

## eLearneconomics: Trade – Free Trade (1)

**Student response** \_\_\_\_\_

**(a)** Complete the statement on gains and losses from free trade using the words below.

access  
extra  
efficient

expand  
markets  
increased

jobs  
unable  
sales

scale  
forced

cheaper  
overtime

Some domestic (local) firms that are less \_\_\_\_\_ than overseas producers, may be \_\_\_\_\_ out of business, because they find that they are \_\_\_\_\_ to compete with the \_\_\_\_\_ imported goods, this may cost some workers their \_\_\_\_\_. Some local (domestic) producers will have \_\_\_\_\_ to larger \_\_\_\_\_, increasing the \_\_\_\_\_ (size) of their operation as they \_\_\_\_\_ output to meet \_\_\_\_\_ demand and \_\_\_\_\_ in overseas markets. This increase may require \_\_\_\_\_ workers or existing workers working \_\_\_\_\_.

**(b)** Outline some of the arguments that have been used to justify New Zealand's shift to free trade and its dismantling of import protection and abandonment of export incentives.

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# eLearneconomics: Trade – Free Trade (1a)



## Solution

(a) Complete the statement on gains and losses from free trade using the words below.

access	expand	jobs	scale	cheaper
extra	markets	unable	forced	overtime
efficient	increased	sales		

Some domestic (local) firms that are less efficient than overseas producers, may be forced out of business, because they find that they are unable to compete with the cheaper imported goods, this may cost some workers their jobs. Some local (domestic) producers will have access to larger markets, increasing the scale (size) of their operation as they expand output to meet increased demand and sales in overseas markets. This increase may require extra workers or existing workers working overtime.

(b) Outline some of the arguments that have been used to justify New Zealand's shift to free trade and its dismantling of import protection and abandonment of export incentives.

Resource Use: The philosophy that the market provides the best signals for efficient resource use, subsidies and import protection are looked upon as interference with the free working of the market. It follows that any interference with market forces leads to the preservation of relatively inefficient productive units within both export and domestic sectors. The elimination of subsidies and controls will lead to the closure of inefficient units and a shift of resources to areas of more efficient production.

Cost: The opportunity cost is in terms of lost production and short-term unemployment; and there is a money cost in subsidies and administering import licensing schemes, though tariffs are revenue-producing. Money costs are a drain on government revenue.

Export sector: New Zealand must compete in international markets and therefore must be competitive in terms of production and selling costs and therefore of pricing. Shedding inefficient units is a way of making the export sector more competitive.

