INDICATE PRODUCTION TENDS TO BE CONCENTRATED IN SMALL # OF LOCATIONS (CA, HISTORICAL LUCK, GOVT POLICY)

- **Monopolistic competition vs Monopoly**
  Monopolistic competition (D isn't as steep- can't get away with charging a higher price): firm faces limited competition and can determine how many of its products to sell, as quantity inc, price dec for all units sold until MR from an additional unit=MC
  Monopoly- steep demand curve, can command price

- **Global oligopoly**- a few firms account for most of world's production; ARISE WHEN THERE ARE SUBSTANTIAL SCALE ECONOMIES INTERNAL TO EACH FIRM- trade patterns driven by historical factors (where industry started) rather than CA
  - Prisoner's dilemma- compete aggressively by setting low prices or restrain competition by setting high price
  - Firms may punish new entrants by cutting prices to drive them out of mkt

Trade gains/losses:
Standard Competition: losers: export consumers, import-competing producers
Monopolistic Competition: no impact: export producers, import-competing producers (because firms under pressure from import competition also have opportunity to export to foreign mkts)
External Economies: losers: import-competing producers (filmmakers in Kansas)

Lecture 5: Trade Policy: Tariffs

- **Specific tariff-** money per unit import
- **Ad valorem tariff-** on the value- percentage of the estimated mkt value of the goods when they reach the importing country

FOR SMALL COUNTRY, THE PRICE COUNTRY PAYS FOREIGN SELLERS IS NOT AFFECTED BY HOW MUCH THE SMALL COUNTRY IMPORTS OF THE PRODUCT

- **Producer surplus-** amt that producers gain from being able to sell at going mkt price: AREA ABOVE SUPPLY CURVE AND BELOW MKT PRICE/WP/DOMESTIC PRICE LINE- PRODUCTION EFFECT (AREA B)
- When tariff is implemented (ex. 10% tariff on WP of $300/bike) then consumer incurs extra $330 and pays $330 domestically for imported bikes because exporter still wants to make $300 on each bike they export→domestic producers also raise price to $330 and output increases (domestic producer surplus inc because mkt price inc)
- **Consumer surplus**- amt that consumers gain from being able to buy bikes at going mkt price: AREA BELOW DEMAND CURVE AND ABOVE MKT PRICE LINE-CONSUMPTION EFFECT (AREA D)
- When tariff is implemented, consumers either pay $30 more for bike or not buy at the higher price WHAT DOMESTIC CONSUMERS LOSE FROM TARIFF>THAN WHAT DOMESTIC PRODUCERS GAIN BECAUSE PRODUCERS GAIN PRICE MARKUP ON ONLY THE DOMESTIC OUTPUT WHILE CONSUMERS ARE FORCED TO PAY SAME PRICE MARKUP ON DOMESTIC OUTPUT AND IMPORTS
- **Government revenue**- Price of tariff * volume of imports w/tariff (s0)

FOR SMALL IMPORTING COUNTRY TARIFF BRINGS NET NATIONAL LOSS BECAUSE CONSUMER LOSS>PRODUCER GAIN AND GOVT REVENUE- NET NATIONAL LOSS IS B+D

- **Consumption effect-** d- shows loss to consumers in importing nation based in reduction in total consumption of bikes; d is deadweight loss because what consumers lose in d nobody gains; area d is the inefficiency for those consumers squeezed out of buying bikes because tariff artificially raises domestic price
- **Production effect-** b- extra cost of shifting to more expensive home production- deadweight loss. Consumers pay it but neither govt nor domestic bike producers gain it; it's the amount by which cost of drawing domestic resources away from other uses exceeds the savings from not paying foreigners to sell extra units