Exercise walk-through

International Trade and Public Policy ▪ 2.9

eXercise

You must be able to

- compare a market under **autarky 自给自足** with one open to trade at the **world price 世界价格**
- explain how a country becomes an **importer** or **exporter**
- analyse how a **tariff 关税** and an **import quota 进口配额** affect price, quantity, and deadweight loss

Method — Importer or exporter

Compare the **world price** with the domestic (autarky) price:

- world price **below** domestic $\rightarrow$ the country **imports**;
- world price **above** domestic $\rightarrow$ the country **exports**.

Method — Free trade

Free trade **raises total surplus**; when importing, consumers gain more than producers lose.

Method — Trade barriers

A **tariff** or **quota** raises the domestic price, cuts imports, and creates a **deadweight loss**.

Practice 2.1 ▪ 1 mark

State when a country becomes an importer of a good.

Solution 2.1

Method: Importer or exporter

Worked steps

when the world price is below the domestic (autarky) price **B1**.

Practice 2.2 ▪ 1 mark

State the effect of a tariff on the domestic price of an imported good.

Solution 2.2

Method: Trade barriers

Worked steps

it raises it **B1**.

Practice 2.3 ▪ 1 mark

State the effect of free trade on total surplus.

Solution 2.3

Method: Free trade

Worked steps

it raises total surplus B1.

Exam-style 3.1 ▪ 1 mark

A country imports a good when the world price is ________ the domestic price.

A above

B below

C equal to

D unrelated to

Solution 3.1

Method: Importer or exporter

A above

B below ✓

C equal to

D unrelated to

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A tariff on imports

A raises total surplus

B creates a deadweight loss

C lowers the domestic price

D increases imports

Solution 3.2

Method: Trade barriers

A raises total surplus

B creates a deadweight loss ✓

C lowers the domestic price

D increases imports

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The world price of steel is below a country's domestic price.
(a) State whether the country imports or exports steel.
(b) State the effect of free trade on domestic consumers.
(c) State the effect of a tariff on the quantity imported.

Solution 3.3

Method: Importer or exporter

Worked steps

(a) it imports steel **B1**. (b) they gain (they pay the lower world price) **B1**. (c) it reduces the quantity imported **B1**.