



Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY
QUESTIONS

PROTECTIONISM AND FREE TRADE

PAST QUESTIONS

1. (a) Explain the methods that a government might use to protect its domestic industries from foreign competition. [8]

(b) Discuss whether trade protection can ever be justified. [12]

2. (a) Explain why 'free trade zones' (FTZ) can be considered a supply-side policy. [2]

(b) Explain how measures to reduce protection through policies such as 'free trade zones' encourage specialisation and the development of comparative advantage in Nigeria. [4]

3. Vietnam's exports of fruit and vegetables to exceed US\$4 billion

The value of Vietnam's fruit and vegetable exports reached US\$1.3 billion in the first four months of 2018, a year-on-year increase of 30%, according to the Vietnam Ministry of Agriculture. With a high export growth rate in the past four years, the sector is expected to exceed the export target of US\$4 billion set for 2018.

A government spokesperson stated that because world trade in fruit and vegetables is worth US\$230 billion a year, with an annual growth rate of 3% to 5%, there is more scope for Vietnam to increase its fruit and vegetable exports. The spokesperson said that Vietnam must use more land to grow crops to export and build additional modern food processing facilities to take advantage of these opportunities.

The increase in the export of fruit and vegetables will add to Vietnam's current account balance. Fig. 1.1 below shows the balance of the current account of the balance of payments for Vietnam from Q1 2016 to Q2 2018.

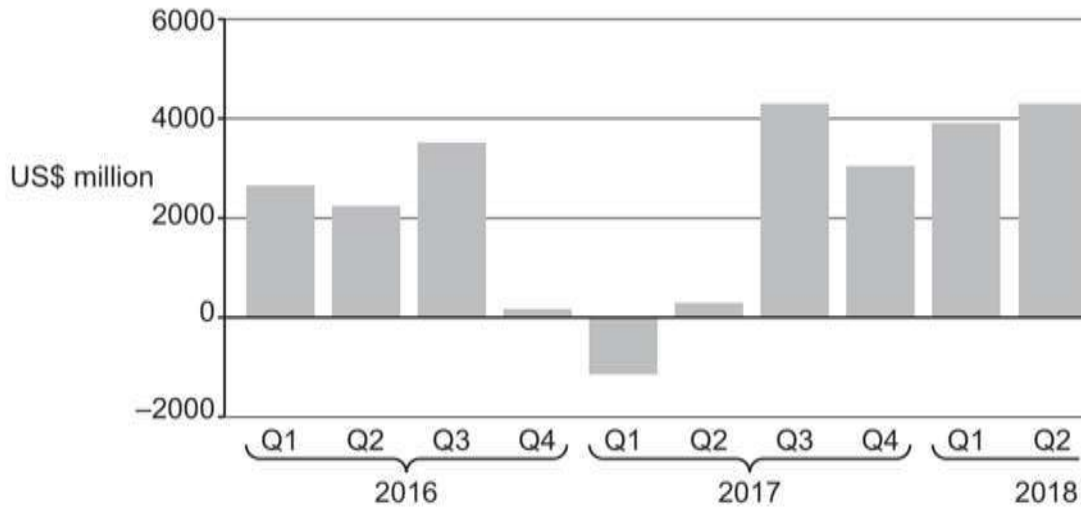


Fig. 1.1 Vietnam's current account balance, Q1 2016 to Q2 2018 (US\$ million)

Source: tradingeconomics.com, accessed October 2019

Despite its impressive results in exporting fruit and vegetables, Vietnam faces possible risks because it relies very heavily on China, its biggest fruit and vegetable importer. China accounted for 77% of Vietnam's exports of fruit and vegetables in the first four months of 2018 while the United States, its second biggest importer, accounted for just 2.8% and Japan, its third biggest importer, accounted for 2.7%. Some analysts believe that Vietnam's agricultural sector in general, and fruit and vegetable producers in particular, should explore other potential countries for their exports.

According to the Vietnam Fruit and Vegetable Association, fruit and vegetable exporters face additional costs in complying with administrative burdens on trade, such as strict hygiene and food safety regulations. Vietnam's producers need to ensure that product quality is as high as possible and production costs as low as possible if they are to succeed.

Source: adapted from Vietnam News, 7 May 2018

Discuss whether the risks of Vietnam relying very heavily on the Chinese market for the export of its fruit and vegetables are greater than the potential benefits.
[6]

4. Protectionism can take different forms in different countries. Discuss whether export subsidies are always a better method of protectionism than tariffs. [12]

5. Trade tensions between China and the United States

At a World Economic Forum meeting in Switzerland in 2017, the Chinese President re-affirmed his country's commitment to free trade and pledged never to start a protectionist 'trade war' or to benefit from a devaluation of its currency, the yuan. Meanwhile, the United States (US) President stated that the 'America First' doctrine means increased protectionism and he repeatedly threatened to impose tariffs and import quotas on Chinese goods.

