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Practice exam questions

Protectionist policies and implications

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Check your answer to the question on pp. 4–6 of the magazine. This question relates to the AQA specification.

Sample answer

Protectionism can include tariffs, quotas or other trade barriers such as government legislation, admin checks or domestic subsidies.

Given that Northfield Cycles imports 95% of its stock from countries such as China and Vietnam, protectionism such as tariffs could increase the company's purchasing costs. Consequently, it may have to increase its already high prices to maintain current profit margins. This could result in customers choosing to purchase Giant bikes from retailers who are more able to absorb such costs. For example, Amazon may already have much less fixed costs as they do not operate a presence on the high street, as Northfield Cycles do. In the longer term, this could switch current loyal customers to repeat purchase from online stores reducing Northfield Cycles' sales, revenue and gross profits.

However, it depends on whether the importing companies or suppliers like Scott are prepared to absorb the extra costs caused by the imposition of tariffs, rather than pass them on to Northfield Cycles, the retailer. If costs are absorbed, perhaps due to lower levels of tariffs, Northfield Cycles may not be affected in terms of purchase price from suppliers and should be able to maintain profit margins and hold onto its customer base.

Subsidies on the part of the Chinese government might make the effective costs of manufacturing and exporting lower. Therefore, Chinese bikes may be cheaper than those sold from Vietnam or Europe. In the long run this could reduce consumer choice as European manufacturers of bikes go out of business. Northfield Cycles could, therefore, benefit from increased profits margins in the short term, but lose customers in the longer term as they are no longer able to choose preferred products from Europe.

If protectionism was to cause an increase in price and price was the most important determinant of demand for Northfield Cycles, then sales may suffer due to the company's relatively high overheads compared to larger competitors who benefit from economies of scale through bulk purchasing, such as Amazon. However, as Northfield Cycles sell to premium market customers, who are less likely to be sensitive to price rises and are more focused on the unique customer experience, such as setting up a bike, thus protectionism has a limited impact as long as price rises are manageable.

Sample examiner comment

Mark: 9/9 (an excellent response fully focused on the question)

A depth and range of knowledge and understanding are shown on the impact on Northfield Cycles business of protectionism.

Application about a specific and relevant businesses is applied effectively throughout the answer.

Analysis is well developed throughout the answer and considers a balanced range of issues appropriate to answering the question.

The answer makes judgments as to the impact on Northfield Cycles' business. The answer shows a balance of competing arguments and a clear focus on answering the question throughout.

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