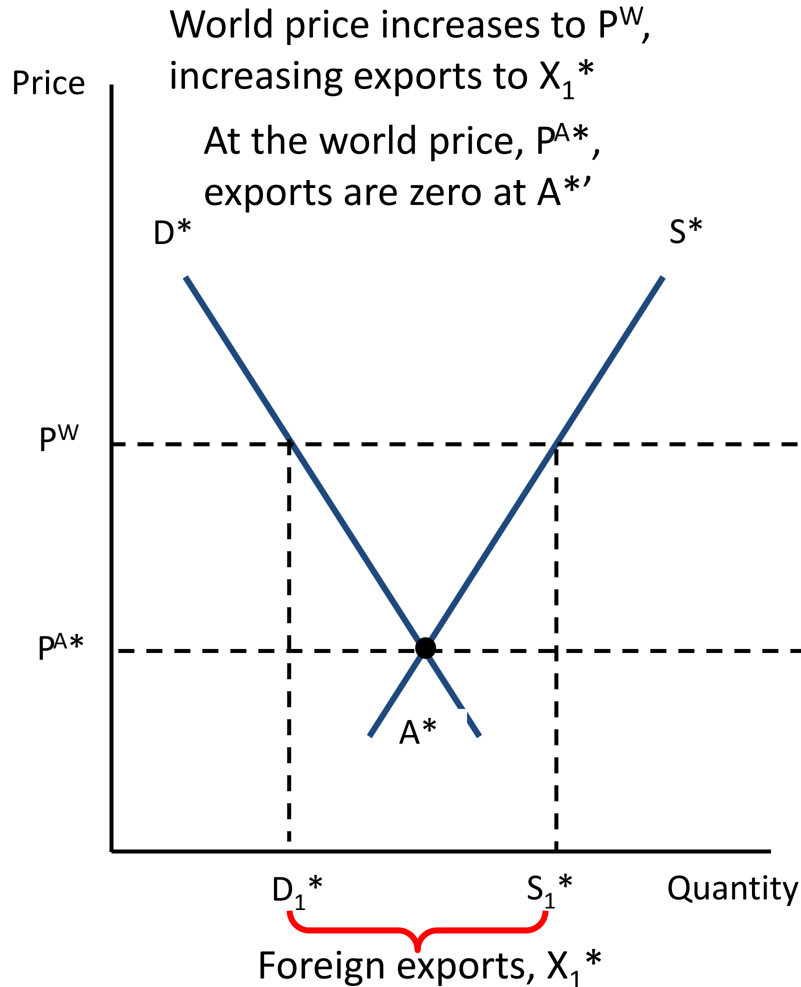
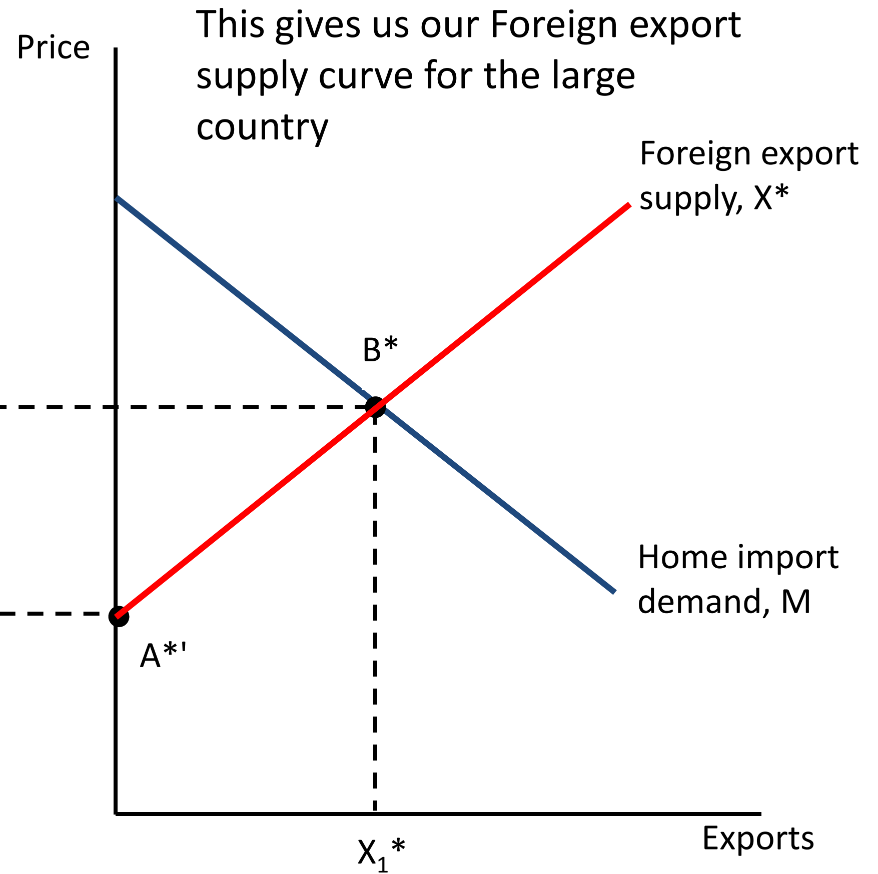
- **Case 2: Large Country + Tariffs**
  - The world price P^W is ***affected*** by the country's supply/demand in the world market!
  - Suppose Home is Large in the market for cement
    - Fall in quantity imported => fall in world price of cement!
    - Foreign Export supply curve upward sloping
  - If $P^A > P^W$ then country Imports good, else Exports