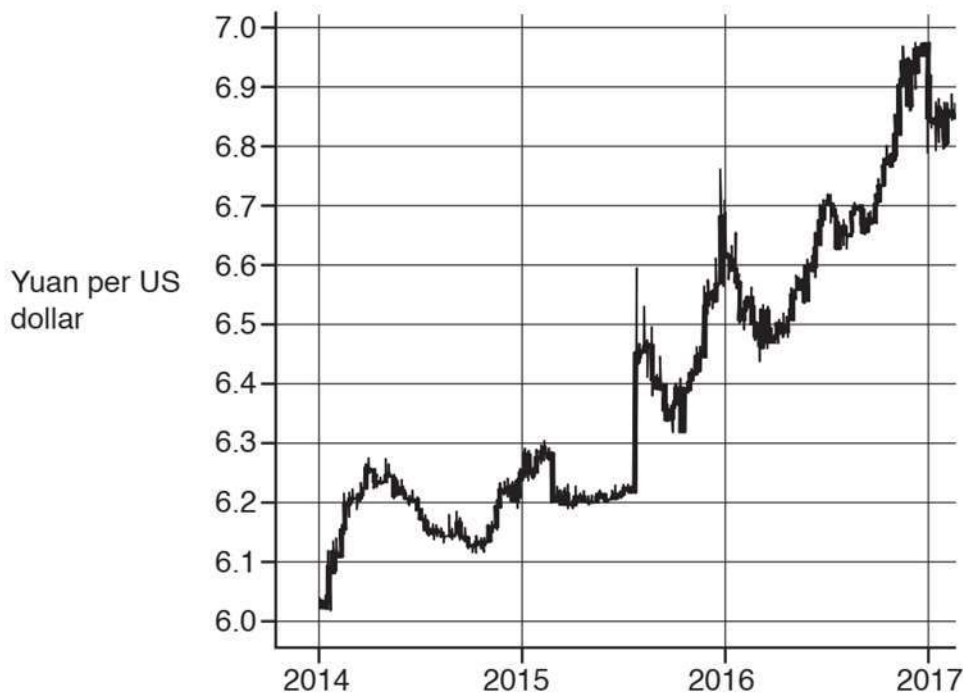
During 2016, the value of the US dollar rose against most currencies. In contrast, the Chinese yuan weakened significantly from 6.20 yuan per US dollar at the end of 2014 to 6.95 yuan at the end of 2016. The US President has accused China of intentionally devaluing the yuan in order to boost China's export competitiveness. Despite strong downward pressure on its currency, China has attempted to keep the yuan-US dollar exchange rate relatively stable, costing more than US\$2 trillion of its official foreign exchange reserves. China has stated that it does not want the yuan to fall in value any more than the US does, but no country has complete control over its exchange rate.

China, like Japan and Germany, usually has a current account surplus on the balance of payments, but China's current account surplus as a percentage of GDP fell in 2016 and the International Monetary Fund expects it to decrease further, as exports continue to fall.

There are three policy paths that a country can follow with regard to its exchange rate: a completely free float, a managed float or a fixed (pegged) exchange rate. Each of these has various advantages and disadvantages. At present, China's policy is a managed float, but some economists have argued that it is the yuan-US dollar exchange rate that is regarded as being especially important and so it might be better if China decided to fix (peg) the yuan to the dollar. Fig. 1.1 shows the yuan-US dollar exchange rate over three years.

Source: Adapted from China Daily, 10–12 February 2017

Fig. 1.1: Yuan–US dollar exchange rate, 2014–2017



Source: Trading Economics

(a) The US President threatened to increase protectionism of the US economy.

Explain, using a diagram, how one of the methods of protection mentioned in the article can work. [4]

(b) Discuss who would be the winners and the losers from a protectionist 'trade war' between the US and China. [6]

6. (a) Use economic analysis to explain the benefits of international trade. [8]

(b) Discuss whether restrictions on international trade can ever be justified. [12]

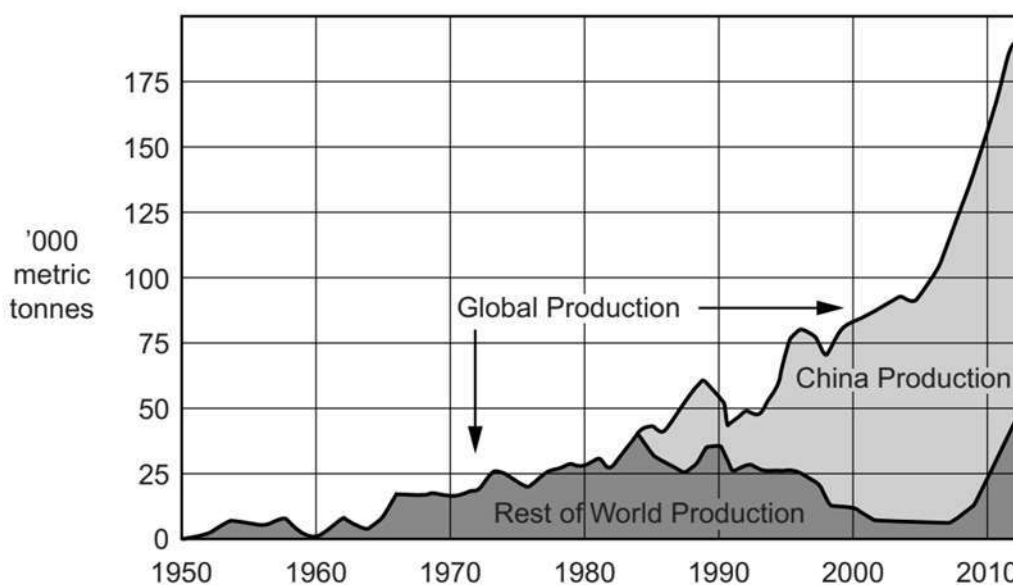
7. China and Rare Earth Elements (REEs)

Rare earth elements (REEs) are a group of 17 minerals, some with unusual names such as gadolinium and praseodymium that have become increasingly important in recent years. They are vital in the production of glass, petrol, flat-screen televisions, laptops, lasers, satellites, energysaving light bulbs, jet engines and wind turbines. As many as eight REEs are used in an electric car and military hardware depends on them. World demand for REEs is expected to continue to increase.

