

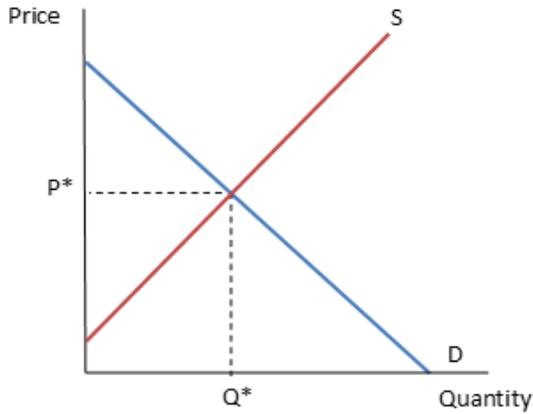
### Topic 8 – International Trade

**Big Question** – What is the impact of international trade?

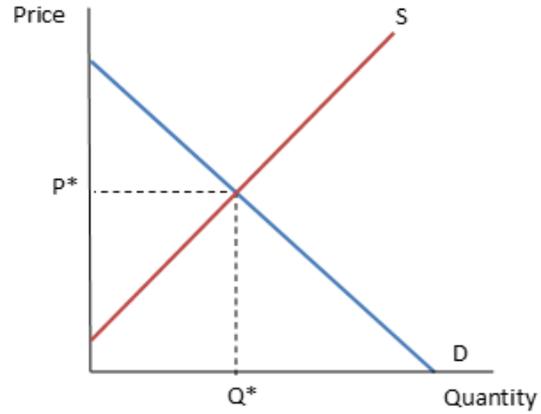
I. Consumption Possibilities

Specialization and trade make it possible to consume \_\_\_\_\_ compared with an autarky.

II. Who gains and who loses?



*Importing Market*



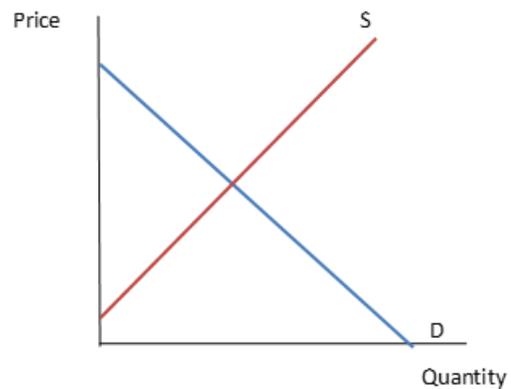
*Exporting Market*

**Example:** Suppose that supply and demand are given by the following equations.

Demand:  $P = 1000 - 2Q$

Supply:  $P = 200 + 3Q$

- a. Find the equilibrium price and quantity in the domestic market.



- b. If the world price is \$800, find the free trade quantity of imports or exports.

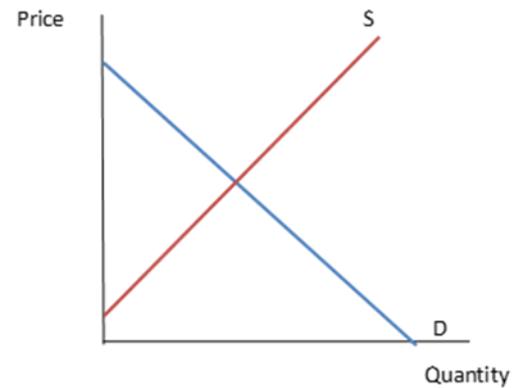
- c. Calculate the increase in total surplus that results from international trade.

**Example:** Suppose that supply and demand are given by the following equations.

$$\text{Demand: } P = 200 - Q$$

$$\text{Supply: } P = 50 + 2Q$$

- a. Find the equilibrium price and quantity in the domestic market.



- b. If the world price is \$100, find the free trade quantity of imports or exports.

- c. Calculate the increase in total surplus that results from international trade.

