Exercise 63

1. Define:

a) TARIFFS

b) SUBSIDIES

c) QUOTAS

d) ADMINISTRATIVE BARRIERS

2. The supply/demand schedule below describes the automobile market in Australia. With the aid of a graph (which you can make on the accompanying grid):

a) What is the equilibrium price and quantity in the absence of trade?

Australian Automobile Market

Price ('000s of $)	10	15	20	25	30	35	40
Quantity Demanded ('000s of $)	65	55	45	35	25	15	5
Quantity Supplied ('000s of $)	5	15	25	35	45	55	65

b) Imagine Korea, Japan and China can supply the entire automotive needs of Australia with cars priced at $15 000 each.

i) Represent this on the graph

ii) What is the new market equilibrium price and quantity?

iii) How many cars sold are Australian made? How many are imports?

c) In response, the government could:

i) impose an import tariff of $5000 per vehicle, or

ii) grant a subsidy of $5000 per car to Australian automakers

iii) impose a a quota on car imports of 20 000 vehicles

Using the grids provided, compare the impacts of each response in terms of equilibrium price and quantity, preservation of the domestic manufacturers' market share, and impact on the government treasury. Which action do you judge to be the best, considering the interests of domestic consumers, producers and taxpayers?

i)

ii)

iii)

RESULTS

	$ 5000 tariff	$ 5000 subsidy	Quota of $ 20,000
Equilibrium Price + Quantity			
Domestic Market Share			
Impact on the Treasury			