposes tariffs or quotas, the trading partner may retaliate causing a 'trade war'. Trade wars often lead to higher prices for both parties, an increase in production costs and potentially unemployment.



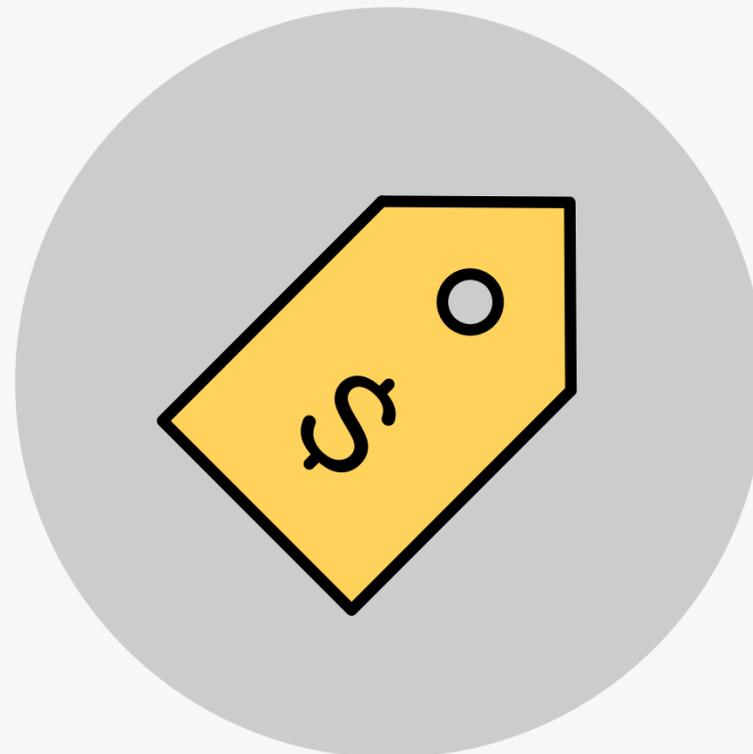
Increased Cost

When raw materials have a tariff or quota imposed on them, cost of production increases.



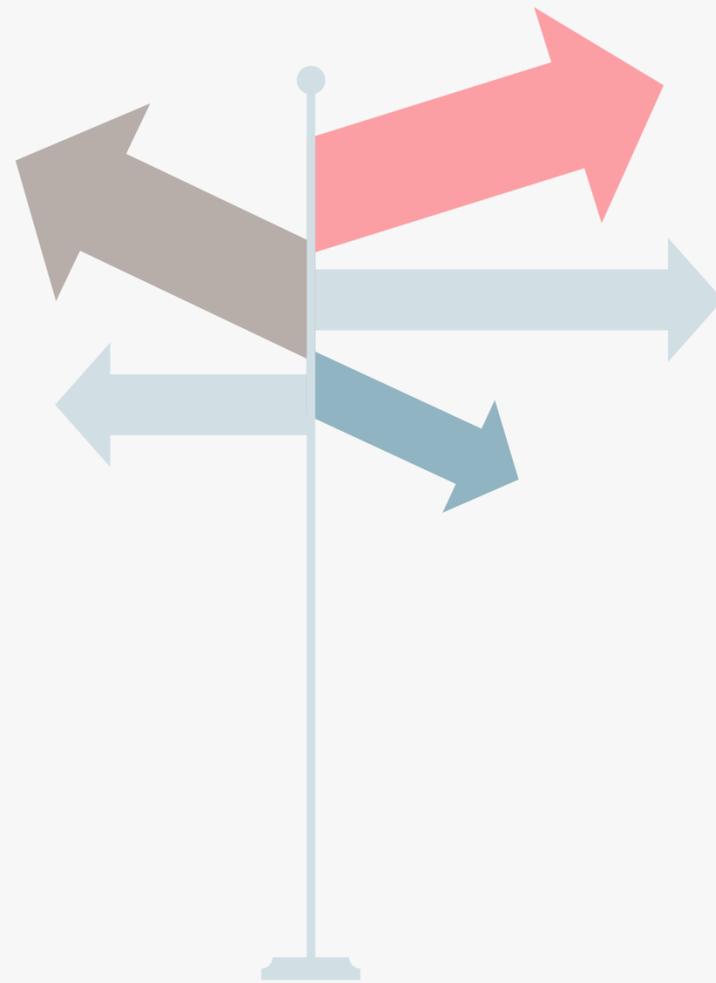
Higher Prices

Consumers must pay a higher price for a good than they should compared to free trade.