### III. Opposition to Trade

### IV. Protectionism – Restrictions on International Trade

1. Tariffs
2. Quotas
3. Domestic Subsidies

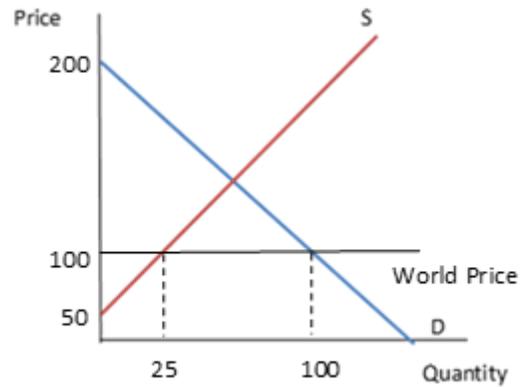
Demand:  $P = 200 - Q$

Supply:  $P = 50 + 2Q$

World Price = \$100

i. Impact of a tariff

- b. What is the impact of a \$20 per unit tariff on imports in this market?



- c. How does the tariff impact consumer surplus and producer surplus?

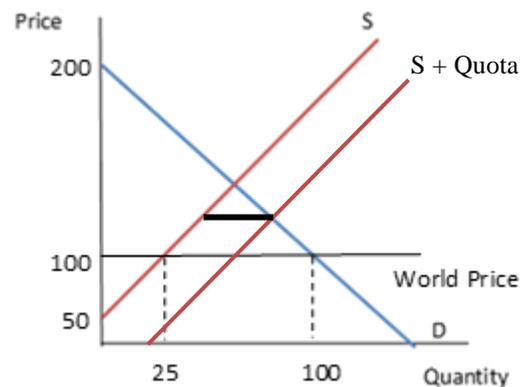
- d. Calculate government revenue and deadweight loss that results from the tariff.

- e. What groups outside this market are affected by the tariff?

- 1.
- 2.
- 3.

ii. Quotas

Show the effect on the market if the government instituted a quota of 45 units instead of a tariff?



## V. Cost of Protectionism

Listen to the Marketplace story, [What washing machine prices tell us about the impact of tariffs](#) and think about the following questions.

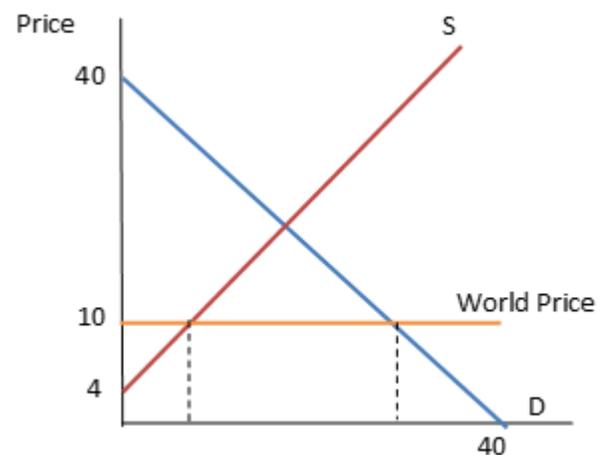
1. What groups benefited from the tariff on washing machines?
2. What groups were harmed by the tariff on washing machines?
3. Do you think the benefit of the tariff was worth the cost?

**Example:** In the United States domestic market for t-shirts supply and demand are given below. The world price is \$10 and the country.

$$\text{Demand: } P = 40 - Q$$

$$\text{Supply: } P = 4 + 2Q$$

- a. Find the quantity of imports with free international trade.



- b. Show on your graph the effect of a tariff of \$10. What is the new quantity of imports?

- c. Calculate the government revenue and loss in surplus, or deadweight loss, resulting from the tariff. Label them on your graph.

## VI. Assignments

- a. Media Assignment due on Brightspace at 11:00pm on 2/21/20
- b. Problem Set 8 due in class on 2/27/19