There are problems with mining these minerals. They are found in many countries but are not concentrated enough to make it easy to exploit them economically. In the 1980s and 1990s China invested heavily in machinery and training labour for mining REEs. The entry of China into REEs mining pushed prices down to a level that forced many rivals in the United States out of production. Most countries rely totally on imports for their supplies of REEs.

Mining them produces undesirable side-effects, such as radioactivity, air pollution and spoilt landscapes. Mining also uses highly toxic chemicals that can pollute the water supply. China, as shown in Fig. 1, is now the dominant global supplier. It also has the largest reserves.

Fig. 1 Global production of REEs, 1950 to 2012



Source: Kaiser Research Online

China imposes export taxes on REEs of up to 25% and sets export quotas that were reduced in August 2010 from 28 417 metric tonnes to 7 976 metric tonnes per annum.

(a) What might be the economic justifications for China's reduction in export quotas for REEs? [3]

(b) Discuss whether it is likely that China will be able to maintain its domination of the international REEs market in a time of rising global prices for REEs. [6]

8. (a) In a two country world one country is more efficient at producing one product and the other country is more efficient at producing another product. Explain why specialisation and trade usually benefit both countries. [8]

(b) Suppose one country were more efficient at producing both products. Discuss whether it is the case that specialisation and trade will always benefit both countries. [12]

9. Trade developments between Australia and Thailand

**Table 1 Trade in goods between Australia and Thailand in 2002,
all valued in Australian Dollars (A\$)**

Australian Exports	A\$m	Australian Imports	A\$m
Total	2510	Total	3140
Of which:		Of which:	
Gold	412	Vehicles	541
Aluminium	348	Petroleum	259
Cotton	186	Heating / cooling equipment	240
Dairy products	137	Seafood	221
Crude petroleum	115	Computers	113

In October 2003, Australia signed a trade agreement with Thailand. Under this, more than half of Thailand's 5000 import tariffs on Australian goods were abolished immediately and others were reduced. These tariffs covered Australian exports worth more than A\$700 million in total. Thailand would abolish the remaining tariffs by 2020. An independent survey predicted that by 2023 these actions would raise the GDP of Australia by A\$12 000 million and that of Thailand by A\$46 000 million.

Table 2 Some of the immediate changes in Thailand's tariffs on Australian goods

Product	Old Tariff	New Tariff
Beef	51%	40%
Wheat	12-20%	0%
Wine	55%	40%
Large cars	80%	0%
Small cars	80%	30%

- (a) Name two protective measures, other than tariffs, that restrict free trade. [2]*
- (b) Explain, with the aid of a demand and supply diagram, how the domestic producers of a good are affected by the removal of a tariff on imports of that good. [4]*
- (c) Discuss whether Australia and Thailand should have abolished all tariffs immediately. [6]*

10. Artificial Intelligence

Artificial Intelligence (AI) is a form of technological progress. It involves computers or computer-controlled robots engaging in tasks usually performed by humans. Many businesses invest in AI to reduce their costs, to increase their efficiency by reducing human errors and to raise business revenues and profits.

The COVID-19 pandemic has accelerated this process – from increased use of contactless card payment systems to large-scale investment in driverless taxis. In China, a leading internet search company plans to follow some of its rivals in the United States (US) by starting a driverless taxi service in 100 cities by 2030.

Nevertheless, the pace of growth in AI has raised concerns that this will result in increased unemployment. One study suggests that up to 38% of US jobs are at risk from automation by the mid-2030s. To date, Japan has between 200 and 300 AI companies. It is also the leading supplier of industrial robots and third, behind China and the US, in spending on research and development into AI.

Just a few years ago, the growth of the internet created similar fears. Despite these concerns, the technology created millions of jobs and contributed as much as 10.5% towards US GDP in 2020. As a result, some economists suggest that the movement towards AI will fundamentally change the world and the way we work and live but will not lead to large rises in unemployment. AI technology may create more jobs than it destroys.

Nonetheless, the danger remains that automation will lead to a society of winners and losers. These newly created jobs will require new skills and significant investment in training young people and retraining adults. Therefore, governments may need to implement targeted policies to ensure that any changes to structural unemployment are only short-lived. However, rising national debt alongside projections of low economic growth, as shown in Table 1.1, may reduce the ability of governments to deliver such policies.

Table 1.1: Selected macroeconomic indicators for Japan and the US, 2020 to 2025

	Japan			US		
	Central government debt (% of GDP)	Unemployment rate (%)	Real GDP growth (% change from previous year)	Central government debt (% of GDP)	Unemployment rate (%)	Real GDP growth (% change from previous year)
2020	254.1	2.8	-4.6	133.9	8.1	-3.4
2021	256.9	2.8	2.4	133.3	5.4	6.0
2022*	252.3	2.4	3.2	130.7	3.5	5.2
2023*	250.8	2.3	1.4	131.1	3.0	2.2
2024*	251.0	2.3	0.8	131.7	3.0	1.7
2025*	251.3	2.3	0.6	132.5	3.1	1.7

*forecast

Source: IMF, 2021

Assess the likely impact of the growth of AI on the specialisation and trade of a country such as Japan. [6]

11. Will an increase in exports lead Sri Lanka back into economic growth?

In May 2022, Sri Lanka had to admit that it was unable to pay its debts to other countries for the first time in its history. As a result, in February 2023 it was forced to obtain a loan of US\$3bn from the International Monetary Fund (IMF). The question is now, can Sri Lanka trade its way out of trouble?

The main problem faced by Sri Lanka for many years has been a lack of international competitiveness. Despite a growth in exports between 2000 and 2018, over the same period, they fell as a share of the economy from 39% to 23% of Gross Domestic Product (GDP). As a result, the country has found itself unable to earn enough foreign currency to pay for essential imports of food and fuel.

