



[Summary]

[Cost and Benefit Analysis of Tariff and Rate of Effective Protection]

Subject:	Business Economics
Course:	B.A., 5 th Semester, Undergraduate
Paper No. & Title:	Paper – 541 International Economics
Unit No. & Title:	Unit - 3 International Trade Policy
Lecture No. & Title:	2: Cost and Benefit Analysis of Tariff and Rate of Effective Protection

Summary:

An imposition of a tariff redistributes income from consumers to producers in the form of increased producer surplus. It also redistributes income from nation's abundant factors which produces export commodity to nation's scarce factor which produces import commodity. This leads to inefficiencies in the economy. This is referred to as protection cost or deadweight loss to the economy due to an import tariff by a small nation. Effective Rate of Protection (ERP) is defined as the ratio of difference between the value added at domestic prices and the value added at world prices to value added at world prices.