**Source: Rees + Smith Economic Development pp 121-122. Copies in the LRC.**

**Best Uses:**

* Tariff shows government intervention to protect domestic jobs
* Tariff diagram shows stakeholders affected by tax on imports
* Uncover the 3 colours to reveal how stakeholders are affected

# **Example i: The welfare implications of a tariff in a Closed, Protected and Free Trade Economy**

**Syllabus Reference 3.2 Syllabus Reference 197-207 Grade weight = 4**

***ED 7: Tariffs***

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of economy:** | **Closed economy** | **Protected economy** | **Free Trade** |
| **Equilibrium P + Q** | **Pe q5** | **Pw +t, q4** | **Pw q2** |
| **Domestic consumer Surplus** | **Pe be** | **Pw+t b h** | **Pw b c** |
| **Domestic producer Surplus** | **A pe e** | **A pw+t g** | **A pw f** |
| **‘Green’ gain** | **none** | **gek** | **fel** |
| **Gain for society** | **none** | **keh** | **lec** |
| **Government revenue** | **none** | **jghi** | **none** |

**Price of Socks**

**B** **Domestic + international Market : Socks**

**S (domestic)**

**Pe e**

**World market: socks**

**G** **k** **h** pw+t **d** (world)

**Pw**

**+ T**

**f c**

**Pw j L I pw**

**S**(world)

**A**

**D (domestic)**

**0**

**q1 q3 q 5 q4 q2 Quantity of Socks**

**Note: ‘green gain’ refers to a better use of the resources in the World i.e. better resource allocation**

**Best Uses:**

* Tariff shows government intervention to protect domestic jobs
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***ED 7: Tariffs***

* Sdom = supply in the domestic market without competition from imports

**Syllabus Reference 4.2 Syllabus Reference 197-207 Grade weight = 4**

* Ddom = domestic demand curve
* Pe = Equilibrium in the domestic market without imports
* PwSw = world supply curve at world price i.e. free trade
* Dw = world demand curve
* Sw = world supply curve in the world market



**Points to Note:**

1. **World price ( Pw)is lower than Pdom / Pe on the assumption that the foreign**