

Questions for PubPol/Econ 541
September 9-11

Tariffs and Quotas

KOM, Ch. 9, pp. 215-226:

- What is the difference between a specific tariff and an ad valorem tariff, both in terms of their definitions and their implications for trade?
- An import demand curve is sometimes called a “derived demand curve.” Why?
- What is an “effective rate of protection”? How and why does it differ from the nominal rate of protection?
- Can you explain in words the meaning of Consumer Surplus? Or the Change in Consumer Surplus?
- If the price of a good falls, why is the benefit to demanders not equal to the fall in the amount that they pay for it? Is it larger than this or smaller?
- If the price of a good rises, why is the benefit to suppliers not equal to the rise in the amount they are paid for it? Is it larger than this or smaller?
- How is the area to the left of an import demand curve between two prices related to the changes in consumer and producer surplus in the domestic market? Same question for an export supply curve?
- In what sense does a small country gain by eliminating a tariff? Does anybody in the country lose? If so, then how can we say that the country gains?
- Explain the sources of the “production distortion loss” and the “consumption distortion loss.” Why does each occur, and who is it that loses in each case?
- In what sense might a large country gain by using a tariff? Who in the country benefits from that gain?

Deardorff, “Nontariff Barriers and Domestic Regulation,” 1999, pp. 1-12.

- What reasons are there, if any, for a large country not to levy a tariff?
- In what ways might import quotas be administered, and what happens to the quota rents in each case?
- In what ways is an import quota equivalent to a tariff? In what ways is it not equivalent?
- The figure on p. 2 shows the tariff causing the world price to fall, which should only be true if the tariff-levying country is large. What in the figure tells you that the country is large?
- If a country is large, will it gain from applying a tariff that reduces imports to zero (a “prohibitive tariff”)? Why, or why not?
- If you were a domestic supplier competing with imports and had been promised a certain level of tariff, say 10%, would you rather learn that your country is small or that it is large?
- In the presence of a fixed and binding import quota, how will the domestic price and the tariff-equivalent of the quota change if the demand curve for imports shifts to the right? How will these change if the supply curve for imports shifts to the right? What if the supply curve on the domestic market shifts right?

Lahart, Justin, “The Imperfect Science of How Much Tariffs Will Hurt,” *Wall Street Journal*, July 6, 2018.

- What do models say that Trump’s tariffs so far will do to US GDP?
- How do the estimates change if Trump’s threatened tariffs are included? And if foreign retaliation is included?
- Are these changes big?
- Why is this an underestimate?

Martin, Eric, "US Importers Bore Cost of Trump’s China Goods Tariffs, ITC Says", *Supply Lines*, Bloomberg, March 16, 2023.

- By how much did prices of items subject to tariffs rise?
- How much did this mean for individual items?
- How much did imports decline from China?
- How has USTR under Biden responded?

Economist, “The Tijuana two-step: How Chinese goods dodge American tariffs,” *The Economist*, June 29, 2024.

- What is the “de minimis” threshold and what does it mean?
- What is the Tijuana two-step?
- What in recent years increased the incentive to do this?
- What do you learn here that casts doubt on US trade data?
- What is “structuring”?
- Who gains and who loses from all of this?

Wolf, Martin, “Tariffs are bad policy, but good politics,” *Financial Times*, June 11, 2024.

- Why are tariffs politically appealing?
- Why are tariffs harmful?
- Wolf says that whatever purpose tariffs may serve, they are “rarely the best way” of achieving those purposes? Does he explain that? What policy does he say is better?
- Why does he not expect Biden’s support for EVs to make the US industry competitive?

Optional to Read:

Deardorff, “Analysis of Tariffs and Quotas,” 2020.

- What seem to be the most important assumptions made for this analysis?
- Is it possible, in this analysis under these assumptions, for a tariff to raise the welfare of a small country? Would that be possible for a large country?
- Can a tariff ever be beneficial to domestic demanders, or harmful to domestic suppliers?
- Can an import quota ever not be harmful to the importing country?