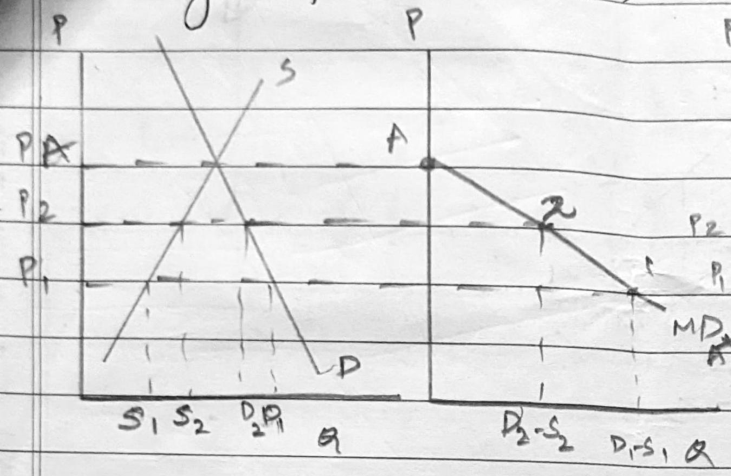
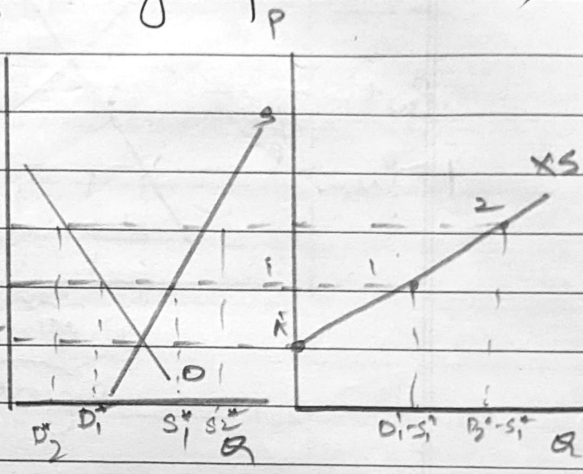
Instruments of Trade Policy

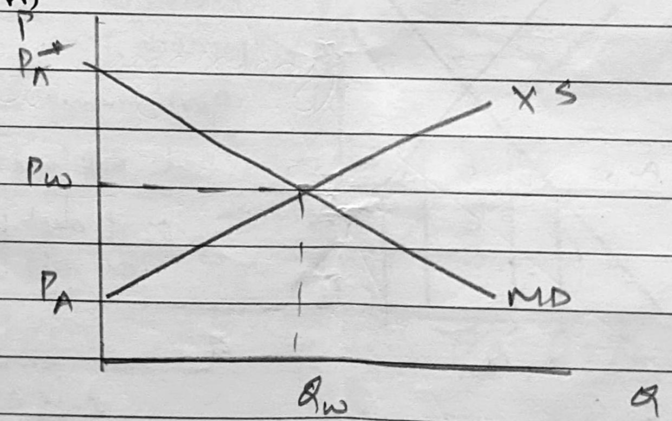
Deriving Import dd curve (MD)



