Question 1
This question asks you to compare the effect of an import tariff on good X with that of an import quota on the same good. Basic conditions in the market for good X are illustrated below. The country is considering a specific tariff of $10 per unit on good X and an import quota of 500 units of good X.

a. In the case of the tariff, what would be the equilibrium quantities consumed and produced domestically, the domestic and world prices, and the quantity of good X imported? Illustrate in the diagram.

b. In the case of the quota, what would be the equilibrium quantities consumed and produced domestically, the domestic and world prices, and the quantity of good X imported? Illustrate in the diagram.

c. Suppose you were a domestic producer of good X. How do you feel about these policies? Would you care which type of import restriction was imposed? Why, or why not? If you were to care, which restriction might you prefer, and why?

d. Suppose you were a domestic consumer of good X. How do you feel about these policies? Would you care which type of import restriction was imposed? Why, or why not? If you were to care, which restriction might you prefer, and why?

e. Suppose you were responsible for the overall economy. How do you feel about these policies? Would you care which type of import restriction was imposed? Why, or why not? If you were to care, which restriction might you prefer, and why?

Question 2
Patrick Buchanan is talking again (actually, he said this back in 1996)

With tariffs, we can shift the burden of taxes off the incomes of U.S. workers and small business, onto consumers of foreign goods. ‘By the tariff system’, said Abraham Lincoln, ‘the whole revenue is paid by the consumer of foreign goods … The man who contents himself to live upon the products of his own country pays nothing at all.’

Analyze this argument in support of protection.

Question 3
In the United States, an import quota on sugar holds the domestic price of sugar at a level several times the world price of sugar. The American Sugar Alliance claims that the U.S. sugar program is an example of “An intelligent agricultural policy that works both at home and abroad. Best of all, the U.S. Sugar Program has resulted in virtually stable prices at the supermarket for American consumers since its inception at no cost to taxpayers.” Evaluate this claim. How has this program affected producers? Consumers? Foreigners? Who does the American Sugar Alliance represent?