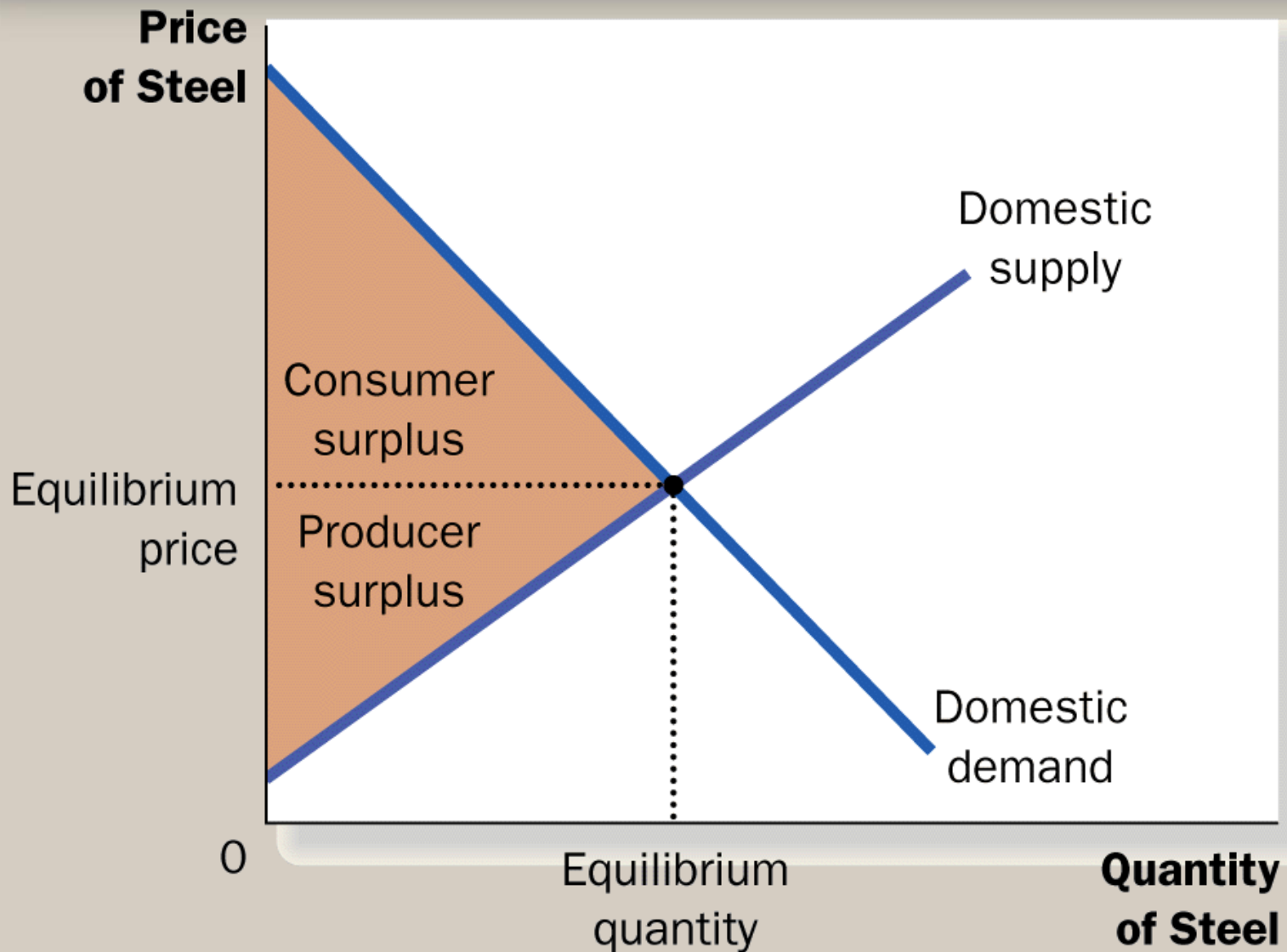


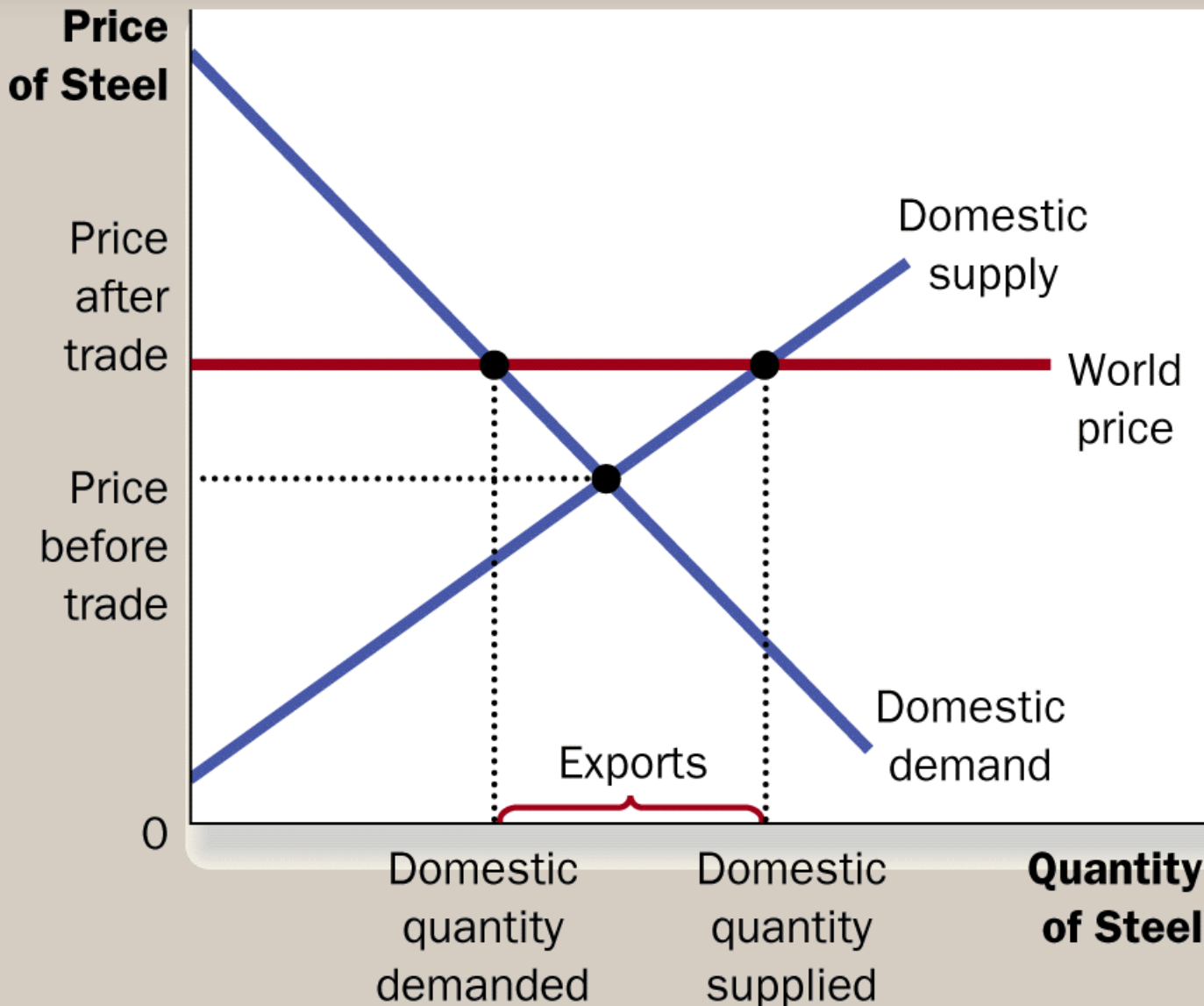
9

# Application: International Trade

# Figure 