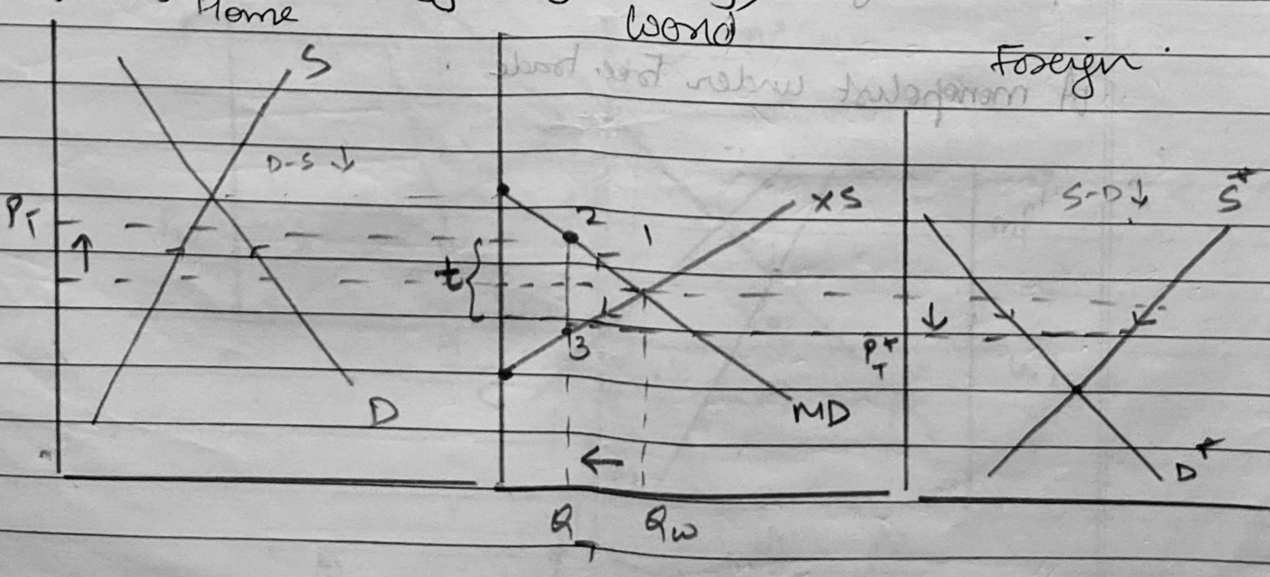
Deriving Export SS curve (XS)



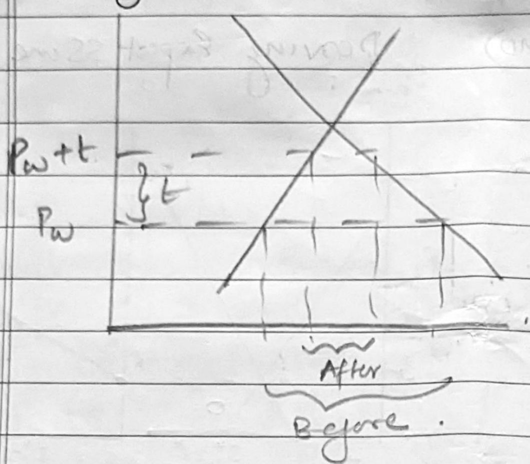
World equilibrium



Effect of Import tariff (large country)

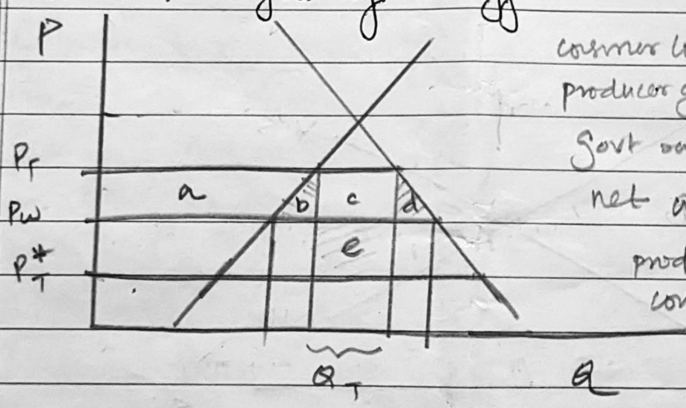


Tariff in a small country.



Foreign and world market unaffected.

Costs and benefits of a tariff.



