Imports and protectionism: Explain the main economic determinants of a countries demand for imports – 15 marks

There are many factors of demand for imports. There are three main factors that determine the demand for imports; these are the relative price of imports, consumer incomes and consumer preference.

The relative price of imports in relation to the price of domestically produced goods will affect demand for imports. If imports are more expensive than domestically produced goods and services then the demand for imports is likely to be higher for the same version of the product. The price difference imported goods maybe due to the different cost of production in different countries in comparison to those produced in the domestic country. The cost of production may be higher in a foreign country causing the import to be more expensive than the domestically produced good. This may due to the comparative advantage of the domestic production. More over some goods cannot be produced in some counties as it would be far too expensive or impossible and therefore have to be imported, for example you cannot grow pineapple in the UK and they therefore must be imported. Due to the comparative advantage patterns the UK economy has adjusted its production and prices relative to this. The UK has become de-industrialised as the economy becomes more focused on the service sector decreasing the supply of domestic goods and therefore increasing the price of them and thus increasing the demand for imports. The exchange rate also will have an effect on the relative price of imports, if the pound is strong then this will mean imports are cheaper and this may mean they fall below the price of domestically produced goods and services thus increasing the demand for imports as they become more price competitive.

Another factor that affects the demand for imports is consumer's incomes. In the UK was have a high Marginal propensity to import, therefore when incomes are rising in economic growth then the demand for imports will also increase, and probably more than the demand to domestically produced goods. In contrast during a recession there is likely to be and large decreasing the demand for imports.

Consumer preference will affect the demand for imports. This may be related to the perceived quality of a product. Consumers may perceive domestically produced goods to be of a higher standard and this will therefore decrease the demand for imports. Consumers may also believe that domestically produced goods are more reliable or provide a better after-sales service thus decreasing the demand for imports. Additionally environmentally conscious consumers may prefer to buy locally produced products if the carbon-footprint of them is lower than imported goods which may have been transported a long way.

In addition to these 3 main factors there are other factors, for example tariffs which increase the price of an imported good/ service making it less price competitive and decrease demand for imports. Quotas reduce the supply of imported goods/ services pushing up price and decreasing demand for imports and non-tariff barriers may also decrease the availability of imported goods and services thus decreasing demand. No tariff barrios a partly prominent within the EU where there is a Single European Market where free trade is obligatory.