4.2 Types of trade protection
Quotas

Objectives

Quotas

Effects on markets and stakeholders

Trade Protection

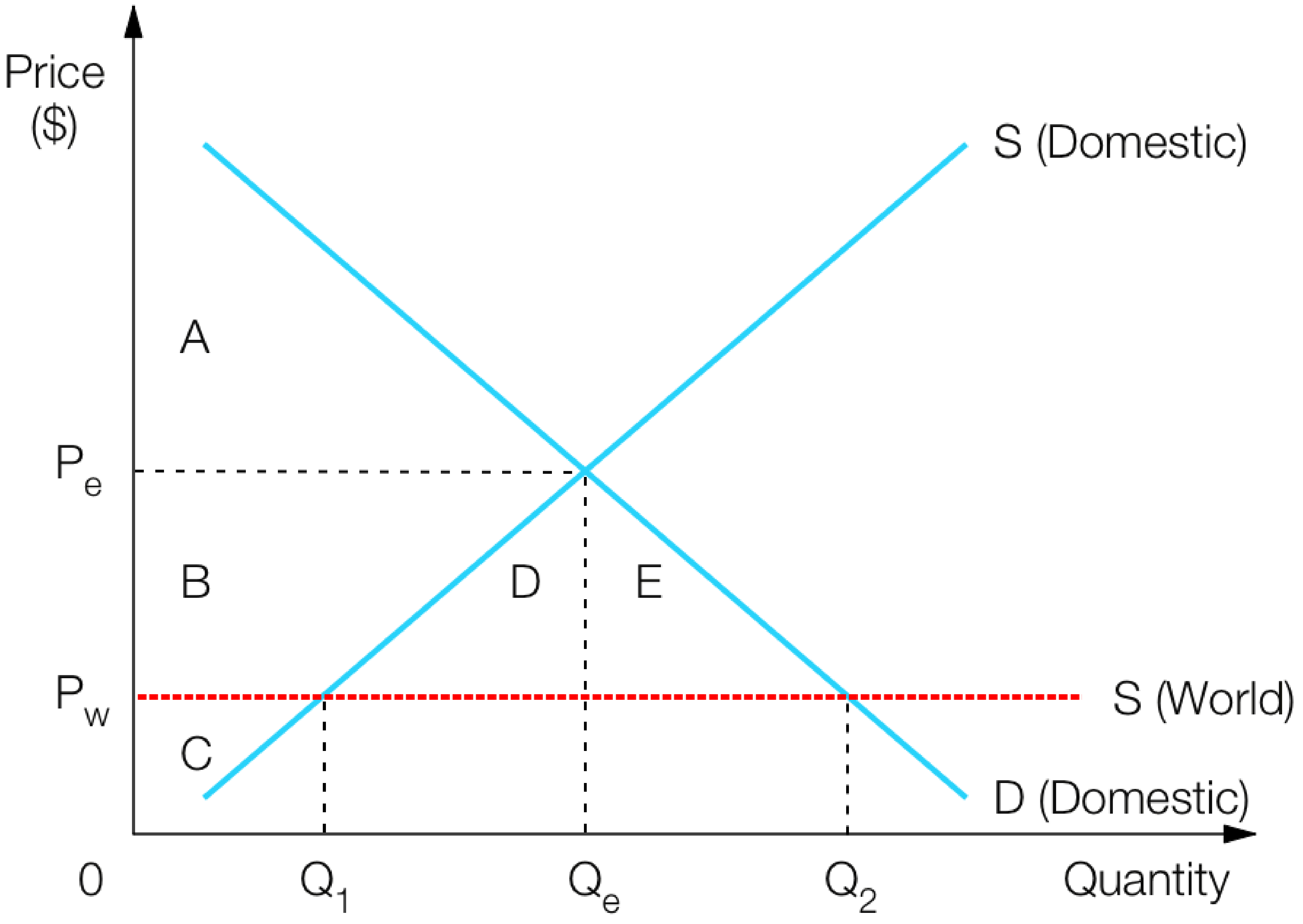
Trade protection (protectionism) - the use of trade barriers to safeguard an economy from international trade and foreign competition e.g., **tariff**, **quota**, **subsidy**, and **administrative barriers**.

