

[CH. 8] TARIFFS - TAX ON IMPORTS

SPECIFIC TARIFF - TAX PER UNIT

AD VALOREM - % TAX ON PRICE

AVL TAX RATES

↓ MOST COMMON

JAPAN 6.5%

↓ 2002

EU 6.4% (AGRICULTURE 16.1%)

BRAZIL 13.7%

MEXICO 16.5%

INDIA 32%

U.S. 5%

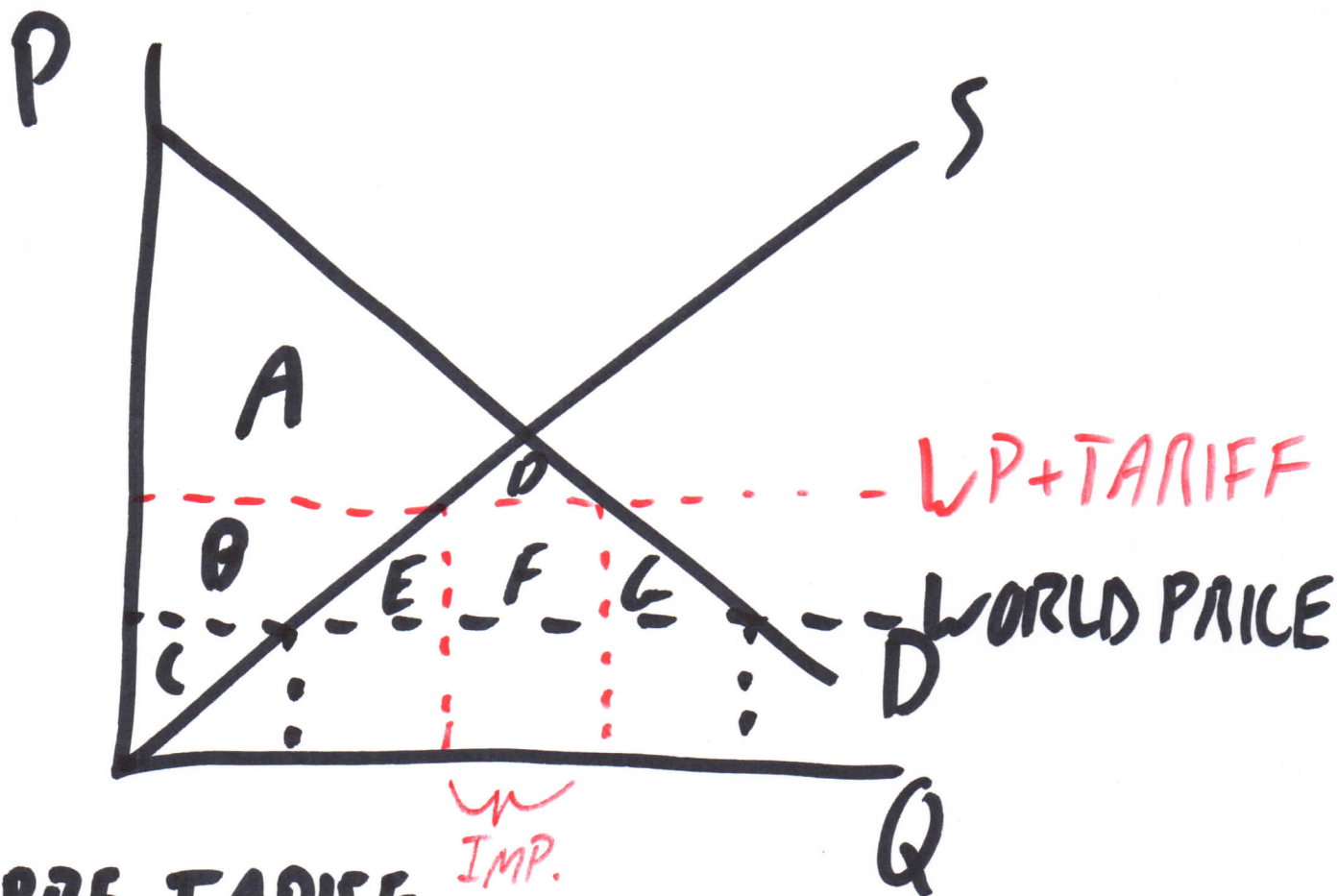
TRADE →

DEVELOPMENT

DEVELOPMENT →

TRADE ?

SMALL COUNTRY - BAHAMAS



PRE-TARIFF

(S : A + B + ~~A~~ + D + E + F + C)

PS : C

TARIFF

(S : A + D)