1 The Equilibrium without International Trade



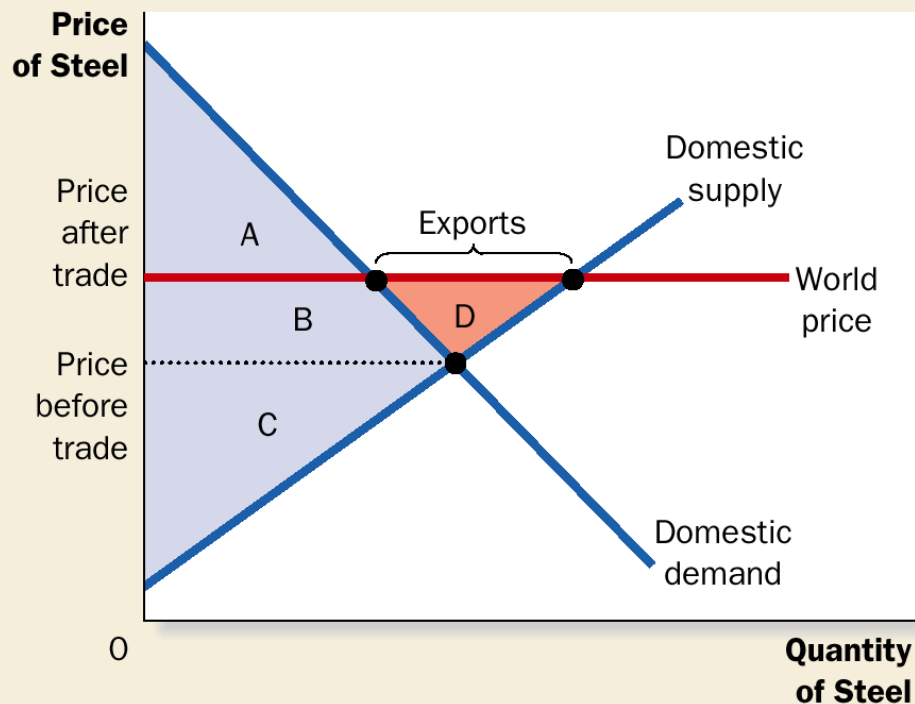
## Figure 2 International Trade in an