4.2 Types of trade protection

Tariffs

Objectives

Tariffs

Effects on markets and stakeholders

Trade Protection

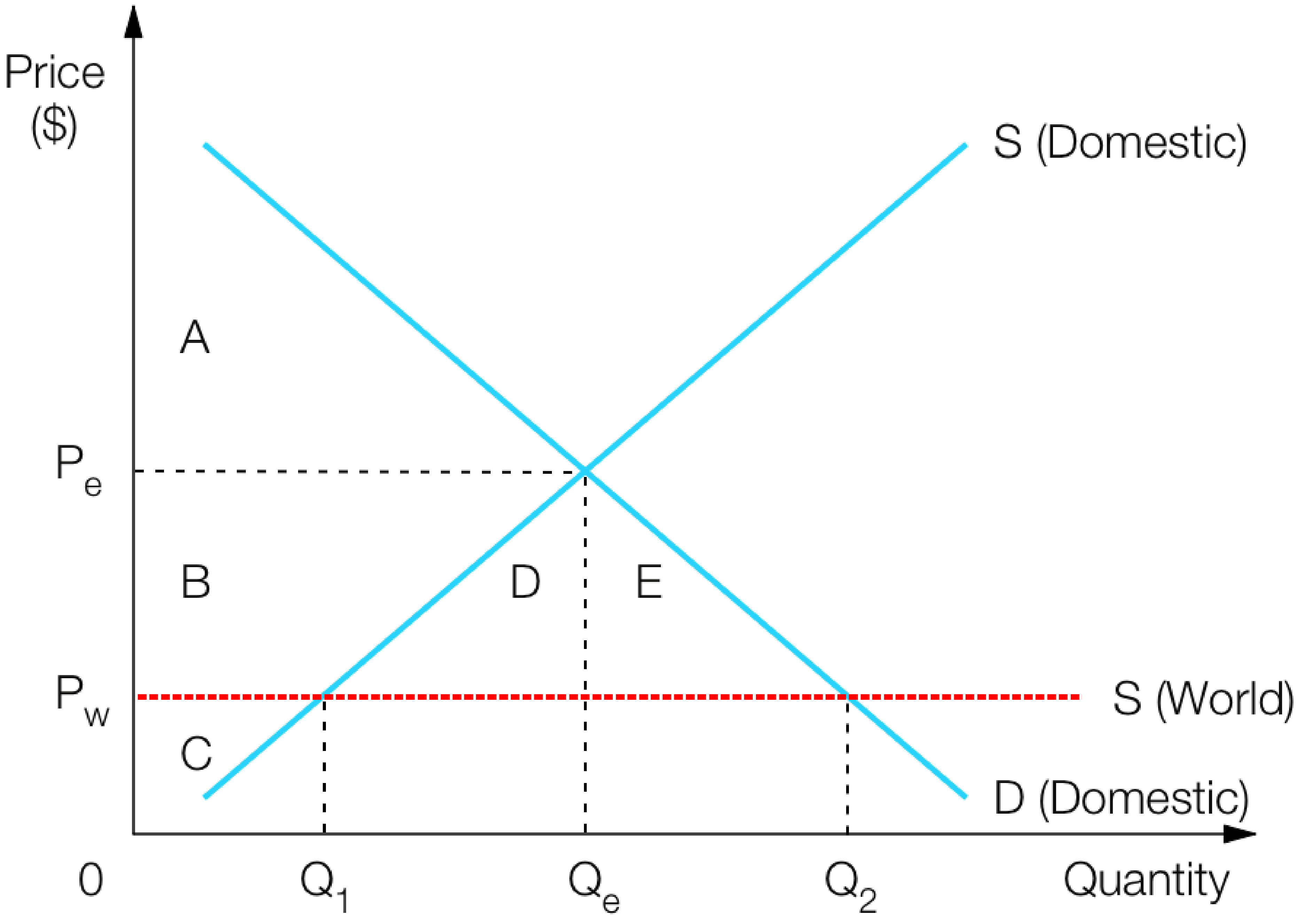
Trade protection (protectionism) - the use of trade barriers to safeguard an economy from international trade and foreign competition e.g., **tariff**, **quota**, **subsidy**, and **administrative barriers**.

A policy that attempts to promote companies based in the home country and discriminate against those from abroad.

Politically popular because it appears to safeguard workers' jobs, and many companies will lobby politicians to exclude foreign competitors.

Protectionism can reward inefficient domestic companies and to increase the prices paid by consumers.

