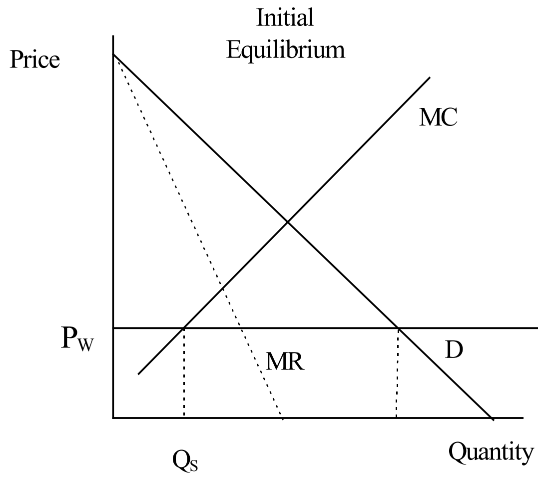
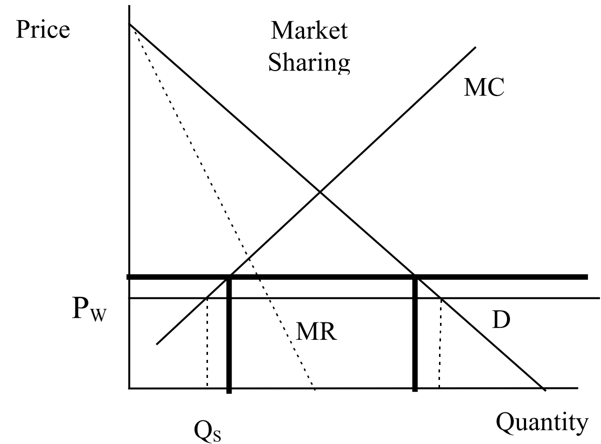
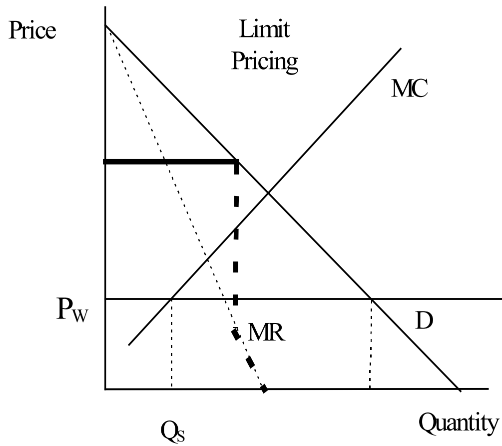
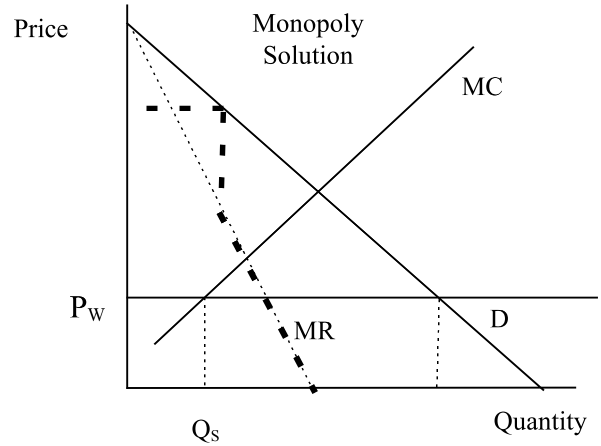
Domestic Monopoly

