

1. Suppose a tariff on imported toys raises the domestic price of Darth Vader masks by \$1. Domestic production rises in response to the higher price, from 2 million to 4 million masks, while domestic consumption falls from 12 million to 8 million masks.
 - a. What is the amount of the change in producer and consumer surplus? How much does government receive in tariff revenue from domestic consumers? No graph is necessary, and you should assume supply and demand are linear functions.
 - b. Suppose our tariff lowered the price of masks on the international market by \$1 (i.e., the tariff was actually \$2). Does the tariff improve or worsen our domestic welfare overall, and by how much?
 - c. Suppose instead that our tariff lowered the price of masks on the international market by \$0.50 (i.e., the tariff was actually \$1.50). Does the tariff improve or worsen our domestic welfare overall, and by how much?
2. For a small importing country, use a supply and demand graph to show how the welfare effects differ between a specific tariff and an equivalent government subsidy for domestic producers. Which is less inefficient?
3. For a small *exporting* country, use a supply and demand graph to show how the welfare effects differ between an export subsidy and a production subsidy. Which is less inefficient?