Exporting Country



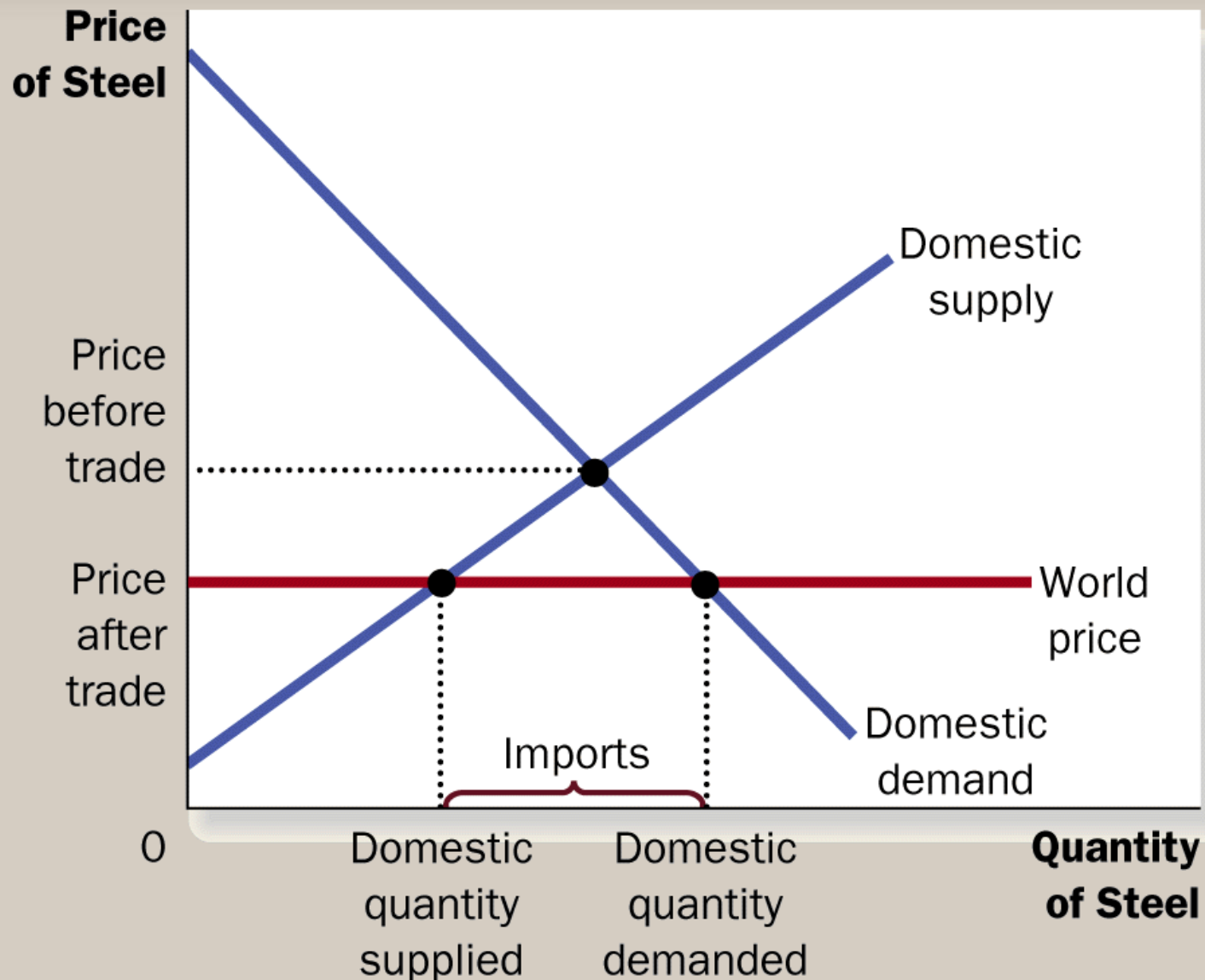
# Figure 3 How Free Trade Affects Welfare in an Exporting Country

