



## Lecture 20

- **Import quotas and tariffs**
- **Impact of a tax or a subsidy**



## Production Quotas

- **Production quotas: (Figure 9.12)**
  - Government pays firms to restrict production
  - DWL
  - Comparison to other cases & a lump-sum transfer
- **Example 9.4:**
  - Production quotas and subsidies




## Import Quotas and Tariffs

- **Equivalence of import tariff and quota:**
- **Extreme case vs. general case (Figure 9.15 - 9.16)**
- **Sugar quota (Figure 9.17)**



## Impact of a Tax or a Subsidy

- **Specific vs. ad valorem tax:**
  - Specific:  $p + t$
  - Ad valorem (proportional):  $p(1+t)$
- **Incidence of a tax:**
  - After-tax equilibrium (Figure 9.18)
  - Cost to consumers vs. producers
  - Impact & elasticities of demand/supply (Figure 9.19)
- **Incidence of a subsidy: (Figure 9.20)**
- **Example 9.6: a tax on gasoline**



# Exercises

- Q6
- Q7
- Q8
- Q12

