

Cambridge AS & A Level · Economics 9708 · Notes

Protectionism AS

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Last checked 5 October 2026

Read first: [The reasons for international trade](#), [Consumer and producer surplus](#), [Price elasticity, income elasticity and cross elasticity of demand](#)

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What you need to know

By the end of this topic you should be able to:

1. **Explain what protectionism means** in international trade: a government interfering with free trade to shield its own producers from foreign competition.
2. **Explain each tool of protection and its impact:** tariffs, import quotas, export subsidies, embargoes, and excessive administrative burdens ("red tape"). For each, say how it works and what it does to prices, domestic output, imports, consumers, producers and the government.
3. **Weigh the arguments for and against protectionism**, and reach a judgement on whether it helps an economy.

Understand it

What protectionism is

Free trade means goods and services cross borders with no barriers. **Protectionism** is any government measure that restricts free trade in order to **protect domestic producers from foreign competition**. It works in one of two ways:

- it makes **imports dearer or scarcer** (tariffs, quotas, embargoes, red tape), so buyers switch to home-produced goods; or
- it makes **domestic firms' goods cheaper** than they would otherwise be, at home or abroad (export subsidies).

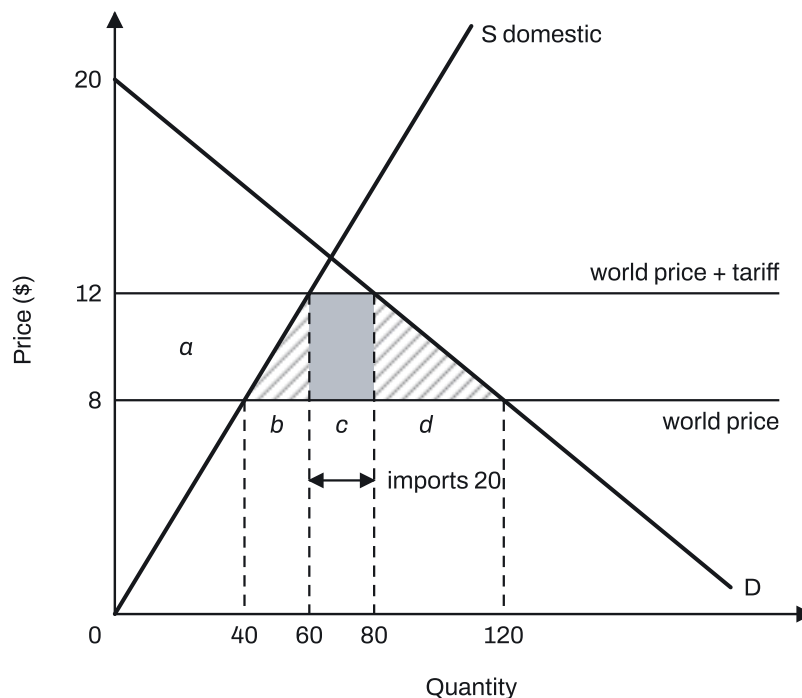
Either way, domestic firms become more **price competitive** than they would be in a free market. A good definition has both halves: *protecting domestic producers* and *by interfering with free trade*. Examiners report that most answers give only the first half.

Not protectionism: a sales tax (VAT) charged on **all** units of a good, home-made or imported, because it does not favour domestic firms; a tax on exports; a subsidy on imports. Cutting a quota or a tariff is **trade liberalisation**, the opposite.

Tariffs

A **tariff** (import duty) is a tax on imports. A **specific** tariff is a fixed amount per unit (\$4 a unit); an **ad valorem** tariff is a percentage of the price (50% of \$8 is \$4). On a diagram of import supply, a specific tariff shifts the supply curve up by the same amount at every price; an ad valorem tariff makes it steeper, because the tax grows as the price grows.

Take a small country that can import as much as it wants at the **world price** of \$8, so world supply is a horizontal line. Domestic demand is $Q = 200 - 10P$ and domestic supply is $Q = 5P$.



	Free trade (\$8)	With a \$4 tariff (\$12)	Change
Domestic supply	40	60	+20
Domestic consumption	120	80	-40
Imports	80	20	-60
Domestic producers' revenue	$\$8 \times 40 = \320	$\$12 \times 60 = \720	+\$400
Government tariff revenue	0	$\$4 \times 20 = \80	+\$80

Read the welfare effects off the diagram:

- **Consumers lose** areas $a + b + c + d$: they pay more and buy less. The loss is $4 \times \frac{120+80}{2} = 400$ dollars.
- **Domestic producers gain** area a , extra producer surplus of $4 \times \frac{40+60}{2} = 200$ dollars. They sell more at a higher price.
- **The government gains** area c , the tariff revenue: tariff per unit $\times$ imports **after** the tariff $= 4 \times 20 = 80$ dollars.

