2.24 Protectionism: Trade Barriers and Their Economic Effects

Total Marks

AQA 7136 · Calculators not allowed · about 80 minutes · Write-in edition

Name: _____ Date: ____ / ____ / _____

Answer all questions. Write full sentences for questions worth 4 marks or more and for the final 25-mark essay. No calculator is allowed.

1 State and explain two reasons why protectionism might increase employment in a protected domestic industry but not necessarily increase overall national employment in a developed economy such as the UK.

(Total for Question 1 is 4 marks)

2 Policy evaluation short item: A government is considering an infant-industry tariff for a new green-tech sector that currently imports 80% of domestic consumption. State two conditions that would need to hold for the infant-industry argument to justify temporary protection, and briefly explain one practical difficulty in implementing such temporary protection in the UK.

(Total for Question 2 is 5 marks)

3 Evaluate the view that protectionism can ever be justified for a developed economy such as the UK.

(Total for Question 3 is 25 marks)

4 Define an import quota and state one immediate effect it has on the quantity of imports in the domestic market of a developed economy.

(Total for Question 4 is 2 marks)

5 Explain briefly how an export subsidy works and name one direct effect it has on exports and on domestic producers in an economy such as the UK.

(Total for Question 5 is 2 marks)

6 Explain what is meant by a non-tariff barrier (NTB) and give two examples of NTBs used by governments, naming each example.

(Total for Question 6 is 2 marks)

7 Diagram question: Draw a supply and demand diagram for a small open economy's market for an imported good (label vertical axis 'Price' and horizontal axis 'Quantity'). The world price Pw is shown below the initial domestic equilibrium price. Show the effect of imposing a specific tariff per unit on imports. On your diagram label: domestic supply and demand, the world price Pw, the pre-tariff domestic price and quantity consumed, the post-tariff domestic price and quantity consumed, the import quantity before and after the tariff, the areas representing consumer surplus loss, producer surplus gain, government revenue from the tariff, and the deadweight loss triangles caused by the tariff.

(Total for Question 7 is 8 marks)

8 Explain the economic rationale for anti-dumping measures and one potential drawback of using anti-dumping duties in a developed economy like the UK.

(Total for Question 8 is 3 marks)

Mark scheme · 2.24 Protectionism: Trade Barriers and Their Economic Effects

Question 1

states reason 1: protection raises domestic price and output in the protected industry, creating or preserving jobs there	**B1**
explains reason 1: higher protected-sector production requires more labour, so employment in that sector can rise	**B1**
states reason 2: protection raises consumer prices, reducing real incomes and spending elsewhere, which can lead to job losses in other sectors	**B1**
explains reason 2: increased costs for downstream firms and reduced demand for other industries can offset protected-sector employment gains, so national employment may not rise	**B1**

Answer: Protection can increase employment in the protected industry by raising its price and output, requiring more workers, but higher consumer prices and diverted resources can reduce demand and jobs in other industries, so overall national employment may not rise.

Question 2

condition 1: there must be a credible prospect of dynamic gains such as learning-by-doing, productivity improvements or scale economies that will lower costs over time	**M1**
develops condition 1: protection should allow the industry to reach a cost position comparable to international rivals	**A1**
condition 2: protection must be temporary and accompanied by a clear plan/benchmarks for removal to avoid permanent inefficiency	**M1**
develops condition 2: credible sunset clauses, performance targets or conditional support are needed	**A1**
practical difficulty: political economy problems mean temporary protection often becomes permanent, with lobbying and vested interests preventing removal	**B1**

Answer: Conditions: (1) plausible dynamic gains and potential to achieve lower long-run costs; (2) protection must be temporary with clear, credible exit benchmarks. Practical difficulty: temporary measures are politically hard to remove, as lobbying and vested interests typically seek to extend protection.

Question 3

Level 1 Basic statements about protectionism with little or no development, few links to economic analysis, minimal or no use of diagrammatic reasoning and no sustained judgement.	**1-5**
Level 2 Some relevant analysis of reasons for and against protectionism, with at least one developed point and limited deployment of evidence or example. Diagrams may be attempted but not linked fully to argument. Partial judgement offered but not well supported.	**6-10**
Level 3 Clear analysis of several arguments for and against protectionism, with good use of economic reasoning and examples. Diagrams used correctly to illustrate mechanisms and losses. A balanced conclusion is reached, evaluating alternatives and considering conditions under which protection might be justified.	**11-15**
Level 4 Thorough analysis, including precise diagrammatic explanation (e.g. tariff diagram showing redistribution and deadweight loss), evaluation of magnitude, time lags and political economy, and comparison with credible policy alternatives. Judgement is well supported and qualified.	**16-20**
Level 5 Excellent, sustained evaluation covering all major arguments both for and against protectionism, high-quality use of diagrams, consideration of empirical and institutional constraints, distributional impacts, likely retaliation and international law, and a well-justified conclusion that recognises nuance and conditionality for a developed economy such as the UK.	**21-25**

