

LAST CLASS :

11-4-08

SMALL COUNTRY

TARIFF
QUOTA

TODAY

• LARGE COUNTRY
TARIFF

• EXPORT SUBSIDY
SMALL COUNTRY
LARGE COUNTRY

• REMARKS ABOUT OTHER
DOMESTIC POLICIES
(TAXES/SUBSIDIES)

SMALL COUNTRY

TARIFF (FT → POSITIVE TARIFF) ↓ W

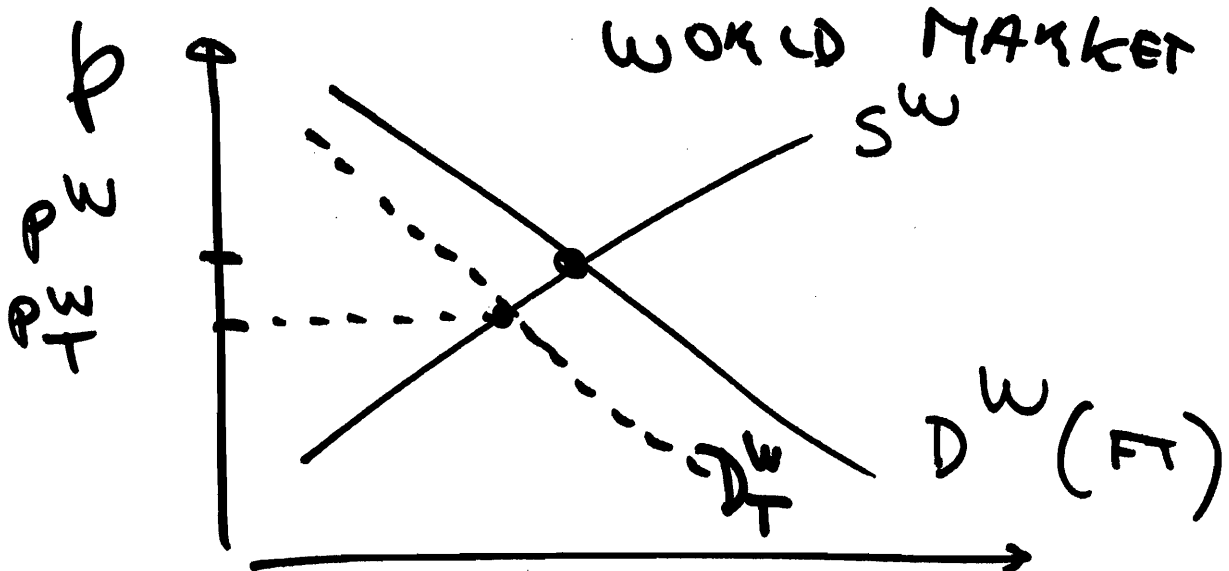
QUOTA : ↓ W

LARGE COUNTRY CASE

COUNTRY IS A LARGE IMPORTER ⇒

TARIFF DECREASES WORLD DEMAND FOR COMMODITY

⇒ $P^W \downarrow$



INITIAL SITUATION: P^W : WORLD PRICE

FT ⇒ $P_D = P^W$

FINAL SITUATION: $P_T^W = \text{WORLD PRICE}$
 $P_T^D = P_T^W + T$