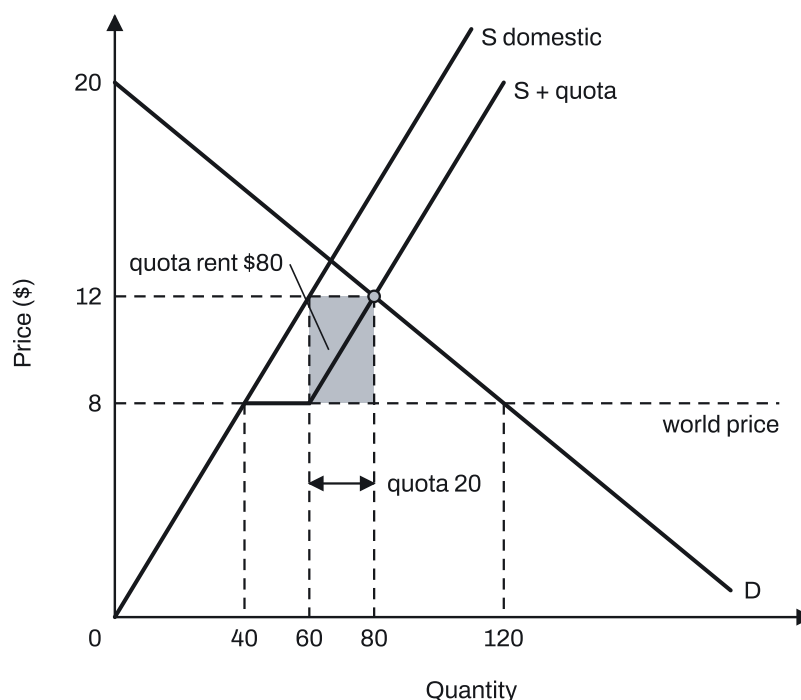
- **Triangles b and d are lost to everyone** (deadweight loss, $\$40 + \$80 = \$120$). b is the extra cost of making 20 units at home that could have been imported for $\$8$; d is the satisfaction lost by consumers who no longer buy.

Elasticity decides the size of every effect. If domestic demand and supply are **price inelastic**, quantities hardly change: imports fall only a little, so the tariff gives little protection, but tariff revenue is **large**. If they are **elastic**, imports fall a lot (good protection) but revenue is small. The producer-surplus gain depends only on the size of the tariff and the elasticity of domestic supply.

Removing a tariff reverses all of this: the price falls to the world price, consumer surplus rises by $a + b + c + d$, domestic output falls, imports rise, and the government loses revenue c . The extra imports are **trade created** by removing the tariff; there is more trade creation the larger the tariff was and the more elastic demand is.

Import quotas

An **import quota** is a legal limit on the **quantity** (or value) of a good that may be imported in a period. A **voluntary export restraint** is the same idea agreed by the exporting country: it limits how much it sends.



With a quota of 20 units, the price rises until domestic supply plus 20 equals demand: $5P + 20 = 200 - 10P$ gives a price of $P = 12$ dollars. Here it has the same effect on price, output and imports as the $\$4$ tariff. The differences:

- **No tariff revenue.** Rectangle c ($\$80$) becomes **quota rent**, going to the importers or foreign firms who hold the permits, unless the government auctions the licences.
- **Certain effect on imports.** A quota fixes the quantity exactly, however inelastic demand is; a tariff's effect on imports depends on elasticity.

- **Price can keep rising.** If demand grows, the price rises further because imports cannot. With a tariff, extra demand is met by more imports at \$12.
- An import supply curve that becomes **vertical** at the limit shows a quota.

Raising a quota (or removing it) lets more imports in, so the domestic price falls, domestic firms sell fewer units at a lower price, and their revenue falls.

Export subsidies

An **export subsidy** is a payment from the government to domestic firms for each unit they export (or a tax break or cheap loan for exporters). It lowers their costs, so they can sell more cheaply abroad: **exports rise**. In a diagram, a subsidy of a fixed amount per unit moves the domestic supply curve **down** by that amount at every quantity, which shows as a shift to the **right**: firms supply more at each price. At an unchanged world price, domestic output rises and, if the country also imports the good, imports fall by the same amount.

