

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

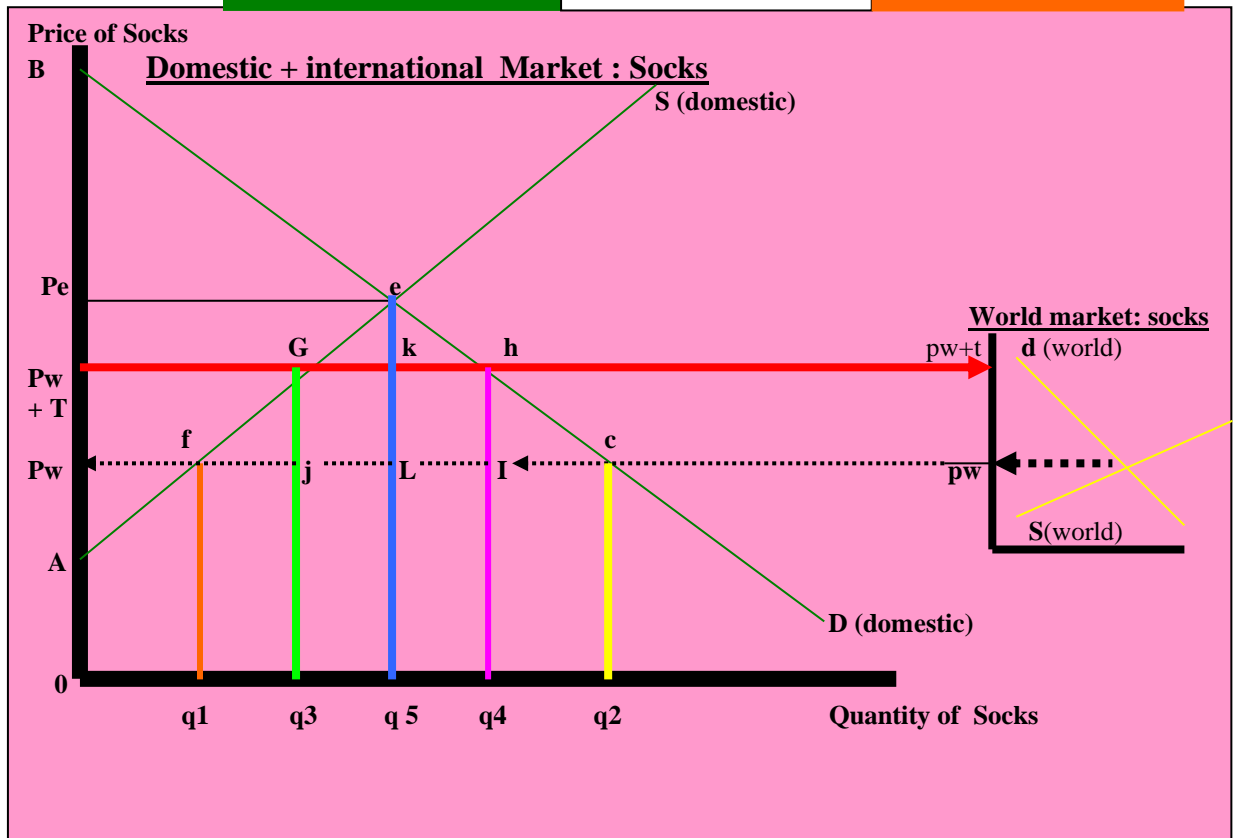
ED 7: Tariffs

Syllabus Reference 3.2¹ Syllabus Reference 197-207
Grade weight = 4

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

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

Type of economy:	Closed economy	Protected economy	Free Trade
Equilibrium P + Q			
Domestic consumer Surplus			
Domestic producer Surplus			
'Green' gain			
Gain for society			
Government revenue			



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

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- S_{dom} = supply in the domestic market without competition from imports
- D_{dom} = domestic demand curve
- P_e = Equilibrium in the domestic market without imports
- P_w = world supply curve at world price i.e. free trade
- D_w = world demand curve
- S_w = world supply curve in the world market

Points to Note:

1. World price (P_w) is lower than P_{dom} / P_e on the assumption that the foreign

Market for socks in a LDC

