

Econ 101 | Demo X3

Demo X3 is adapted from Demo X1, which was assigned as homework in a previous semester.

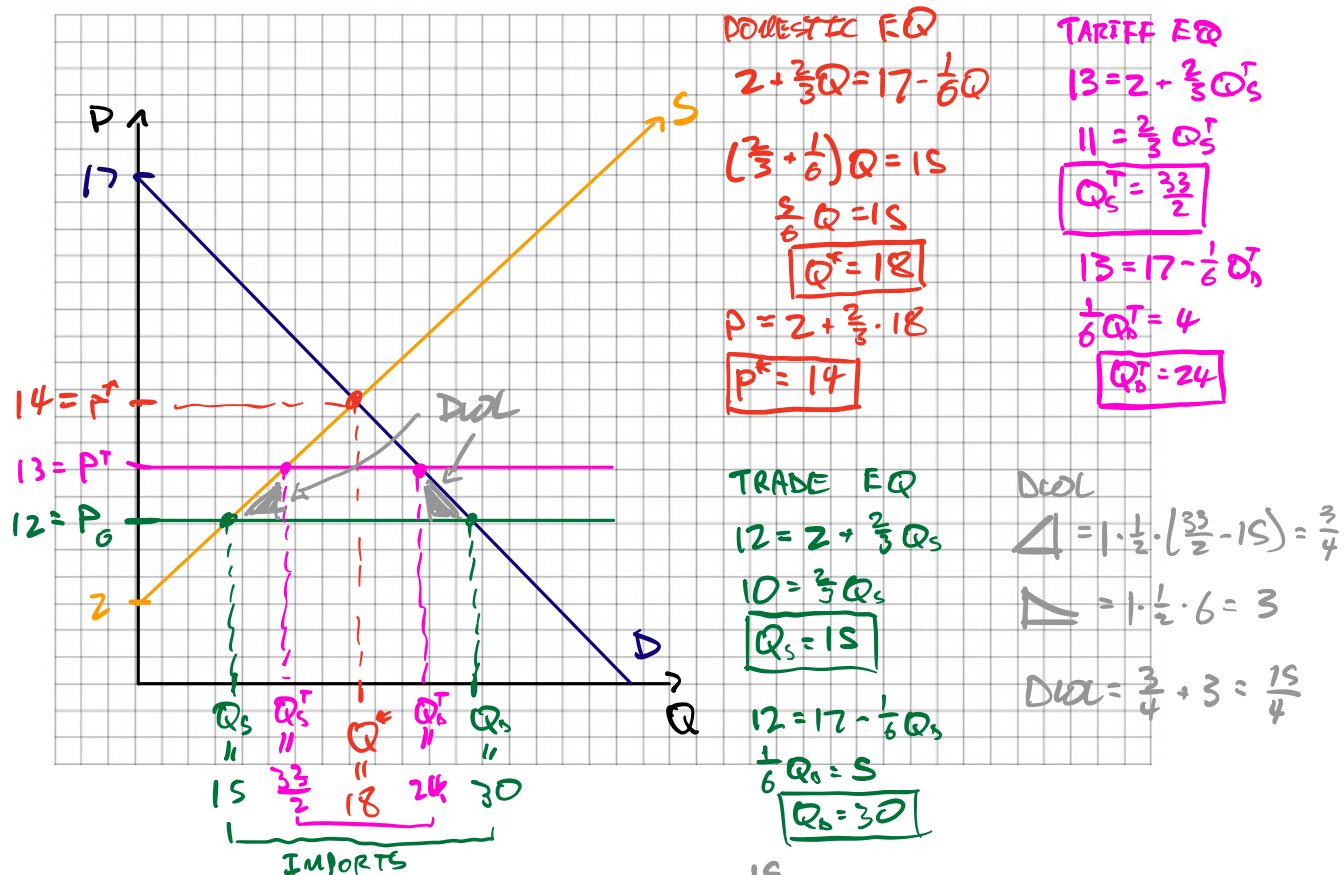
International Pumpkin Pasties

Economic historians in the wizarding world remember a time before the Ministry had begun meddling with the domestic market. In those earlier days, trade barriers had been lifted for exports of pumpkin pasties to international magical markets with a world price of 12 galleons. At the time, the Ministry of Magic used this opportunity to pad its coffers without facing the political backlash associated with a domestic tax, instead imposing an export subsidy of 1 galleon. The supply and demand curves:

$$P = 17 - \frac{1}{6}Q_D$$

$$P = 2 + \frac{2}{3}Q_S$$

Use a graph to illustrate what happened to the market after the export subsidy was imposed.



What is the area of the deadweight loss from the tariff? $\frac{15}{4}$