Indicative content:

- Arguments for protection: infant-industry (dynamic benefits, learning-by-doing, scale economies), anti-dumping (prevent predatory pricing), national security (essential goods defence preparedness), employment protection (prevent job losses in strategic regions/sectors), terms-of-trade manipulation.
- Economic costs: higher consumer prices, allocative inefficiency, productive inefficiency if protection remains, X-inefficiency, deadweight loss illustrated on a tariff or quota diagram, misallocation of resources away from comparative advantage.
- Distributional effects: winners (protected firms, some workers) and losers (consumers, downstream firms). Consider magnitude: small industry protected vs large consumer base.
- Political economy: protection often becomes entrenched; measurement and conditionality problems for temporary protection; capture by incumbents.
- International reaction: retaliation, trade wars, WTO rules and legal challenges, impact on export sectors.
- Alternatives to tariffs/quotas: targeted subsidies with sunset clauses, investment in skills and R&D, temporary tax breaks, active labour market policies, strategic stockpiles for security, anti-dumping investigations with evidence thresholds.
- Empirical considerations for a developed economy: higher ability to fund adjustment programmes, sophisticated institutions to implement conditional support, but also high service-sector exposure and consumer preference for low prices.
- Contextual conclusion: protection may be justifiable in narrow, time-limited, well-designed cases (genuine infant industry with credible plan, national security supplies) but is rarely the best policy for broad economic objectives; stronger case when accompanied by clear benchmarks, compensation and exit strategy.

Question 4

an import quota is a legal limit on the physical quantity of a good that may be imported in a period	**B1**
it immediately reduces the quantity of imports to the quota level, restricting supply of the imported good	**B1**

Answer: An import quota is a legal limit on the quantity of a good that can be imported; it immediately reduces import volumes to the quota level, restricting supply of the imported good.

Question 5

an export subsidy is a payment by the government to firms for each unit exported, lowering their costs of selling abroad	**M1**
direct effect: it tends to increase export volumes and supports domestic producers by raising revenues and protecting employment	**A1**

Answer: An export subsidy is a government payment per unit exported that lowers firms' export costs; it tends to increase export volumes and raises revenues and output for domestic exporters, protecting jobs in those industries.

Question 6

a non-tariff barrier is any regulatory or administrative restriction that limits imports without using an explicit tariff	**M1**
gives two distinct examples such as stringent technical standards and embargoes or lengthy customs licensing procedures	**A1**

Answer: A non-tariff barrier is a regulatory or administrative restriction that limits imports without an explicit tariff. Examples include strict product standards or technical regulations, and embargoes or onerous customs licensing and inspection procedures.

Question 7

correct axes labelled Price (vertical) and Quantity (horizontal)	**B1**
shows domestic demand and domestic supply curves correctly oriented	**B1**
shows world price Pw as a horizontal line below the initial domestic equilibrium and correctly identifies pre-tariff consumption and imports	**B1**
shows a higher post-tariff domestic price (Pw + tariff) as a parallel horizontal line above Pw and shows the reduced import quantity	**B1**
labels and shades or indicates consumer surplus loss and producer surplus gain with the correct relative positions (consumer loss includes producer gain + government revenue + deadweight losses)	**B1**
labels government revenue rectangle correctly between Pw and Pw + tariff over the new import quantity	**B1**
identifies the two deadweight loss triangles: one from lost consumption, one from inefficient domestic production, with correct locations	**B1**
diagram is internally consistent and the candidate describes in words the redistribution: consumers lose, producers gain, government gains revenue, and there are efficiency losses (deadweight loss)	**B1**

Question 8

explains anti-dumping purpose: to protect domestic firms from foreign producers selling below fair market value or below cost, which could drive domestic firms out of the market	**M1**
explains how anti-dumping duties raise the imported price to counteract the dumped price, restoring competitive conditions	**A1**
identifies drawback: duties can be misused as protectionism, reduce consumer choice and raise prices, and provoke retaliation from trading partners	**A1**

Answer: Anti-dumping duties aim to stop foreign sellers using predatory low prices to drive out domestic rivals; they raise import prices to level the playing field. A drawback is that they can act as disguised protectionism, raising prices for consumers and risking retaliatory measures from trading partners.