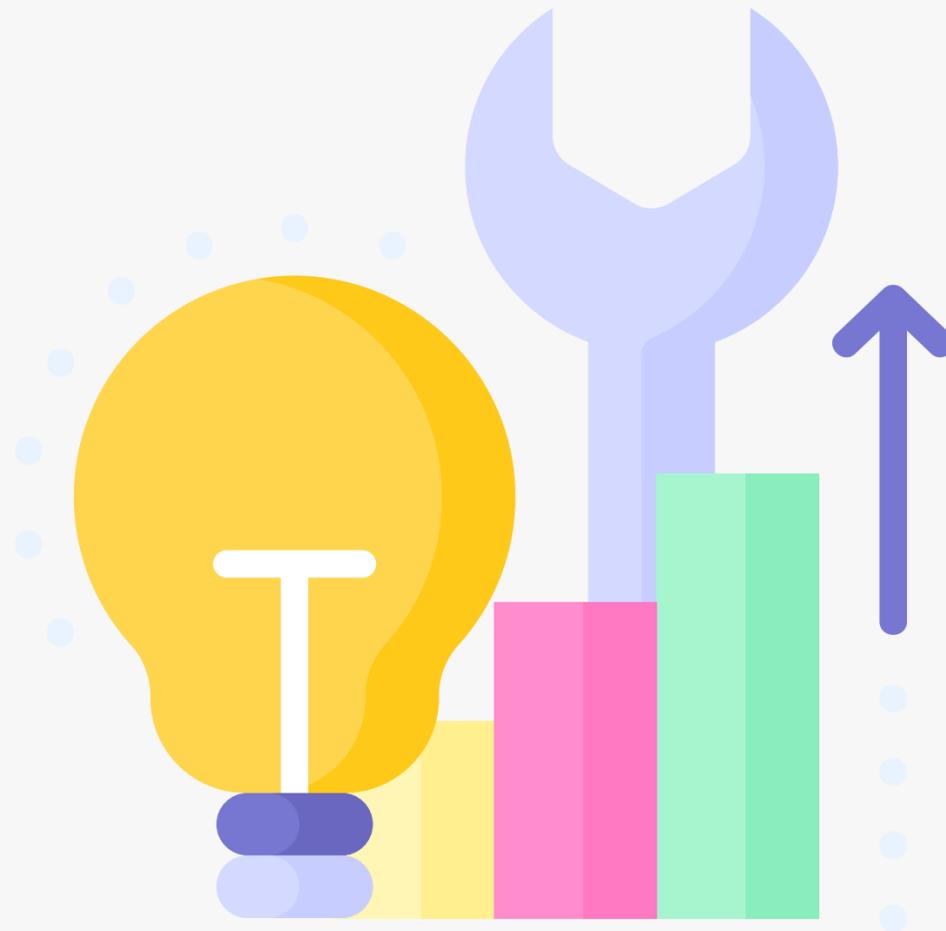
Less Choice

Protectionism limits imports and choices for domestic consumers. These policies limit the variety of goods available.