Table 1.1: Sri Lanka balance of trade in goods and services, US\$ million, January 2022 to January 2023.

January 2022	March 2022	May 2022	July 2022	September 2022	November 2022	January 2023
-858	-762	-404	-123	-205	-450	-410

For many years, Sri Lanka has enjoyed a comparative advantage in growing and exporting tea. However, the ban on imports of fertilisers in 2021 which cut yields by a fifth and an overreliance on outdated methods of production have had a disastrous impact. Another major export is textiles, but these rely heavily on imported raw materials that have rapidly increased in price following the COVID-19 pandemic and the conflict in Ukraine. So, what alternatives exist for Sri Lanka?

Unlike in other Asian nations, Sri Lanka does not appear to have a plan to develop any new comparative advantage. Probably the most likely option would appear to be to take full use of its position at the centre of Indian Ocean shipping lanes by developing its ports. Sri Lanka could become a major shipping hub which would extend opportunities for exports. For example, approximately a third of the world's oil is transported across the Indian Ocean.

Other options include allowing the Sri Lankan rupee to depreciate to boost exports because it is felt that the currency is overvalued. There are also suggestions that all import tariffs should be removed. Sri Lanka is currently one of the most protected economies in the World and removing tariffs may help attract much needed foreign investment and encourage local industries to become more efficient.

The question now is, could the introduction of these options lead Sri Lanka back into economic growth?

Source: Adapted from Ben Chu, Economics Editor, BBC Newsnight article and [tradingeconomics.com](https://www.tradingeconomics.com), February 2023

(a) Explain what is meant by 'Sri Lanka has enjoyed a comparative advantage in growing and exporting tea.'. [2]

(b) Assess whether the removal of all protectionism is likely to reduce the balance of trade deficit. [6]

12. (a) Explain what is meant by protectionism and consider the effectiveness of using tariffs as a method of protectionism. [8]

(b) Assess whether free trade is always better than a policy of protectionism for a developing economy that wishes to trade internationally. [12]

13. Explain the potential advantages of free trade and consider whether such advantages are always greater than the potential disadvantages of free trade. [8]

14. (a) Explain two methods of protection in international trade and consider which of these is likely to have the bigger impact on employment and output in the economy which imposes them. [8]

(b) Assess whether protectionism is always the best way of reducing a deficit on the current account of the balance of payments. [12]

15. Assess whether the arguments for protectionism in the context of international trade are always stronger than the arguments against. [12]

16. (a) Two countries each produce two products and wish to trade with each other.

Explain the difference between the principles of absolute advantage and comparative advantage and consider whether the principle of comparative advantage is always the more important influence when each country is deciding whether to trade with each other. [8]

(b) Assess whether protectionism is the best way to correct a deficit in the current account of the balance of payments. [12]

17. (a) Explain the difference between an import tariff and an import quota and consider why a government would choose an import tariff rather than an import quota as a tool of protection in international trade. [8]

(b) Assess whether the theories of absolute and comparative advantage are substantially undermined by their various limitations. [12]

18. Electric cars create challenges for oil producers

Oil companies are facing uncertainty in 2020 as the COVID-19 pandemic causes a collapse in demand for their product, but car producers are predicting the pandemic will help accelerate the use of electric cars. Looking ahead, cuts in investment by oil companies as their revenues fall could reduce supply enough to cause a rise in oil prices. This makes electric cars more attractive just as car producers increase production.

Table 1.1 Selected data from the oil and car industries, 2014 to 2020

	2014	2015	2016	2017	2018	2019	2020
Average real global price of oil (US\$ per barrel)	93.2	48.5	43.3	50.8	65.2	57.0	39.7
Global sales of electric cars (millions)	N/A	0.6	0.8	1.3	2.1	2.2	2.3

Sources: Macrotrends.net and World Economic Forum

However, the rise of electric car sales could slow within the next few years due to a worldwide shortage of the supply of lithium needed for car batteries. Demand for lithium could triple by 2025 to one million tonnes per year and then double again to two million tonnes per year by 2030. A typical lithium mine produces 30000 tonnes per year which means the market needs approximately four new

mines per year to meet demand. However, it usually takes about six years to discover, develop and put a lithium mine into production.

Rising global sales of electric cars are impacting on world oil producers. The boom years for the oil industry are over as economies start to deal with climate change. This will have significant implications for petrostates (countries whose economies are almost totally reliant on oil and gas).

Volatile oil prices, as illustrated in Table 1.1, have already left many petrostate governments struggling. The governments of most Middle Eastern oil producing countries cannot maintain a balanced budget at the 2020 average oil price of around US\$40. Years of unstable oil revenues have left these countries with significant levels of national debt.

Venezuela offers a cautionary tale. Serious mismanagement has caused its oil output in 2020 to drop to about 10% of its 2000 level. Gross domestic product (GDP) has fallen by more than 75% in the past 5 years and more than 5 million people have left the country.

The solution is diversification. Wealthy Middle East states, such as Oman and Saudi Arabia, are investing in renewable energy and international tourism. Attempts at change by less wealthy petrostates such as Venezuela are hampered by a lack of capital at home and because they are often unable to attract international investors. As a result, they tend to focus on short-term rather than long-term economic growth.

Ultimately, many petrostates are likely to need outside support to diversify their economies. In addition to financial aid, it is suggested that wealthy countries should also offer technical assistance such as retraining workers, help designing new tax systems and support with the adoption of renewable energy.

