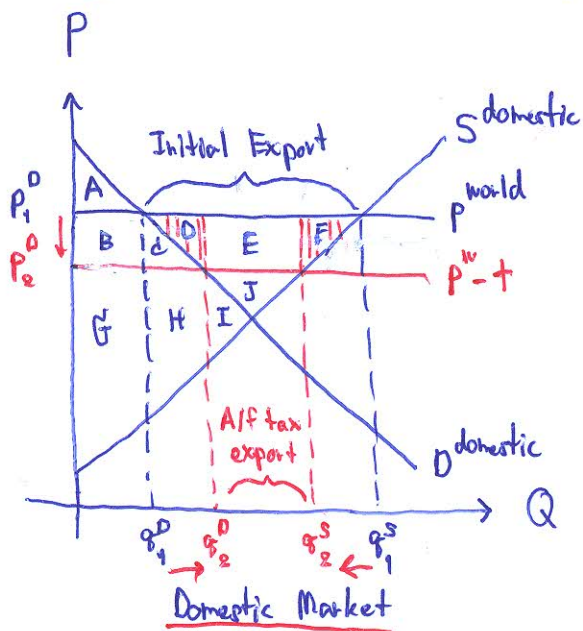


Possible Answer to HW. 1



	Before Tax	After tax	Δ
CS	A	A+B+C	+B+C
PS	B+C+D+E +F+H+I+J	G+H+I+J	-B-C-D -E-F
G	-	+E	+E
Total	A+B+C+D+E +F+H+I+J	A+B+C+E +G+H+I+J	-D-F <u>Deadweight Loss</u>

Welfare Table

Assume an export country with International trade. The domestic price is at P^w which is the world price level, initially.

The amount of export is $q_1^S - q_1^D$ and the amount of q_1^D is serving the domestic market.

When the government imposes tax equivalent to t , it will induce the domestic price to a lower level at $P^w - t$. As a result, the domestic consumption will rise from q_1^D to q_2^D , while the supply production will decrease from q_1^S to q_2^S . And the amount of export will be reduced from $q_1^S - q_1^D$ to $q_2^S - q_2^D$.

Consider the welfare from the adjustment, from the table, the surplus gained by consumer is B and C, but the producer's surplus is lost by B, C, D, E, F and Government gains E as a tax revenue. However, the total welfare is reduced by D and F as a deadweight loss.

D is a result from the consumption distortion: The increase in consumption from q_1^D to q_2^D where it is supposed to be exported and gained by producer.

F is a result from the production distortion: The reduction in production from q_1^S to q_2^S which is supposed to be produced and exported and gained by producer.