	Before Trade	After Trade	Change
Consumer Surplus	$A + B$	$A$	$-B$
Producer Surplus	$C$	$B + C + D$	$+(B + D)$
Total Surplus	$A + B + C$	$A + B + C + D$	$+D$

The area D shows the increase in total surplus and represents the gains from trade.



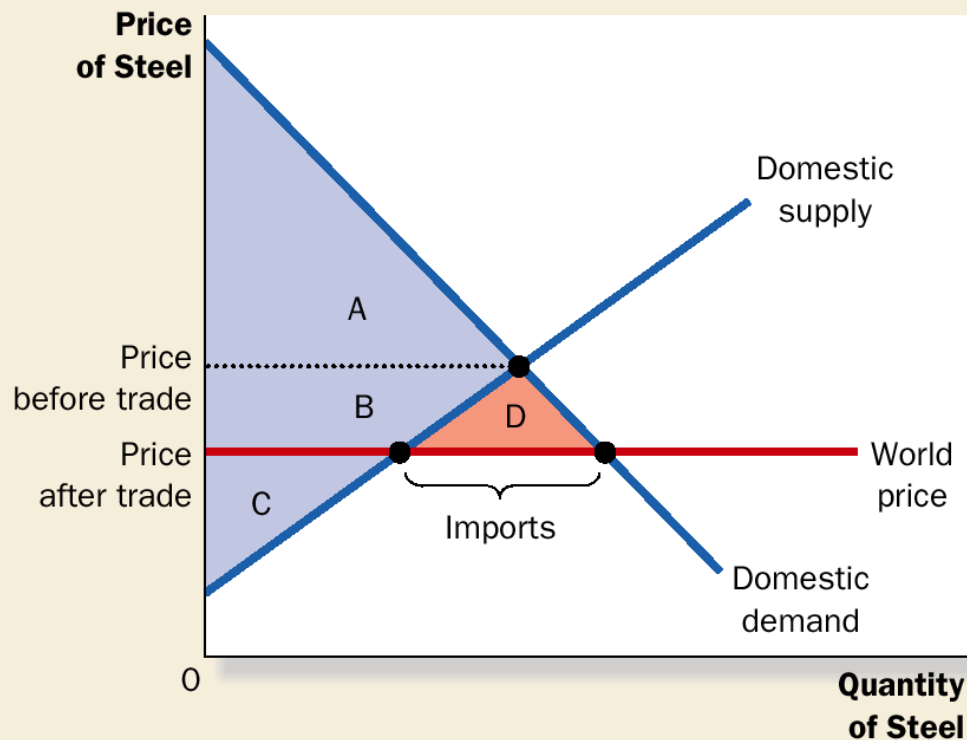
## Figure 4 International Trade in an Importing Country