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

Quotas

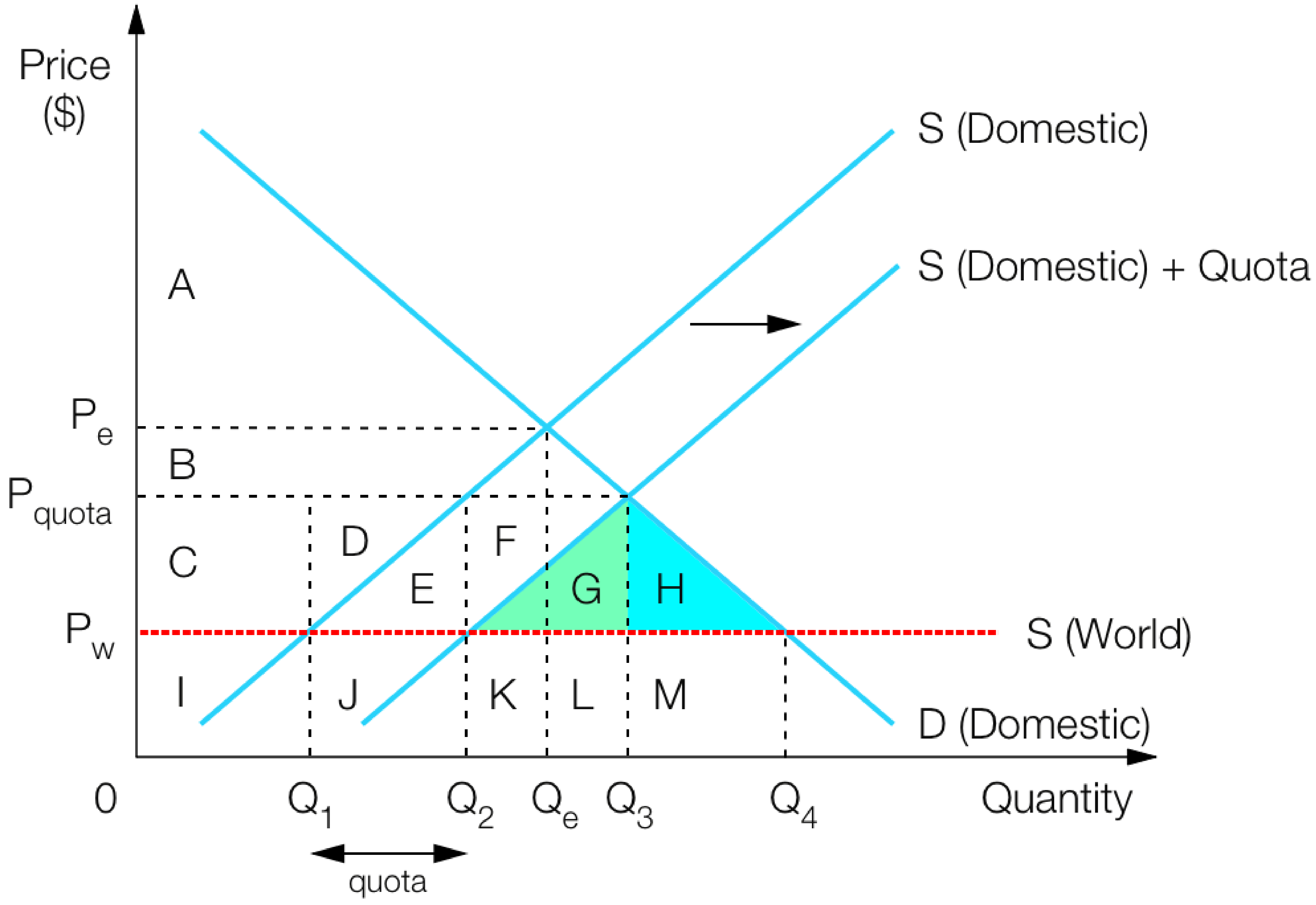
Quotas are limits on the import of a good into a country.

Quotas can be put in place by a government or as a requirement of membership of a trading bloc.

Restrict the supply of a good at the expense of foreign firms.

The fall in supply leads to an increase in the price of the product.

Quotas



Quotas

Pre quota

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

Domestic producer surplus I

Domestic producer revenue P_w x Q_1

Post quota

Quota $Q_2 - Q_1$

Consumer surplus A + B

Domestic producer surplus I + C + F

Deadweight loss G + H

Domestic producer revenue (P_{quota} x Q_1) + (P_{quota} x ($Q_3 - Q_2$)) or C + I + F + G + K + L

Quotas

Impact on stakeholders

Consumers
- reduced consumer surplus
- higher prices
- lower choice as a result of fewer imports due to the quota

Domestic producers
- increase in producer surplus
- increase in producer revenue
- expand their range of goods and services to provide domestic substitutes for the goods no longer imported
- an increase in production by domestic producers could lead to economies of scale, which could lead to an increase in profits

Quotas

Impact on stakeholders

Government

- receive some revenue from the sale of import licences
- enforcement costs associated with a quota e.g., deter smuggling operations
- these costs and benefits are not illustrated on the diagram

Welfare

- inefficient domestic production (less competition from foreign producers)
- efficiency in the market is lower
- overall welfare loss to the economy

Quotas

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Japan vows more US rice imports within tariff-free quota

By Kaori Kaneko

July 23, 2025 11:59 AM GMT+8 · Updated July 23, 2025

Rice displayed at Ito-Yokado grocery store, a subsidiary of Seven & i Holdings, in Tokyo, Japan May 31, 2025. REUTERS/Issei Kato/File Photo

Quotas

MENU

GMK CENTER

The UK tightens quotas on steel imports from Vietnam, South Korea, and Algeria

Vadim Kolisnichenko

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The government is lowering steel import limits to protect the domestic industry from oversupply

The UK plans to introduce tougher-than-expected restrictions on steel imports from Vietnam, South Korea, and Algeria. This move is intended to protect the national steel industry from the effects of the global trade conflict and the redirection of cheap products from other regions, Reuters reports.

Quotas

Paper 1 questions

Explain the imposition of a quota [10 marks]

Explain how a country might use trade protection to restrict access to foreign producers and protect employment [10 marks]

Using real-world examples, evaluate the effects of a country imposing a quota 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]