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6 Macroeconomics LESSON 6 ■ ACTIVITY 28 **Answer Key**

Barriers to Trade

Part A
Quotas

1. Use Figure 513 to demonstrate what will happen to the domestic price, domestic production and the amount of imported quotas if removed. The Domestic Supply and Total Supply curves in the graph are without any barrier or trade imposed. Be sure to show on the graph the supply curve with the quota. It is not on the graph now.

Figure 513
Eliminating a Quota

If there were a complete import ban, the equilibrium domestic price would be P_2 and the equilibrium quantity would be Q_2 with the completely controlled production by the domestic industry. If there were a partial quota, the supply curve labeled Total Supply with Quota would be relevant (note the domestic price and quantity would be P_2 and Q_2). The amount left to quota would be $(Q_2 - Q_1)$. Domestic production will be Q_2 . Removing the quota and returning to the free-trade equilibrium, the domestic consumers will pay P_1 and purchase Q_1 . Removal of a quota leads to a decrease in producer surplus (the quantity represented in the area shaded red) and an increase in consumer surplus (the quantity represented in the area shaded blue) on the domestic market.

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