Partial Equilibrium



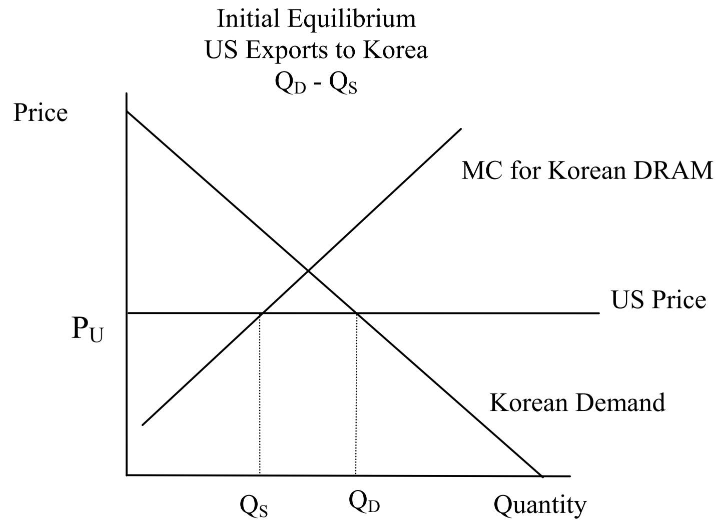


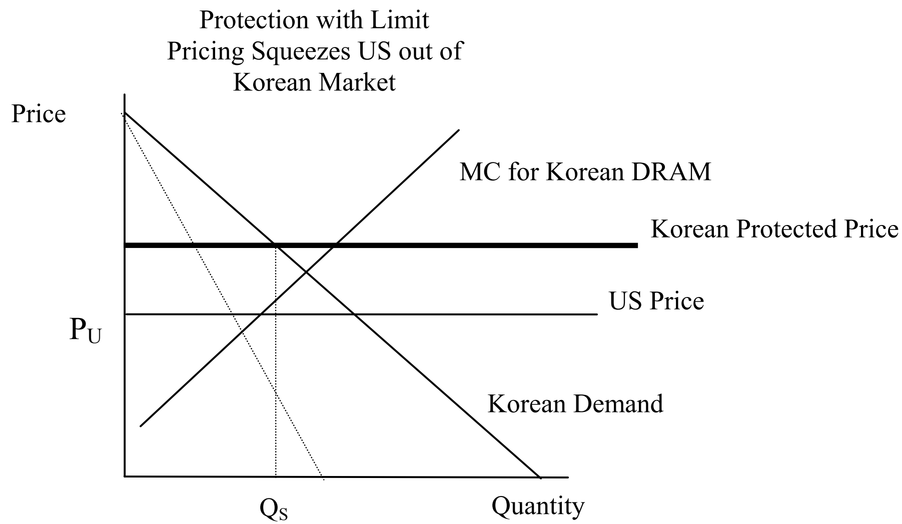




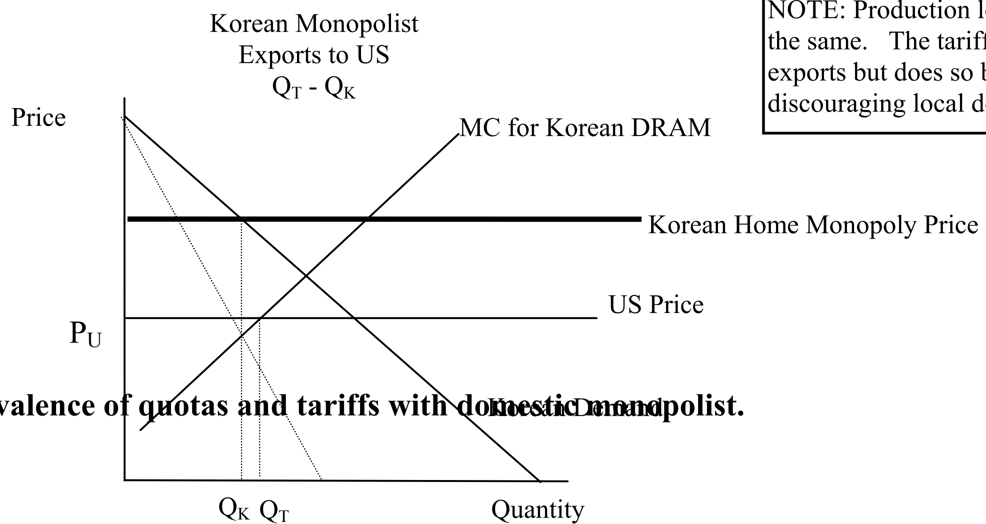
At low tariffs, the competitive equilibrium occurs, and the domestic monopolist shares the market with foreign competitors. The local price is just the world price plus the tariff. As the tariff is raised, the share of the domestic monopolist rises to 100%. At this point, further increases in tariffs afford the domestic supplier monopoly power and the response is higher prices and less output, until the full monopoly solution occurs.

