Free Trade & Protection — Worksheet

Part A — Comparative advantage, tariffs and subsidies

This worksheet develops the core analytical skills of Unit 3: calculating opportunity cost, identifying comparative advantage, and using the demand and supply model to show the effects of protection.

Worked example — opportunity cost ratio. A country can produce 80 cars *or* 240 computers. Then the opportunity cost of 1 car = 240 ÷ 80 = $3\ computers$, and the opportunity cost of 1 computer = 80 ÷ 240 = $⅓\ car$. The country with the **lower** opportunity cost in a good has the comparative advantage in it.

For any protection question, always **draw the diagram first**, label every change, then write your explanation referring to the diagram. Markers reward the diagram–explanation link directly.

Comparative advantage and opportunity cost

1. Using one set of resources, Country A can produce 60 units of steel or 120 units of textiles. Country B can produce 50 units of steel or 50 units of textiles.

(a) Calculate the opportunity cost of one unit of steel in each country.

(b) Which country has the comparative advantage in steel? Justify with your figures.

2. Define comparative advantage and explain why a country with an absolute advantage in *both* goods can still gain from trade.

Tariffs and subsidies on the demand & supply model

3. On the axes provided (or sketch your own), draw a domestic demand and supply diagram with a world price line. Show the effect of imposing a tariff, then label: the new price, the change in domestic production, the change in domestic consumption, and the new (smaller) volume of imports.

4. Explain the impact of the tariff in Q3 on: (a) consumers, (b) domestic producers, (c) the government, and (d) overall market efficiency.

5. Compare a tariff and a subsidy as methods of protecting a domestic industry. In your answer, identify who bears the cost in each case.

Arguments and policy

6. Discuss one argument for protection and one argument for trade liberalisation, then state, with a reason, which you find more persuasive for a modern Australian industry of your choice.