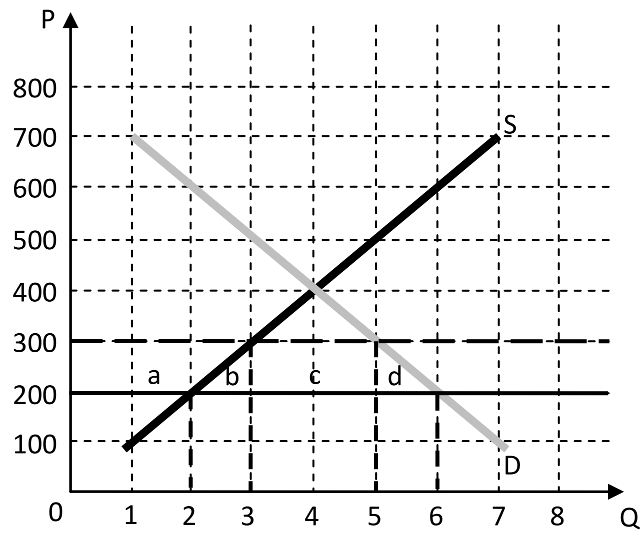
Quiz 1: Government Intervention

Answer all the questions in 10 minutes.

1. Consider the following figure, answer all questions below:



a) (2 points) Suppose the world price is at 200 baht, with no tariff how many units are imported, domestically produced, and consumed?

With world price at 200 baht and no tariff, total amount of consumption is 6 units. Among this, 2 units are domestically produced and 4 are imported.

b) (2 points) With a specific tariff of 100 baht per unit, how many units are imported, domestically produced, and consumed?

With specific tariff of 100 baht per unit, the price of the product becomes 300 baht. Total consumption becomes 5 units, with 3 are produced domestically and 2 are imported

c) (6 points) Analyze the changes in welfare of each related agent and calculate the net welfare effect of the tariff to this market. Calculate these into numbers.

Change in consumer surplus is –(a+b+c+d), which is –(½)(5+6)(100) = –550. Change in producer surplus is +a, which is (½)(2+3)(100) = 250. Change in government revenue is +c, which is (100)(2) = 200. The net welfare effect of the tariff is –(b+d) = -550+250+200 = -100.