Sources: Adapted from: Matthew Green and Simon Jessop, Reuters, 19 May 2020
and: STV news PA Media, August 2021 and: energymonitor.ai/policy, April 2021

Assess whether diversification is likely to be more successful in Venezuela or Saudi Arabia as they reduce their dependence on oil production. [6]

MARK SCHEME

Table A: AO1 Knowledge and understanding and AO2 Analysis

Level	Description	Marks
3	- A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. - The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. - Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. - Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	- Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. - The response addresses the general theme of the question and the relevant economic issues, with limited development. - Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. - Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	- A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. - The response has little relevance to the question. - Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. - Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Level	Description	Marks
2	- Provides a justified conclusion or judgement that addresses the specific requirements of the question. - Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	- Provides a vague or general conclusion or judgement in relation to the question. - Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

1. (a) Methods may be external such as tariffs, quotas and embargoes or internal such as subsidies. A long term view may be taken aiming at an increase in domestic efficiency with restructuring, training and research expenditure, devaluation, supply side policy

L3 Explanation distinguishing between preventing foreign competition and promoting domestic efficiency 7 – 8

L2 Explanation of the working of the methods 4 – 6

L1 Recognition of methods 1 – 3

(b) Protection can be supported in the short term. Arguments can include infant industry, anti dumping and orderly run down. Against this is the case for free trade based on comparative advantage. It can be argued that there are weaknesses in the application of the theory to the real world.

L3 Discussion of the case for protectionism and free trade 9 – 12

L2 Explanation of the case for protectionism 5 – 8

2. (a)

- Role that free trade zones, as a supply-side policy, can play in the development and expansion of the Lagos economy
- Role of private sector in helping to turn Lagos into the most productive and dynamic part of the Nigerian economy; link between private ownership, productivity and dynamism can be stressed
- Generous tax incentives; this will leave firms with substantial funds to finance development and expansion
- Help to lower costs, remove bureaucracy and make the economy more flexible and efficient
- Up to 2 marks for explanation of free trade zones as a supply-side policy

(b)

- Up to 2 marks for explanation of how free trade zones can encourage specialisation in Nigeria
- Up to 2 marks for explanation of how free trade zones can encourage the development of comparative advantage in Nigeria

3. For an explanation of the potential risks. (Up to 3 marks)

Potential risks of the Chinese market:

- high proportion of trade in fruit and vegetables with China may mean that Vietnam is neglecting other potential trading contacts
- very large gap from China (77%) to second country (US with 2.84%) and third country (Japan with 2.70%)

- external shocks, or changes in the Chinese economy, such as a recession, would have a large impact on Vietnam's fruit and vegetables industry

For an explanation of the potential benefits. (Up to 3 marks)

Potential benefits of the Chinese market:

- with 77% of the trade in fruit and vegetables with China, close trading contacts would have been established
- security of trade in fruit and vegetables resulting from these trading contacts
- with established customers, discounts could be negotiated to secure future trade

Reserve 1 mark for a conclusion

4. Analysis:

Analysis of the advantages and disadvantages of export subsidies as a method of protectionism. (Up to 4 marks)

Analysis of the advantages and disadvantages of tariffs as a method of protectionism. (Up to 4 marks)

8 marks maximum

Evaluation:

For exercising some judgement on whether export subsidies are always a better method of protectionism than tariffs. (Up to 4 marks)

Reserve 1 mark for a conclusion

4 marks maximum

Guidance:

Advantages of export subsidies:

- subsidies to domestic producers will allow firms to lower cost and price and undercut foreign competition
- difficult for the WTO to deal with as they are not an overt method of protectionism

Disadvantages of export subsidies:

- they involve an opportunity cost in terms of other areas that a government could have spent the money on
- industries become too dependent on the subsidy rather than trying to become more competitive

Advantages of tariffs:

- a tariff is a tax or duty on import goods making them more expensive and less competitive
- if the demand for imports is elastic, demand should fall
- the government can use tariffs as a source of revenue

Disadvantages of tariffs:

- they will not be successful if demand for imports is price inelastic
- they may lead to retaliation

5. (a) TARIFF

For an explanation of how a tariff can work, stressing that it is a tax/duty on imported goods. (2 marks)

For a diagram of a tariff. (2 marks)

(1 mark for PQDS, 1 mark for showing distinction between supply without tariff and supply with tariff).

OR

QUOTA

For an explanation of how an import quota can work, stressing that it relates to a limit in terms of the value of imported goods, or the volume of imported goods, or the market share of imported goods

(1 mark)

For a diagram of an import quota. (2 marks)

(1 mark for PQDS, 1 mark for showing vertical quota line).

(b) Consideration of who would be the winners from a protectionist 'trade war' between the US and China. (Up to 3 marks)

Consideration of who would be the losers from a protectionist 'trade war' between the US and China. (Up to 3 marks)

5 marks maximum

Reserve 1 mark for a conclusion/evaluative judgement

Guidance:

The case for a protectionist 'trade war':

- Infant/sunrise industry argument
- Declining/sunset industry argument
- Strategic industry argument
- Anti-dumping argument
- Revenue-raising argument (through tariffs)
- To help in the removal/decrease of a BOP deficit

The case against a protectionist 'trade war'/in favour of free trade:

- A higher level of output
- Countries can consume outside of their PPCs
- Greater efficiency of production

6. (a) The benefits are based on comparative advantage. It exists when one economy can produce a good at a lower opportunity cost than another. This is based on different factor endowments. Specialisation and trade at a rate between the two opportunity costs will increase output and raise living standards. The model is based on assumptions including two products, two countries, no transport costs, constant returns to scale and mobility of labour. The benefit can be shown by a numerical example. An alternative approach would involve explaining more general benefit of trade such as choice, lower prices, higher quality, ending of local monopolies etc.

