# MACROECONOMICS AT WORK EXERCISE

## SOME IMPLICATIONS OF TARIFFS

***REFERENCE***: **'Howard lashed over $300m tariff'** (by Kean Wong)**,** *Australian Financial Review,* 20 September 2004, p. 1, 8.

## CHAPTER RELEVANT TO THIS EXERCISE: 21

## CONTEXT

Governments may levy taxes (tariffs) on goods imported into a country. The consequences of a tariff will be firstly to raise revenue for the government, and secondly to affect domestic producers, both of the good itself and of goods that use the good on which the tariff is applied as an input. If the tariff is levied on a *finished good* then it will serve to give a measure of protection to domestic producers (i.e. by making imported goods relatively more expensive). (In other words domestic manufacturers are given a relative advantage over imports; for this reason the tariff is often referred to as a measure of 'trade protection'.) On the other hand if the tariff is levied on goods which are used as *inputs into the production process*, then domestic manufacturers who use these goods are *adversely* affected. The goods they produce (whether for the domestic market or export) are made relatively more expensive compared to those of overseas producers (who do not have to pay the higher price for their inputs as a result of the tariff). (Of course some finished goods may *also* be used as inputs into the production process of some commodities [e.g. farm machinery used by agricultural producers] so the tariff can work to *both* the benefit and disadvantage of domestic producers… one of the dilemmas of tariff policy.)

This article is about attitudes towards a particular tariff on certain components (inputs) used by a number of manufacturing industries.

## QUESTIONS

1. What is the tariff in question and why was it first levied?

2. Explain why it has been argued that the rationale for the tariff no longer applies.

3. How is it that this tariff (when a tariff is typically thought of as giving *protection* to domestic manufacturers) is charged with *disadvantaging* manufacturers?

4. By what process has it been argued that the tariff is particularly disadvantageous to companies manufacturing for export?

5. Why could the tariff be seen as particularly advantaging Thai producers of the goods that attract the tariff?

6. Comment on the observation made at the end of the article that among the producers quoted who argued that the tariff was a financial burden, one producer (of similar goods) has been quoted as saying that the tariff is not, to him, ‘a major impairment’?