PS : B + C

$Q_T \times TAX = TAX \text{ REV.} : F$

DEADWEIGHT LOSS

DL DUE
TO FALLING
CONSUMPTION

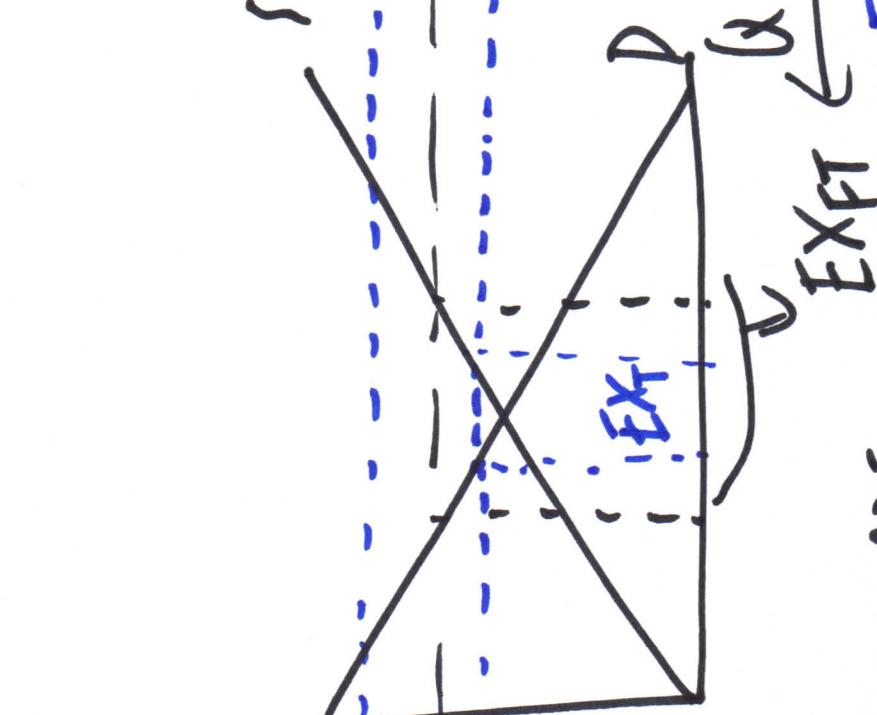
E : PRODUCTION EFFECT (DL DUE
TO INEFFICIENT PRODUCTION)

G : CONSUMPTION EFFECT

R/W

P

TARIFF
P_{ROW}



FREE TRADE

CS: $A+B+E+F+G+H$

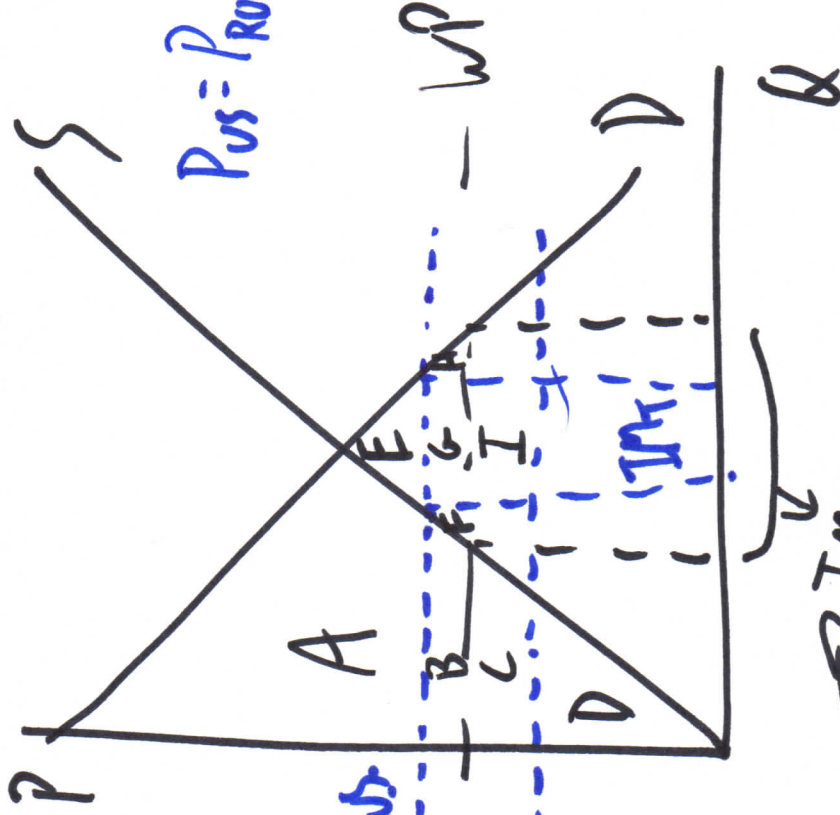
PS: $(+D)$

TARIFF IMPROVES

WELFARE IF

$I > F+H$

U.S.



$P_{US} = P_{ROW} + \text{TARIFF}$

TARIFF

CS: $A+E$

PS: $B+(+D)$

$Q_T \times \text{TAX} = \text{TAX} : G+I$

REV.

$DL: F+H$

NATIONALLY OPTIMAL TARIFF

IN A LARGE COUNTRY, TARIFF
LEVEL THAT MAXIMIZES TS
ESCALATION $\hookrightarrow$ HIGHER RATES FOR MORE
ELASTIC GOODS

HIGHER TARIFF RATES FOR
GOODS THAT REQUIRE MORE
MANUFACTURING

MAKE SHIRTS: \$5

\$2 MC IS FABRIC

10% TARIFF $\rightarrow$ \$2.20 MC

SHIRTS NEW MC = \$5.20

BEGGAR-THY-NEIGHBOR

POLICY THAT HURTS R.D.V SO
DOMESTIC COUNTRY CAN BENEFIT

- OFTEN FOREIGN COUNTRIES
RETAUATE

RAISE TARIFFS ON OFFENDING
COUNTRY

- WORLD TRADE ORGANIZATION
DELIBERATE ON TARIFF
DECIDE IF RETALIATION IS
WARRANTED