Its effects:

- **Exports, output and jobs rise** in the subsidised industry; the **balance of trade** improves if demand for the exports is price elastic.
- **Export prices fall**, so the **terms of trade worsen**.
- It **costs the government** money (an opportunity cost: that money could fund schools or hospitals), and it is paid by taxpayers.
- Trading partners may treat it as **dumping** (selling abroad below cost) and **retaliate** with tariffs, and it breaks World Trade Organization rules.
- Firms that rely on it have less reason to become efficient.

Examiners give little credit to "subsidies" unless the answer says they are **export** subsidies, or explains how a subsidy to domestic producers helps them against imports.

Embargoes

An **embargo** is a **total ban** on imports of a good, or on all trade with a country. It gives complete protection, and is used for **strategic, health or political** reasons: banning harmful goods (drugs, unsafe chemicals), or punishing a country. The costs: consumers lose the good entirely, there is no revenue, and bans encourage **smuggling, illegal trade and corruption**.

Excessive administrative burdens ("red tape")

Red tape protects by making importing slow and costly: strict product standards that imports must meet, long safety tests, complex forms, licences, or checking all goods at one busy port. Imports become dearer and less reliable, so buyers switch to domestic goods. It is **hidden** protection, hard to challenge because it can be presented as protecting consumers' safety, and it raises no revenue.

Arguments for protectionism

These are the arguments examiners accept as economically valid:

- **Infant (sunrise) industries.** A new industry has high average costs because it is small. Protection gives it time to grow, gain **economies of scale** and become competitive; then protection should be removed. Strongest for developing economies.
- **Declining (sunset) industries.** Protection slows the collapse of an old industry so that workers have **time to retrain** and factors can move to other uses, reducing structural unemployment.
- **Strategic industries.** Food, energy, steel and defence goods are protected so the country is not dependent on imports that could be cut off in a war or crisis.
- **Anti-dumping.** If foreign firms sell below cost (often with their own government's subsidies), protection stops them driving efficient domestic firms out of business.
- **Correcting a current account deficit.** Tariffs and quotas switch spending from imports to domestic goods (**expenditure switching**), so imports fall.
- **Protecting jobs** in import-competing industries.
- **Government revenue** from tariffs, important for developing economies with narrow tax bases.
- **Bargaining.** The threat of protection, or a voluntary export restraint, can be used to negotiate better trading terms.

Not valid: protection gives consumers a **wider choice** (it narrows it), or raises the **standard of living of the population in general** (it raises prices and cuts world output).

Arguments against protectionism

- **Higher prices and less choice** for consumers: consumer surplus falls, and poorer households lose most.
- **Inefficient allocation of resources.** Resources stay in industries without a comparative advantage; world output falls; the deadweight losses b and d show the waste.
- **Less competition**, so protected firms have less incentive to cut costs and innovate; the infant may **never grow up**, and protection is hard to remove once firms depend on it.
- **Retaliation.** Trading partners impose their own barriers, so **exports fall**, cancelling the gains for jobs and the current account. In a trade war, the volume of trade between the countries certainly falls.
- **Dearer imported inputs.** A tariff on raw materials or components raises **costs for domestic firms** that use them (car makers, if steel is protected), making them less competitive and causing **cost-push inflation**.
- **It may not work.** If demand for imports is **price inelastic**, imports and the deficit hardly fall.
- **Costs to government:** export subsidies are a drain on spending; enforcing quotas and red tape costs money; protection invites corruption and smuggling.

Who gains and who loses

Group	Effect of a tariff or quota
Consumers	Lose: higher prices, less choice, lower consumer surplus (larger loss if demand is inelastic)
Domestic producers of the protected good	Gain: higher price, more sales, more producer surplus; but less pressure to be efficient
Domestic firms using the import as an input	Lose: higher costs, less competitive
Exporters	May lose if partners retaliate
Government	Gains tariff revenue (not from a quota or embargo); pays for export subsidies; may see a better trade balance
Workers	Jobs kept in protected industries; jobs may be lost in exporting and input-using industries
Foreign producers	Lose sales (though quota-holders gain the quota rent)

So protectionism **redistributes** income from consumers to protected producers and the government, with a net loss to the economy as a whole (the deadweight loss), unless one of the valid arguments above applies.

Key facts and formulas

There is no formula list in the 9708 exam, so everything here is "Learn it".

