

## IB Economics Protectionism Problems

**Directions:** Complete the following steps for the country listed in *italics* in each of the three problems below. In other words, you will complete steps a-e three times.

- (a) Identify the type of protectionism implemented. Which one is the quota? Which is the tariff? The subsidy? Explain your choices in writing.
- (b) Graph the effect of this protectionist measure on the consumer and producer surpluses of one country. With reference to consumers, producers, government and society as a whole, explain in writing who gains and who loses from this policy. You may also consider how these groups are affected in another country. Extension: Identify how the domestic and foreign producer *revenues* are affected.
- (c) Identify the type of argument used to justify the protectionism. Explain your choice in writing.
- (d) Identify a potential disadvantage of protectionism in this example.
- (e) Evaluate in writing whether protectionism is justified in this case over the long term. Do the potential benefits outweigh the costs?

1. The government of the *United States* argues that the Canadian government gives its lumber producers an unfair tax break for every tree they cut down. This results in the world price being lower than the U.S. price for the good without trade. In response, the U.S. government places a hefty tax on every log imported from Canada. Assume that Canada is the U.S.'s only foreign supplier of lumber.
2. *Chinese* paper producers make paper at a domestic price without trade that is higher than the world price. In order to make their product more competitive internationally, Chinese paper-makers pressure their government to give them 100 yuan for every ream they produce. The goal is to help Chinese producers catch up to their competitors in more developed countries.
3. Citizens in the *United States* are troubled by reports of the Colombian government imprisoning and murdering union leaders. In response, they force the U.S. government to place a limit of 8,000 on the number of flowers Colombian merchants may sell to the U.S. each year. (Assume the U.S. currently imports 12,000 flowers a year, all from Colombia.)