24.1 Forms of Trade Barriers

1. A tariff is a _____ levied on imported goods.

2. An import quota is a _____ set on the quantity of a good that can be imported to a country in a given period of time.

24.2 Economic Effects of Free Trade on a Small Open Economy

3. A small importing open economy is a *(price taker / price searcher)* of the world price. A change in the quantity it imports of a good *(will / will not)* affect the world price of the good.

4. The diagram on the right is the demand-supply diagram of clothing in a small economy. The economy opens up to trade and imports clothing from the world market. P_0 is the price before trade and P_w is the world price.

(a) Indicate the supply curve with free trade (S_f) and the import volume of clothing in the diagram.

(b) With free trade,

- the domestic price is _____;
- the domestic production is _____ units;
- the domestic consumption is _____ units.

24.3 Economic Effects of a Tariff on a Small Open Economy

5. The diagram on the right shows the imposition of an import tariff on a good in a small open economy. P_w is the world price while P_t is the domestic price after the imposition of the tariff.

(a) Indicate the following in the diagram:

(i) the supply curve with the tariff (S_t)

(ii) the import volume after imposing the tariff

(iii) the government tariff revenue

(b) After imposing the tariff,

- the domestic price will *(increase / decrease / remain unchanged)*;
- the import volume will *(increase / decrease / remain unchanged)*;
- the domestic consumption will *(increase / decrease / remain unchanged)* ;
- the domestic production will *(increase / decrease / remain unchanged)*.

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24.4 Economic Effects of a Quota on a Small Open Economy

6. The diagram on the right shows the imposition of an effective import quota on a good in a small open economy. P_w is the world price while P_q is the domestic price after imposing the quota.

(a) Indicate the following in the diagram:

(i) the supply curve with the quota (S_q)

(ii) the quantity of good X consumed domestically (Q_c)

(iii) the quantity of good X produced domestically (Q_p)

(iv) the import quota

(b) After imposing the quota,

- the domestic price will *(increase / decrease / remain unchanged)*;
- the import volume will *(increase / decrease / remain unchanged)*;
- the domestic consumption will *(increase / decrease / remain unchanged)*;
- the domestic production will *(increase / decrease / remain unchanged)*.

(c) Explain which party will gain the value of the quota if the government allocates the quota to domestic importers for free.

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24.5 Tariff versus Quota

7. Determine if each of the following statements is true or false.

(a) Imposing a tariff on a good will result in an increase in the government revenue while imposing an effective import quota may not.	*(True / False)*
(b) Imposing a tariff on a good will raise the world price of the good while imposing an effective import quota will not.	*(True / False)*
(c) The effect of imposing a tariff on import volume depends on elasticity while the effect of imposing an effective quota on import volume is certain.	*(True / False)*

24.6 Hong Kong's Attempts to Overcome Trade Barriers

8. Suggest **TWO** examples of trade barriers faced by Hong Kong.

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9. Suggest **TWO** measures that Hong Kong may take to overcome trade barriers.

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