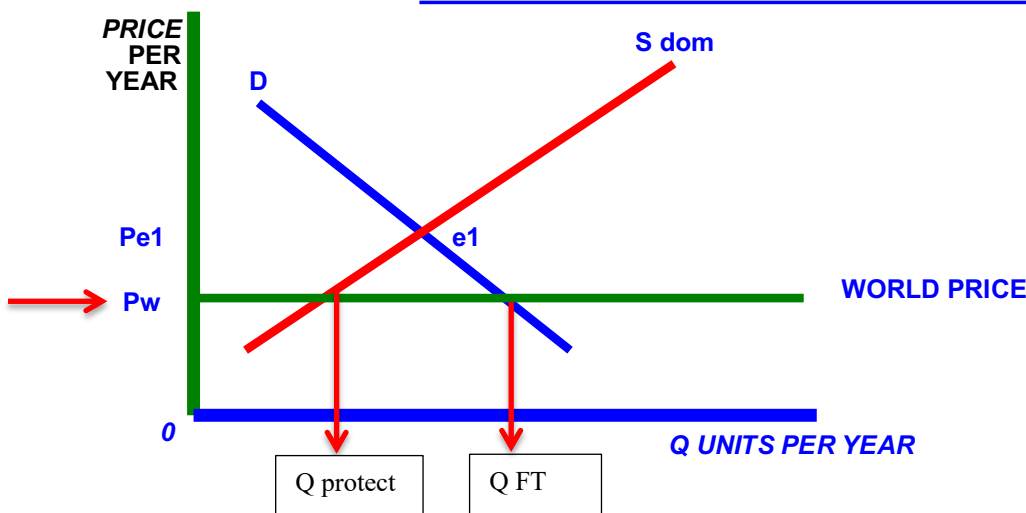


- 0 = Free Trade. Fig A price is p_w and supply into domestic market is where the horizontal supply cuts the domestic demand. Full protection occurs at Q_P where only domestic supply enters market**
1. Embargo = total ban; internal or external; no competition, see Diag. A where domestic price is greater than world price e.g. SA and arms production. H lose. F gains.
 2. Tariffs = tax on imports; supply shifts from SS_1 to RS_2 ; see Diag. B H lose. G + F gain.
 3. Quotas = quantity restriction; only RX allowed in see Diag. C + D. H lose F gains
 4. Subsidies = payments to producers; can also be to exporting firms; effect seen in Diag. C F gains
 5. VER = VOLUNTARY EXPORT RESTRAINT; same effect as quota; see Diag C + D
 6. Exchange Controls = GOVT limits foreign exchange available for imports, tourists + Investment abroad
 7. Import Licensing = permission to import
 8. Administrative Barriers = legal, safety, health reasons

DIAGRAM A: EFFECTS OF PROTECTIONISM



Task:

Write the following task onto webnote 700.

Draw the shape of the new supply curve for the domestic market as a result of the opening up of a quota into the market of $q_r - q_x$ in diagram C.

DIAGRAM B: EFFECTS OF PROTECTIONISM

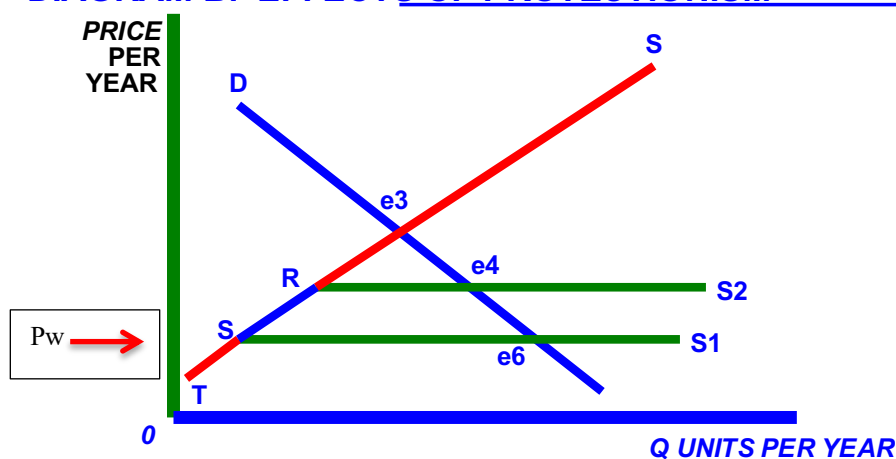
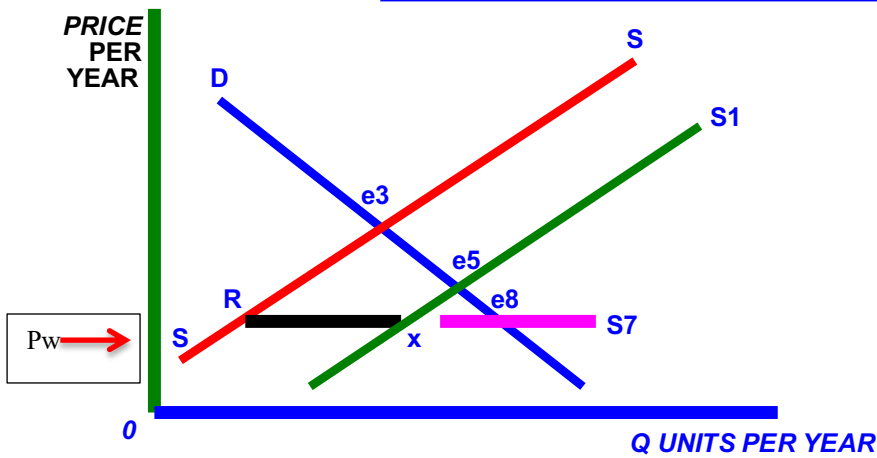


DIAGRAM C: EFFECTS OF PROTECTIONISM



Exam Focus:

3a Identify three types of protectionism and explain how each may be used to correct a balance of payments deficit on current account.

M 08 SP1

3a Explain three types of protectionism that a government might adopt in the context of international trade.

N 07 SP1

Exam Focus:

Using an appropriate diagram, explain who gains and who loses from the introduction of a tariff.

M 06 HL 2

Why might a government prefer to negotiate Voluntary Export Restraints (VER's) rather than impose tariffs as a means of restricting international trade?

M 05 HL 2

Diagram D: Quota=Q1 Q2