consumer loss = a+b+c+d

producer gain = a

Govt revenue = c+e

net welfare = b+d − e

prod dist loss = b

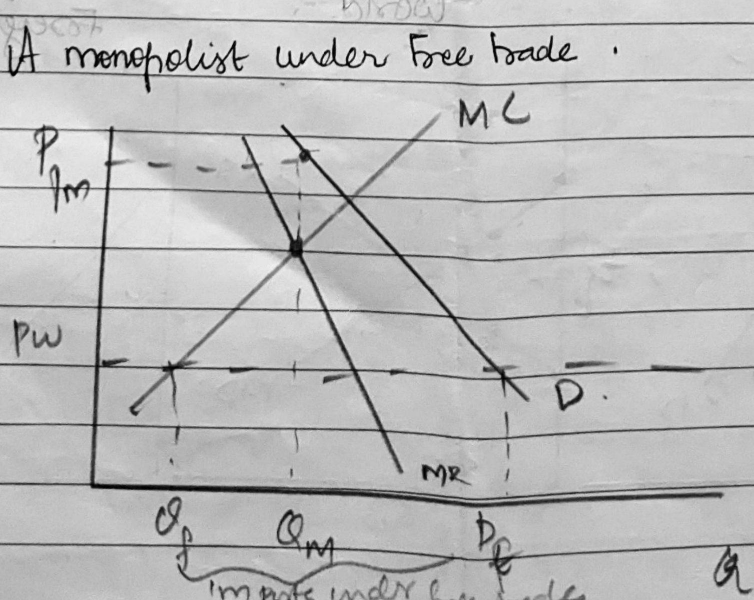
con dist loss = d

ToT gain = e

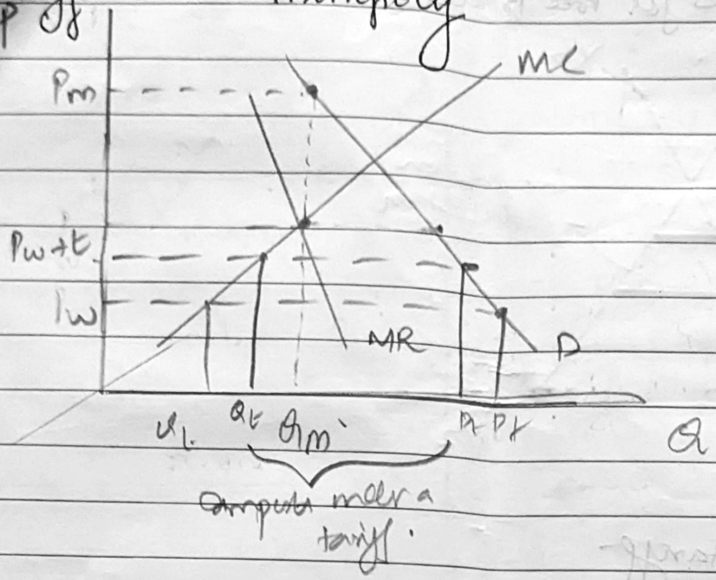
e is absent for small country

~~Export Subsidy~~.

A monopolist under Free trade.



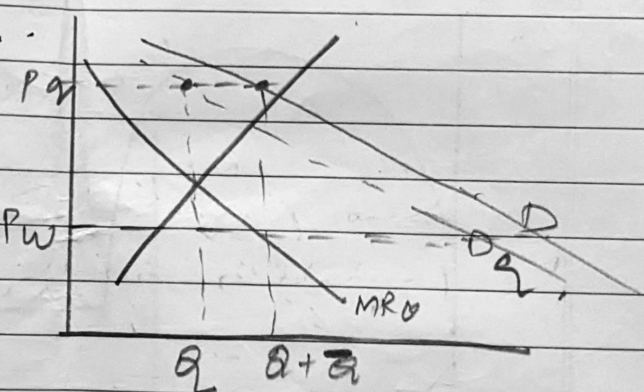
Tariff under monopoly



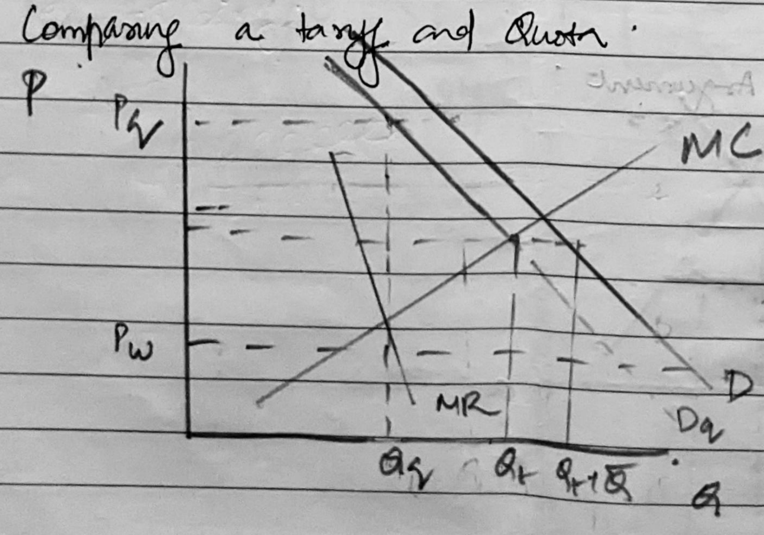
tariff = t

Monopolist — Quota.

