Sapan 1365

Exercise 1

1. You are considering the number of hamburgers that you plan to order. Based on the following table, complete the table and answer the following questions.
    a. How many units of hamburgers should you order? Why?
    b. Suppose you decide to order 2 hamburgers. Is this underallocation or overallocation? Explain. How much is your deadweight loss?
    c. Suppose you decide to order 5 hamburgers. Is this underallocation or overallocation? Explain. How much is your deadweight loss?

Quantity	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost	Total Net Benefit
1st		80		20	
2nd		60		20	
3rd		40		20	
4th		20		20	
5th		0		20	

2. With diagrams, explain the differences between tariff and quota. Also, explain the impact on domestic stakeholders (consumers, producers, and government), i.e., who is better off and who is worse off? Why?
3. Consider an exporting country. Analyze welfare effect on all stakeholders when its government impose "Export Tax", i.e., per-unit tax imposed on the exported good. Draw a diagram(s) and provide complete analysis on who gain(s) and who lose(s).
4. A "small", open economy is engaging in international trade. Its domestic demand curve is given by $P = 100 - Q$ and its domestic supply curve is given by $P = Q$. The world price of the good is 20$. Answer the following questions.
    a. What does it mean for a country to be "small"? What implication of being "small" has on the world supply curve?
    b. Is this economy either an exporting or important country? Why? How many units of the goods is the country is currently importing or exporting?
    c. Now suppose the government decides to intervene. If the country is importing, the government will impose import tariff of 10$ per unit. If the country is exporting, the government will impose export subsidy of 10$ per unit. Calculate
        i. Domestic consumer and producer surplus after the intervention
        ii. Either subsidy cost or tariff revenue
        iii. Deadweight loss from the intervention.

1. You are considering the number of hamburgers that you plan to order. Based on the following table complete the table and answer the following questions.

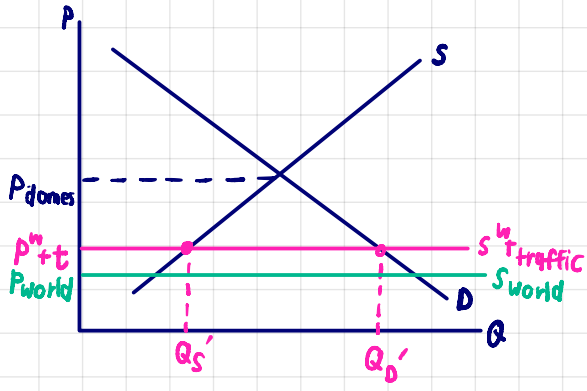
   a. How many units of hamburgers should you order? Why? 4 units bc. it's max total net benefit

   b. Suppose you decide to order 2 hamburgers. Is this underallocation or overallocation? Explai underallocation bc. DWL = 120 − 100 = 20
      How much is your deadweight loss? it could be recieve higher than total net benefit

   c. Suppose you decide to order 5 hamburgers. Is this underallocation or overallocation? Explai overallocation
      How much is your deadweight loss? DWL = 120 − 100 = 20

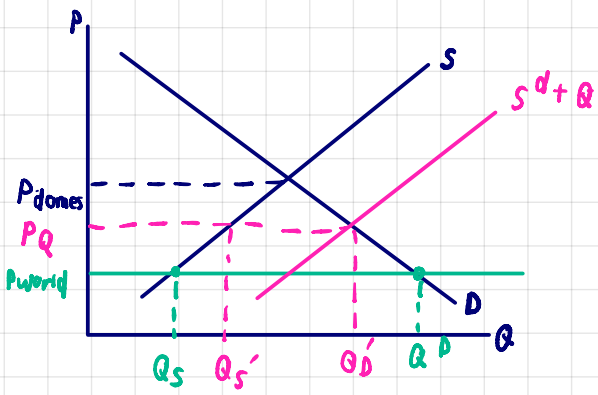
Quantity	Total Benefit	Marginal Benefit	Total Cost	Marginal Cost	Total Net Benefit
1st	80	80	20	20	60
2nd	140	60	40	20	100
3rd	180	40	60	20	120
4th	200	20	80	20	120
5th	200	0	100	20	100

2. Tariff



- consumer pay more buy less
- Producer sell at high price Produce more
  P_S↑ from no tariff
- Gov receive tariffs revenue

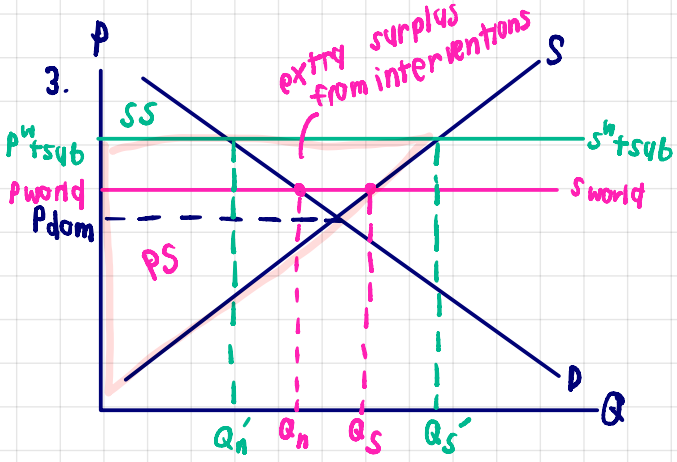
quota



- got sets limit of how much of imported
- got import licences issues to firm (most from foreign's firm)

  allows holder buying aboard products at P^w and sale in domestic market at higher price

3.



4.) a.) small countries need to buy or sell goods at market price

supply = world supply

b.) domestic price

$100 - Q = Q$

$2Q = 100$

$Q = 50$ and $P = 50$

since $P > P_{world} \Rightarrow$ import

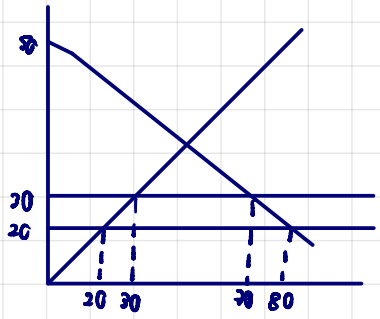
In case $P = 20$, $Q_D = 80$, $Q_S = 20$ $\Rightarrow$ import = 60

c.) i) $CS = \frac{1}{2} \times 70 \times 70 = 2450$ $\quad PS = \frac{1}{2} \times 30 \times 30 = 450$

ii) import $70 - 30 = 40$

rev = $40 \times 10 = 400$

iii)



$DWL = (\frac{1}{2} \times 10 \times 10) + (\frac{1}{2} \times 10 \times 10)$

$= 100$