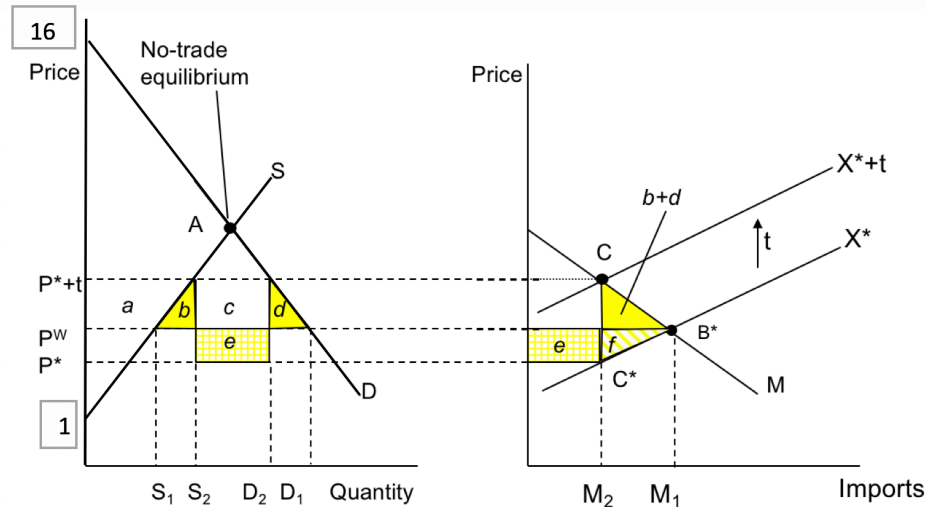


Sample Problems: Import Tariffs and Quotas

1. Suppose Home is a **large country** whose supply and demand curves are given by the following figure.



At no trade equilibrium, $p = 8$, $q = 7$

$P_w = 5$, $S_1 = 4$, $D_1 = 12$

$P^* = 3$

$P^* + t = 7$, $S_2 = 6$, $D_2 = 8$

$M_1 = 8$, $M_2 = 2$

- Assume the world price is $P_w = \$5$. Determine the consumer and producer surplus under free trade.
 - Suppose the government at Home government imposes a tariff in the amount of \$4 (i. e. , $t = \$4$). What is the new Home price? What is the price received by the foreign exporters?
 - Determine the terms of trade for Home with the tariff.
 - Does Home welfare increase or decrease due to the tariff? Explain.
2. Aoslia is a **small country** that takes the world price of corn as given. Its domestic supply and demand for corn is given by the following:
- $$D = 45 - 3P$$
- $$S = 3P - 9$$
- Suppose the Aoslial government applies an import quota that limits imports to 12 bushels.
- Determine the quantity demanded, quantity supplied, and new domestic price **with the quota**.
 - Calculate the quota rent.
 - Assuming that the quota licenses are allocated to domestic producers, what is the net effect of the quota on Aoslial's welfare?
 - Assuming that the quota rents are earned by foreign exporters, what is the net effect of the quota on Aoslial's welfare?

3. Consider the following hypothetical information pertaining to a country's imports, consumption, and production of T-shirts following the removal of the MFA (Multi Fibre Arrangement) quota:

	With MFA Quota	Without MFA (Free Trade)
World Price (\$/shirt)	2	2
Domestic Price (\$/shirt)	2.5	2
Domestic Consumption (million shirts/year)	100	125
Domestic Production (million shirts/year)	75	50
Imports (million shirts/year)	25	75

- Graph the effects of the quota removal on domestic consumption and production.
- Determine the gain in consumer surplus from the removal of the quota.
- Determine the loss in producer surplus from the removal of the quota.
- Calculate the quota rents that were earned under the quota
- Determine how much the country has gained from the removal of the quota.