

# Tutorial Session 2

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## Outline of the session

- Trade creation / trade diversion
  - Where does the MD curve come from ?
  - Where does the MS curve come from ?
  - PTA : an application
- A glance at active slides
- Your questions

## Exercise (from Baldwin Wiplosz 2003)

Assume that demand (D) and supply (S) in a country are given by :

$$D : P = 100 - Q \quad \text{and} \quad S : P = 4Q$$

where P and Q are price quantity respectively

- 1 Give equilibrium price and quantity under autarky
- 2 Assume free trade and a world price of 20. Show the equilibrium supply demand diagram.
- 3 Give the quantities demanded ( $Q^d$ ), supplied ( $Q^s$ ) and imported ( $Q^m$ )
- 4 Assume a 100% tariff on imports. Give  $Q^d$ ,  $Q^s$  and  $Q^m$
- 5 What is the impact of tariff on economic efficiency? on income distribution?
- 6 Derive the import demand function ( $MD_h$ )

## Exercise (from Baldwin Wiplosz 2003)

Home	Partner	Row
import demand	export supply	export supply
$MD = 6 - P$	$XS_p = P - 1$	$XS_r = P - 1$

- 1 What is the total export supply (MS) curve?
- 2 Under free-trade, compute the price ( $P_{FT}$ ), the imported quantity (M),  $XR_p$  and  $XR_r$
- 3 Derive the new supply curve ( $MS_{MFN}$ ) if Home levies a tariff of 1
- 4 With MFN tariff of 1, compute  $P_{FT}$ ,  $M'$ ,  $XR'_p$ ,  $XR'_r$  and the border price
- 5 Suppose PTA. Partner is exempt from tariff. Derive the supply curve ( $MS_{PTA}$ )
- 6 Compute  $M''$ ,  $P''$ , the border price,  $XR''_p$  and  $XR''_r$
- 7 Compare the welfare under PTA and MFN

QUESTIONS?