

SMALL COUNTRY

- TARIFF (SPECIFIC) : T

$$\Rightarrow p^D = p^W + T$$

- QUOTA

(TRADE / DOMESTIC POLICIES
NO EFFECT ON WORLD PRICE)
11-1-11

LARGE COUNTRY

TRADE POLICIES AFFECT WORLD PRICE

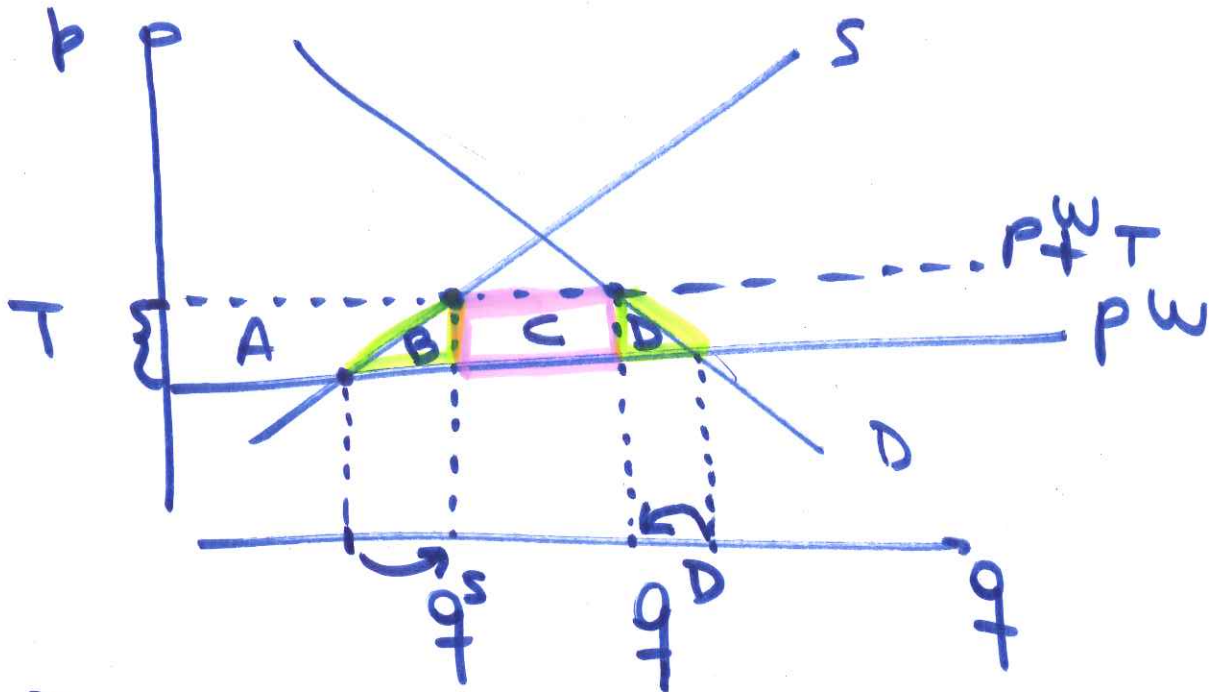
- SPECIFIC TARIFF

(IN THIS CASE TARIFF \downarrow p^W

SO AFTER ADJUSTMENTS TAKE PLACE

$$p_{NEW}^D = p_{NEW}^W + T$$

SPECIFIC TARIFF : SMALL COUNTRY



$$P^D = P^W + T$$

WELFARE EFFECTS:
FROM FT → TARIFF

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

$$\Delta PS = +A$$

$$\Delta GR = +C$$

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