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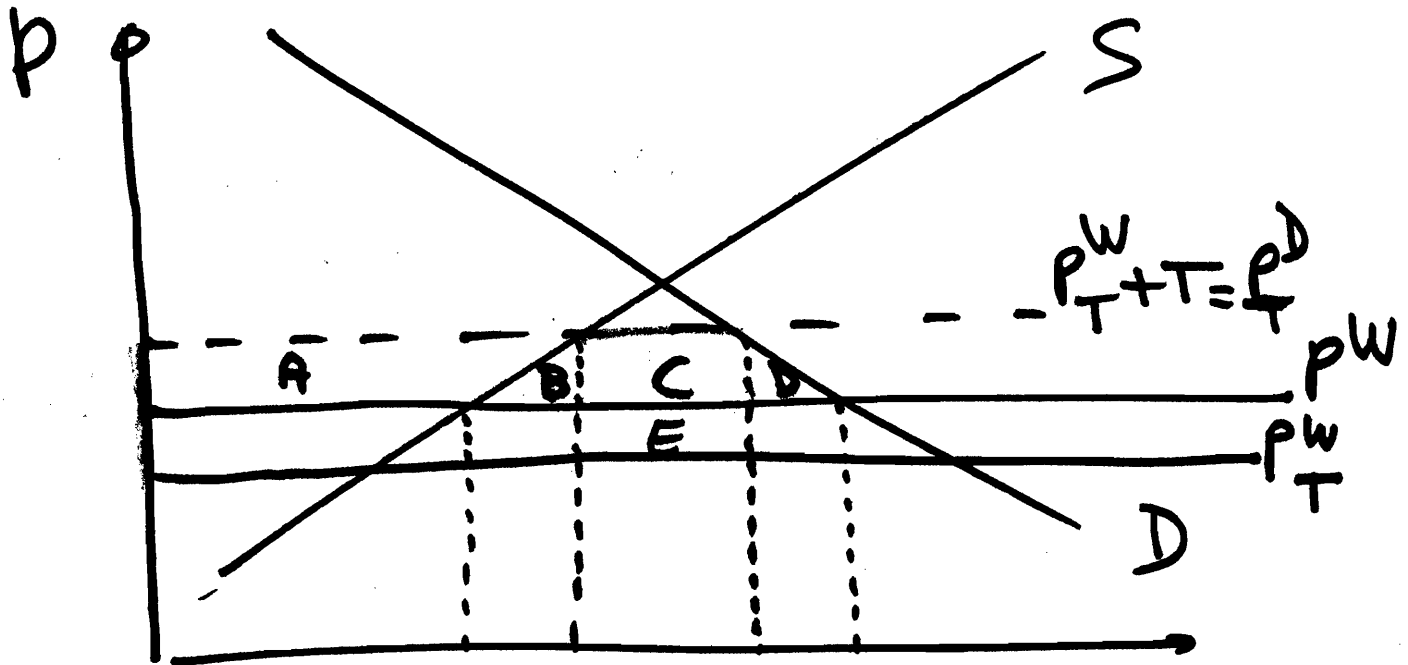
ASSUME: $P_T^W + T > P^W$

IMPORTING LARGE COUNTRY

T = SPECIFIC TAX

INITIAL SITUATION: $P_T^D = P^W$

FINAL SITUATION: $P_T^D + T = P_T^D$



$\Delta CS = -A - B - C - D$

$\Delta PS = +A$

$\Delta GK = C + E$

$\Delta W = -B - D + E$ → TERMS OF TRADE GAINS

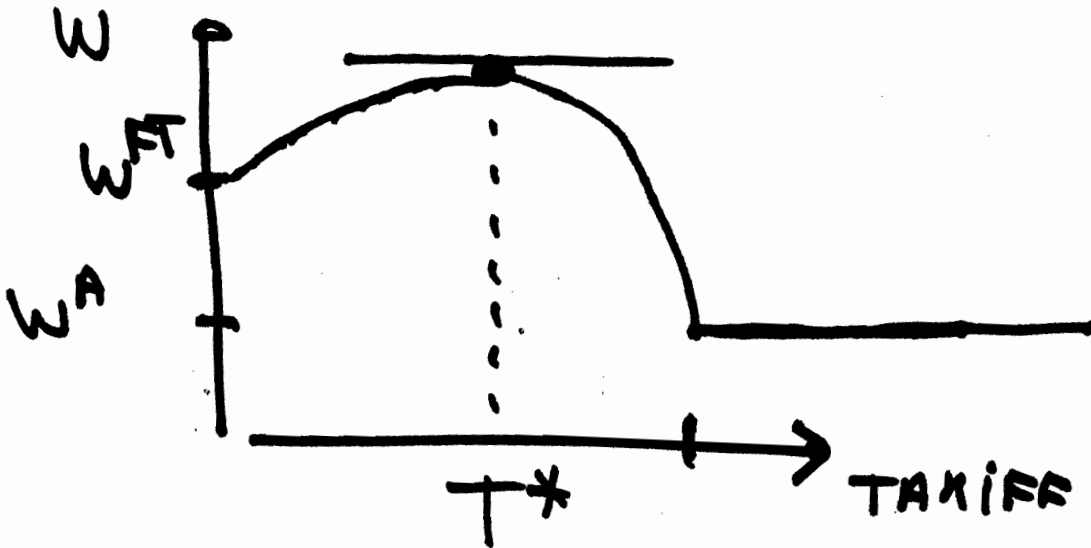
REMARK: T O F T = $\frac{P_{EXPORTS}}{P_{IMPORTS}}$ ↑

CONCLUSION:

$\Delta W \downarrow \uparrow$

DEPENDING
ON TARIFF
SIZE, WORLD
SUPPLY, ETC.

