

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
1 st	80	80	20	20	60
2 nd	140	60	40	20	100
3 rd	180	40	60	20	120
4 th	200	20	80	20	120
5 th	200	0	100	20	100

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. a) I should order 3 units of hamburger because for the first 3 units marginal benefit is greater than the marginal cost

b) underallocation because marginal benefit is greater than marginal cost

$$\text{deadweight loss} = \frac{1}{2} \times 20 \times 1$$

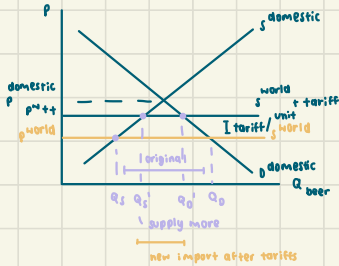
$$= 10$$

c) overallocation because marginal benefit is less than marginal cost

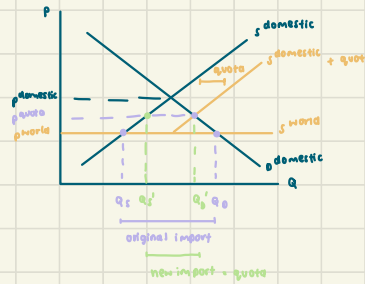
$$\text{deadweight loss} = \frac{1}{2} \times 80 \times 4$$

$$= 160$$

2. Tariffs

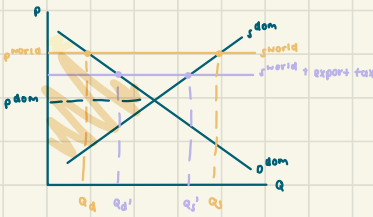


Quota



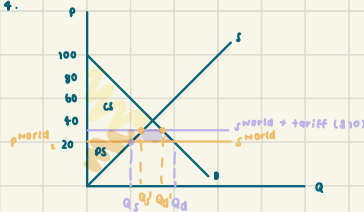
The difference by definition is tariff is a tax on imports so that import products are more expensive than domestic products. For quota the definition is the limit on imports which means that not everyone can be the one who can import goods but only selected person with import licence can do so. On the domestic stakeholders for tariff consumers and producers are worst off because producers have to sell products at the higher price and consumers need to buy at a higher price. For the government will be better off because they will gain tariffs revenue. It is also applying the same to quota.

3.



when there is an export tax the export product price will increase causing the firm to increase the price so they will supply less at Q_s' and consumer will have to pay higher so they buy less at Q_d' . PS increase and CS decrease compare to free market

4.



a. the equilibrium which is the domestic price is higher than the world price which implies that the country is n't efficient to produce the goods and also the price of domestic isn't use to determine the world price which means the country is small and have no impact on the World

- b. the contry is an importing country it currency Imports at Q_s and Q_d
- c. i. on the graph
- ii. : tariff revenue
- iii. : D+L