↓ IMPORTS

$q_s \uparrow$

$q_d \downarrow$

$P^D \uparrow$

CONS. INEFF

PROD. INEFFICIENCY

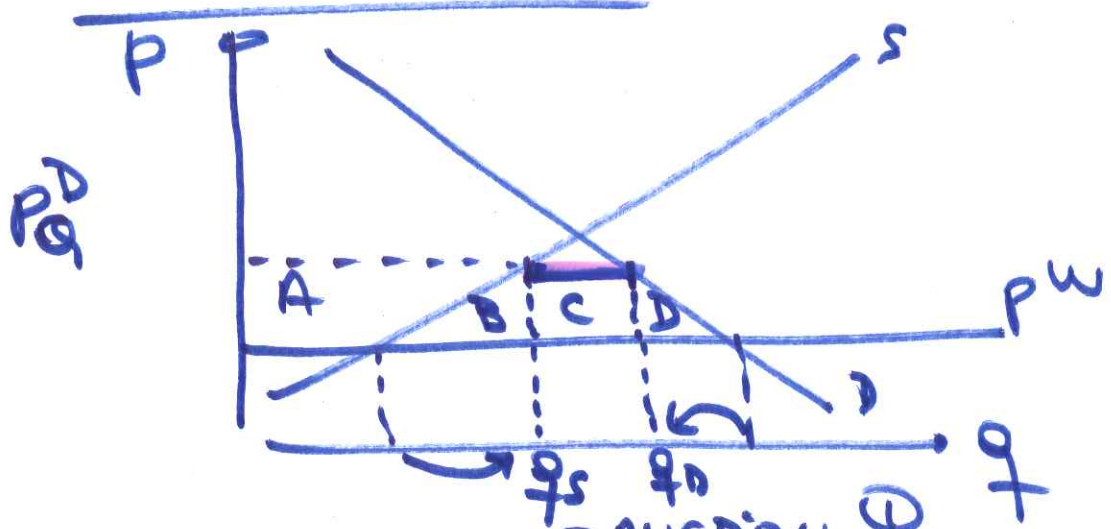
CONS. WORSE OFF
PROD BETTER "

GOV. " "

TRY AT HOME:

AUTARKY → TRADE WITH TAXIFF T

SMALL COUNTRY : QUOTA



QUOTA: []
 → AUCTION ①
 → ALLOCATED TO DOMESTIC AGENT ②
 → " " FOREIGN AGENT ③

	① AUCTION	② DOM. AGENT	③ FOREIGN AG.
ΔCS	-A-B-C-D	SAME	SAME
ΔPS	+A	SAME	SAME
ΔGM	C	0	0
Δ OTHER DOMESTIC AGENT	0	C	0
$\Delta W =$	-B-D	-B-D	-B-D-C

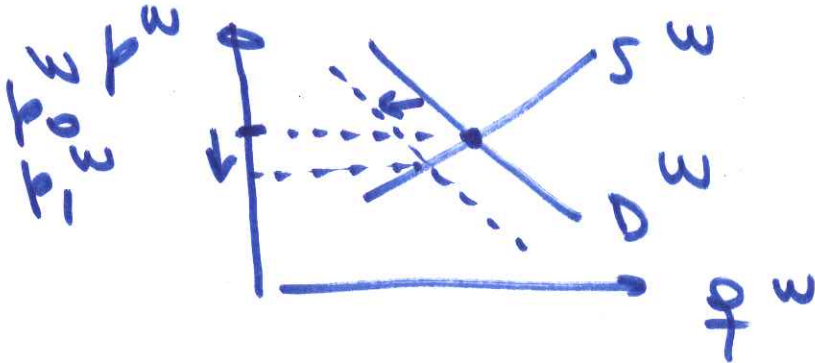
PRODUCERS BETTER OFF
 CONS. WORSE OFF
 GOV. DEPENDS ON HOW QUOTA ALLOCATED.