Understanding of comparative advantage 4 marks

Explanation of the operation of comparative advantage } 4 marks

General benefits of trade }

(b) Restrictions on trade include tariffs, quotas, subsidies, voluntary export restraints (VERS) and exchange controls. They are intended to raise the price or restrict the quantity of imports and to lower the price of exports. The case against restrictions is that they prevent the benefits of free trade, lower living standards, reduce choice, lower employment and may provoke retaliation. There are some short-term arguments that are considered justifiable. These include arguments for protecting infant industries, preventing dumping, slowing the decline of sunset industries, improving the terms of trade, and raising revenue. Other justifications tend to be non-economic (1 max).

Understanding of trade restrictions up to 4 marks } max. 6 marks
Analysis of the benefits of restrictions up to 4 marks }

Discussion of the limitations of restrictions 6 marks

(At least 2 marks reserved for conclusions or relevant evaluation)

7. (a) It might argue the need

- to preserve a diminishing resource
- to supply its own industries
- to protect the environment
- to ensure security of supply
- to improve the terms of trade
- increase export earnings if PED inelastic (rising prices of $X = 1$)
- increase costs of foreign competitors of products using REEs/reduce competitiveness
- part of a general policy to reduce B of P surplus/depreciate currency

(b) China is currently dominant because of a lack of competitors; it has production advantages (such as low labour costs, investment) and market power. This may be short-lived if higher prices attract competitors, REEs can be sourced from countries other than China, the technology is known to former US producers, the prospect of higher prices/profit may encourage former producers or new entrants into the market and fear of dependence on China may encourage government intervention. A market response makes it unlikely that China will be as dominant in the long run as both economic and financial influences promote additional producers. Credit a reasoned conclusion.

8. (a) This requires an explanation of the case of reciprocal absolute advantage. A simple model with clear explanation is sufficient to score full marks for application.

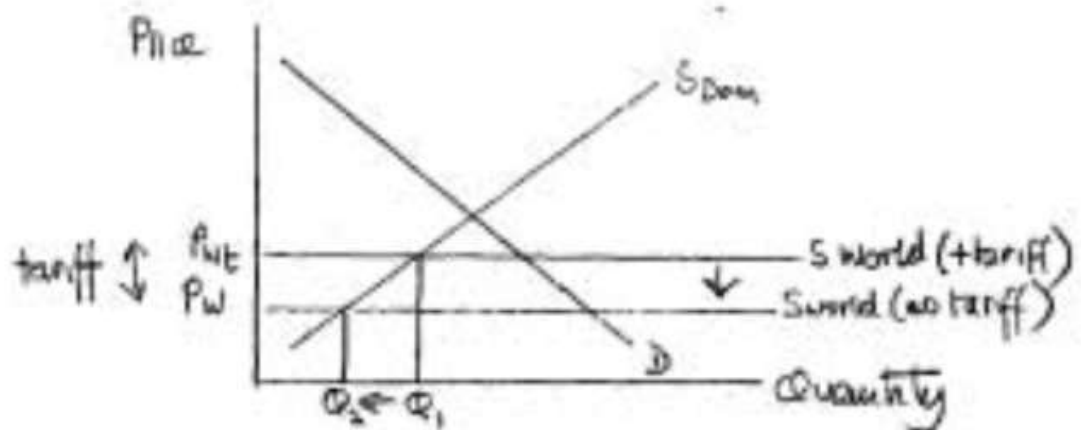
- For knowledge and understanding of the benefits of specialisation and trade. Up to 4 marks
- For application using an appropriate economic model based upon reciprocal absolute advantage. Up to 4 marks

(b) This requires an explanation based upon comparative advantage and, for a good score, must be based upon opportunity costs. Trade may not be beneficial for a number of reasons such as transport costs, no differences in opportunity cost ratios etc.

- For analysis of the model of comparative advantage showing the impact of specialisation and trade. Up to 8 marks
- For evaluative comment considering the cases where trade is not beneficial. Up to 4 marks

9. (a) Quotas, embargoes, VERs, subsidies, exchange control, licences, etc. – any 2

(b) Receive lower price (1), supply smaller quantity (1), reduced profit (1), fully labelled diagram with world supply (up to 3), with domestic supply (up to 2).



(c) Case for based on free trade arguments, welfare and efficiency, with reference to data up to 4 marks.

Case against based on infant industry, need for adjustment, special circumstances etc. with reference to data up to 4 marks. Credit reasoned conclusion up to 2 marks.

10. Up to 3 marks for a clear explanation of the potential benefits of AI on both specialisation and trade of a country. E.g., increased levels of productivity, impact on costs/prices, development of comparative advantages improvements in international competitiveness etc.

Up to 3 marks for a clear explanation of the potential drawbacks of AI on both specialisation and trade of a country. E.g., problems of over-specialisation – excessive use of non-renewable resources, over-reliance on one industry; implications for structural unemployment

Max of 5 marks plus 1 for Evaluated Conclusion.

11. (a) This means that Sri Lanka can grow and export tea at a lower opportunity cost (1) than another country (1).

Guidance:

Both parts must be clear for full marks.

(b) Up to 4 marks for explanation / analysis:

- Possible advantages of retaining/not removing import tariffs e.g., to protect developing and declining industries from foreign competition, preserve levels of employment, prevent dumping etc.

(up to 2 marks)

- Possible advantages of removing import tariffs e.g., to remove the risk of retaliation, encourage foreign investment, encourage domestic industries etc.

(up to 2 marks)

Up to 2 marks for evaluation:

- That considers advantages of both alternatives to reach a valid conclusion as to whether the removal of all import tariffs is likely to reduce the deficit (reserve 1 mark).