"OPTIMAL TARIFF"



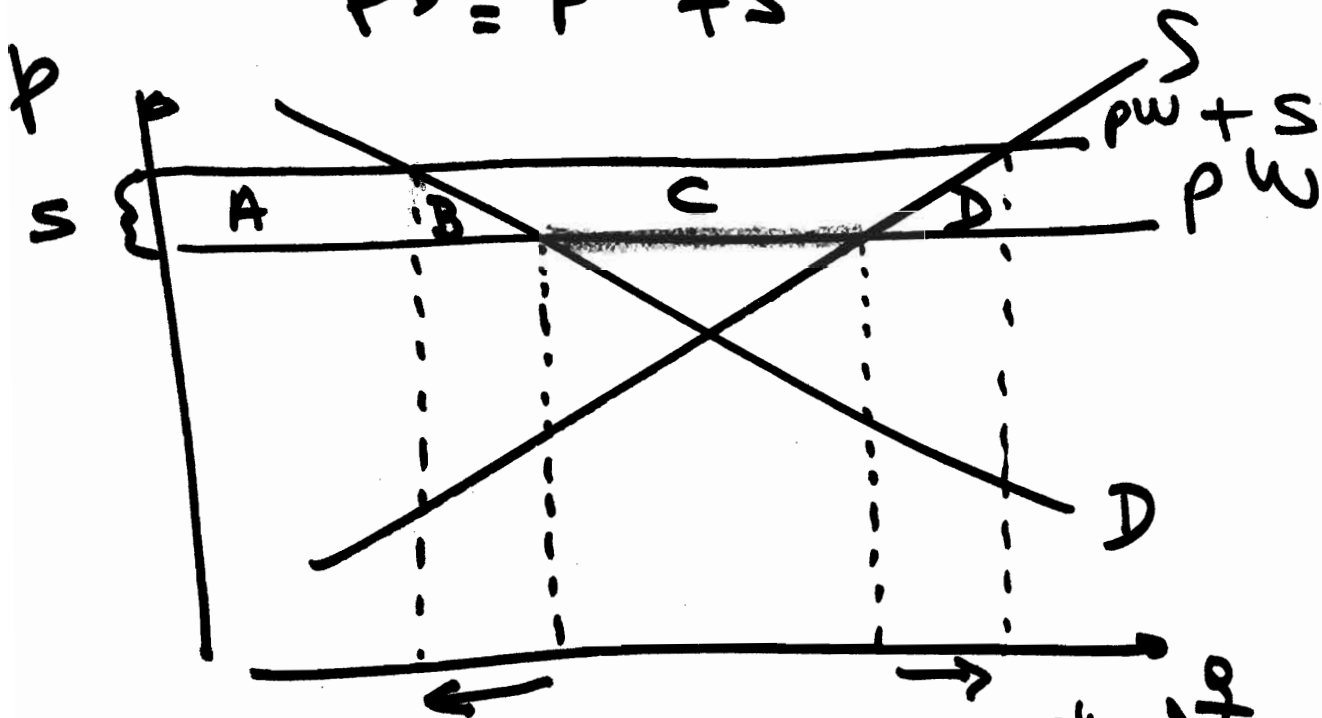
- 5 - EXPORT MARKET

SMALL COUNTRY → P^W FIXED

EXPORT SUBSIDY (S)