Formula	Status
Imports = domestic demand – domestic supply, at the domestic price	Learn it
Price with a specific tariff = world price + tariff per unit	Learn it
Price with an ad valorem tariff of $t\%$ = world price $\times \left(1 + \frac{t}{100}\right)$	Learn it
Tariff revenue = tariff per unit $\times$ imports after the tariff	Learn it
Domestic producers' revenue = price $\times$ domestic supply	Learn it
Fall in consumer surplus = price rise $\times \frac{\text{old consumption} + \text{new consumption}}{2}$	Learn it
Gain in producer surplus = price rise $\times \frac{\text{old domestic supply} + \text{new domestic supply}}{2}$	Learn it

Formula	Status
Deadweight loss = the two triangles: fall in consumer surplus – gain in producer surplus – tariff revenue	Learn it

How to do it

We tagged 63 questions for this topic (2021–2025): 42 Paper 1 multiple choice and 21 Paper 2 data-response and essay questions. For Paper 2 we count only the parts about this topic. 6 questions have parts of more than one type, so the counts add up to 69.

Question type	Questions
Multiple choice: predict the effect of a tool of protection	16
Multiple choice: read a tariff or export subsidy diagram	12
Written: explain tools of protection and judge their impact	10
Multiple choice: define protectionism or identify a tool	9
Written: arguments for and against protection, free trade against protection	9
Multiple choice: which arguments or aims for protection are valid	5
Written: protectionism as a way to correct a current account deficit	4
Written: who gains and who loses from protection	4

1. Multiple choice: predict the effect of a tool of protection (16 questions)

1. **Name the tool** and what it does first: tariff → dearer imports; quota → fewer imports; export subsidy → cheaper exports; embargo → no imports.
2. **Follow the chain** to the variable asked about: price, domestic output, imports, revenue, jobs, trade balance.
3. **Check elasticity** if the question mentions it.

Variations you will meet:

- **Raising or removing a quota:** more imports, a lower domestic price, lower output and revenue for domestic producers ([9708/13/M/J/25 Q28](#), [9708/12/F/M/22 Q20](#)).
- **A tariff on imported raw materials** raises domestic firms' costs ([9708/11/O/N/24 Q29](#)). **Restricting cheap imported steel** makes the country's steel-using manufacturers less competitive ([9708/13/M/J/24 Q25](#)).
- **Tariff on an import with inelastic demand:** consumers still lose consumer surplus ([9708/13/M/J/24 Q27](#)).
- **Most tariff revenue:** both domestic demand and domestic supply **inelastic**, because imports then fall least ([9708/13/M/J/21 Q24](#)).

- **Most trade creation from removing a tariff:** a **large** tariff and **elastic** demand (-1.4 rather than -0.8) ([9708/12/O/N/22 Q23](#)). Only 47% of candidates got this.
- **Export subsidy with price-elastic export demand:** the balance of trade improves but the terms of trade worsen ([9708/13/O/N/21 Q20](#)).
- **Retaliation** (20% tariffs both ways): the only **certain** effect is a fall in the volume of trade between the two countries ([9708/13/O/N/21 Q24](#)).
- **Least effect on imports:** a sales tax on **all** textiles, because it hits domestic and imported goods alike ([9708/12/M/J/24 Q25](#)).
- **Which measure gives two benefits?** A quota restricts expensive imports and reduces a deficit; the other options pair a benefit with a cost ([9708/14/O/N/25 Q26](#)).

2. Multiple choice: read a tariff or export subsidy diagram (12 questions)

1. **Mark the two prices:** world price, and world price plus tariff.
2. At **each** price, read **domestic supply** (on S) and **domestic consumption** (on D). Imports are the gap between them.
3. Work out what is asked:
 - tariff revenue: the rectangle between the two prices and between domestic supply and demand **after** the tariff;
 - consumer surplus change: the whole area between the two prices, left of D;
 - producer surplus change: the area between the two prices, left of S;
 - producers' revenue or income: price $\times$ domestic supply, before and after.

Variations you will meet:

- **Removing a tariff** ([9708/12/O/N/25 Q30](#)): consumer surplus **rises** by the whole area between the two prices and left of demand; government revenue falls by the old tariff rectangle (tariff $\times$ old imports, between the two vertical lines from domestic supply and demand at the higher price).
- **Producers' revenue** ([9708/12/M/J/21 Q25](#)): at \$20 domestic firms supply 100 million, revenue \$20 $\times$ 100 = \$2000 million. **Change in income** ([9708/13/M/J/23 Q29](#)): \$14 $\times$ 30 – \$10 $\times$ 20 = \$220 million.
- **Extra trade from removing a tariff** ([9708/12/F/M/21 Q24](#)): imports were 17 – 10 = 7 million at \$20 and become 20 – 8 = 12 million at \$10, so 5 million more.
- **Export subsidy** ([9708/12/F/M/25 Q30](#)): domestic supply shifts right. At the unchanged world price, domestic output rises and imports fall by the same amount; the domestic price does not change.
- **Which policy gives price p_2 ?** A price above the world price with some imports still coming in is a tariff ([9708/12/F/M/24 Q29](#)).
- **How the import supply curve changes** ([9708/11/M/J/22 Q21](#)): parallel shift up = specific tariff; steeper = ad valorem tariff; vertical at a quantity = quota.
- **What decides the producer surplus gain?** Only the tariff and the elasticity of domestic supply ([9708/12/O/N/22 Q27](#)).