Note: Ensure that the analysis is clearly focused on the effect on the trade balance. Accept reference to other forms of protectionism.

12. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

Protectionism is when governments attempt to protect domestic businesses against foreign competition (1). It seeks to reduce the impact of the free market/ restrict free trade (1) by increasing the price competitiveness of domestic businesses against foreign competitors (1).

AO2 Analysis (max 3 marks)

- An explanation of how tariffs work (diagram will help although this is not essential) as a method of protectionism i.e., increasing prices of imports and increasing the price competitiveness of domestic businesses. NB: no marks for a diagram unless it is used to explain the impact on the price of imports and how it protects domestic businesses. **Up to 2 marks** e.g., for an explanation of how tariffs increase the price of imports (1) and how this protects domestic businesses as it increases their price competitiveness (1)
- Problems may include possible retaliation, inelastic PED for imports, possible cost push inflationary pressure. **Up to 2 marks** e.g., retaliation by other countries may offset the impact, if the demand for imports is price inelastic then imports may not fall and domestic businesses will not benefit, if the impact is on imported raw materials, this will lead to cost push inflation and domestic businesses who rely on such imports will not benefit.
- **If only uses or problems of tariffs are discussed, maximum mark of 2.**

AO3 Evaluation (max 2 marks)

- Evaluation should consider how effective tariffs may be considering both how they can protect domestic businesses and the associated problems with 1 mark reserved for a justified conclusion.

Please use a text box to show the mark split e.g., 2,2,1

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Analysis of the advantages and disadvantages of free trade and
- Analysis of the advantages and disadvantages of protectionism
- Both in the context of a developing economy.

Guidance:

The advantages of free trade may include:

- Efficient allocation of resources due to specialisation and comparative advantage.
- An opportunity to take advantage of different factor endowments.

- Competitive pressure to keep costs down / increase efficiency / lower prices for consumers.
- Higher output / economies of scale and increased choice and availability for consumers.
- Disadvantages may include:
 - Over exploitation of scarce resources.
 - Closure of domestic industries and /or problems for developing industries leading to unemployment particularly in a developing economy.
 - Dumping / unfair competition.
 - It is likely that the advantages of protectionism will result from the disadvantages of free trade and the disadvantages of protectionism will result from the advantages of free trade.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

NOTE: if the analysis is not in the context of a developing economy, then L2 maximum.

AO3 Evaluation

- Requires an assessment of the advantages and disadvantages of both free trade and protectionism in the context of a developing economy and a comparison of both policies which leads to
- A justified conclusion as to which policy may be best for a developing economy that wishes to trade internationally.
- **Note: if the evaluation is not in the context of a developing economy, then no evaluation marks can be awarded.**

A one-sided response cannot gain any marks for evaluation.

Please use a text box to show the mark split e.g., L2 5 L1 2

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

13. up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

A knowledge and understanding of at least two potential advantages of free trade, such as:

- an increase in world output
- a wider range of products for consumers to choose from
- an improved standard of living.

AO2 Analysis (max 3 marks)

An explanation of at least two potential disadvantages of free trade and how these contrast with the potential advantages of free trade, such as:

- free trade involves specialisation which could mean that some economic sectors are allowed to run down, leading to higher unemployment
- over-reliance on some commodities could be risky
- potential security risk if vital resources are imported.

AO3 Evaluation (max 2 marks)

Offers a valid judgement on whether the potential advantages of free trade are always greater than the potential disadvantages of free trade (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

14. (a) up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

- Protectionism is when governments attempt to protect domestic businesses against foreign competition (1).

- Explanation of two methods of protection – e.g., tariffs, import quotas, export subsidies, embargoes, excessive administrative burdens ('red tape') and how each method distorts the free market/supports domestic production (1+1).

AO2 Analysis (max 3 marks overall)

Points to consider:

- An explanation of how each method affects domestic employment (1+1). For example, tariffs increase import prices and encourage expenditure switching to domestic production. This increases the level of employment as more workers are recruited to meet the additional output.
- However, if the demand for imports is price inelastic in demand, then the reduction in imports may be less (1), therefore domestic output (and employment) may not rise as much as when compared to import quotas (1).

AO3 Evaluation (max 2 marks)

- Evaluation should consider which method is likely to have the biggest impact on employment (1), leading to a justified conclusion (1).

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

Protectionism:

- Advantages of protectionism – for example, tariffs can reduce the value of imports in the short term as infant industries grow and gain the economies of scale to enable them to be internationally price competitive. This reduction in foreign dependency will reduce the value of imports which (ceteris paribus) reduce a deficit on the current account.
- Problems of protectionism includes – the ability to reduce the value of imports will be influenced by the price elasticity of demand for imports. Moreover, the possibility of retaliation thereby reducing the value of exports. This may not only limit any reduction in the current account deficit but may hinder a government's ability to achieve other macroeconomic objectives – e.g., reducing the level of unemployment or possibility of increasing cost-push inflation.
- Alternative policies that may be considered include contractionary monetary policy – higher interest rates will increase the cost of debt and mortgage repayments and leave people with less money to spend. Therefore, this will reduce their consumption of imports, improving the current account.
- Problems of the alternative policy – for example, an increase in interest rates will tend to cause hot money flows and therefore an appreciation in the exchange rate. This appreciation makes exports less competitive, and imports more attractive. Assuming demand is relatively elastic, this appreciation will worsen the current account.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of the protectionism and at least one other policy in reducing a current account deficit which leads to a justified conclusion as to which policy may be best way to reduce economic growth or whether a combination of policies might be more appropriate.