ASSUME DOMESTIC CONSUMERS
ARE "UNABLE" TO BUY
GOOD FROM ABROAD ⇒

$$P^D = P^W + S$$



INITIAL SITUATION: FT PRICE $P^W = P^D$

FINAL SITUATION: $P^D_s = P^W + S$

$$\Delta CS = -A - B$$

$$\Delta PS = +A + B + C$$

$$\Delta GK = -B - C - D$$

$$\Delta W = -B - D < 0$$

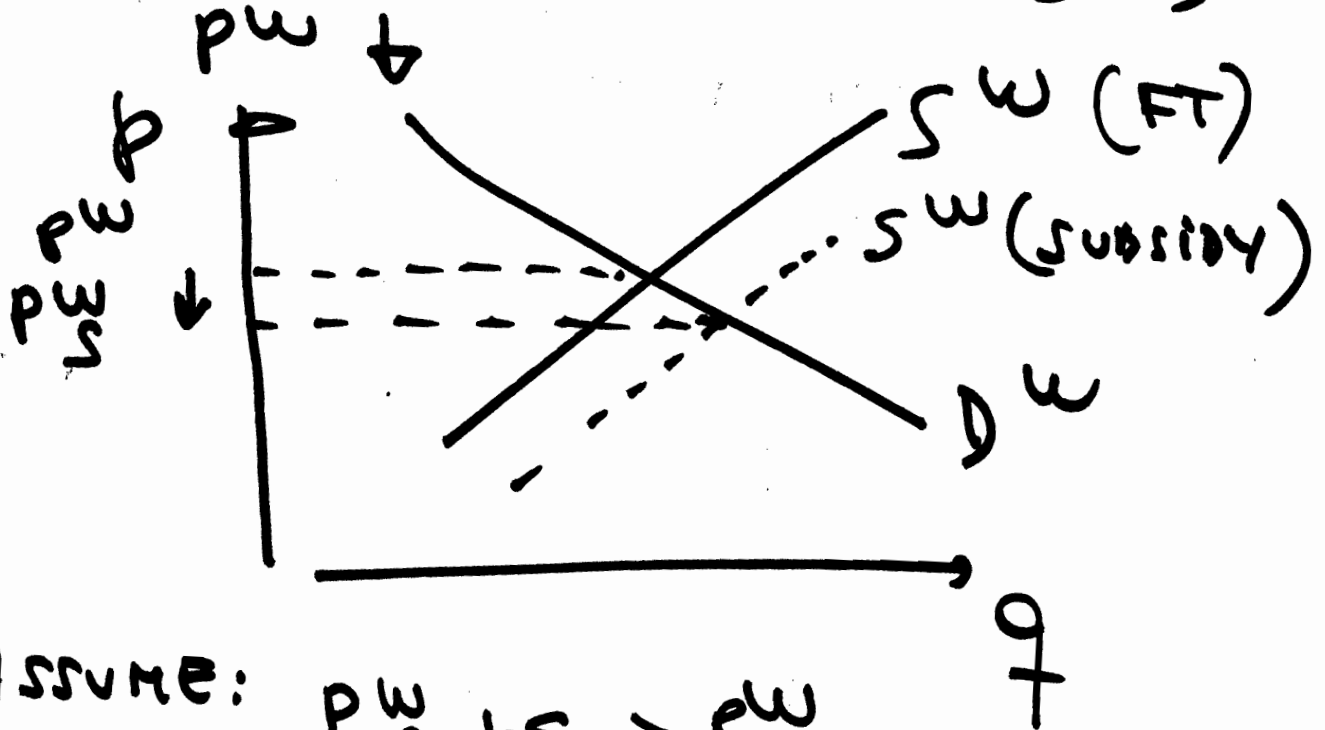
CONS. WORSE OFF, PROD. BETTER OFF.