3. Written: explain tools of protection and judge their impact (10 questions)

Usually an 8-mark (a) part, point-marked: up to 3 knowledge, 3 analysis, 2 evaluation. "Explain two tools of protection and consider whether one is likely to have more impact", "...which has the bigger impact on employment and output", "explain the difference between a tariff and a quota and consider why a government would choose a tariff".

1. **Define protectionism (1)**: government intervention in free trade to protect domestic producers from foreign competition.
2. **Explain two tools (1 + 1)**: what each is and **how** it protects (makes imports dearer, limits them, or cuts exporters' costs).
3. **Analyse each tool (up to 3)**: a benefit with a chain (tariff → import price up → spending switches to domestic goods → domestic output and jobs up, current account improves; plus revenue) and a drawback (inelastic import demand, retaliation, dearer inputs and cost-push inflation, quota rent, subsidy cost). One tool only caps analysis at 2.
4. **Evaluate (2)**: which tool has more effect **and why** (elasticity, retaliation, certainty of a quota), then a **justified conclusion** (the second mark).

A tariff diagram earns marks only when you use it to explain the higher import price and how domestic firms gain.

Variations you will meet:

- **Tariff or quota (9708/21/O/N/23 Q5)**: a tariff raises revenue and lets the market adjust; a quota is certain in its effect on imports but its rent goes to licence-holders.
- **Effectiveness of tariffs alone (9708/22/M/J/24 Q5)**: examiners wanted the tariff judged on how well it protects domestic firms; comparing other policies earned nothing.
- **Export subsidies against tariffs (12 marks, 9708/21/M/J/22 Q4)**: compare cost to the government, effect on prices for consumers, terms of trade, retaliation and WTO rules. Examiners said many answers never used the particular features of the two tools.
- **Tools and the terms of trade (12 marks, 9708/23/M/J/24 Q5)**: an export subsidy lowers export prices (worse terms of trade); a tariff or quota by a large importer can cut world demand and import prices (better); retaliation and inelastic demand limit the effect.
- **A named industry (9708/22/F/M/22 Q4, steel facing cheap imports)**: describe two ways, each applied to steel. Two kinds of the same tool count as one way.
- **Short data parts (2–4 marks)**: the effect of red tape on supply of exports, or how subsidies make farmers more competitive. Explain the mechanism, don't just name it.

4. Multiple choice: define protectionism or identify a tool (9 questions)

Match the description to the tool:

- **Tariff**: a tax on imports. **Quota**: a limit on the quantity imported. **Embargo**: a total ban. **Administrative barrier**: imports must meet standards or paperwork ([9708/13/O/N/24 Q28](#)). **Voluntary export restraint**: the exporting country agrees to limit its exports.
- **Protectionism** protects local producers against international competitors (not consumers against high prices, or the exchange rate).
- **"Not an example of protectionism"**: a tax on **exports** ([9708/12/O/N/24 Q28](#)), import subsidies, a sales tax on all goods. Cutting quotas **promotes** trade.

5. Written: arguments for and against protection, free trade against protection (9 questions)

Mostly 12-mark (b) essays, level-marked: 8 for knowledge and analysis, 4 for evaluation. "Assess whether the benefits of free trade always outweigh the arguments for protectionism", "...whether free trade is always better than protection for a developing economy", "Discuss the advantages and disadvantages of protecting an industry such as steel and whether it is of overall benefit".

1. **Define** free trade and protectionism.
2. **One side, as developed chains**: the benefits of free trade (specialisation by comparative advantage → higher world output, efficient allocation → lower prices, more choice → higher living standards; competition; economies of scale; growth).
3. **Other side, as developed chains**: the arguments for protection (infant, sunset and strategic industries, anti-dumping, current account, jobs, revenue). Two or three well-explained arguments beat a list of eight.
4. **Evaluate**: which arguments are strong **in this context** (developing or developed economy, which industry), short run against long run, the risk of retaliation, whether the protection is temporary, who gains and who loses.
5. **Conclude**: answer the word in the question ("always", "overall") with a reason.

