Questions for PubPol/Econ 541
Oct 18

Multi-Market Analysis

After Large Country Tariff:

Deardorff, "Trade Policy with Interacting Markets," 2021.

- In the case of a large-country tariff, what would a graph of the welfare of the tariff-levying country look like as a function of the size of the tariff? **<a: Starting from a tariff of zero, it would rise to a maximum, then fall and become negative before the tariff reaches a prohibitive level>**
- With an unchanged tariff in the two-country model with perfect substitutes, what will happen to prices in the two countries if there is a right-ward shift of
  - Home supply
  - Home demand
  - Foreign supply
  - Foreign demand

  <a: Both prices (home a foreign) rise if either demand curve shifts right; both prices fall if either supply curve shifts right.>

After Differentiated Product:

Deardorff, "Trade Policy with Interacting Markets," 2021.

- If a country does not produce a good that is identical to something that it imports, does it follow that there would be no interest in levying a tariff on those imports? **<a: No. It is still true that the tariff will increase the demands for, and prices of, goods that are substitutes for the import, and those producers will have an interest in getting such a tariff.>**
- How would the analysis in Figure 4 differ if the imported good were a complement to the domestic good rather than a substitute? **<a: The rise in price of the import, due to the tariff, would cause the demand for the domestic complement to shift left rather than right.>**
- How does the effect of a tariff in a small country differ depending on whether the import is identical to the domestic good or is differentiated? **<a: Qualitatively it doesn't differ, since the tariff causes domestic price to rise for both domestic demanders and domestic suppliers; suppliers sell more and demanders buy less (total, including both domestic and imported goods); and the quantity of imports falls. But quantitatively they are different, since the price increase need not equal the tariff, and therefore the quantity responses can be different as well.>**
- With an unchanged tariff in the two-country model with imperfect substitutes, what will happen to prices in the two countries if there is a right-ward shift of
  - Home supply

    - Home demand
    - Foreign demand

  <a: Since the model assumed that the supply of the import was horizontal, its price does not change with a shift of demand (or supply). The home price, however, rises with a rightward shift in home demand and falls with a rightward shift in home supply, unlike what it would do if the goods were perfect substitutes.>

After Input:

Deardorff, "Trade Policy with Interacting Markets," 2021.

- What (if anything) does the analysis of a tariff on an input tell us about the effects of Trump's tariffs on steel and aluminum? Aside from producers of the metals themselves, who is hurt and who is helped? **<a: The model does not include domestic producers of the metals, who presumably benefit from the rise in price. But it shows as one would expect that both producers and demanders of products that use steel and aluminum in their production are hurt, and that the harm is greater than the revenue from the tariff.>**

After One Country & Not Another:

Deardorff, "Trade Policy with Interacting Markets," 2021.

- Trump levied large tariffs on exports from China.
    - Based on the analysis in Figure 7, what would you expect the effects of those tariffs to be
        - On the exports of China?
        - On the exports of other countries?
    - How would it be different if foreign export supply curves were upward sloping?
    - How would it be different if imports from other countries were perfect substitutes for imports from China?

  <a: It would certainly reduce exports from China and increase exports from other countries, not necessarily lowering total imports at all. If contrary to Figure 7 supply curves are upward sloping, then the price received by China for their exports would fall, while the prices of other exporters would rise. So, while the US consumers and Chinese suppliers would lose, suppliers in other countries would gain. The US might also gain overall from the terms of trade effect, assuming (contrary to fact) that China does not retaliate.>