

IB Economics – International Trade

Exam Practice Questions: 3.4 Trade Protection SL and HL



IB Economics: www.IBDeconomics.com

1. IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS – INTERNATIONAL ECONOMICS

Answer the questions that follow.

Paper 2. Duration: 1 hour 30 minutes. Weighting: Higher Level 40%, and Standard Level 30%.

IB Economics exam Paper 2 is divided into Section A and Section B. Section A – International Economics – assesses the IB Economics student's knowledge, analytic and evaluative skills.

- Students answer two questions in total, one from section A and one from section B.
- In each section, students are required to answer one question from a choice of two.
- The questions are each subdivided into four parts, (a), (b), (c) and (d).

Students are expected to demonstrate the following assessment objectives.

Section A

The principal focus is on section 3 of the syllabus – **international economics**.

While the principal focus of the questions is on section 3, it is likely that students will be required to draw on other sections of the syllabus.

The command terms used in each question, or part thereof, indicate the depth required.

Part (a) of each question requires knowledge and understanding. It is subdivided into (i) and (ii). The maximum for each of these is 2 marks, with a combined maximum of **4 marks**.

Part (b) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

Part (c) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

Part (d) of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is **8 marks**.

The section A question is worth a total of **20 marks**.

3.4 TRADE PROTECTION: EXAM PRACTICE QUESTIONS

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Study the extract below and answer the questions that follow.

ITEM 1: BREAKING BUSINESS NEWS

News item appearing in all major English-language newspapers and global media.

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Business | Thu May 19, 2016 1:15am EDT

China to support steel exports as U.S. imposes hefty tariffs

SHANGHAI/WASHINGTON | BY RUBY LIAN AND DAVID LAWDER

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As the Chinese construction boom slows, so too does the domestic demand for its steel. Shanghai, People's Republic of China. May 19, 2016.
REUTERS/MILENA BAENSCH

China said it would persist with controversial subsidies to its domestic steel producers to support the sector's painful restructuring, defying a United States move to impose punitive import duties on Chinese steel products. US firms cannot profitably export steel to China with such subsidies in place, said one US steel lobbyist.

A worldwide steel glut has become a major trade irritant, with China under fire from global rivals who say it is dumping cheap exports after a slowdown in demand at home.

The US already has quotas for Chinese steel and, in a marked escalation of the spat, the US on Tuesday said it would impose anti-dumping tariffs of more than 500 percent on Chinese cold-rolled flat steel, widely used for car body panels, appliances and in construction.

The World Trade Organization allows for anti-dumping tariffs, but as members, China and the US should be working towards eliminating barriers to trade.

EDITOR'S CHOICE



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TRENDING ON REUTERS

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IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

QUESTION ONE

1. Define the following terms from the newspaper extract above, concerning Chinese and US trade in steel:
 - i. Dumping. **[2 marks]**
 - ii. Subsidies. **[2 marks]**
2. Sketch a diagram and use it to explain how the new steel tariffs imposed by the US on Chinese steel will affect Chinese exports to the US. **[4 marks]**
3. Assuming that the tariff on Chinese steel is completely removed, sketch a diagram and use it to explain the effects of the remaining US quotas on Chinese steel on US producers, consumers and workers. **[4 marks]**
4. Using information in the text and your knowledge of economics, compare and contrast the use of tariffs and subsidies as forms of trade protection. **[8 marks]**

QUESTION TWO

1. Define the following terms from the newspaper extract above, concerning Chinese and US trade in steel:
 - i. Quotas. **[2 marks]**
 - ii. Anti-dumping tariffs. **[2 marks]**
2. Using an appropriate diagram, explain the effects of subsidies granted to Chinese steel firms on Chinese producers and consumers. **[4 marks]**
3. Using an appropriate diagram, explain how US consumers and producers are likely to be affected by the removal of tariffs placed on Chinese manufactured steel. **[4 marks]**
4. Using information in the text and your knowledge of economics, evaluate the use of quotas as a form of trade protection used by the US government to protect US steel producers. **[8 marks]**

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2. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

QUESTION ONE

[25 MARKS]

Samoa had a tariff of \$5 per kg of cotton. Domestic production of cotton with the tariff was 70 000 kg per week, domestic consumption was 150 000 kg per week, and the price was \$25 per kg.

World Trade Organization (WTO) rules required the government of Samoa to remove the seafood tariff. As a result, domestic production decreased to 50 000 kg per week and Samoan consumers increased purchases to 180 000 kg per week.

