**Q1) Define tariffs and explain their purpose. (4 marks)**

**Sample Answer:**

Tariffs are taxes imposed on imported goods and services. They are used to make foreign goods more expensive, thereby protecting domestic industries from international competition. Governments also use tariffs to generate revenue and reduce the consumption of imports, which can help improve the balance of payments.

**Q2) Explain the national security argument in favor of trade protection, with an example. (6 marks)**

**Sample Answer:**

The national security argument suggests that certain industries are crucial to the defense and security of a nation. If a country becomes too reliant on foreign producers for essential goods, such as technology or energy, it could become vulnerable in times of conflict or crisis. Therefore, protecting strategic industries is vital. For example, the U.S. government protects its semiconductor industry to avoid dependence on foreign technology, which is critical for both civilian and military use.

**Q3) Discuss the infant industry argument as a justification for trade protection. (8 marks)**

**Sample Answer:**

The infant industry argument states that emerging industries may need temporary protection from international competition in order to grow and develop. Newly established industries often lack the economies of scale and experience to compete with established foreign firms. By implementing protectionist measures like tariffs or subsidies, governments can allow these industries to mature and become competitive.
For example, in the 1960s, South Korea implemented trade protection policies to nurture its nascent automotive industry. As a result, companies like Hyundai and Kia became globally competitive over time. However, the argument can be criticized, as it can lead to long-term inefficiency and dependency on government protection if not properly phased out.

**Q4) Evaluate the economic consequences of using tariffs to protect domestic industries. (10 marks)**

**Sample Answer:**

Tariffs can have mixed economic consequences for an economy.

**Positive effects** include the protection of domestic industries from foreign competition, which can help preserve jobs and allow nascent industries to grow. For example, the U.S. imposed tariffs on imported steel in 2018 to protect its domestic steel industry from foreign competitors, particularly China. Tariffs can also generate government revenue, which can be used for public services.

However, tariffs also have **negative consequences**. They lead to higher prices for consumers, as foreign goods become more expensive. This can reduce consumer surplus and limit the variety of goods available. In the U.S., tariffs on Chinese goods in 2019 led to higher prices for electronics and other consumer goods. Furthermore, tariffs can provoke retaliation from trading partners, leading to trade wars that can disrupt global trade and economic growth. For example, the EU retaliated with tariffs on U.S. goods after the U.S. imposed tariffs on steel.

In conclusion, while tariffs can protect domestic industries in the short term, their negative impact on consumer prices, international relations, and global trade suggests that they should be used cautiously.

**Q5) To what extent do the benefits of trade protection outweigh the costs? (15 marks)**

**Sample Answer:**

Trade protection involves the use of tariffs, quotas, and other measures to shield domestic industries from foreign competition. Economists debate whether the benefits of trade protection outweigh the costs.

**Benefits of trade protection** include protecting domestic jobs, fostering the growth of infant industries, and reducing reliance on foreign goods. For example, in the 1960s, South Korea’s automotive industry benefited from protectionist policies, allowing companies like Hyundai and Kia to become internationally competitive. Trade protection can also safeguard strategic industries, such as defense or energy, which are crucial for national security. For instance, the U.S. imposes restrictions on foreign competition in its semiconductor industry to avoid dependence on foreign technology.

Additionally, by imposing tariffs, governments can generate revenue, which can be used to fund public services and infrastructure. In developing countries, this can be an important source of government income.

However, the **costs of trade protection** are significant. First, tariffs and other protectionist measures lead to higher prices for consumers. For example, U.S. tariffs on Chinese goods in 2019 raised the prices of many consumer products, such as smartphones and electronics, hurting consumers and lowering overall welfare.

Second, trade protection can encourage inefficiency in domestic industries by shielding them from competition. Without the pressure to innovate and improve, domestic producers may remain inefficient and reliant on government support. This was the case in India, where its protected automotive industry lagged behind international standards before economic liberalization in the 1990s.

Third, protectionism often leads to retaliation from trading partners, escalating into trade wars that can disrupt global trade. For instance, after the U.S. imposed tariffs on steel in 2018, the EU retaliated by placing tariffs on American goods such as bourbon and motorcycles, resulting in reduced trade and tensions between the regions.

Finally, protectionist policies can reduce consumer choice and lead to resource misallocation, as industries that would otherwise shrink continue to operate inefficiently.

**Conclusion:**
While trade protection can bring benefits in specific cases, such as protecting infant or strategic industries, the overall costs – higher prices, inefficiency, retaliation, and reduced consumer choice – often outweigh these benefits. In the long term, an open trade policy that promotes competition and innovation tends to deliver greater welfare for consumers and economic growth.