International Economics

Home assignment 8: Import Tariffs in a small country

The following table summarizes two hypothetical situations in the market for shirts in a small economy. The first column depicts the situation in the presence of a \$5 per unit tariff on imported shirts. The second column represents the situation in the absence of the tariff (i.e., under free trade). You may assume that demand and supply curves are linear.

	With \$5 per unit Tariff	Free Trade
World price of shirts	\$20	\$20
Tariff per unit	\$5	\$0
Price per unit of shirts	\$25	\$20
Consumed Quantity of Shirts (‘000s)	200	250
Produced Quantity of Shirts (‘000s)	120	50

Use a diagram to illustrate the effect of the tariff on prices and quantities

Calculate the changes in consumer surplus, producer surplus, and tariff revenue resulting from the tariff. Calculate the DWL.