REMARK: A TARIFF "T" = $P^D_Q - P^W$

IS EQUIVALENT IN A STATIC SENSE TO A QUOTA THAT IS AUCTIONED OFF -

LARGE COUNTRY (LARGE IMPORTER)
A TARIFF \downarrow WORLD DEMAND

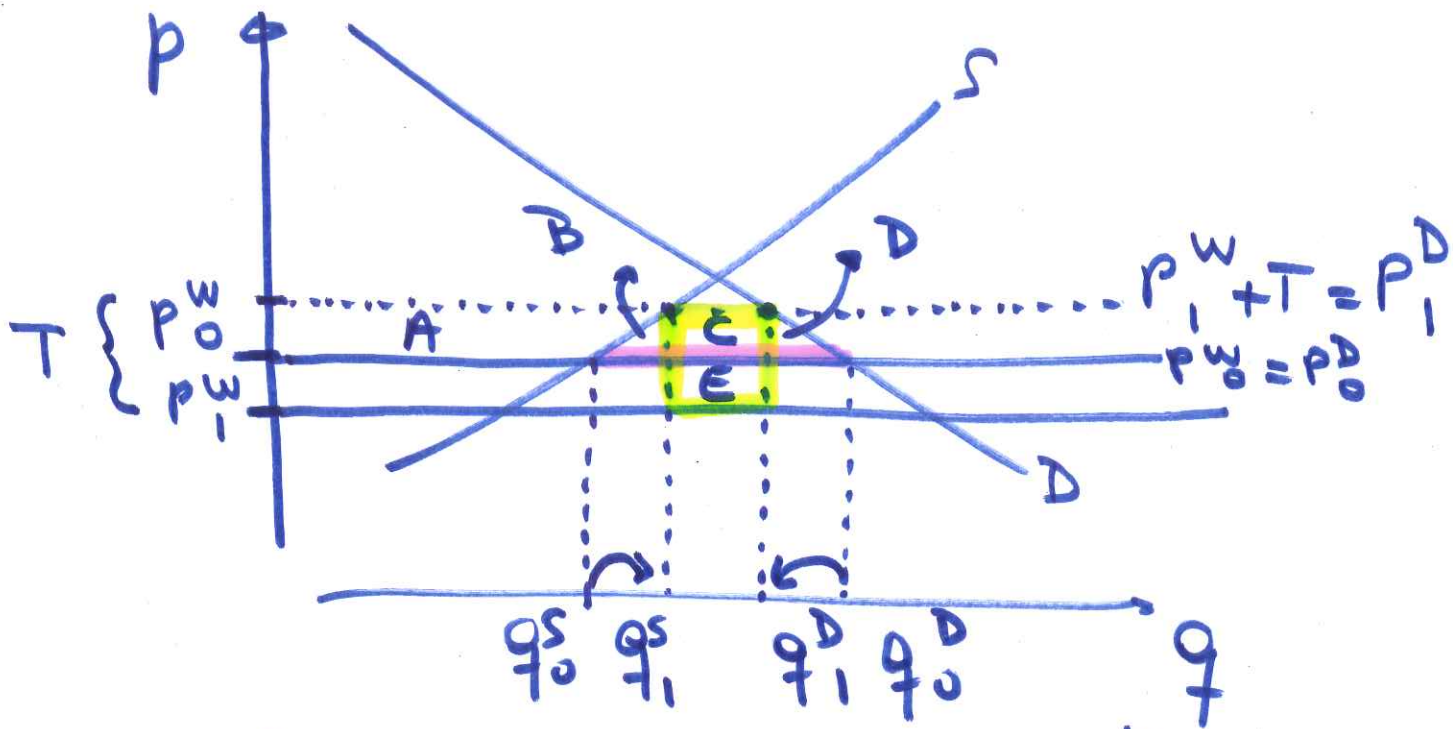
\Rightarrow WORLD PRICE \downarrow



INITIAL SITUATION: $\boxed{p_0^W \text{ NO TARIFF}} = p_0^D$

FINAL " : p_1^W , POSITIVE TARIFF

$\Rightarrow \boxed{P^D_1 = P^W_1 + T}$



INITIAL SITUATION: NO TARIFF, P_0^W

$$\Rightarrow P_0^D = P_0^W$$

FINAL SITUATION: TARIFF T, P_1^W

$$\Rightarrow P_1^D = P_1^W + T$$

$q_s \uparrow$, $q_d \downarrow$, $P^D \uparrow$, \downarrow EXPORTS

GAIN \uparrow

