Protectionism Worksheet

Preview Questions

- What is a quota?
- Are there other ways government can restrict imports?
- How does import restrictions impact prices?

Key Terms

Quota, Tariff, Import, Export

QUOTAS AND ITS' EFFECTS

A **quota** is a limit on the number of items that can be imported into a country. Let's look at the following example.

General Motors, Ford and Chrysler have noticed that their sales are down in the United States. The big three automakers realize that they are losing sales to companies that make their cars overseas, like Toyota and Nissan. The U.S. automakers put pressure on Congress to pass a quota, limiting the amount of cars that can be imported.

As we know from the law of supply, an action by the government to limit supply will cause the supply curve to shift to the left, causing higher prices and lower supply of the product. But what will that do to the demand for domestic automobiles?

Picture provided by Jacksonville Port Authority

<u>IMPORTS:</u> JAXPORT processes over 500,000 automobiles a year at the port.

ASSESSMENT

What is a quota?

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What would the effect of a quota be?

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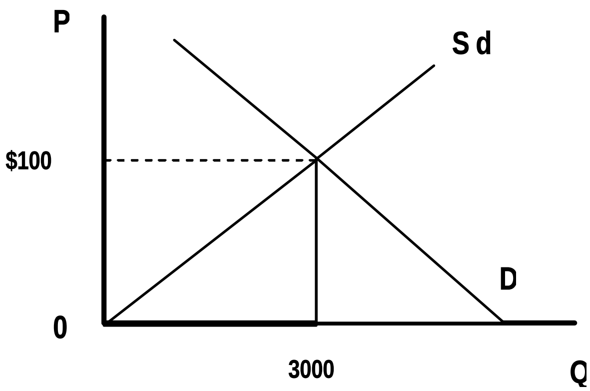
TARIFFS AND ITS' EFFECTS

A **tariff** is a tax on an imported good. Government places a tariff on a good for several reasons. One is to protect a domestic industry. For example, the U.S. placed a tariff on Nike to protect Converse.

Another reason is for government to raise revenue. If the U.S. placed a tariff on televisions, everyone who bought a television would indirectly pay the tariff because no one makes a television in the United States.

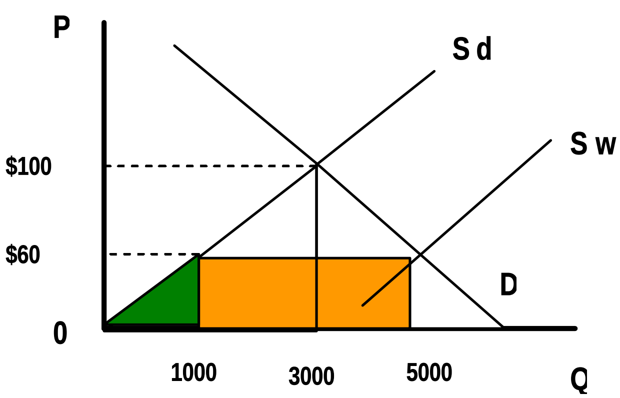
Let's look at it in a graph. The graph below is the United States market for MP3 players with no trade.

The symbols are:
P=Price
Q=Quantity
D=Demand
S d=Domestic Supply



U.S. producers will produce 3,000 MP3 players at $100. The U.S. producers would have total revenue of $300,000. Since there is no trade at this point, this would be the United States market price and quantity. But the world graph is different.

S w is the supply curve with trade. This means that the United States imports the same MP3 players that are also made by U.S. companies.



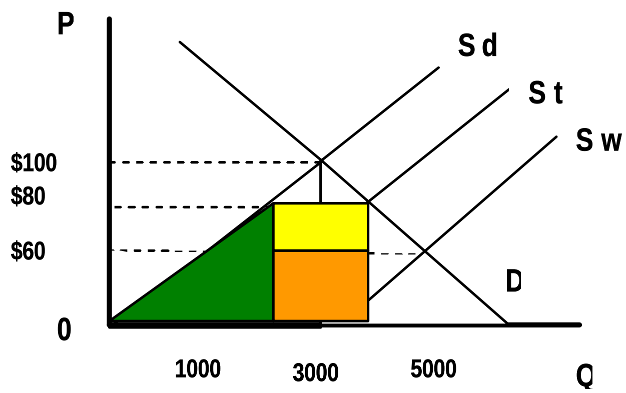
U.S. producers would make 1,000 MP3 players (*green triangle)* and we would import 4,000 MP3 players (*orange rectangle*). The U.S. market price will fall from $100 to $60. U.S. producers would have total revenue of $ 60,000 and foreign producers would have total revenue of $ 240,000. Notice the market total revenue is still $300,000.

ASSESSMENT

What has happen to the producers and consumers in the two markets?

TARIFF GRAPH

United States manufacturers of MP3 players can as for a tariff, or a tax on an imported good. Let's look at that graph. S t is the supply curve is the supply curve for the U.S. market with a tariff.



U.S. producers would make 2,000 MP3 players (*green triangle)* and we would import 2,000 MP3 players (*orange rectangle*). The U.S. market price will rise from $60 to $80. U.S. producers would have total revenue of $160,000 and foreign producers would have total revenue of $ 120,000 because they are still charging the $60 price. Because of the $20 tariff for each MP3 player, that causes the foreign company to add $20 to the price. The U.S. government realizes $ 40,000 in revenue (*yellow rectangle*). Notice the market total revenue has increased to $320,000.