

Import Quotas

- Consider quota allowing some imports

- What is region 4?

Tariffs vs. Quotas

- Diagram is the same, interpretation different
- Big difference: whether domestic Treasury benefits

Example: US Sugar Quota

- US consumers are hurt more than US producers benefit, and there's a big DWL
- Why does this program exist?

Tax Incidence

- Who pays the tax?
 - Not necessarily the one writing the check
- Tax places wedge between what buyers pay and sellers receive
- And create deadweight loss

Monopoly & Market Power

- Monopoly – one seller
- Firm faces market demand curve
- Firm chooses output to maximize profit
 - Still, $MR(q)=MC(q)$
- But: MR is not constant
- E.g. $p=A-Bq$
- $Rev = p(q)*q=Aq-Bq^2$.
- $MR = A-2Bq$
 - Bisects linear demand

Choosing q^* for Monopolist

- Compare q^* with other q 's.

Monopoly q choice in 2-panel diagram

Monopoly Power

- Consider firm vs. market

- Lerner Index = $L = (P - MC) / P = -1 / \epsilon_D$
 - Recall pricing rule of thumb

Profit and Monopoly Power

- Compare two situations with equal market power:

- Not the same thing!

Social Cost of Monopoly

- Compared to competition, monopoly causes DWL and transfers CS to producers

Social Cost of Monopoly, Including Rent-Seeking

- The gain in producer surplus is worth expending resources to obtain

- Total social cost exceeds $C + B$