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Date:- 06/05/2020	Degree Part-II (Hons)
Content Writer:-	Paper:- IV
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TOPIC:- IMPACTS OF TARIFFS ON INTERNATIONAL TRADE

Tariffs and quotas are used as protective trade devices under the actions of international trade. As we know a schedule of duties levied upon the importation of commodities into a given nation from abroad is called a tariff. Hence, it makes a broad impact on the activities of foreign trade. Following are the important impacts of tariffs on the foreign trade:-

(I) Price Effect:-

Normally if the foreign price of a commodity is unchanged, we find that the price in the tariff-imposed nation would rise by the full amount of the tariff duty. But the exact price effect depends upon the volume and elasticity of demand and supply in the trading countries. The elasticity of supply, however, depends upon the cost conditions, that is, constant, increasing or decreasing which play an important role in determining the price effect of the tariff.

(II) Protective Effect:-

A tariff is a restrictive measure which seeks to control the quantity of imports so that domestic industry may be protected. A tariff duty is purely protective only if it is so high as to prohibit total imports of a commodity. In practice, however, in its restrictive effect upon the quantity of imports, tariff, no matter how high, need not prove absolutely protective. Obviously, any imports may flow in after the payment of duties, unless regulated otherwise.

Nevertheless, the protective effect of tariff can be seen in the expansion of domestic production of a commodity which becomes possible due to rise in prices in the domestic market. High prices enable the home producers to cover their high rising marginal costs on a larger output.

(III) Revenue Effect :-

Tariffs which are not totally prohibitive certainly bring some revenue to the state. Usually, the government collects customs revenue equal to the duty multiplied by the volume of imports.

(IV) Transfer or Re-distribution Effect :-

After the imposition of the tariff, domestic price will rise, hence receipts of producers will increase, while consumer's surplus to that extent declines. This is called transfer effect. Thus, the increase in receipts which is in excess of marginal costs is an "economic rent" to the producers which is derived by subtraction from consumer's surplus.

(V) Consumption Effect :-
A tariff generally reduces the total consumption of a commodity because of the rise in its price. This is called the consumption effect of tariffs on foreign trade.

(VI) Competitive Effect :-
Imposition of tariffs eliminates foreign competition and gives scope for the domestic producers to capture the market. If there is a monopoly in domestic market, protection of tariffs helps the growth of domestic monopoly. Similarly, removal of tariff increases competition from abroad and breaks domestic monopolies.

(VII) Terms of Trade Effect :-
The imposition of a tariff may serve to improve a country's terms of trade. Thus the tariff can do easily when the foreign demand for the exports of the tariff imposing country is both large and inelastic. In such a situation, the effect of tariff is to reduce imports to some extent, thereby making it difficult for foreigners to earn for their imports from the country. Hence, in attempt to expand their exports foreigners may be inclined to reduce their prices, so that

to the tariff imposing country, the imported articles are now relatively cheaply available in the foreign market. In this way, the effect of the tariff to lower import prices relative to export prices, thereby improving the terms of trade for the tariff imposing country.

(VIII) Balance of Payments Effects:- When a tariff affects the volume of imports and prices it also affects the country's balance of payments position. A country having deficit balance of payments position can restore and maintain equilibrium by means of tariff restrictions upon imports.

(IX) Income and Employment Effects:- It was formerly believed that imposition of tariffs would lead to expansion of employment and incomes. By reducing imports, tariffs stimulate employment and output in the import-competing industries. A new flow of income will be generated with the "multiplier-effect." In an expanding economy, more capital goods investment will also be made which produces "acceleration effect." The interaction of multiplier-accelerator will lead to a cumulative expansion of investment, employment, output and income in the country.