Sample Problems: Tariffs

1. 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

1. Assume initially that Aoslia does not open to trade. What is the autarky equilibrium price and quantity?
2. Suppose Aoslia decides to engage in trade. Determine the quantity demanded, quantity supplied, and import given the world price of $6 per bushel of corn.
3. If the Aoslia government imposes a tariff in the amount of $1 (i. e. , t \_ $1), what is the new domestic price? What is the amount imported?
4. Determine the effect of the tariff on the Aoslian consumers, producers, and government.
5. Calculate the terms-of-trade gain. What is the net effect of the tariff on Aoslia’s welfare? Explain.
6. Suppose Home is a large country whose supply and demand curves are given by the following figure. (will be drawn on board)
7. Assume the world price is PW = $5. Determine the consumer and producer surplus under free trade.
8. 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?
9. Determine the terms of trade for Home with the tariff.
10. Does Home welfare increase or decrease due to the tariff? Explain.
11. At what amount would the tariff be considered prohibitive? Explain.