TUTORIAL 2 – WEEK 3

Recap

Q1. The domestic market for cars in Australia has the following functions:

$$Q_D = 5 - 0.2P \qquad Q_S = P - 19$$

[Units are in thousands of $, and millions of cars per year]

    a. What is the equilibrium price and quantity without trade?

    b. Now assume the world price for cars is $15,000 and Australia opens its car market to trade. What is the quantity supplied domestically, the quantity imported, and quantity consumed? Analyse the changes to welfare (labelling changes to consumer surplus, producer surplus, government revenue, and deadweight loss on a diagram). [Only calculate your answers if you really want to!]

    c. The government is worried that the domestic car market will disappear, and imposes a $5,500 tariff on cars. Explain how welfare has changed from (a).

    d. The government changes its mind and imposes a $4,500 tariff. Explain how welfare has changed from (b).

    e. The government changes its mind yet again, and imposes a 600,000 import quota on cars, and auctions the rights to importers. Explain how welfare has changed from (d).

    f. If you were an foreign importer of cars to Australia, would you prefer them to adopt (d) or (e)? Explain your answer.

Political Economy

General discussion