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