Outline:

Consumer Surplus and Producer Surplus

The Efficiency of Competitive Markets

Government Intervention on the Market:

* Price Floors - A legally established minimum price a seller can be paid.
* Price Ceilings - A legally established maximum price a seller can charge.
* Taxes & Subsidies

specific tax: Tax of a certain amount of money per unit sold.

subsidy Payment reducing the buyer’s price below the seller’s price, i.e., a negative tax.

* Tariffs & Quotas

Main:

1. Consumer and Producer Surplus

A picture containing line chart

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1. Effects of Government Intervention – Price Controls

* Price ceiling

Chart

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* Price floor

Chart

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Chart, line chart

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Answer: (2000 - 1000) \* (300 - 200) / 2 = 50,000

The Impact of Tax

Chart

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The impact of a Subsidy

Chart

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Grain from International Trade

Chart, line chart

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Answer:

Without trade:

CS = a

PS = b + c

With free trade:

Imports = d

CS = a + b

PS = c

Net Gain from Trade = a + b + c + d

Protective Tariffs

Chart, diagram

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Protective Quotas

Diagram

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