

Question 6

6 Economists warn of the rising waves of protectionism around the world although some governments are opening markets and improving competitiveness.

(a) Explain why protectionism exists. [10]

(b) A country wishes to improve its export competitiveness in producing manufactured goods. What does this mean and how might this be achieved?

[15]

Suggested Answer Model (a)

- Definition of protectionism: Restriction of imports. Protectionism is a deliberate government policy to erect trade barriers in order to shield domestic industries from foreign competition.
- Aim of protection: The aim of protectionism is to switch expenditure, both domestic and foreign to the output of goods and services of the domestic economy.

Barriers on the movement of goods and services between countries.

Types of barriers

- Overt measures
- Covert measures

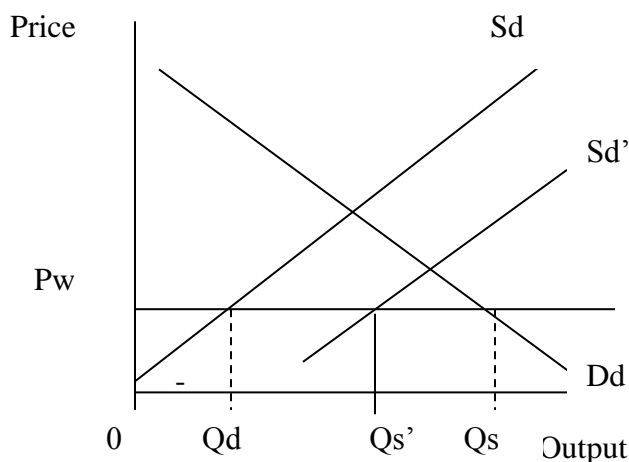
In real world, countries impose trade restrictions e.g. subsidies, tariffs & quotas on goods and services.

Define subsidies

Explain how subsidies work

Explain & comments on reasons for restrictions of free trade

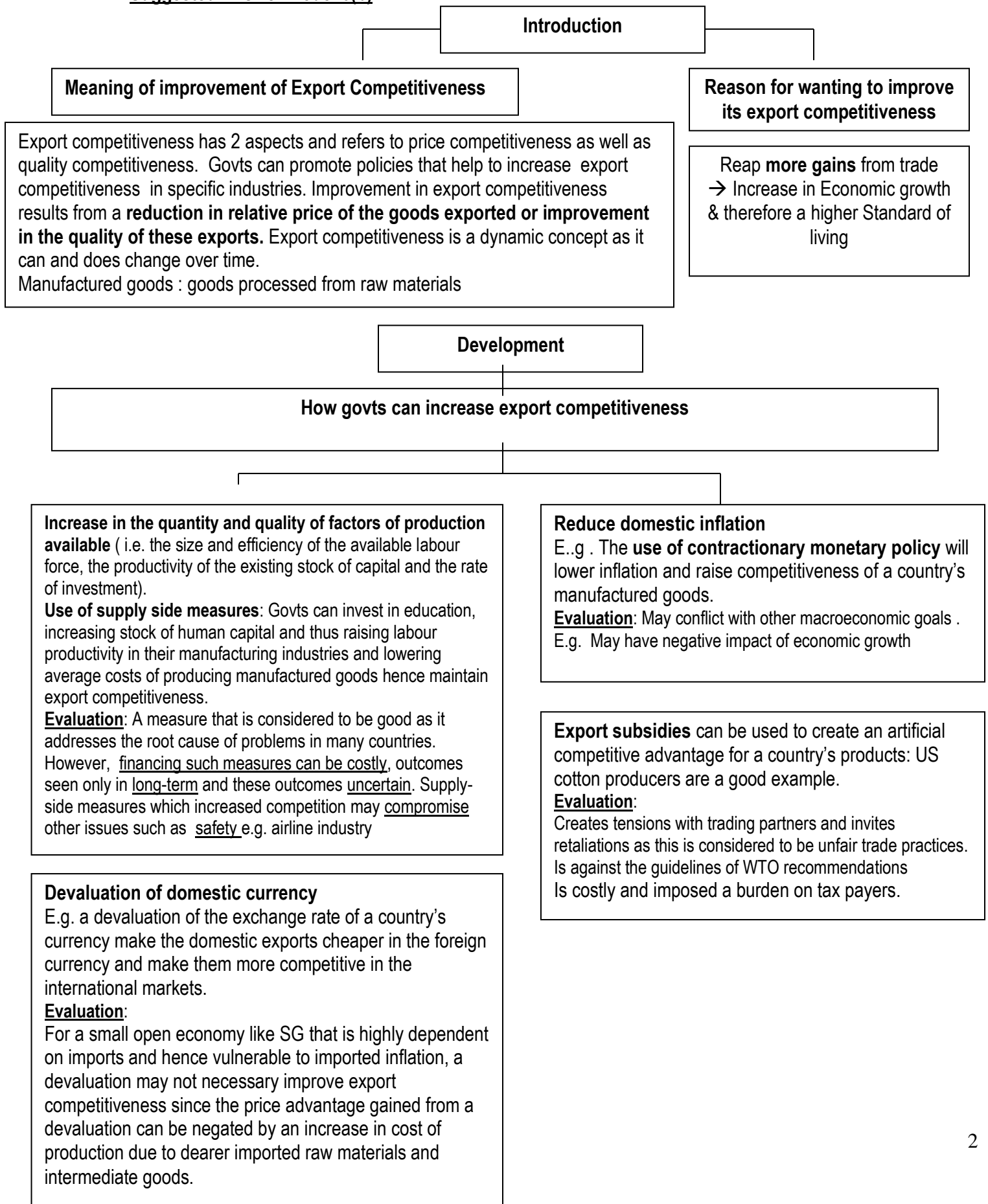
- protect infant industry
- enable sunset industry to decline gradually/protect employment
- prevent dumping