Variations you will meet:

- **Developing economy** ([9708/22/M/J/24 Q5](#)): answers not set in a developing economy were capped at Level 2 with no evaluation marks. Use infant industries, dependence on primary exports, tariff revenue. Strong answers judged by time: protection in the short term, more free trade in the long term.
- **Arguments for or methods?** When asked about arguments, don't describe tariffs and quotas at length ([9708/21/M/J/23 Q5](#)).
- **8-mark free trade pros and cons** ([9708/21/O/N/24 Q5](#)): 3 for advantages, 3 for disadvantages contrasted with them, 2 for the judgement.
- **Data response** ([9708/22/M/J/21 Q1](#), EU tariffs on imported rice): use the extract's figures to explain who gains (EU rice farmers) and who loses (EU consumers, the exporting countries' farmers), then weigh the case for the tariff.

6. Multiple choice: which arguments or aims for protection are valid (5 questions)

1. **Valid:** infant industry, strategic industry, unfairly subsidised imports (dumping), time to retrain workers in a declining industry, revenue, current account.
2. **Not valid:** wider consumer choice, a general rise in living standards ([9708/13/M/J/25 Q26](#)), raising the price of exports, and retaliation, which is a **cost** of tariffs, not an argument for them ([9708/11/M/J/24 Q30](#)).
3. **Voluntary export restraint:** the most relevant argument is that it helps negotiate better trading terms ([9708/12/O/N/21 Q22](#)).

7. Written: protectionism as a way to correct a current account deficit (4 questions)

"Explain how import tariffs might correct an imbalance... and whether they are the best way", "Assess whether protectionism is always the best way of reducing a current account deficit".

1. **Explain the mechanism:** tariffs or quotas make imports dearer or scarcer → spending switches to domestic goods → the value of imports falls → the deficit narrows (*ceteris paribus*).
2. **Limits:** price-inelastic import demand (spending on imports may even rise); retaliation cuts exports; dearer imported inputs → cost-push inflation → exports less competitive; protected firms stay inefficient.
3. **Compare with at least one alternative** and its problems: contractionary fiscal or monetary policy (cuts spending on imports but raises unemployment; higher interest rates may raise the exchange rate), a depreciation, supply-side policy (works only in the long run).
4. **Conclude** which is best, or that a mix works best (protection short term, supply-side long term). One-sided answers get no evaluation marks.

Examiners criticised answers that listed types of protection with no link to the deficit, and ones that never compared another policy ([9708/23/O/N/24 Q5](#), [9708/21/O/N/22 Q4](#)). The March 2025 report also wanted a labelled tariff diagram and noticed few answers mentioned the welfare loss.

8. Written: who gains and who loses from protection (4 questions)

"Assess whether all consumers, all producers and the government will benefit equally from protectionism", "... whether the overall effect of tariffs is negative".

1. **Consumers:** lose: higher price, less choice, lower consumer surplus (use the tariff diagram).
2. **Producers:** protected firms gain producer surplus; firms using imported inputs lose; exporters lose if partners retaliate; less pressure to be efficient.
3. **Government:** tariff revenue; a better trade balance if imports fall, which depends on elasticities; pays for subsidies; may face retaliation.
4. **Evaluate:** they do **not** gain equally; the gains are concentrated in a few firms and the losses spread over many consumers; the size depends on elasticities and on how long protection lasts. Conclude.

Data versions ask for one measure's effect on consumers and producers (3 marks), or what decides how hard another country's tariff hits an exporting economy (6 marks): how easily buyers can switch to other suppliers, the price elasticity of demand for its exports, and how dependent it is on that market.

Worked examples

Example 1

A country imports a good at a world price of \$6. Domestic demand is $Q = 150 - 10P$ and domestic supply is $Q = 5P$. The government imposes a tariff of \$3 per unit.

What is the increase in the revenue of domestic producers, and how much tariff revenue does the government receive?

	Increase in domestic producers' revenue	Tariff revenue
A	\$45	\$225
B	\$135	\$45
C	\$225	\$45
D	\$225	\$180

[1]

At \$6: domestic supply 30, demand 90. At \$9: domestic supply 45, demand 60, so imports are 15. Producers' revenue rises from $\$6 \times 30 = \180 to $\$9 \times 45 = \405 , an increase of \$225; tariff revenue is $\$3 \times 15 = \45 . The answer is **C** (1). (D uses the imports **before** the tariff, 60.)

