

QUIZ 6

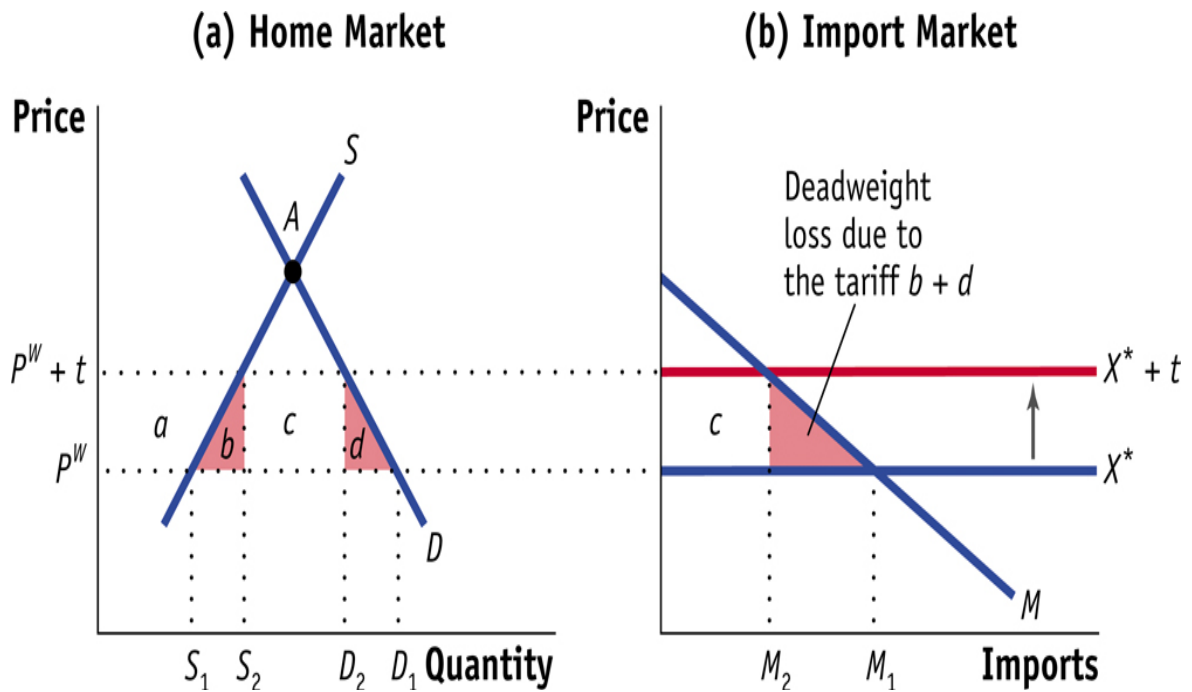
Reviewing Import Tariffs and Quotas

Name: _____

Points: _____/10

Calculate the welfare effects for the following:

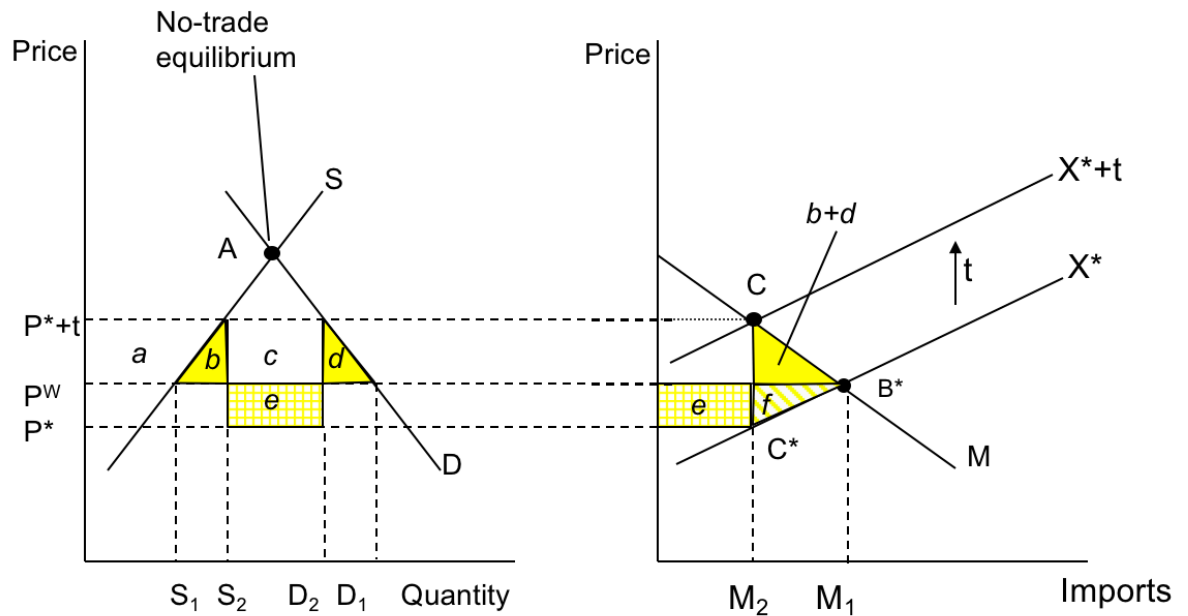
- Consider Home to be a **small open economy**, and markets to be perfectly competitive.
Welfare effect of **tariff** for Home:



