However, such an effect is termed a

However, the reaction of the market forces to a customs duty is the same whether it is levied with the intention of raising revenue or with some other objective. And since the authorities want to minimise the repercussive effects of a revenue duty, they normally levy and vary it within a narrow range. Market Effect: The market effect of a customs duty on an item refers to its impact on i. Its traded volume, and ii. On its trade-price.

Since an import duty increases the import price of the taxed item (the extent of which depends upon various factors including its demand and supply elasticities), it has a protective effect in the form of shielding domestic suppliers from competition from imports. An import duty is termed a protective tariff when it is levied with the intention of providing protection to the domestic suppliers from competition from abroad. In an extreme situation, the rate of a protective duty can be so high that imported volume of the taxed item is reduced to zero. A tariff duty with such an effect is termed a prohibitive tariff. The market effect of a customs duty is not limited to its initial impact only. Its repercussive effects spread to different sectors and activities of the economy. The depth of such repercussive effects, however, depends upon the nature of the item being taxed, its place in the domestic economy, the rate of duty, and similar other factors.