Structured Question G2-1 谈木天 Victor Group1

1a Trade protectionism is to protect the domestic producer’s profit and employment of people in the country by decrease the amount of import.

1b First is tariff, which means to put a tax on the import goods, so the price of import will increase and the demand for import will decrease if the price elasticity demand is bigger than 1.

Second is quota, it is used to limit the quantity of import goods, so the amount of import will decrease, since the amount of goods for a firm can import decrease.

S1

1c P

As the price of steel decrease, the cost of production of the car decrease, so the supply of the car will increase and will cause a fall in the price of the car.

D

Q

S2

1d On one side, protectionism is effective in raising living standards.

First, if the government start to use protectionism, the amount of import goods will decrease, so more people are going to buy domestic goods which means the demand for domestic goods increase, so the price of the goods will increase and domestic firms will have higher revenue and the income of labour may increase, GDP per head of the country will increase and living standard of people will increase.

Second, if the government start to use protectionism, the demand for import will decrease and demand for domestic goods will increase, so the firms in the country needs higher output and their demand for workers will increase and will reduce unemployment. As more people can get income, the living standard of people will increase.

One the other side, protectionism is not effective in raising living standards.

First, if the government use tariff to achieve protectionism, which means they put a tax on import and the price of import will increase, so those firms who buy raw materials from other country will have higher cost of production. So the firm may decrease the wage to the labour and people will have lower income and living standard of people will increase.

Second, if the government use a quota, the amount of import will be limited and the supply of a goods in the country will decrease and which means the price of the product will increase, if the product is a necessities, there will be less poorer afford the product and the living standard of people will decrease.

2a Fixed cost is a cost which do not increase as the output of the firms increase. For example, rent and investment.

2b First a monopoly is a price maker while a competitive market is a price taker which means the monopoly will make the price but a competitive market can only take the price of consumers. Because there are many choices in competitive market so the lower price will attract consumers to but their goods.

Second, a monopoly have high barrier while a competitive market have low barrier which means it is hard to go into the market of monopoly and is easy to go into the competitive market. Because the firms in the monopoly is very strong and the firms in the competitive market are weaker than monopoly.

2c First, the price of the labor will determine the demand of firms to labor. As the price of the labor decrease, if the firms are labor-intensive, the cost of production of the firm will be lower, so the demand for labor will be higher.

Second, the price of capital will determine the demand of firms. If the price of the capital is higher than the price of labor, the firms are more likely choose to use labor rather than capital since the cost of production of using labor is lower.

Third, the productivity of the labor will determine the demand of firms.If the productivity of labors are very high, the output of firms will increase and as the supply of firms increase, if the product is price elastic demand the revenue of firms will increase, so the demand for workers will increase as the productivity of workers increase.

2d On one side, a merger will increase profits.

First, if a firm do horizontal merger and buy a firm which produce the product, the firm will become larger and the total output of the firm will increase, which means the supply of the product is higher and if the product have price elastic demand, as the price fall the quantity demand will increase more, the revenue of the firm will increase and the profit of firm will increase.

Second, if a firm do vertical merger backward which means they buy a firm which produce raw materials of the product, they can buy the raw materials with lower price, so the cost of production will decrease and the firm will receive higher profit.

On the other side, a merger will not increase profits.

First, if a firm do horizontal merger and make the firm larger it will be very hard to control the firm, if the firms become hard to control, they will experience diseconomic of scale which means the average cost of firms will increase with output and the profit will decrease.

Second, if firm do merger and the size of the firm increase, the flexibility of the firm will decrease which means as the consumer demand change, the firm cannot change the product very quickly and the demand for the product will fall suddenly and the revenue of the firm will decrease cause the profit of the firm decrease.