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

$$\Delta PS = A$$

$$\Delta GS = +C + E$$

$$\Delta W = -B - D + E$$

≥ 0

\swarrow PROD. INEFF.
 \swarrow CONS. INEFF
 \swarrow TERMS OF TRADE GAIN

11-3-11

→ TAXIFF

LARGE COUNTRY → LAST REMARKS

→ EXPORT SUBSIDY

- SMALL COUNTRY

- LARGE II

→ REMARKS ON DOMESTIC
INSTRUMENTS (TAXES, SUBS. DOMESTIC
AND TRADE MARKETS)

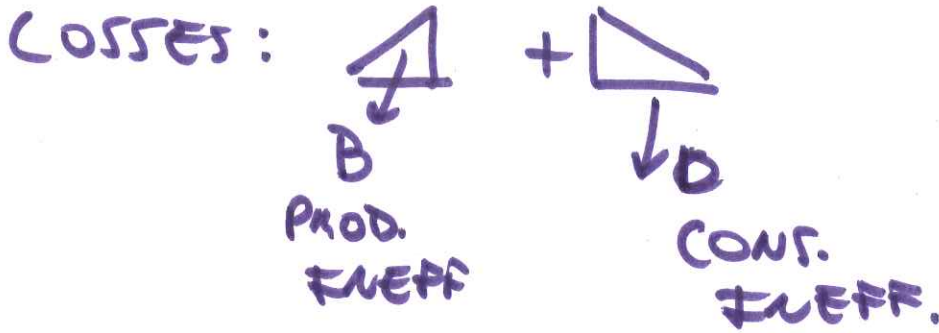
INSTRUMENTS

→ US TRADE LAWS

TOT T GAINS
DERIVED FROM
TARIFF

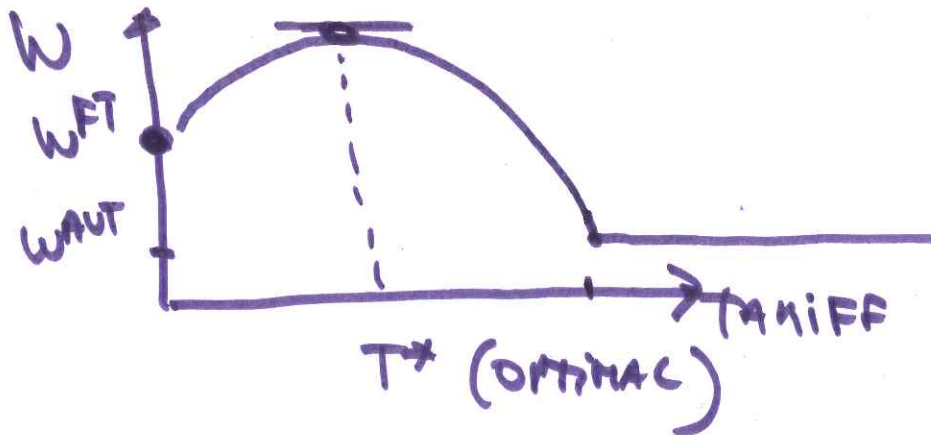
$$= \text{IMPORTS}_{\text{NEW}} \times (p_0^w - p_1^w)$$
$$= M_1 \times (p_0^w - p_1^w)$$