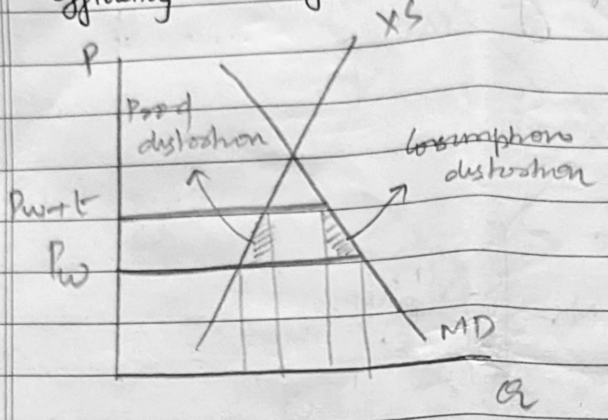
Imports = $\bar{Q}$



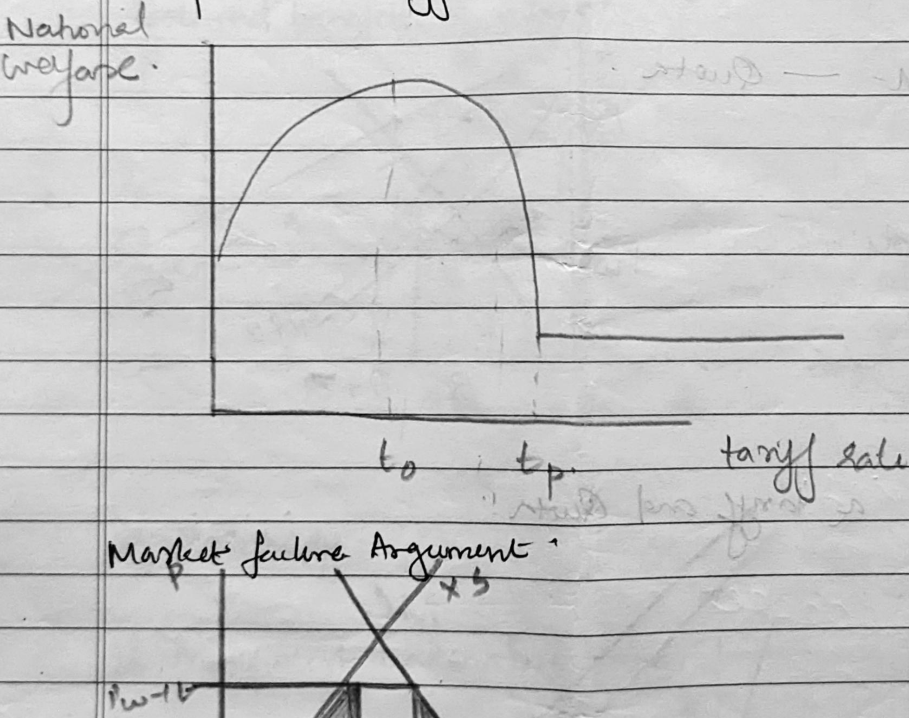
Comparing a tariff and Quota.