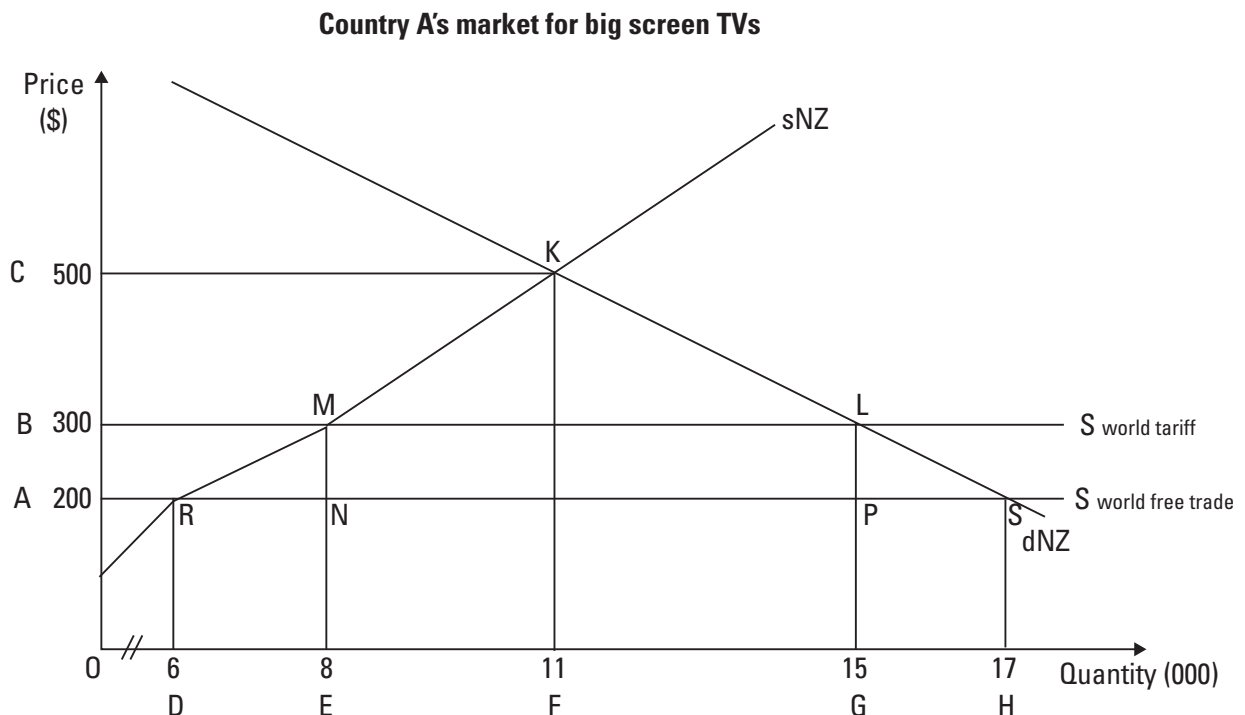
Domestic sector: Inefficient domestic producers reliant on import protection for survival can penalise the New Zealand consumer in terms of price, quality and choice of goods. The high price of imports due to tariff protection also penalises the consumer.



# eLearneconomics: Trade – Free Trade (2)

## Student response \_\_\_\_\_

Refer to the graph to answer the questions below.



(a) Complete the table.

Question (protectionism)	Value from graph	Letter answer
(i) Tariff price		
(ii) Tariff quantity sold		
(iii) Government revenue from tariff		
(iv) Tariff per unit		
(v) Local firms' output		
(vi) Local firms' income		

(b) Complete the table.

Question (free trade)	Value from graph	Letter answer
(i) Local firms' output		
(ii) Local firms' incomes after		
(iii) Price with free trade		
(iv) Quantity sold with free trade		
(v) Value sales with free trade		
(vi) Imports		
(vii) Importers' revenue		

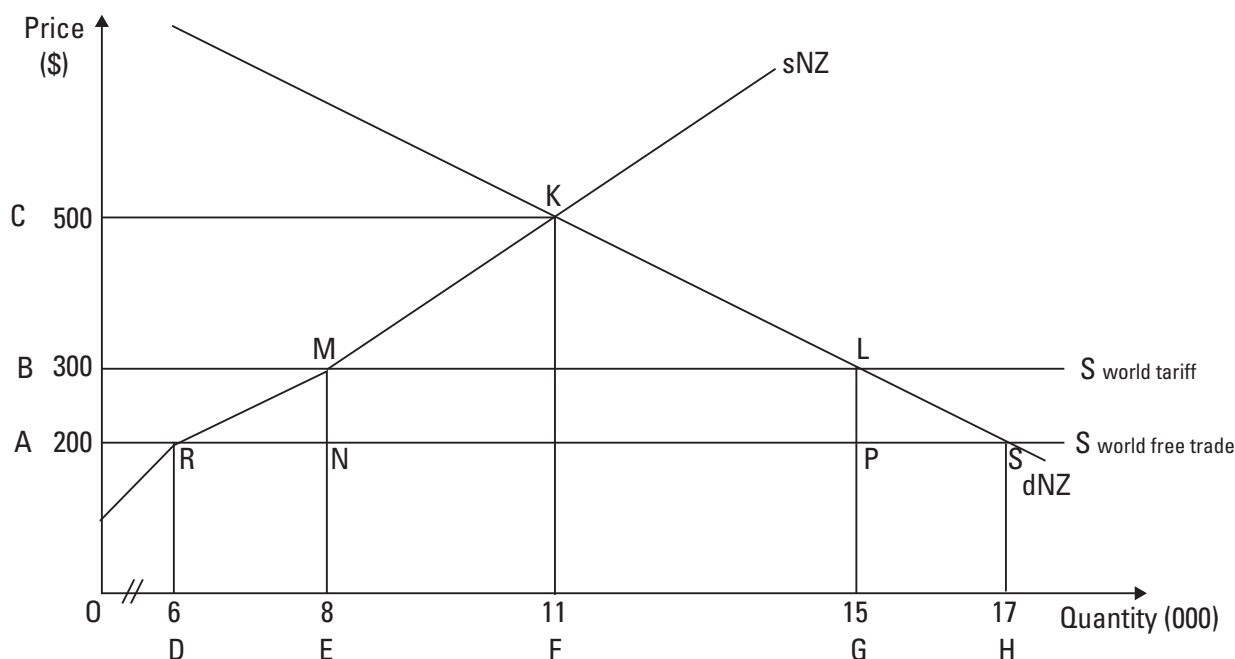
# eLearneconomics: Trade – Free Trade (2a)



