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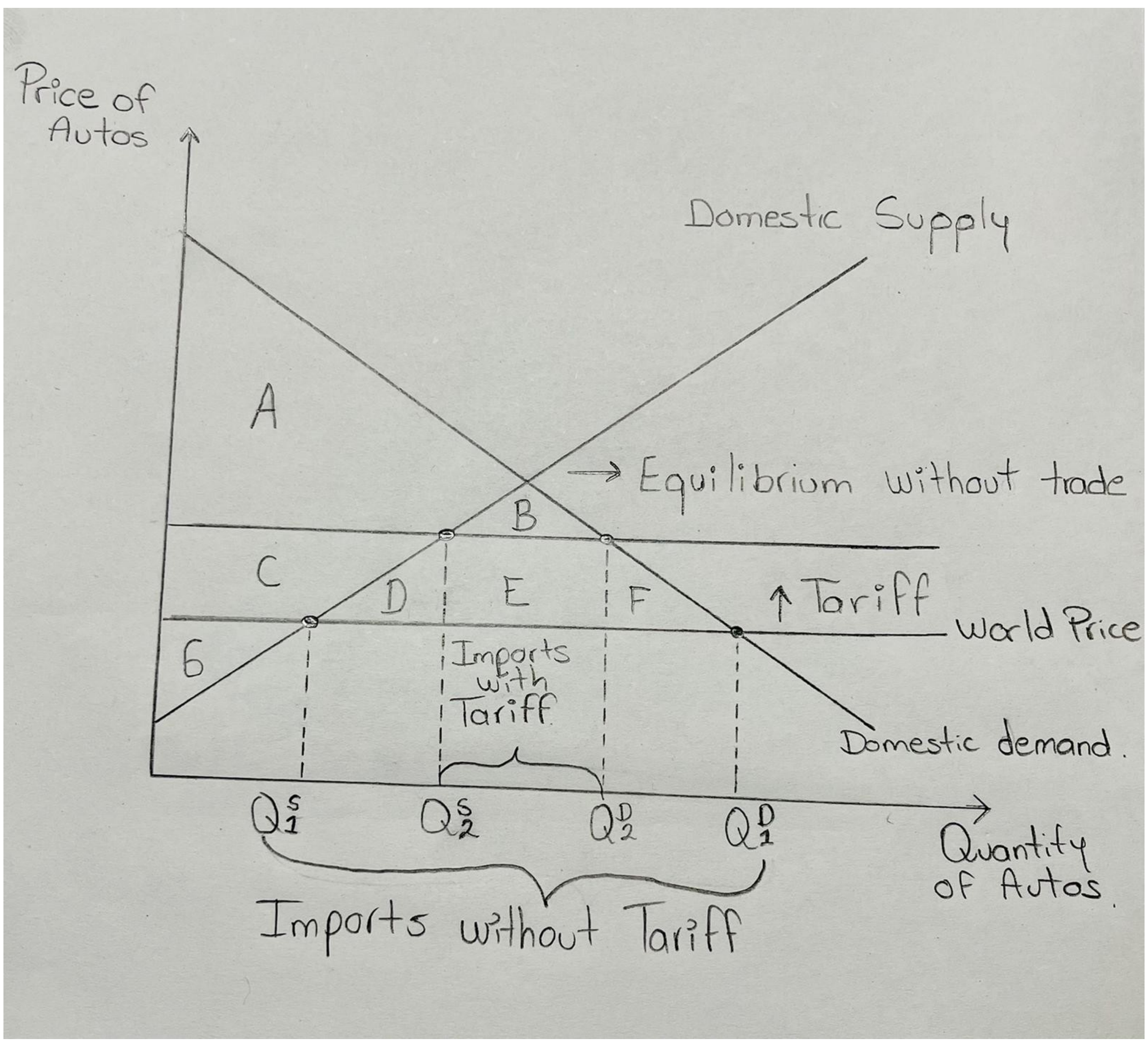
Macroeconomics

3. Suppose that Congress imposes a tariff on imported autos to protect the U.S. auto industry from foreign competition. Assuming that the United States is a price taker in the world auto market, show the following on a diagram: the change in the quantity of imports, the loss to U.S. consumers, the gain to U.S. manufacturers, government revenue, and the deadweight loss associated with the tariff. The loss to consumers can be decomposed into three pieces: a gain to domestic producers, revenue for the government, and a deadweight loss. Use your diagram to identify these three pieces.

A tariff imposed by congress on imported autos will reduce the quantity of imports and moves the market closer to the equilibrium that would exist without trade.



	Before Tariff	After Tariff	Change.
Quantity of Imports.	Q_1^S to Q_1^D	Q_2^S to Q_2^D	$-(Q_1^S \text{ To } Q_2^S + Q_2^D \text{ To } Q_1^D)$
Consumer Surplus	A+B+C+D+E+F	A+B	-(C+D+E+F)
Producer Surplus	G	C+G	+C
Government Revenue	None	E	+E
Total Surplus	A+B+C+D+E+F+G	A+B+C+E+G	-(D+F)

Loss to US consumers = Area of C + D + E + F

Gain of US manufactures = Area of C

Government revenue = Area of E

Dead weight loss associated with tariff = Area of (D + F)

Loss to consumers is decomposed into three pieces namely

1) A transfer to domestic produces = Area of C

2) A transfer to government = Area of E

3) A dead weight loss = Area of (D + F)