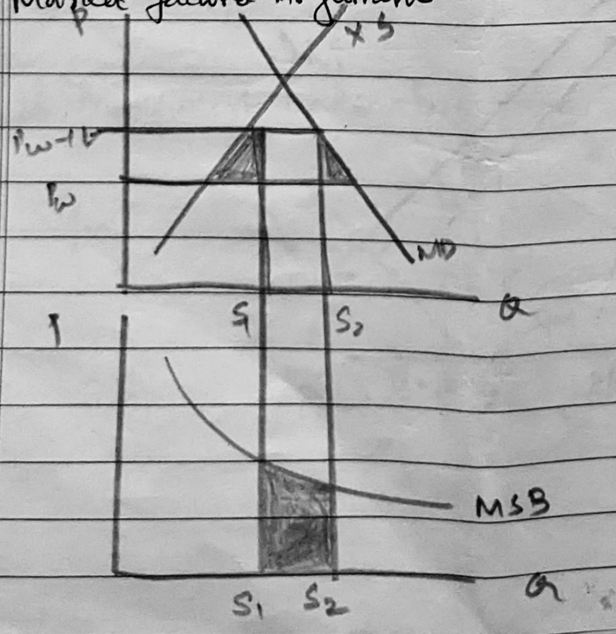
Efficiency case for Free Trade



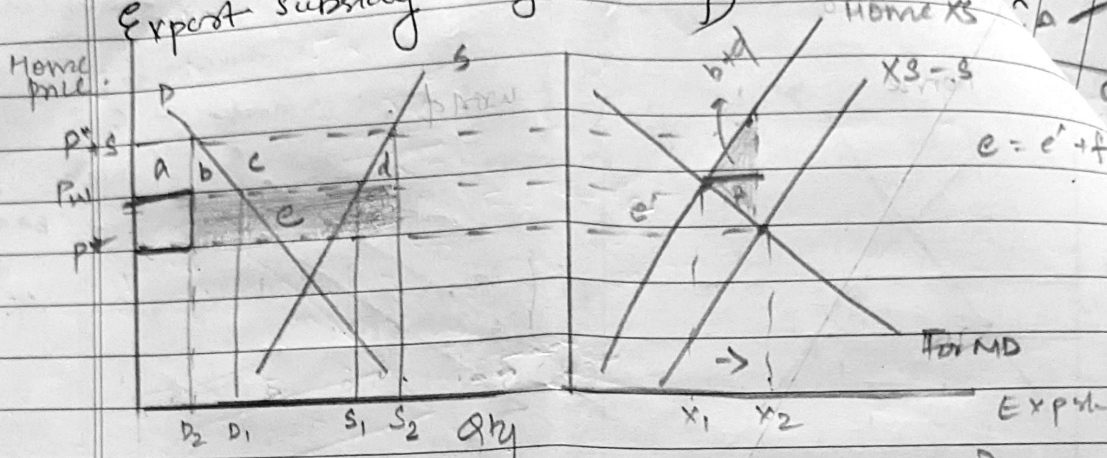
Optimum tariff



Market failure Argument



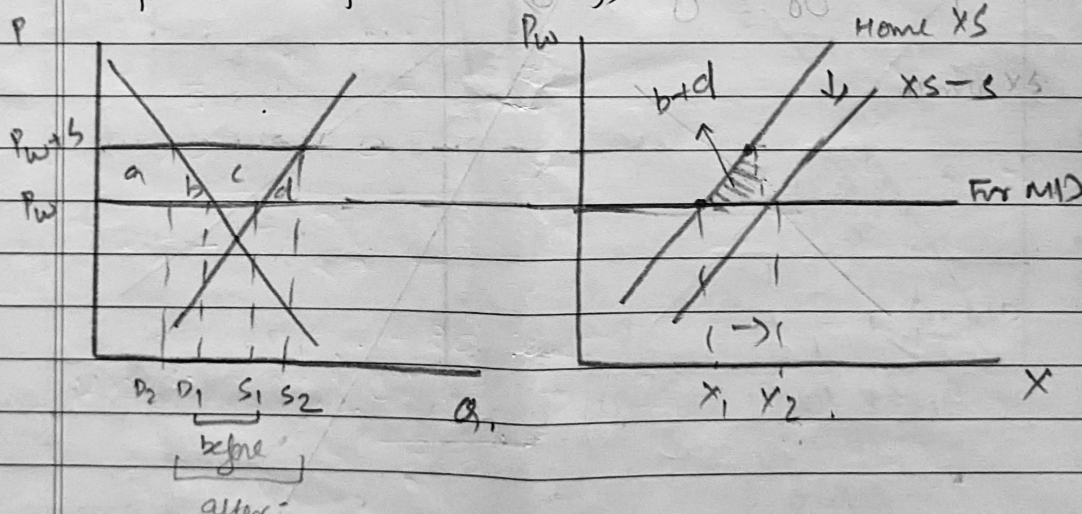
Export subsidy (large country)



Consumer: − (a+b)
Producer: + (a+b+c)
Govt : − (b+c+d+e)

Net effect : − (b+d+e)
e → ToT loss to Home.

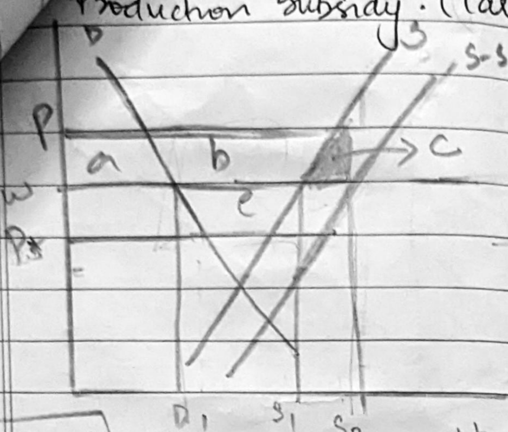
Export Subsidy (small country).

