Econ 101 | Vignette X1

A Tariff on International Butterbeer

The Ministry of Magic hired an external committee of advisors to find means by which to raise government revenue without raising taxes. One classically trained magical economist proposed opening the closed domestic butterbeer market to the less expensive global market ($P = 10$) while imposing an import tariff of 2 galleons. Ministry officials were pleased with the option but also raised concerns that domestic butterbeer sellers would be harmed by the lower price.

Use a graph to illustrate what would happen to the market after a tariff was imposed to answer the ministry's concerns. The supply and demand curves for butterbeer can be represented by the following equations.

$$P = 22 - \frac{1}{6}Q_D$$

$$P = 2 + \frac{1}{2}Q_S$$