Less Incentive for Domestic Producers to Improve

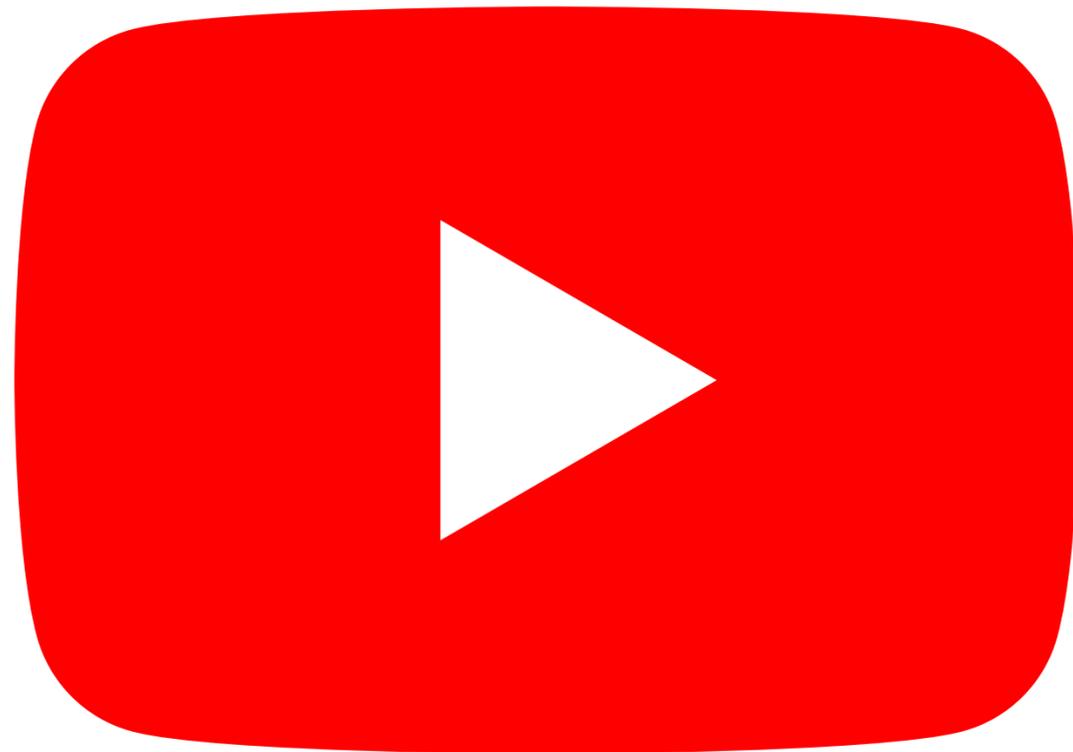
Protectionist policies limit competition from international competition and provides no incentive for domestic producers to improve efficiency, quality, or engage in research and development.



Reduced export competitiveness

As your country's producers pay more for imported materials, domestic producers must charge higher prices to cover increased costs. This increase in price leads to a less competitive market for exports.





How to Enrich a Country: Free Trade or
Protectionism?

The School of Life

Free Trade VS Protectionism

Socratic Seminar



Free Trade VS Protectionism



[CLICK HERE](#)

Practice Question



Paper 2

- (a) (i) Define the term ***dumping*** indicated in bold in the text (paragraph 2).
- (ii) [REDACTED]
- (b) Using a tariff diagram, explain the effect of the “preliminary tariffs” on Canadian consumers of drywall (paragraph 3).
- (c) Using a demand and supply diagram, explain how the “imposition of the preliminary tariff” may have affected the market for new homes built in Canada (paragraph 4).
- (d) Using information from the text/data and your knowledge of economics, evaluate the effect of the tariff on drywall on different stakeholders.



Canadian drywall tariffs will continue

- 1 Recently imposed Canadian tariffs on drywall imports have pushed up the cost of building a new home by thousands of Canadian dollars (CA\$) in the last four months. Drywall is a pre-made wall section that is used in the construction industry for building houses. Doubt as to whether the tariffs will remain is causing uncertainty for building firms, drywall manufacturers and homeowners.
- 2 For now, higher prices will continue following a ruling by the Canadian International Trade Tribunal (CITT) this week. The tribunal found that United States (US) firms had been **dumping** drywall products into Western Canada over the past few years, harming the Canadian drywall industry.
- 3 The ruling will end preliminary tariffs of up to 276% imposed by Canada on imports of drywall from the US. However, they will be replaced by permanent, variable tariffs that would be imposed on imported drywall products whose prices fall below the minimum prices determined by the CITT.
- 4 “The preliminary tariff was very damaging to homebuilding,” said a building industry spokesperson. “Not just homebuilding, but hospitals, commercial buildings, indeed any new construction,” he said. “It’s a cost that someone had to pay for. It lowered the profits of house builders.” It has been estimated that the immediate sharp increase in **variable costs**, following the imposition of the preliminary tariff, resulted in an extra CA\$3000 to CA\$5000 on the cost of building some homes.
- 5 The preliminary tariffs were imposed after a dumping complaint by CertainTeed Gypsum Canada (CTGC), the last drywall manufacturer in Western Canada. CTGC has three major production sites and two gypsum quarries. Gypsum is a main component of drywall.
- 6 A CTGC spokesperson had said previously that its plants and quarries could be closed, at the cost of 200 jobs, if the dumping of US drywall products continued. However, since the preliminary tariffs were imposed, the firm has announced that it has hired 30 new employees.
- 7 In a separate report, the CITT found that the preliminary tariffs had been “substantially reducing competition” in Western Canada, to the detriment of Canada’s homebuilders. In response, supporters of the tariff have suggested that revenue from the tariffs may be used to help areas that lost large numbers of homes and other structures in devastating forest fires.