Dumping: Tariff Separating the Market

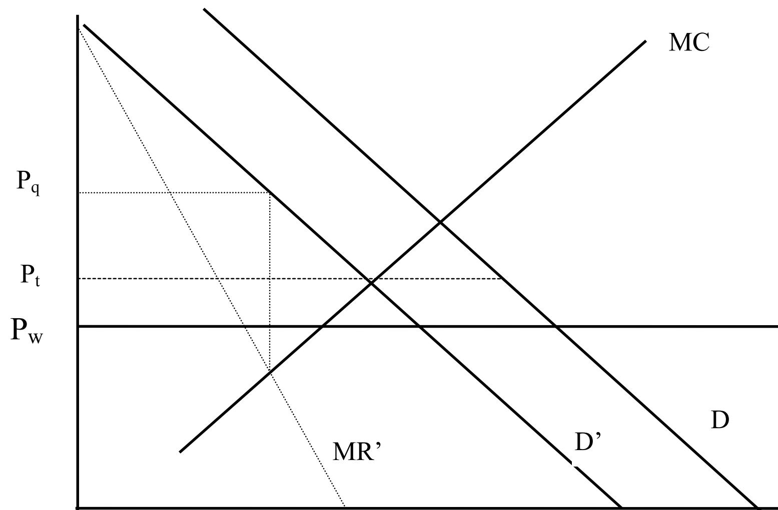




NOTE: Production levels stay the same. The tariff promotes exports but does so by discouraging local demnd.

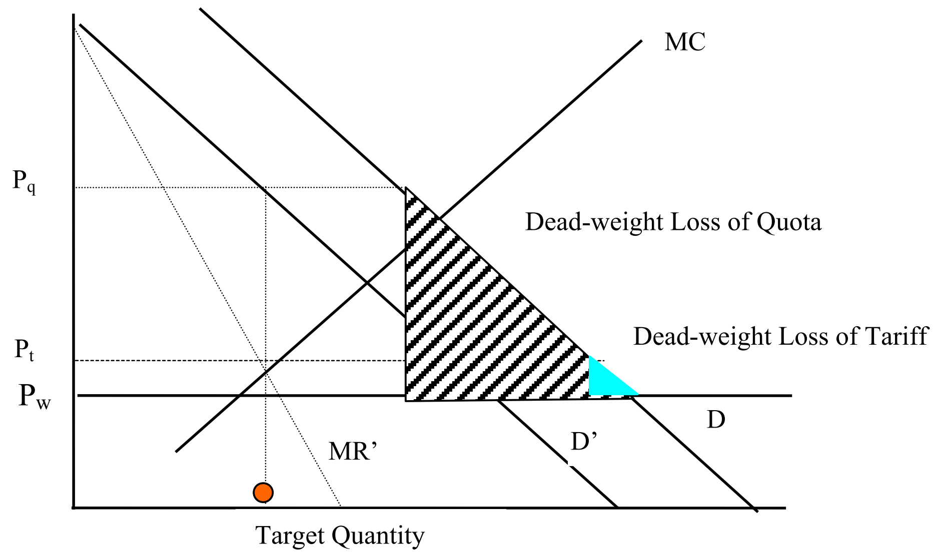


Non-equivalence of quotas and tariffs with domestic monopolist.