= POSITIVE

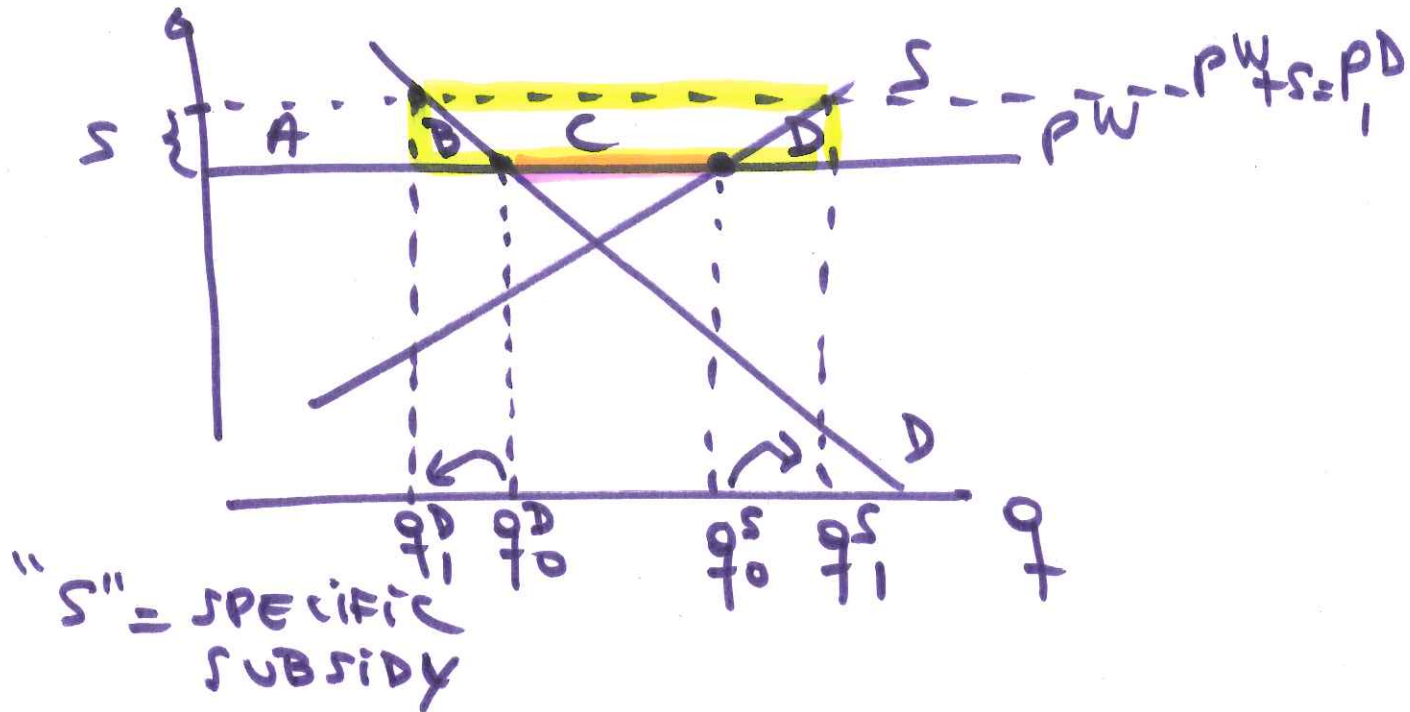


LEVEL OF TARIFF MATTERS FOR
FINAL RESULT.

"OPTIMAL" ON TARIFF THAT MAXIMIZES
WELFARE.



EXPORT SUBSIDY : SMALL COUNTRY



→ INITIAL SITUATION: FREE TRADE

$$P_0^D = P^W$$

→ FINAL SITUATION: GOV. GRANTS A SPECIFIC SUBSIDY "S" TO EXPORTERS

$$P_1^D = P^W + S$$

$\uparrow P^D$, $Q^S \uparrow$, $Q^D \downarrow$, \uparrow EXPORTS, \uparrow GOV. EXP.

