24.1 Forms of Trade Barriers

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

2. An import quota is a maximum limit 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 P_w;
- the domestic production is Q_s units;
- the domestic consumption is Q_d 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.

The domestic importers will gain the value because they can import the good at the world price and sell it at the higher domestic price.

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.

anti-dumping duty / technical barriers to trade / safeguard measures (or any reasonable answers) (any TWO)

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

relocating outward processing to other countries / market diversification / producing high value added products (or any reasonable answers) (any TWO)

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