ECO.MAC22 Protectionism: Trade Barriers and Their Economic Effects

AQA 7136 · Calculators not allowed · about 90 minutes

Total Marks

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 Multiple choice on trade barriers, in the context of UK trade policy: which barrier is a tax on imported goods collected by the importing country's government?

(single) Choose the correct option and give one short reason why it is correct, in the context of UK trade policy. **(1)**

(Total for Question 1 is 1 mark)

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2 Define the term 'tariff' as used in discussions of trade policy in a developed economy such as the UK.

(Total for Question 2 is 2 marks)

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3 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 3 is 2 marks)

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4 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 4 is 2 marks)

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5 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 5 is 2 marks)

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6 State two arguments commonly made in favour of protectionism for a developed economy such as the UK, naming each argument briefly.

(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)

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8 Explain briefly one economic difference between using an import quota and using a tariff to restrict imports of a manufactured good in the UK.

(Total for Question 8 is 3 marks)

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9 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 9 is 3 marks)

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10 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 10 is 4 marks)

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11 Explain briefly two arguments in favour of free trade that are directly relevant when assessing protectionist policies in a developed economy such as the UK.

(Total for Question 11 is 5 marks)

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12 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 12 is 5 marks)

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13 Evaluate the view that protectionism can ever be justified for a developed economy such as the UK. In your answer, consider the main stated objectives of protection (infant industry, anti-dumping, national security, employment), weigh them against the economic costs (higher consumer prices, efficiency losses, retaliation and welfare loss) and the strengths and weaknesses of alternative policy measures. Use diagrams where appropriate and reach a supported judgement.

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

(Total for Question 13 is 25 marks)

Mark scheme · ECO.MAC22 Protectionism: Trade Barriers and Their Economic Effects

Question 1

- (single) **B1** identifies B, tariff, as a tax on imports collected by the importing government
- **(single) Answer: B. Tariff; it is a tax on imported goods collected by the importing country's government.**

Question 2

- **B1** a tariff is a tax imposed on imported goods or services
- **B1** it raises the domestic price of the imported good and can generate revenue for the government
- **Answer: A tariff is a tax on imported goods which raises the domestic price of those imports and generates revenue for the government.**

Question 3

- **B1** 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
- **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 4

- **M1** an export subsidy is a payment by the government to firms for each unit exported, lowering their costs of selling abroad
- **A1** direct effect: it tends to increase export volumes and supports domestic producers by raising revenues and protecting employment
- **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 5

- **M1** a non-tariff barrier is any regulatory or administrative restriction that limits imports without using an explicit tariff
- **A1** gives two distinct examples such as stringent technical standards and embargoes or lengthy customs licensing procedures
- **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 6

- **B1** identifies the infant industry argument or national security argument or employment protection or anti-dumping as one named argument
- **B1** identifies a second distinct named argument from the same set
- **Answer: Examples: the infant industry argument (to protect emerging domestic firms) and the national security argument (to protect industries vital for defence).**

Question 7

- **B1** 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)

Question 8

- **M1** identifies that a tariff raises government revenue per unit imported while a quota usually transfers scarcity rents to the quota holders (importers or foreign exporters) rather than the government
- **A1** explains mechanism: tariff increases price and generates a rectangle of government revenue; quota limits quantity and can create an earnings transfer depending on how quota licenses are allocated
- **A1** optional development: quota can lead to higher domestic price volatility and may be harder to adjust to changing demand than an ad valorem tariff
- **Answer: A tariff generates revenue for the government on each unit imported, whereas a quota restricts quantity and typically gives monopoly or scarcity rents to whoever holds the import licences, not the government, so the fiscal incidence differs.**

Question 9

- **M1** 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
- **A1** 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
- **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.**

Question 10

- **B1** 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
- **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 11

- **M1** identifies argument 1: allocative efficiency/consumer welfare via lower prices and greater choice
- **A1** develops: free trade allows imports from lower-cost producers, lowering prices for consumers and increasing real incomes and welfare
- **M1** identifies argument 2: dynamic efficiency and scale economies from open markets and competition
- **A1** develops: exposure to competition encourages firms to innovate and exploit economies of scale, improving productivity over time
- **A1** evaluative link: these benefits mean that protectionism's short-term gains for specific firms must be weighed against broader, long-term efficiency losses and higher prices for consumers
- **Answer: Free trade promotes lower prices and greater consumer choice, improving allocative efficiency, and encourages competition and scale economies that raise productivity over time; these broad benefits can outweigh narrow protectionist gains for a few industries.**

Question 12

- **M1** 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
- **A1** develops condition 1: protection should allow the industry to reach a cost position comparable to international rivals
- **M1** condition 2: protection must be temporary and accompanied by a clear plan/benchmarks for removal to avoid permanent inefficiency
- **A1** develops condition 2: credible sunset clauses, performance targets or conditional support are needed
- **B1** practical difficulty: political economy problems mean temporary protection often becomes permanent, with lobbying and vested interests preventing removal
- **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 13

- **Level 1** (1-5): 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.
- **Level 2** (6-10): 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.
- **Level 3** (11-15): 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.
- **Level 4** (16-20): 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.
- **Level 5** (21-25): 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.
- **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.