- Calculate the quantity of cotton imports in Samoa with the tariff and the quantity of imports after the tariff was removed. **[2 marks]**
- Calculate the price of cotton paid by Samoan consumers and the price received by producers in Samoa after the tariff was eliminated. **[2 marks]**
- Sketch a diagram showing the price of cotton, domestic quantity produced, domestic quantity consumed, **and** the quantity of imports with the tariff, **and** after removal of the tariff. **[4 marks]**
- Calculate the change in consumer expenditure on seafood in Samoa caused by the removal of the tariff. **[2 marks]**
- Calculate the change in domestic producer revenue from cotton in Samoa due to the removal of the tariff. **[2 marks]**
- Calculate the change in the government revenues as a result of the tariff being removed. **[2 marks]**
- Calculate the change in foreign producers' revenue from cotton exports to Samoa. **[2 marks]**
- State two stakeholder groups who have benefited from the removal of the tariff. **[2 marks]**
- State two stakeholder groups who were disadvantaged by the removal of the tariff. **[2 marks]**
- Given the information above about Samoa, explain who has a comparative or absolute advantage in cotton production, Samoa or its trading partners. **[3 marks]**
- Use your diagram from **question C.** to show the welfare gain in Samoa that results from the tariff removal (i.e. deadweight loss that has been regained). **[2 marks]**

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QUESTION TWO

[25 MARKS]

Canada wants to protect its cheese industry and has an import quota of 1.5 million kg of cheese products per month. Due to the quota, domestic producers are able to produce and sell 3.5 million kg of cheese products per month, at a price of \$20 per kg. Canada was required to remove the cheese quota because of complaints made by its trading partners to the World Trade Organization (WTO). It is estimated that with the removal of the quota, the price of cheese will decrease to \$15 kg, domestic production will decline to 2.5 million kg per month, and imports increased to 4.0 million kg per month.

- a. Calculate the quantity of domestic consumption of cheese before **and** after the removal of the quota. **[2 marks]**
- b. Calculate the dollar value increase of cheese imports following the removal of the quota on cheese imports. **[1 mark]**
- c. Sketch a diagram showing the price of cheese, domestic quantity consumed before **and** after the removal of the quota, and domestic production before **and** after the removal of the quota. **[4 marks]**
- d. Calculate the change in consumer expenditure on cheese products in Canada due to the removal of the quota. **[2 marks]**
- e. Calculate the change in domestic firm's revenues from cheese sold in Canada that results from the elimination of the quota. **[2 marks]**
- f. Calculate the change in foreign firms' revenue from their cheese exports to Canada resulting from the removal of the quota. **[2 marks]**
- g. Assuming that the quota revenues were given to foreign producers, calculate the total effect on foreign producers from the removal of the quota, taking into account both export revenues and quota revenues. **[2 marks]**
- h. State two stakeholder groups who will benefit from the removal of the quota. **[2 marks]**
- i. State two stakeholder groups who will be disadvantaged by the removal of the quota. **[2 mark]**
- j. Outline one essential difference between using an import quota and using a tariff. **[2 marks]**
- l. Use your diagram from **question C.** to show the welfare gain in Canada that results from the tariff removal (i.e. deadweight loss that has been regained). **[2 marks]**
- k. Outline why there is a welfare loss associated with the use of an import quota. **[2 marks]**

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QUESTION THREE

[25 MARKS]

Tanzania granted a subsidy on rice of \$5 per kg. With this subsidy, domestic production was 15 million kg per month, and imports amounted to 7.5 million kg per month. The price to consumers was \$25 per kg. A number of Tanzania's trading partners complained that Tanzania was illegally dumping its rice in the international market, and threatened to impose anti-dumping tariffs. Now Tanzania has removed its subsidy on rice. Following the removal of the subsidy, domestic rice production fell to 8 million kg per month.

- a. Calculate the price received by producers received with **and** without the subsidy. **[2 marks]**
- b. Calculate the total amount of rice consumed per week in Tanzania with **and** without the subsidy. **[2 marks]**
- c. Calculate the quantity of imports per week after the removal of the subsidy. **[2 marks]**
- d. Sketch a diagram showing the price of cheese, domestic quantity consumed before **and** after the removal of the subsidy, and domestic production before **and** after the removal of the subsidy. **[4 marks]**
- e. Calculate the change in domestic consumer spending on rice resulting from the removal of the subsidy. **[1 mark]**
- f. Calculate the change in domestic firms' rice revenues resulting from the removal of the subsidy. **[2 marks]**
- g. Calculate the dollar value of government and tax payer spending on the subsidy. **[2 marks]**
- h. Calculate the change in foreign firms' revenues from rice exports to Tanzania before and after the removal of the subsidy. **[2 marks]**
- i. Identify two stakeholder groups who benefit from the removal of the subsidy. **[2 marks]**
- j. Identify one stakeholder group who is disadvantaged by the removal of the subsidy. **[1 mark]**
- k. Identify one stakeholder group who is unaffected by the removal of the subsidy. **[1 mark]**
- l. Outline two arguments that may justify using subsidies as a form of trade protection. **[4 marks]**