**TY SEM – VI**

**MODULE II**

INSTRUCTIONS: Given below are statements that are TRUE. Study them well along with those given in the book. They can be asked in some form or the other for MCQ’s and True / False.

PLEASE REFER TO BOTH **MANAN PRAKASHAN** AS WELL AS **SHETH PUBLICATION** FOR PRACTISING MCQs. Both are available in the library.

**Ch: 5 Commercial Trade Policy**

* A commercial trade policy deals with a country’s international trade relations
* Commercial trade policy is adopted by the Government of a country
* Following are some tools that are used for implementation of trade policy- tariffs, import quotas, export subsidies, export constraints, import substitution, foreign investment policies, subsidies to domestic producers to encourage exports.
* Objectives of commercial trade policy: (Read pg 56)
* Two types of commercial trade policies: Free trade policy and Protectionist policy
* Free trade policy is also called liberal trade policy
* Free trade is characterized by absence of tariffs, quotas, taxes, subsidies, exchange restrictions.
* Free trade policy promotes efficiency as t promotes international specialization and division of labour
* Production of goods and services based on comparative cost advantage leads to optimum utilization of resources and low cost of production
* Increase in global output is a result of free trade
* Free trade policy is more beneficial for developed countries than for less developed countries
* Dumping of foreign goods is a consequence of free trade
* The most popular protectionist measure- import tariff
* The most popular benefit of protectionist trade policy- infant industry argument
* Infant industry argument states that new industries require protection from international competitors until they become mature, stable, and are able to be competitive.
* Generally less developed countries have a comparative advantage in the production of labour intensive goods
* Pauper Labour Argument- If developed nations allow free imports from low labour cost economies (largely developing countries) , then the domestic labour in the developed nation will face competition from cheap foreign labour which will result in job losses and unemployment

**Ch: 6 Tariff and Non-Tariff Barriers**

* Tariffs can be imposed on both imports and exports
* Export tariff can be used to restrict exports that can cause shortage of goods and services in the domestic market
* Tariffs are also called import/ export duties or customs duties
* A tariff is passed on to the consumer in the form of high price of imports
* Tariffs aim to help countries become self sufficient
* Tariffs imposed on the physical characteristics of a commodity- Specific tariffs
* Specific tariffs can be arbitrary
* Specific tariffs may not always be equitable
* Tariffs levied as a percentage rate of the value of the traded commodity- Ad valorem tariff
* Ad valorem tariffs are usually levied on commodities whose values are proportionately higher than their physical features like weight, length, etc.
* Ad valorem tariffs are more equitable than Specific tariffs
* Tariff that is expressed as either a specific or an ad valorem rate depending on whichever generates greater revenue- Mixed tariffs
* Tariffs that are a combination of both specific and ad valorem tariffs- Compound tariffs
* The tariff that is more effective in protecting domestic industries and hence brings greater elasticity in revenue collection- Compound tariffs
* In the long run protective tariffs can harm the economy
* Tariffs have revenue and protective effects
* Non- discriminatory tariffs are also called single column tariff
* Tax in which a uniform rate is levied on imports of a particular commodity irrespective of which country it is being imported from – Non- discriminatory tariffs
* Tariffs that are easy to administer but are not elastic enough - Non- discriminatory tariffs
* Discriminatory tariffs are also called double column tariffs or multiple column tariffs
* Tariffs that differ according to the countries from where the imports originate
* Tariffs applied to products imported from the Most Favoured Nations (MFNs)- Minimum tariffs
* Tariffs levied on imported goods to neutralize the effects of subsidies given to producers in the exporting country- Countervailing tariffs
* Effects of tariffs were given by Charles Kindleberger
* The international price level is lower than the domestic equilibrium price
* Imposition of tariff causes a reduction in consumption in the domestic country
* The sum of protective and consumption effect is called the trade effect
* Tariffs cause a loss of welfare due to reduced consumption
* Tariffs redistribute income between producers and consumers and is in favour of producers
* Tariffs make terms of trade favourable to the country which is imposing the tariff on its imports
* Unfavourable balance of payments implies that imports are greater than exports
* Imposition of an import tariff in case of unfavourable balance of payments will make the balance of payments favourable for the tariff imposing country
* Non- tariff barriers include measures like import quotas, licenses, voluntary export restrictions, testing requirements, etc.
* Trade barriers that are imposed to limit the volume or money value of goods that a country can import during a particular period- Import quota
* The imposition of an import quota causes price to rise in the domestic country
* Non-tariff instrument that helps domestic producers to lower their cost of production and thereby compete more effectively with foreign competition- domestic subsidies
* Non- tariff barrier that come in the form of bilateral agreements between 2 nations to impose restrictions of exporters of 1 country in order to protect the domestic producers in the other country- Voluntary export restraints

**Ch: 7 International Economic Integration**

* A trade agreement is a treat between 2 or more nations that covers the rules and regulations of trade between them
* Multilateralism- efforts make by countries to liberalize international trade and to promote free and fair trade among nations
* Multilateralism started with the signing of GATT and later with WTO
* The creation of WTO promoted the phase of globalization
* Trade blocs- groups of countries that manage and promote trade in a particular region
* Trade blocs seeks to achieve regionalism
* Trade blocs are in direct conflict with the principles of free trade and multilateralism as they promote trade within a specific region while creating barriers to trade from outside the region
* First step towards the formation of a trade bloc- creation of a Preferential Trade Area (PTA)
* Members remove trade barriers amongst themselves and agree on a common tariff against non- members- customs union
* One of the major steps towards complete economic integration- formation of a common market
* Primary objective of economic integration- welfare of people within the region
* European Union (EU) is an economic and political union
* EU guarantees free movement of goods, capital, services and labour
* <https://www.britannica.com/topic/European-Union>
* Founding members of ASEAN- Indonesia. Philippines, Singapore and Thailand
* Member nations have adopted principles based on the Treaty of Amity and Cooperation in South Asia of 1976
* Economic integration seeks to be achieved in ASEAN through the AEC