Example 2

A country imposes a tariff on imported medicines, for which domestic demand is very price inelastic and domestic supply is very price inelastic.

What is the most likely result?

- A** Imports fall sharply and the government raises little revenue.
- B** Imports fall slightly, consumers pay a higher price and the government raises a large revenue.
- C** Domestic producers lose producer surplus.
- D** Consumer surplus is unchanged because demand is inelastic.

[1]

With inelastic demand and supply, quantities barely change, so imports stay high: the tariff is paid on almost all of them (large revenue) and gives little protection. Consumers pay the higher price, so their surplus falls. The answer is **B** (1).

Example 3

Explain how an import quota and an export subsidy each protect domestic producers, and consider which is more likely to reduce a deficit on the current account. [8]

Protectionism is government intervention that restricts free trade to protect domestic producers from foreign competition (1, AO1). An import quota is a legal limit on the quantity of a good that may be imported, so domestic firms face less competition at home and can sell more (1, AO1). An export subsidy is a government payment per unit exported, which lowers exporters' costs so they can cut prices abroad and win sales from foreign firms (1, AO1).

A quota restricts imports, so domestic consumers must buy more from domestic firms; the value of imports falls, and with fewer goods available the domestic price rises, so domestic output and jobs rise (1, AO2). An export subsidy lowers export prices; if foreign demand for the exports is price elastic, export volumes rise by more than prices fall, so export revenue rises and the current account improves (1, AO2). But a subsidy lowers export prices and so worsens the terms of trade, costs the government money, and may be seen as dumping, leading to retaliation that cuts exports again (1, AO2).

A quota is more certain to reduce the deficit because it fixes the volume of imports whatever the elasticity of demand, while the subsidy works only if export demand is elastic; however, both invite retaliation, and the quota's higher prices may cause inflation that makes exports less competitive (1, AO3). So the quota is more likely to reduce the deficit in the short run, especially when import demand is inelastic, but neither will last if trading partners retaliate (1, AO3, justified conclusion).

(Knowledge 3, analysis 3, evaluation 2: 8/8.)

Example 4

Assess whether a developing economy should use tariffs to protect its new manufacturing industries. [12]

Model answer (outline of each paragraph):

1. **Terms.** Protectionism and a tariff defined; an infant industry is a new industry with high average costs because it has not yet reached an efficient scale. In a developing economy these are often the first manufacturing firms, competing with established foreign firms. (*Accurate knowledge, part of Table A.*)
2. **The case for.** A tariff raises the price of imports (diagram 1: price up from the world price, domestic supply up, imports down). The infant firms sell more, grow, gain economies of scale and learning, and their costs fall until they can compete without protection. That diversifies the economy away from primary exports, creates jobs, and the tariff revenue funds infrastructure in a country with a narrow tax base. (*Developed chains, with a diagram used to explain: Table A Level 3.*)
3. **The case against.** Consumers pay more and lose consumer surplus; poorer households suffer most. Protected firms have less pressure to cut costs, so the infant may never grow up and the tariff becomes permanent. Dearer imported machinery and components raise other firms' costs. Rich trading partners may retaliate against the country's exports, which are often a few primary products, so export earnings fall. (*The other side, balanced and explained: Table A Level 3 (6–8 marks), here 8/8.*)

4. **Evaluation.** It depends on whether the industry has a real **future** comparative advantage; on whether the tariff is **temporary**, with a clear date for removal; on the size of the tariff and the elasticity of demand; and on the risk of retaliation. Alternatives such as supply-side policies (training, infrastructure) build competitiveness without raising prices. (*Weights the conditions, beyond a summary: Table B top level (3–4 marks).*)
5. **Conclusion.** A developing economy can justify a small, temporary tariff for an industry with a realistic chance of becoming competitive, combined with supply-side policies; a permanent or broad tariff is more likely to protect inefficiency and invite retaliation, so tariffs should be used selectively, not as a general policy. (*Justified conclusion: Table B top level, here 4/4.*)

(Table A Level 3: 8; Table B: 4; **12/12.**)