-Q-

EXPORT MARKET LARGE COUNTRY

COUNTRY IS A LARGE EXPORTER

⇒ SUBSIDY INCREASES
WORLD SUPPLY OF GOOD ⇒



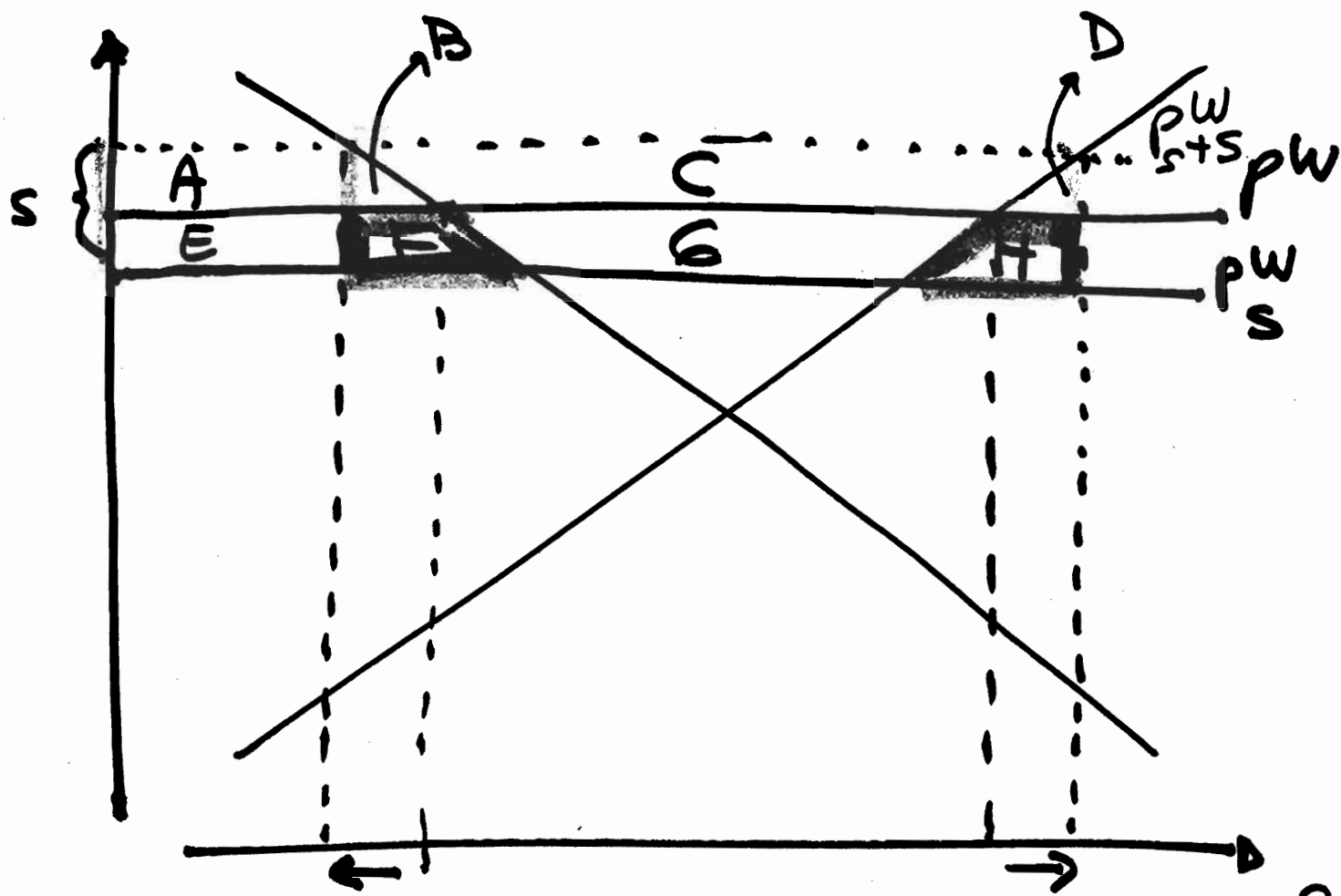
ASSUME: $P^W_S + S > P^W$

INITIAL SITUATION: FT : $P^D = P^W$

FINAL SITUATION: $P^D_S = P^W_S + S$

ASSUMING
DOMESTIC CONSUMERS
CAN NOT BUY
GOOD FROM
OVERSEAS

- 7 -



$$\begin{aligned} \Delta CS &= -A - B \\ \Delta PS &= +A + B + C \\ \Delta GR &= -B - C - D - F - G - H \\ \hline \Delta W &= -B - D - \underbrace{(F + G + H)}_{\text{T.O.F.T LOSS}} < 0 \end{aligned}$$

BECAUSE PRICE OF EXPORT GOOD IN WORLD MARKET ↓

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TARIFF:

SMALL COUNTRY : $\downarrow W$

LARGE " : $\downarrow \uparrow W$

EXPORT SUBSIDY

SMALL COUNTRY : $\downarrow W$

LARGE " : $\downarrow \downarrow W$