

# ECONOMICS IN THE REAL WORLD

## PROTECTIONISM

### ACTIVITY 3



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Context 2 from AQA Economics Paper 2 June 2020:

Question 8 [25 Marks]:

'Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.'

Example paragraph and graph:

The strongest argument for protectionism is the infant industry argument, which argues that countries such as Brazil and China should pick an income elastic product, with high value added, and introduce protectionist policies, such as a tariff. This would cause an increase in the price of imported goods so firms in Brazil or China can gain a producer surplus as they move from S to S2 which has been highlighted on the graph.

Additionally, the government gains tax revenue which they can invest into the industry, for example Brazil's government subsidising car manufacturers (extract F) or investing into the infrastructure of the country, to reduce the costs for business. If they do this the firm can move closer to S3 where they will be internationally competitive. However it is also important that with the additional supernormal profit due to a larger domestic market, the firms invest to increase their productivity and become dynamically efficient.

These 2 factors combined with economies of scale can move the industry to S3 where they become more internationally competitive. As a result, the tariffs can be lifted and as the PSH states, the long run growth of the country will benefit due to the income elastic nature of the exports.