Conclusion

Governments may want to restrict imports to reduce some of the costs brought about by free trade. However, such protection measures result in a loss of welfare for consumers. Domestic consumers are forced to buy from high-cost domestic industries, rather than from low-cost foreign industries. They end up with fewer consumer choices and pay higher prices.

Suggested Answer Model 6(b)



Non-price factors can lead improvement in export competitiveness. e.g product design, reliability, quality of after sales support.

Evaluation: A measure that is considered to be good as it addresses the root cause of problems in many countries. However, financing such measures can be costly, outcomes seen only in long-term and these outcomes uncertain

Conclusion

Suggested Mark Scheme (a) :

Description of the classic case for free trade between nations, using the Ricardo Comparative Advantage Approach.

Knowledge, Application, Understanding and Analysis

L3	For an analytical explanation of protectionism and the reasons for restricting imports. Includes some mention of the evaluative aspects.	7-10
L2	For an answer that shows knowledge of protectionism and provides a descriptive explanation of various reasons for restricting imports. <u>OR</u> For an answer that shows knowledge of protectionism and provides an analytical explanation of one reason for restricting imports.	5-6
L1	For an answer that shows some knowledge of protectionism and lists the reasons for restricting imports.	1-4

Knowledge, Application, Understanding and Analysis

Suggested Mark Scheme (b) :

L3	For good analytic discussion on 3-4 factors which can improve XC	7-11
L2	For undeveloped explanation that has not fully addressed both stems e.g. a focus on knowledge and comprehension of 2-3 factors bringing about improvement in XC	5-6
L1	An answer which shows some knowledge & comprehension , e.g. Meaning of improvement of CA & reasons for wanting to improve export competitiveness of manufactured goods (XC)	1-4

Allow up to 4 additional marks for Evaluation

E2	For an evaluative assessment based on economic analysis.	3-4
E1	For an unexplained assessment, or one that is not supported by analysis.	1-2