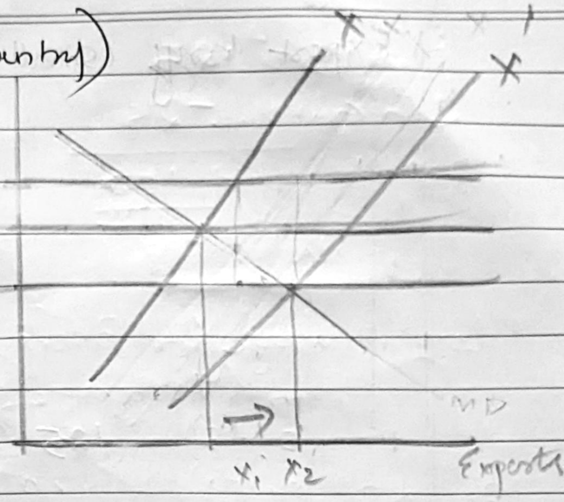


Consumer : = − (a+b)
Producer = + (a+b+c)
Govt = − (b+c+d)

Net = − (b+d).

Production Subsidy. (large country)





$\boxed{P+P<S}$

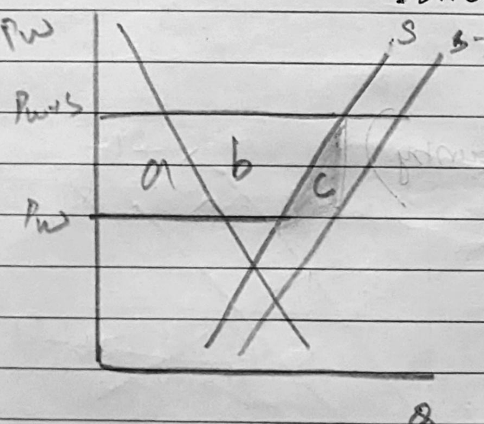
No chge in CS

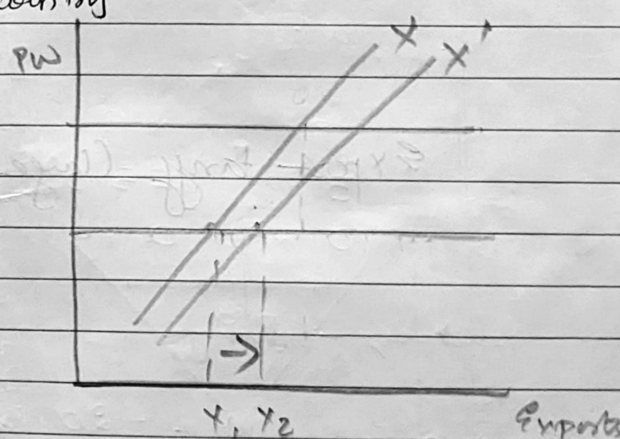
+ (a+b) - PS

↓ in gnt revenue: -(a+b+c e)

-(c+e)

Small country

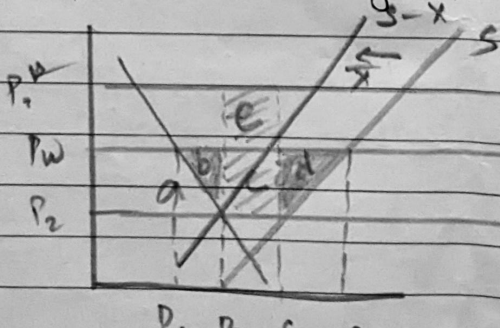


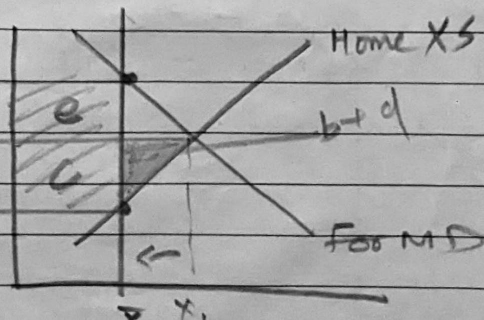


CS - No

PS - a+b   Govt = -(a+b+c)   Net :- (-c)