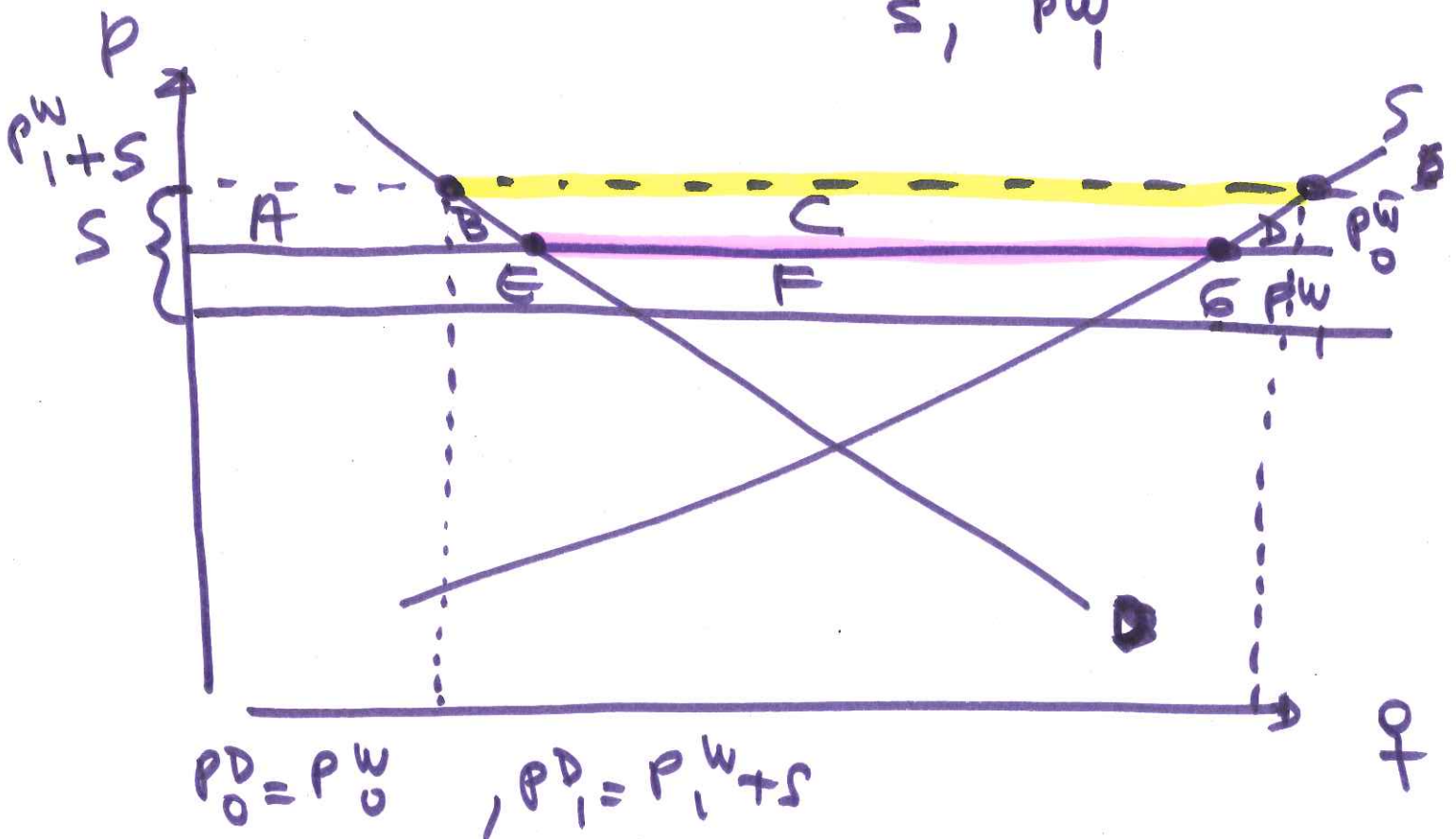
$$\begin{aligned}
 \Delta CS &= -A - B \\
 \Delta PS &= A + B + C \\
 \Delta GR &= -B - C - D \\
 \hline
 \Delta W &= -B - D < 0
 \end{aligned}$$