- | | | |
|---------------------------------|-----|------------|
| 1. Change in consumer surplus | : ↓ | -(a+b+c+d) |
| 2. Change in producer surplus | : ↑ | +a |
| 3. Govt. Revenue earned at Home | : | +c |

Net effect on Home welfare : -(b+d)

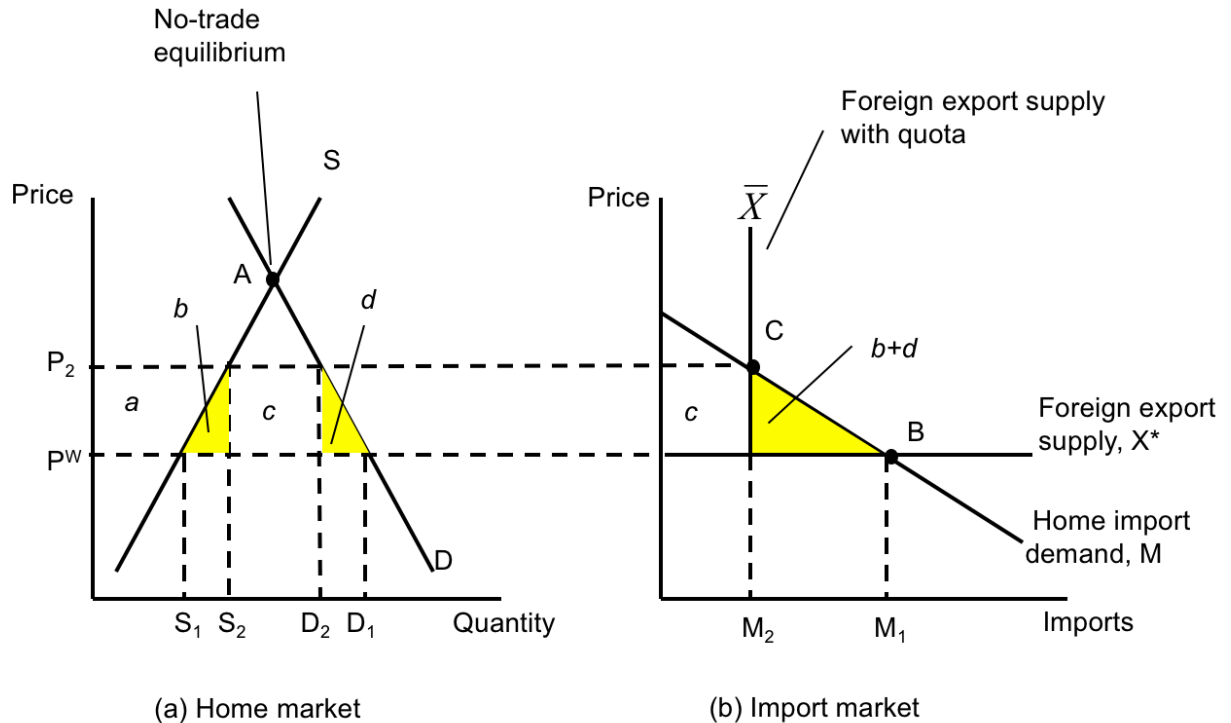
2. Consider Home to be a **large open economy**, and markets to be perfectly competitive. Welfare effect of **tariff** for Home:



- | | | |
|---------------------------------|-----|--------------|
| 1. Change in consumer surplus | : ↓ | $-(a+b+c+d)$ |
| 2. Change in producer surplus | : ↑ | $+a$ |
| 3. Govt. Revenue earned at Home | : | $+(c+e)$ |

Net effect on Home welfare : $e - (b+d)$

3. Consider Home to be a **small open economy**, and markets to be perfectly competitive. Welfare effect of **quota** for Home:



Case 1: Giving the quota licenses to Home Firms

1. Change in consumer surplus	: ↓	$-(a+b+c+d)$
2. Change in producer surplus	: ↑	$+a$
3. Quota Rent	:	$+c$

Net effect on Home welfare : $-(b+d)$

Case 2: government of the importing country can auction off the quota licenses

1. Change in consumer surplus	: ↓	$-(a+b+c+d)$
2. Change in producer surplus	: ↑	$+a$
3. Govt. earns revenue from auction	:	$+c$

Net effect on Home welfare : $-(b+d)$

Case 3: Giving the quota licenses to Home Firms, but firms are engaged into rent seeking activities

- | | | |
|-------------------------------|-----|--------------|
| 1. Change in consumer surplus | : ↓ | $-(a+b+c+d)$ |
| 2. Change in producer surplus | : ↑ | $+a$ |
| 3. N/A | | |

Net effect on Home welfare	:	$-(b+c+d)$
-----------------------------------	----------	------------------------------

Case 4: “Voluntary” Export Restraint - the exporting country distribute quota to their firms

- | | | |
|-------------------------------|-----|--------------|
| 1. Change in consumer surplus | : ↓ | $-(a+b+c+d)$ |
| 2. Change in producer surplus | : ↑ | $+a$ |
| 3. N/A | | |

Net effect on Home welfare	:	$-(b+c+d)$
-----------------------------------	----------	------------------------------