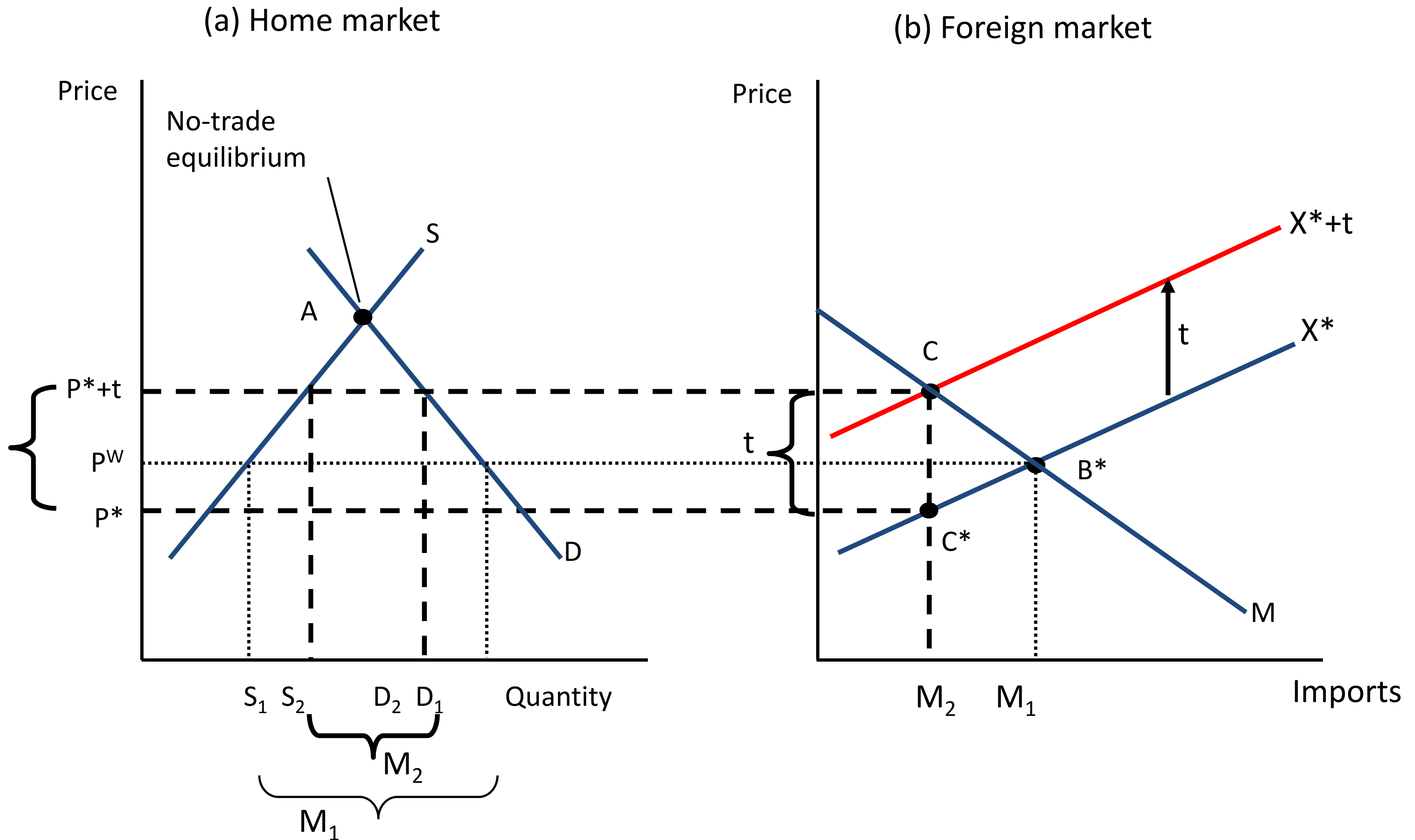
- Foreign and World Markets



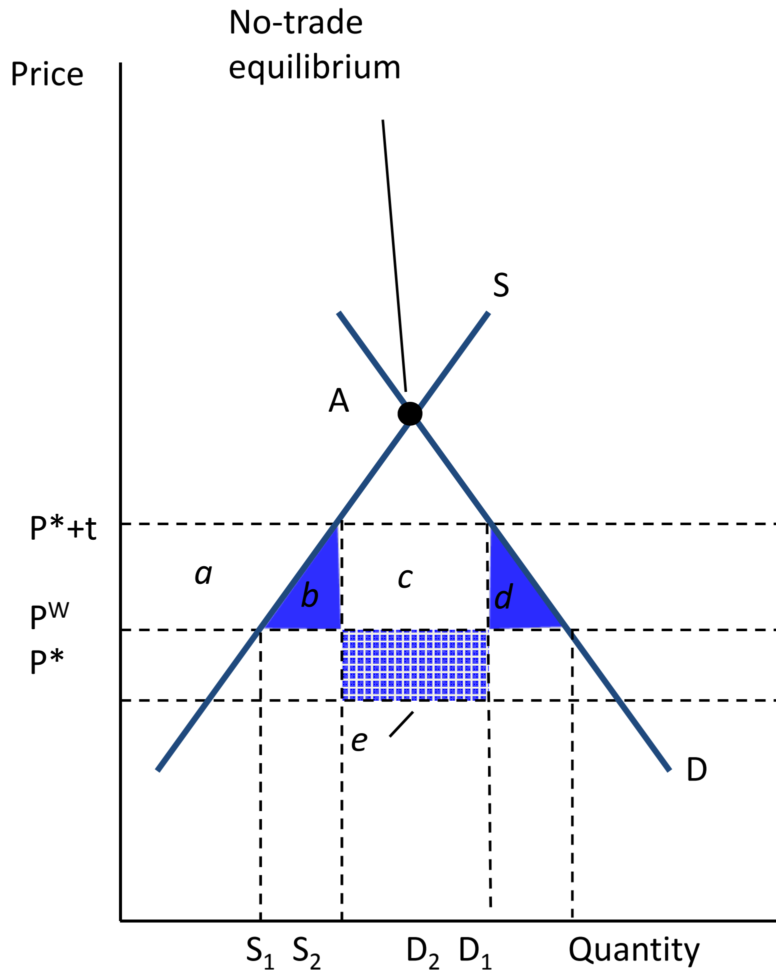


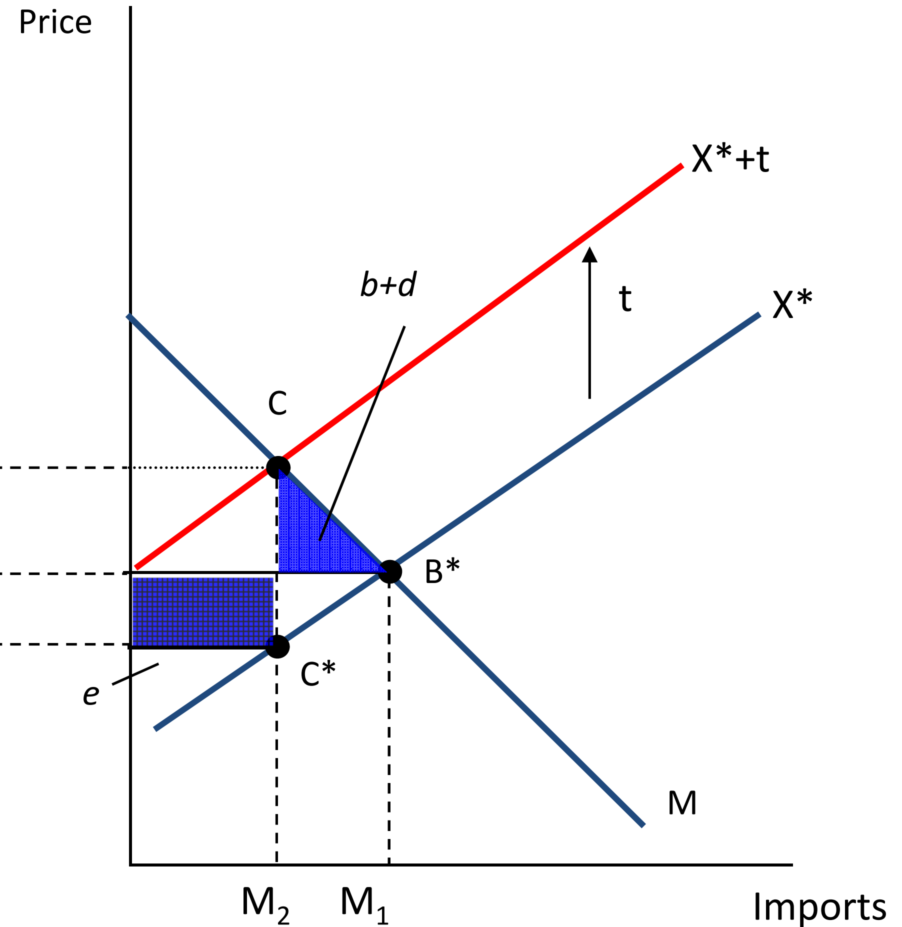
- Home imposes tariff = $ t
  - Home consumer pay P*+t
  - Do foreign producers receive P*+t? No!
  - Foreign producers are essentially “absorbing” a part of the tariff, by lowering their price.
    - Why? Because one of their largest customers is now buying lesser from them!
  - The tariff drives a ***wedge*** between what Home consumers pay and what foreign producers receive, with the difference, t, going to the Home government

- Large country tariff ***lowered*** world price!



- Welfare Impact: Ambiguous





- Home Welfare

Fall in consumer surplus=	-(a+b+c+d)
Rise in producer surplus=	+a
Rise in government revenue=	+(c + e)
Net effect on Home welfare=	– (b+d) + (e)

  - If $e > (b+d)$, then Home is better off
  - If $e < (b+d)$, then Home is worse off
  - Area (e) comes from making Foreign worse off
    - Beggar thy neighbor
  - World Welfare (Home + Foreign) *falls*

- Optimal Tariff: large countries only