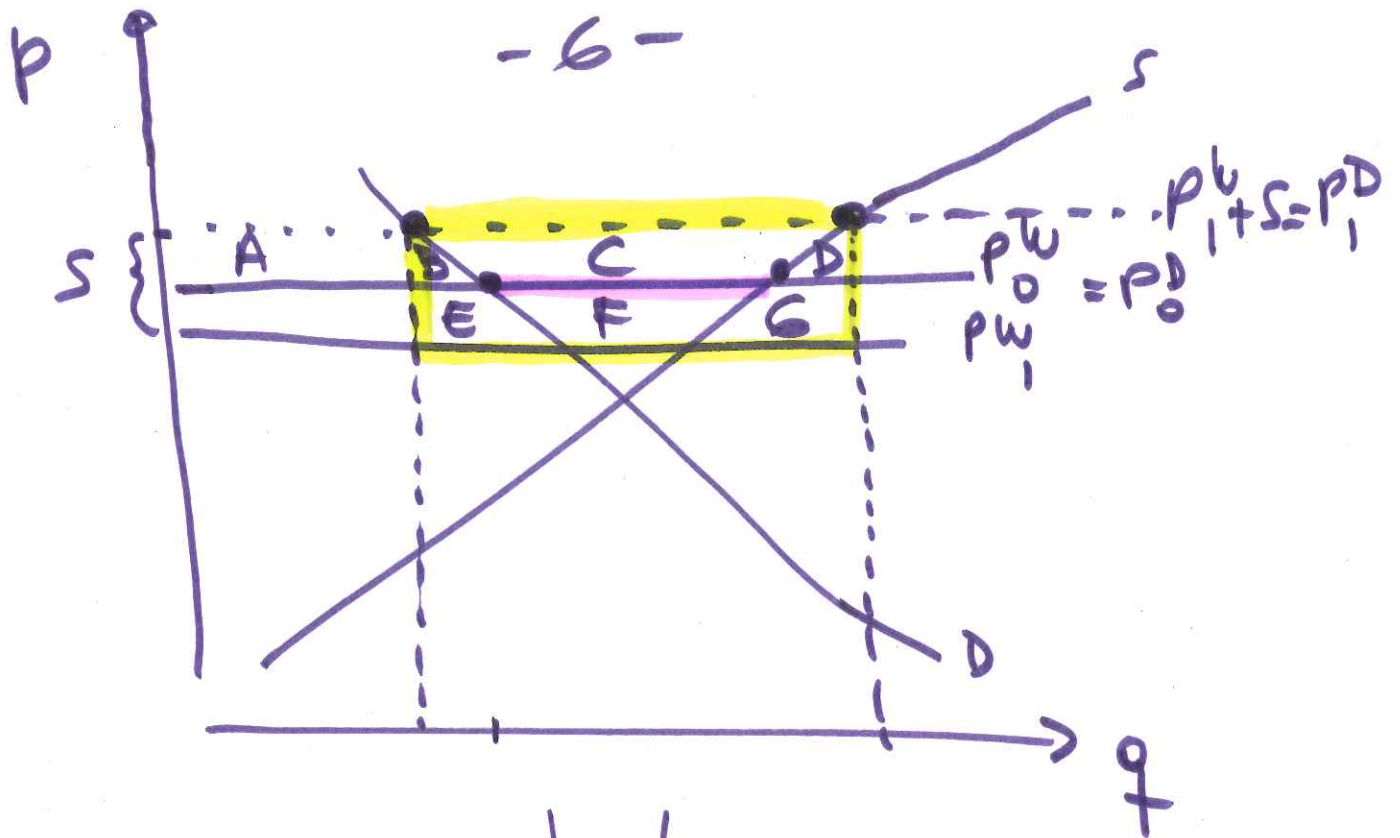
\downarrow \downarrow
 CONS. PROD.
 INEFF INEFF.