Accept all valid responses.

Note: A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 45

15.

AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

The arguments for protectionism/against free trade. These might include:

- Infant/sunrise industry argument
- Declining/sunset industry argument
- Strategic industry argument
- To prevent dumping
- To reduce a current account deficit
- To raise revenue for a government.

The arguments against protectionism/for free trade. These might include:

- Free trade can lead to greater specialisation and, as a consequence, greater output
- Resources are allocated more efficiently
- Consumers have a wider range of products to choose from
- This can lead to improved standards of living.

AO3 Evaluation

- Considers the possible issues of protectionism and the relative strength of the different arguments.
- In conclusion, which approach will be better for particular economic situations.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

16. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis
up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

Absolute advantage is a situation where, for a given set of resources, one country can produce more of a certain product than another country (1) comparative advantage exists where one country can produce a certain product at a lower opportunity cost than another country (1) plus a simple explanation that one country may have an absolute advantage in both products but the other country may have a lower opportunity cost in producing one of the products (1)

AO2 Analysis (max 3 marks)

The analysis should consider the advantages and disadvantages of using the principle of comparative advantage in deciding whether to trade or not.
Maximum of 2 marks for an analysis that **only** considers the advantages and a **maximum of 2 marks** for an analysis that **only** considers the disadvantages.

Points to consider include **(N.B. this list is not exhaustive so allow any reasoned points)**:

- The benefits of specialisation leading to a more efficient allocation of resources
- An increase in world output
- An increase in employment and living standards **BUT**
- May exhaust finite natural resources due to over specialisation.
- Strategic industry argument
- Exchange rate may not lie between the opportunity cost ratios.

Guidance:

For AO1 and AO2, it is not expected that tables / numeric examples are used. However, they are acceptable **provided** they are appropriately explained.

AO3 Evaluation (max 2 marks)

For an answer that clearly compares the advantages and disadvantages of the principle of comparative advantage (1) and uses the analysis to reach a reasoned conclusion as to whether it is always the most important factor to consider (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)

Protectionism can include the use of:

- Tariffs
- Embargoes
- Export subsidies etc.

Analysis should consider the advantages and disadvantages of such a policy e.g.

- Possible retaliation
- Possible long-term reliance on such measures that may reduce future competitiveness etc.

Analysis should also compare this policy with the advantages and disadvantages of another policy e.g., supply side policy, fiscal or monetary policy which may include:

Training and education to improve productivity.

- Investment in better infrastructure
- Incentives to entrepreneurs etc.
- Expenditure dampening.
- Encouragement of a depreciation in the exchange rate.

A one-sided response can only gain a maximum of Level 2.

AO3 Evaluation (max 4 marks)

- Consideration of the relative effectiveness of the policies in correcting a deficit in the current account of the balance of payments.
- A justified conclusion showing which policy is most likely to be successful in correcting a deficit in the current account of the balance of payments.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

17. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis
up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

The meaning of an import tariff as a tool of protection. **(Up to 2 marks)**

The meaning of an import quota as a tool of protection. **(Up to 2 marks)**

(Max 3 marks)

AO2 Analysis (max 3 marks)

An explanation of the various advantages and disadvantages of an import tariff as a tool of protection in international trade. **(Up to 2 marks)**

An explanation of the various advantages and disadvantages of an import quota as a tool of protection in international trade. **(Up to 2 marks)**

Max 3 marks

AO3 Evaluation (max 2 marks)

Offers a valid judgement on why a government would choose an import tariff rather than an import quota as a tool of protection in international trade (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- The theory of absolute advantage.
- The theory of comparative advantage.
- How these theories could be used in the real world.

- The assumptions underlying these theories, such as in relation to only two products being traded, the existence of perfect competition in both product and factor markets, no transport costs, production subject to constant returns to scale and no restrictions on trade.
- The limitations of these theories, such as in relation to the fact that trade will involve more than two products, perfect competition will not apply to all markets, there will costs of transport, producers may experience economies of scale, reducing the costs of production, and there may well be trade restrictions in different parts of the world in the form of different methods of trade protection.

(Up to 8 marks)

AO3 Evaluation

- Considers the various assumptions of the theories
- In conclusion, are the theories substantially undermined by their various limitations?

Accept all valid responses.

(Up to 4 marks)

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

18. Up to 4 marks for the explanation/analysis

Answers should analyse the extent of the likely success of diversification for both economies.

- Up to 3 marks for valid analysis for Venezuela
- Up to 3 marks for valid analysis for Saudi Arabia **(with a maximum of 4 marks overall)**

If the answer is just a generalised discussion of the impact of diversification without any valid reference to Venezuela or Saudi Arabia, then a **maximum of 1 mark**

Up to 2 marks for evaluation

- that considers why the success of diversification may differ in each case.
- and reaches a justified conclusion as to which country's economic growth is most likely to be impacted.

Guidance

Clearly, according to the extract, the common problem for both economies is the forecast fall in oil demand led by the need to reduce carbon emissions and deal with climate change. However, as the data also makes clear, the impact of this will be different for countries such as Saudi Arabia and countries such as Venezuela, and the analysis and evaluation must refer to these differences for full marks. Points to consider from the extract may include:

- The relative wealth and access to both internal and external capital
- The relative focus on short- and long-term growth
- The relative ease of diversifying e.g., Saudi Arabia has already begun investing in renewable energy and tourism, whereas Venezuela is suffering high rates of emigration and lacks the funds to do so.

- The possible difference in the willingness of other economies to offer the needed support to Saudi Arabia and Venezuela respectively and the possible difference in the receptiveness to any aid offered.