Common mistakes

- **Half a definition.** "Protecting domestic businesses" is not enough. Add **how**: by interfering with free trade to make foreign goods less competitive. Examiners said clear definitions were rare, and listing tools is not a definition.
- **"Subsidies" with no detail.** Say **export** subsidies, or explain how the subsidy helps domestic firms against imports; otherwise it gets little or no credit.
- **Two versions of one tool.** A specific tariff and an ad valorem tariff count as **one** way, not two. Choose two different tools.
- **Describing instead of judging.** Long explanations of how a tariff works earn little if the question asks how effective it is. Judge it against what protection aims to do.
- **Tariff revenue with the wrong imports.** Use imports **after** the tariff, not before.
- **Assuming a tariff always cuts imports a lot.** With price-inelastic import demand, imports barely fall and spending on them may rise.
- **Forgetting the costs to other domestic firms.** A tariff on steel or raw materials raises costs for firms that use them.
- **Methods instead of arguments.** When the question asks for arguments for and against protection, write about infant industries, dumping and retaliation, not a catalogue of tools.
- **Not answering the context.** "Developing economy", "steel", "current account": apply every point to it; generic answers are capped.
- **Unexplained diagrams.** A tariff diagram earns marks only when you explain what it shows: price, domestic output, imports, welfare.
- **One-sided answers and summaries.** No evaluation marks without both sides; repeating the analysis is not a judgement.

How to get the marks

- **Multiple choice with a diagram:** write the domestic supply, demand and imports at each price next to the diagram before reading the options.

- **"Explain what is meant by protectionism"**: both halves of the definition, then the tools as examples.
- **"Explain two tools"**: name, define and show **how each protects** (price or quantity of imports, or exporters' costs).
- **"Explain"** needs a chain: tool → price or quantity of imports → spending switches to domestic goods → output, jobs, current account.
- **"Consider", "assess", "discuss"**: both sides, then what the answer **depends on** (elasticity, retaliation, the type of economy, short or long run, temporary or permanent), then a sentence that answers the question. One-sided answers get no evaluation marks.
- **"Always", "best", "equally", "overall"**: find one case where the claim fails; for "best", compare at least one alternative policy.
- **8-mark (a) parts**: point-marked, up to 3 knowledge, 3 analysis, 2 evaluation (one kept for a justified conclusion). One tool only caps analysis at 2.
- **12-mark (b) parts**: level-marked, 8 for knowledge and analysis, 4 for evaluation. Level 3 needs balanced, accurate, explained analysis tied to the question.
- **Diagrams**: label the axes (price, quantity), domestic D and S, world price and world price + tariff, and the quantities; then refer to the areas in your writing.

Quick check

1. Name the tool of protection in each case: (a) every imported toy must pass a three-month safety test at one port; (b) no more than 5000 tonnes of sugar may be imported each year; (c) all imports from country Z are banned.
2. The world price of a good is \$40. A country imposes an ad valorem tariff of 25%. At \$40, domestic firms supply 300 units and consumers buy 900; at the new price domestic firms supply 400 and consumers buy 800. Find the new price, the imports before and after, the tariff revenue, the change in domestic producers' revenue and the fall in consumer surplus.
3. A government raises its quota on imported shoes. State the likely effect on the domestic price of shoes, imports of shoes, and the revenue of domestic shoe makers.
4. Explain why a tariff might not reduce imports much. **[2]**
5. Why is a 10% sales tax on all clothing sold in a country not a form of protectionism?

Answers

1. (a) Excessive administrative burden (red tape); (b) import quota; (c) embargo.
2. New price $\$40 \times 1.25 = \50 . Imports $900 - 300 = 600$ before and $800 - 400 = 400$ after. Tariff revenue $\$10 \times 400 = \4000 . Producers' revenue rises from $\$40 \times 300 = \$12\,000$ to $\$50 \times 400 = \$20\,000$, by $\$8000$. Consumer surplus falls by $10 \times \frac{900+800}{2} = 8500$ dollars (of which $\$3500$ goes to producers as surplus, $\$4000$ to the government, and $\$1000$ is deadweight loss).
3. More shoes can be imported, so supply in the domestic market rises: the domestic price falls, imports rise, and domestic makers sell fewer shoes at a lower price, so their revenue falls.
4. If domestic demand for the import is price inelastic, for example because there is no good domestic substitute (1), the higher price causes only a small fall in the quantity imported, so consumers keep buying imports and simply pay more (1).
5. It raises the price of domestic and imported clothing by the same proportion, so it gives domestic producers no advantage over foreign ones; protection must discriminate against imports (or favour exports).

Past questions to try

- **9708/13/M/J/23 Q29**: the change in domestic producers' income from a tariff diagram.
- **9708/12/O/N/22 Q23**: when removing a tariff creates the most trade.
- **9708/22/M/J/24 Q5**: (a) the effectiveness of tariffs; (b) free trade or protection for a developing economy.
- **9708/23/O/N/24 Q5**: (a) two methods of protection and employment; (b) protectionism and a current account deficit.