EXPORT SUBSIDY LARGE COUNTRY

INITIAL SITUATION: FREE TRADE
 P^W_0

FINAL SITUATION: EXPORT SUBSIDY
 AND LOWER
 WORLD PRICE:
 S, P^W_1





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

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

$$\Delta GR = -B - C - D - E - F - G$$

$$\Delta W = -B - D - [E + F + G] < 0$$

CONS.
INEFF

PROD.
INEFF

TOFT LOSS

$$\text{TOFT LOSS} = \text{EXPORTS}_{\text{NEW}} \times [PW_0 - PW_1]$$

PRODUCERS BETTER OFF

CONS. WORSE "

GOV. " "

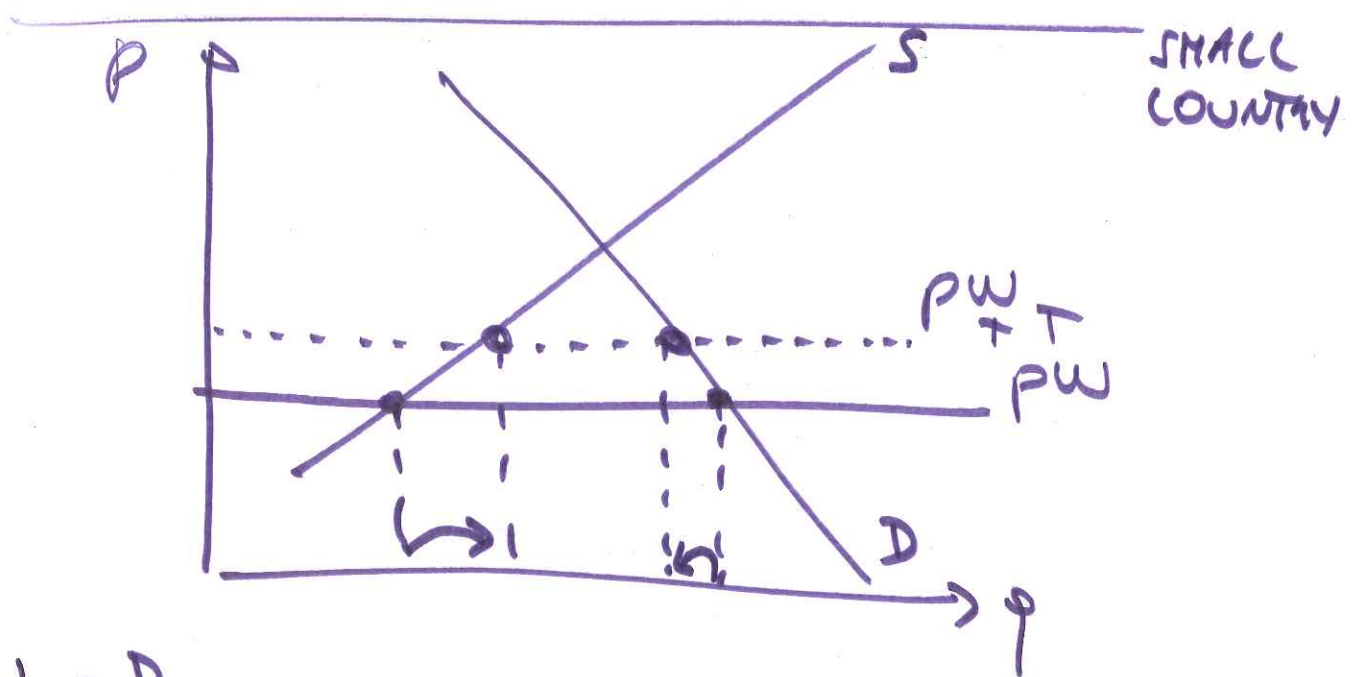
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SUMMARY : INITIAL SITUATION FREETRADE

TARIFFS → SMALL COUNTRY : ↓ W
 → LARGE COUNTRY : ↓ ↑ W

X-SUBSIDY → SMALL COUNTRY : ↓ W
 → LARGE " : ↓ W

⇒ PC. FRAMEWORK :
 NO JUSTIFICATION
 FOR EXPORT SUBSIDY



↓ Q^D
 ↑ Q^S

→ SUPPOSE POLICY OBJECTIVE IS : ↓ Q^D
 SHOW EQUIVALENT CONSUMPTION TAX & WELFARE COSTS.

→ SUPPOSE POLICY OBJECTIVE IS : ↑ Q^S
 SHOW EQUIVALENT PROD. SUBSIDY & WELFARE COSTS.