

International Economics

Home assignment 9

Optimal Tariff and Lobbying

Use the spreadsheet 'tariff.xls' for the following questions:

(a) Suppose that the Home government maximizes the social welfare which is a sum of consumer surplus, producer surplus and tariff revenue, $CS+PS+TR$

Create a figure that plots Home social welfare on the vertical axis against the tariff level on the horizontal axis. Using this visual aide and data, find the optimal tariff.

Now you are told that the actual policy is the tariff level of 11 cents. What can you learn from this comparison?

(b) Next, examine how the 'optimal' tariff might change with a different priority of the government.

Suppose that the government is biased towards producers and puts an extra weight on PS. That is, the government maximizes $CS+7PS+TR$. What is the optimal tariff in this case?