# Figure 5 How Free Trade Affects Welfare in an Importing Country

	Before Trade	After Trade	Change
Consumer Surplus	A	A + B + D	+(B + D)
Producer Surplus	B + C	C	-B
Total Surplus	A + B + C	A + B + C + D	+D

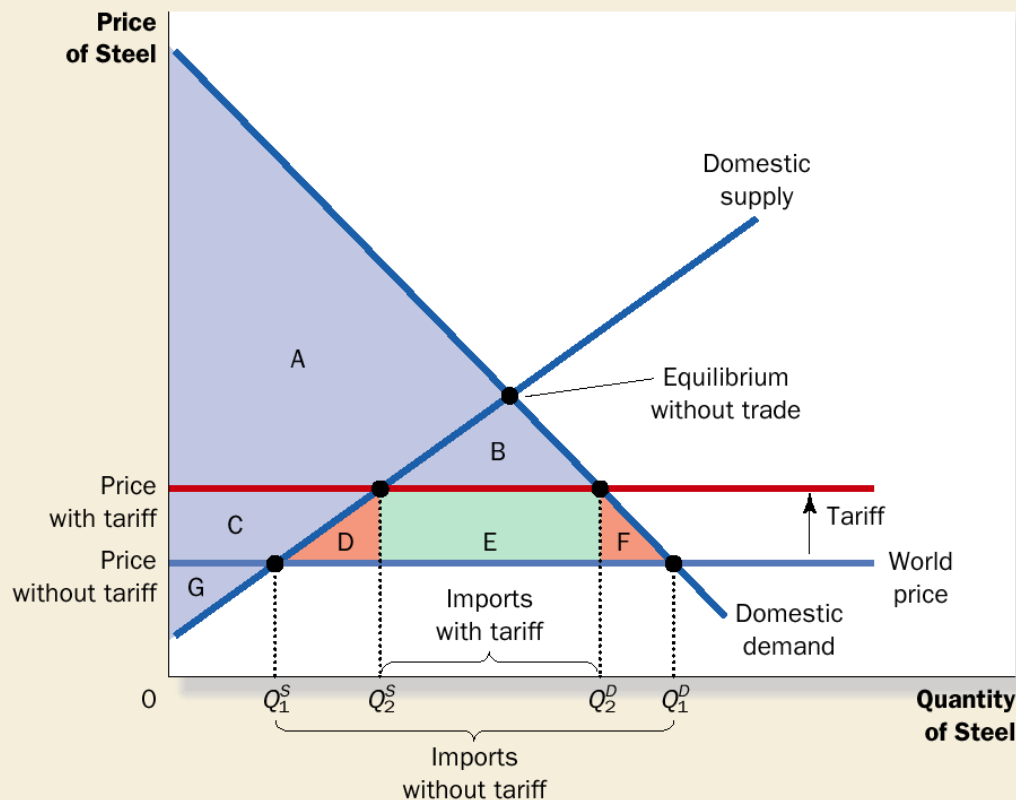
The area D shows the increase in total surplus and represents the gains from trade.



# Figure 6 The Effects of a Tariff

	Before Tariff	After Tariff	Change
<b>Consumer Surplus</b>	$A + B + C + D + E + F$	$A + B$	$-(C + D + E + F)$
<b>Producer Surplus</b>	$G$	$C + G$	$+C$
<b>Government Revenue</b>	None	$E$	$+E$
<b>Total Surplus</b>	$A + B + C + D + E + F + G$	$A + B + C + E + G$	$-(D + F)$

The area  $D + F$  shows the fall in total surplus and represents the deadweight loss of the tariff.



# Figure 7 The Effects of an Import Quota

	Before Quota	After Quota	Change
<b>Consumer Surplus</b>	$A + B + C + D + E' + E'' + F$	$A + B$	$-(C + D + E' + E'' + F)$
<b>Producer Surplus</b>	$G$	$C + G$	$+C$
<b>License-Holder Surplus</b>	None	$E' + E''$	$+(E' + E'')$
<b>Total Surplus</b>	$A + B + C + D + E' + E'' + F + G$	$A + B + C + E' + E'' + G$	$-(D + F)$

The area  $D + F$  shows the fall in total surplus and represents the deadweight loss of the quota.