Free trade



Free trade

No trade
Consumer surplus A
Producer surplus B + C

Free trade
Consumer surplus A + B + D + E
Producer surplus C

Tariffs

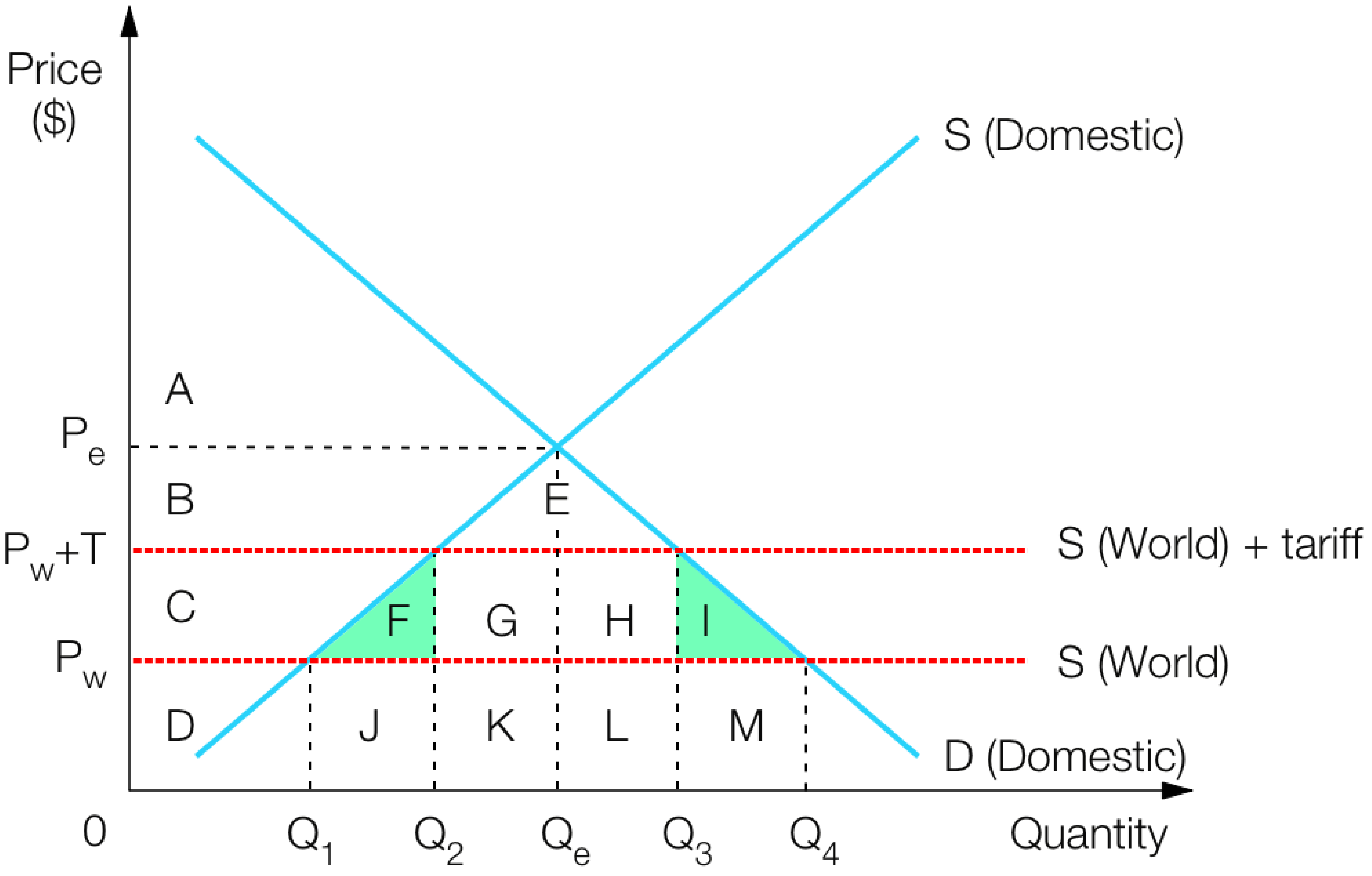
Tariffs are a specific tax on imported goods and services.

Tariffs can be issued by a government unilaterally or as a requirement of membership of a trading bloc.

World supply is perfectly elastic.

Foreign producers have a comparative advantage in production (the world price is lower than the domestic price).

Tariffs



Tariffs

Pre tariff

Consumer surplus A + B + E + C + F + G + H + I

Domestic producer surplus D

Domestic producer revenue P_w x Q_1

Post tariff

Consumer surplus A + B + E

Domestic producer surplus C + D

Domestic producer revenue P_w+T x Q_2

Deadweight loss F + I

Government revenue G + H

Tariffs

Impact on stakeholders

Consumers

- reduced consumer surplus
- higher prices
- lower quantity demanded
- lower choice as foreign producers reduce or stop exports to the country

Domestic producers

- increase in producer surplus
- increase in producer revenue
- may experience retaliation from foreign governments

Tariffs

Impact on stakeholders

Government

- receive tax revenue
- protect domestic jobs, reduce unemployment spending
- costs to enforce the tariff
- may face action from the World Trade Organization

Welfare

- efficiency in the market is lower
- smaller community surplus
- overall welfare loss to the economy

Tariffs

Trump imposes 17% tariff on Mexican tomatoes

Around 70% of tomatoes consumed in the US come from Mexico, a trade body says

Tariffs

Manila Standard

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By **Othel V. Campos**

May 26, 2025, 8:25 PM

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Tariffs

Paper 1 questions

Explain the imposition of a tariff [10 marks]

Explain how a country might use trade protection to raise government revenue and protect employment [10 marks]

Using real-world examples, evaluate the effects of a country imposing a tariff on a good [15 marks]

Using real-world examples, evaluate the effects of a tariff, a subsidy, or a quota on a specific market for the various stakeholders in an economy [15 marks]