



[Academic Script]

[Tariff: Types, Partial Equilibrium Analysis

Tariff and Effects of Tariff on Consumer and Producer Surplus]

Subject:	Business Economics
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Frequently Asked Questions

(1) What is ad valorem duty?

A. This tax is legally specified as a fixed percentage of the value of the commodity imported or exported.

(2) What is specific duty?

A. This tax is legally specified as a fixed sum of money per unit imported or exported.

(3) What is compound duty?

A. This is a combination of an ad valorem duty and specified duty.

(4) Explain the effect of an import tariff on international trade.

A. The effect of an import tariff can be explained as follows:

An imposition of a tariff on imports



Increase in domestic price of imports



The domestic output of import-competing industry expands and domestic consumption of imports contracts



Imports fall because the gap between domestic consumption and domestic production reduces

It means that an imposition of tariff on imports reduces the domestic consumption. The tariff revenue will be collected by the government, and income is redistributed from consumers to producers.

(5) What will be the effect of an import tariff by a small nation on consumption?

A. An import tariff by a small nation increases the domestic price of the commodity. Therefore, it reduces the domestic consumption of the importable commodity.

(6) What will be the effect of an import tariff by a small nation on production?

- A. An import tariff by a small nation increases the domestic price of the commodity.
Therefore, it increases the domestic production of import-competing industry.