## Solution

Refer to the graph to answer the questions below.

**Country A's market for big screen TVs**



(a) Complete the table.

Question (protectionism)	Value from graph	Letter answer
(i) Tariff price	\$300	OB
(ii) Tariff quantity sold	15 000	OG
(iii) Government revenue from tariff	$\$100 \times 7\,000 = 700\,000$	MNPL
(iv) Tariff per unit	\$100	BA / MN / LP
(v) Local firms' output	8 000	OE
(vi) Local firms' income	$\$300 \times 8\,000 = \$2\,400\,000$	BMEO

(b) Complete the table.

Question (free trade)	Value from graph	Letter answer
(i) Local firms' output	6 000	OD
(ii) Local firms' incomes after	$6\,000 \times \$200 = \$1\,200\,000$	DOAR
(iii) Price with free trade	\$200	OA
(iv) Quantity sold with free trade	17 000	OH
(v) Value sales with free trade	$17\,000 \times \$200 = \$3\,400\,000$	HOAS
(vi) Imports	11 000	RS/DH
(vii) Importers' revenue	$11\,000 \times \$200 = \$2\,200\,000$	RSHD

## eLearneconomics: Trade – Free Trade (3)

### Student response

Identify the possible positive and negative effects on the New Zealand economy of the removal of tariffs. Draw a conclusion if the removal of tariffs is in New Zealand's best interests.

**(a) Negative effects:**

**(b) Positive effects:**

**(c) Conclusion:**

# eLearneconomics: Trade – Free Trade (3a)



## Solution

Identify the possible positive and negative effects on the New Zealand economy of the removal of tariffs. Draw a conclusion if the removal of tariffs is in New Zealand's best interests.

- (a) Negative effects: Some New Zealand firms will be unable to compete with cheaper imports and will close down.  
Some workers will lose their jobs. Social and economic effects of higher unemployment. Greater income inequality.

- (b) Positive effects: Increased economic growth. More trading opportunities overseas if other countries also remove trade barriers. Cheaper imports for consumers. Lower inflation. More imports means a wider range of products for consumers. Resources will be reallocated to industries where we have a comparative advantage. New Zealand producers forced to become more efficient.

- (c) Conclusion:

(i) The positive effects of New Zealand exporting more will outweigh the negative effect of more imports because the rest of the world is a large market compared with New Zealand. Therefore, the increase in sales of exports to the rest of the world will be considerably more than the increase in imports from the rest of the world, so the overall impact is a good one.

(ii) The removal of tariffs is a good policy because resources will be reallocated to industries where New Zealand has a comparative advantage, rather than remaining in inefficient industries which rely on government protection to survive. The industries where New Zealand has a comparative advantage will be able to compete on the large world markets, and the potential growth in these industries will outweigh any negative effects that occur from removing the tariffs.