Export Quota (large country)



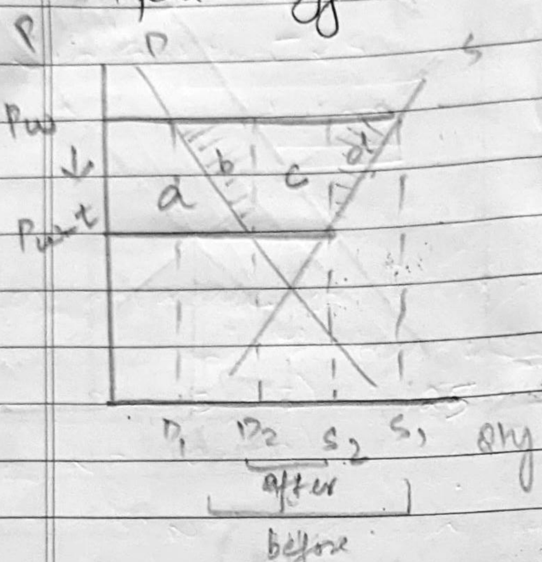


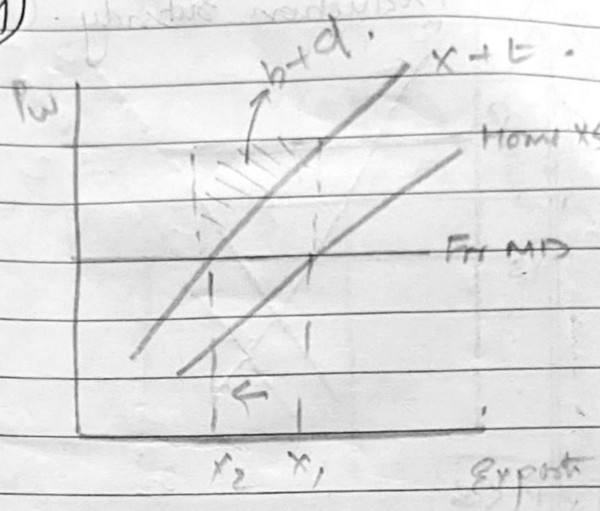
CS = +a   Govt = 0

PS = -(a+b+c+d)

Producer Rent = c+e   Net: e-(b+d)

Export tariff (small country)





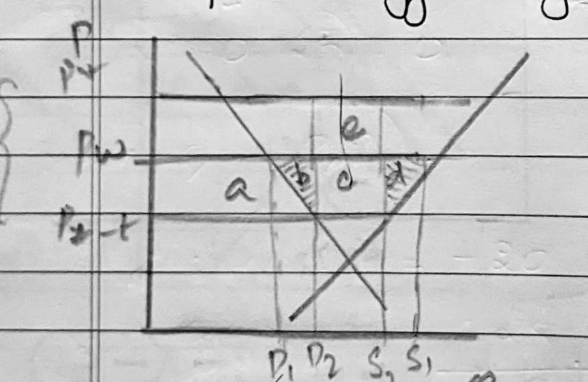
Cr — +a

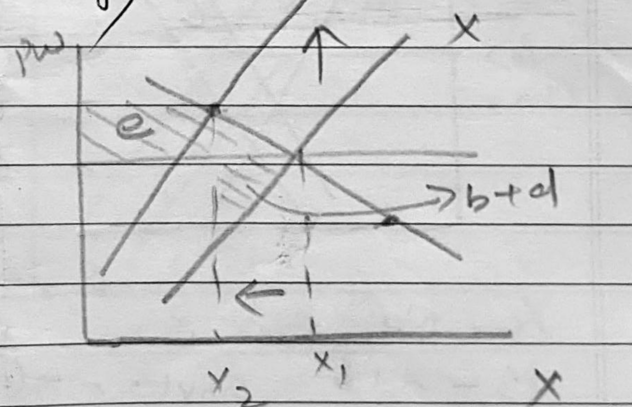
Pr — −(a+b+c+d)

Gov — +c

Net — −(b+d)

Export tariff (large country)





Cr — +a

Pr = −(a+b+c+d)

Govt = c+e

Net = e − (b+d)

↓

ToT gain