Mark Scheme

[4]

(b) Using a tariff diagram, explain the effect of the "preliminary tariffs" on Canadian consumers of drywall (paragraph ②).

(a) (i) Define the term *dumping* indicated in bold in the text (paragraph ②).

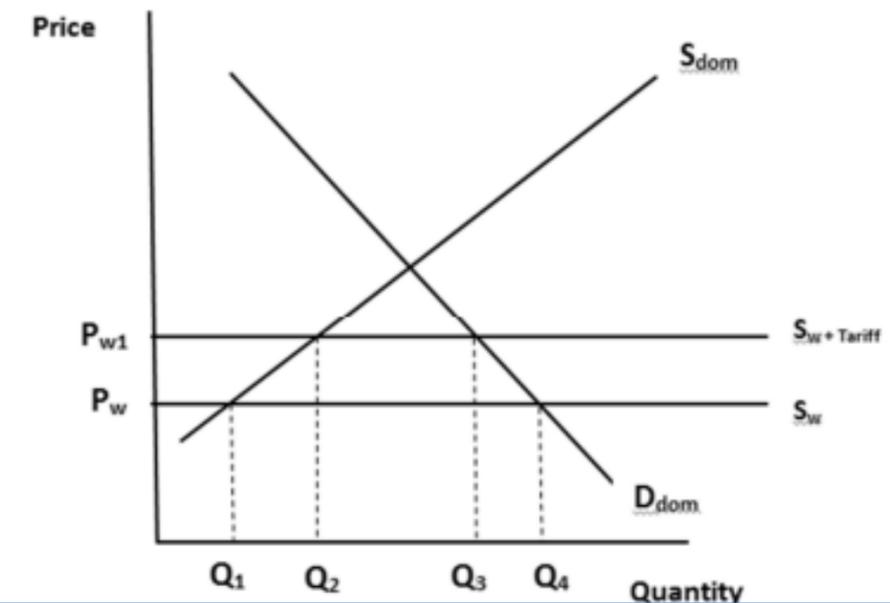
[2]

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	Vague definition.	1
	The idea that it is selling goods in another country at very low prices.	
2	Accurate definition.	2
	An explanation that it is the selling of goods in another country: <ul style="list-style-type: none"> • at a price below the cost of production, OR • below the price charged in the home market. 	

Level		Marks
0	The work does not meet a standard described by the descriptors below.	0
1	There is a correct diagram OR an accurate written response.	1–2
	A tariff diagram showing a shift of the world supply curve upwards which leads to an increase in the price of drywall and a fall in the quantity of drywall demanded OR an explanation that includes at least two of the following; <ul style="list-style-type: none"> • tariff raises prices/costs of production for consumers of drywall • decrease in quantity demanded • decrease choice for consumers • decrease quality due to inefficient domestic producers • decrease consumer surplus. 	
2	There is a correct diagram AND an accurate written response.	3–4
	A tariff diagram showing a shift of the world supply curve upwards which leads to an increase in the price of drywall and a fall in the quantity of drywall demanded AND an explanation that includes at least two of the following; <ul style="list-style-type: none"> • tariff raises prices/costs of production for consumers of drywall • decrease in quantity demanded • decrease choice for consumers • decrease quality due to inefficient domestic producers • decrease consumer surplus. 	

