

PROTECTION IN AUSTRALIA

6

MULTIPLE CHOICE

- | | | | |
|------|-------|-------|-------|
| 1. B | 6. B | 11. A | 16. D |
| 2. D | 7. A | 12. A | 17. B |
| 3. A | 8. C | 13. A | 18. A |
| 4. A | 9. B | 14. D | 19. A |
| 5. B | 10. A | 15. A | 20. B |

SHORT ANSWER QUESTIONS

Question 1

- (a) Protection refers to government action designed to give domestic producers an artificial advantage over foreign competitors.
- (b) Australia's tariff levels have decreased dramatically in the last twenty years, falling from an average 19 per cent in 1986-7 to 4.4 per cent in 2001-02. Despite these reductions, tariffs remain high in the textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) industries.
- (c) The government may pursue unilateral reductions in protection by removing tariffs, quotas and subsidies of its own accord. It may also reduce protection through a bilateral agreement in exchange for a trading partner doing likewise. It may also pursue trade liberalisation multilaterally, either as part of a trade bloc or by taking part in WTO negotiations.
- (d) The government aims to improve external stability by exposing import-competing firms to foreign competition, forcing firms to become increase their efficiency. This lessens the economy's reliance on imports and improves the CAD. Reductions in tariffs and increased competition will also keep prices low, helping the government achieve price stability. Removing protection will lower unemployment in the long term as job opportunities emerge in efficient industries. It will also enable economic growth through facilitating an efficient allocation of resources.

Question 2

- (a) An answer to this question may include any two of the following:
- voluntary export restraints
 - tariffs
 - subsidies
 - quotas
 - local content rules

- (b)** In the short term, Australians will purchase greater volumes of imports, which will increase the balance on goods and services component of the CAD. In the long term, domestic firms may regain their market share if they become more efficient, decreasing imports and improving the CAD.
- (c)** Removing tariffs will lower government revenue, as a tariff is a tax that accrues to the government. The government may also lose political popularity due to the short-term rise in structural employment resulting from the decline of inefficient firms.
- (d)** An answer to this question may include any one of the following advantages and any one of the following disadvantages:

Advantages:

- Access to a greater variety of goods and services
- Access to goods and services at lower cost

Disadvantages:

- Increased risk of unemployment for individuals who work in import-competing industries
- The possibility of 'dumping' by foreign countries harming the domestic economy and possibly resulting in unemployment

- (e)** An answer to this question may include any one of the following advantages and any one of the following disadvantages:

Advantages:

- Firms will have access to cheaper imported inputs to production
- It may encourage other economies to lower their protection, providing greater export opportunities for Australian firms

Disadvantages:

- Import-competing firms may lose market share to foreign competitors
- Smaller firms may find it difficult to achieve a sufficient size to be globally competitive.

Question 3

- (a)** A subsidy is a payment from the government to businesses to encourage production of a good or service, helping domestic businesses compete with imports and influencing the allocation of resources in an economy.
- (b)** The agricultural sector.
- (c)** The Doha Round of World Trade Organisation talks began in 2001, attempting to reduce some \$700bn of agricultural protection and relax pharmaceutical patent laws. The 148 participating economies failed to reach agreement before the Doha Round's original January 2005 deadline. Talks were suspended in 2006, but resumed again in early 2007, with no deadline set for completion of the round.
- (d)** Global protectionist policies limit Australian firms' access to overseas markets, resulting in decreased production and income. In producing for the domestic market, firms may not achieve the economies of scale that production for the global market would allow, increasing costs of production. As a consequence of this decreased output, fewer Australian individuals will be employed and individuals' income may be less than it could potentially be. This reduces the individual's capacity to satisfy his or her wants.