Candidates who incorrectly label diagrams can receive a maximum of [3].

The use of P and Q on the axes is sufficient for a demand and supply diagram. The world supply curve must be labelled S_w , or S_{world} . A title is not necessary.

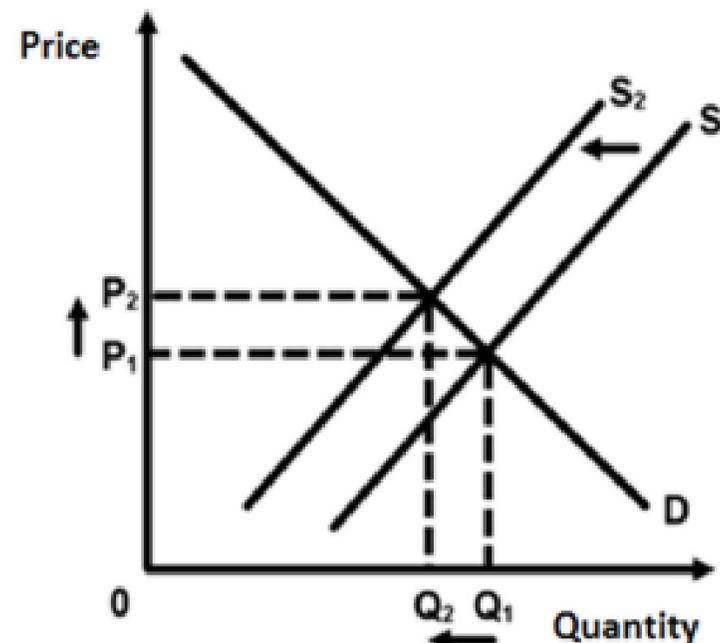


- (c) Using a demand and supply diagram, explain how the “imposition of the preliminary tariff” may have affected the market for new homes built in Canada (paragraph 4). [4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	A demand and supply diagram showing a shift of the supply curve to the left which leads to an increase in the price of new homes, and a fall of the quantity of new homes built in Canada OR An explanation that tariffs increased input costs of production of houses, decreasing the supply curve. This results in a decrease in quantity and an increase in the price of new homes.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	A demand and supply diagram showing a shift of the supply curve to the left which leads to an increase in the price of new homes, and a fall of the quantity of new homes built in Canada AND An explanation that tariffs increased input costs of production of houses, decreasing the supply curve. This results in a decrease in quantity and an increase in the price of new homes.	

Candidates who incorrectly label diagrams can be awarded a maximum of [3].

*For a demand and supply diagram, the vertical axis should be price or p .
The horizontal axis should be quantity or q . A title is not necessary.*



- (d) Using information from the text/data and your knowledge of economics, evaluate the effect of the tariff on drywall on different stakeholders.

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Responses may include:

- definition of stakeholders
- definition of tariff.

Consumers of drywall (Canadian building firms):

- will face higher costs, and thus reduced profits (paragraph 4)
- fall in the production of buildings (paragraph 4)
- may cause unemployment.

Domestic producers of drywall:

- will receive higher prices (paragraph 3) and thus more profits
- increase in output and sales
- increase in employment (paragraph 6)
- supporting monopoly power (paragraph 5).

US producers of drywall:

- higher costs
- reduced sales
- lower profits and possibly a decrease in employment.

The Canadian government:

- increased revenue (paragraph 7)
- possible retaliation from the US.

Canadian economy:

- reduction in competition (paragraph 7), leading to inefficiency
- inflationary pressure in the housing market (paragraph 4).

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Do not award beyond level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Few relevant concepts are recognized.</i>	1–2
	There is basic knowledge/understanding.	
2	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	3–5
	There is clear knowledge/understanding. There is some attempt at application/analysis.	
3	<i>Relevant concepts are recognized and developed in reasonable depth.</i>	6–8
	There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	

To reach level 3, students must be aware of the particular situation in the Canadian drywall market on specific stakeholders, not just present an evaluation of tariffs in general.

Enjoying The Content?

Visit bananaomics.com to purchase package deals with discount prices!



BANANAOMICS