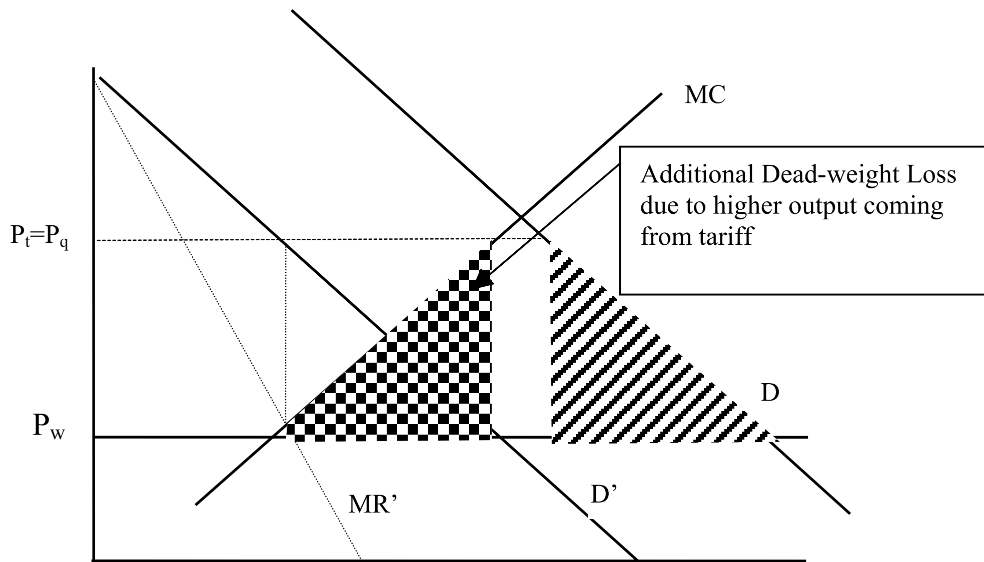


D' = demand curve net of quota facing domestic monopolist
P_q = price prevailing internally
P_t = price that generates the same level of imports

Domestic Monopoly:
Quotas versus Tariff: Output Objective (choose tariff)

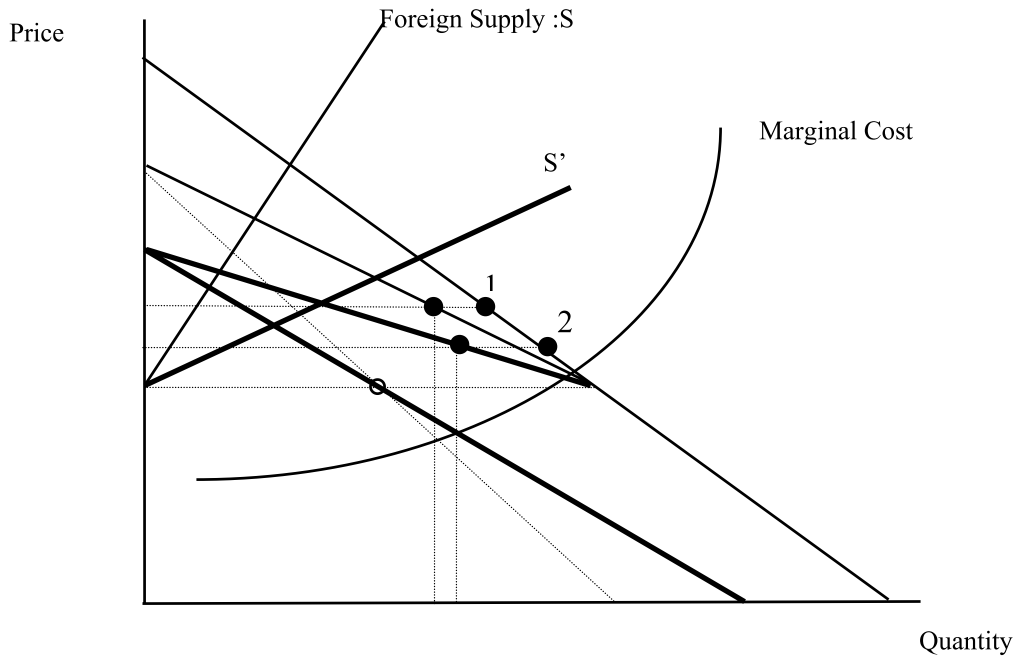


Quotas versus Tariffs: price objective (choose quota)

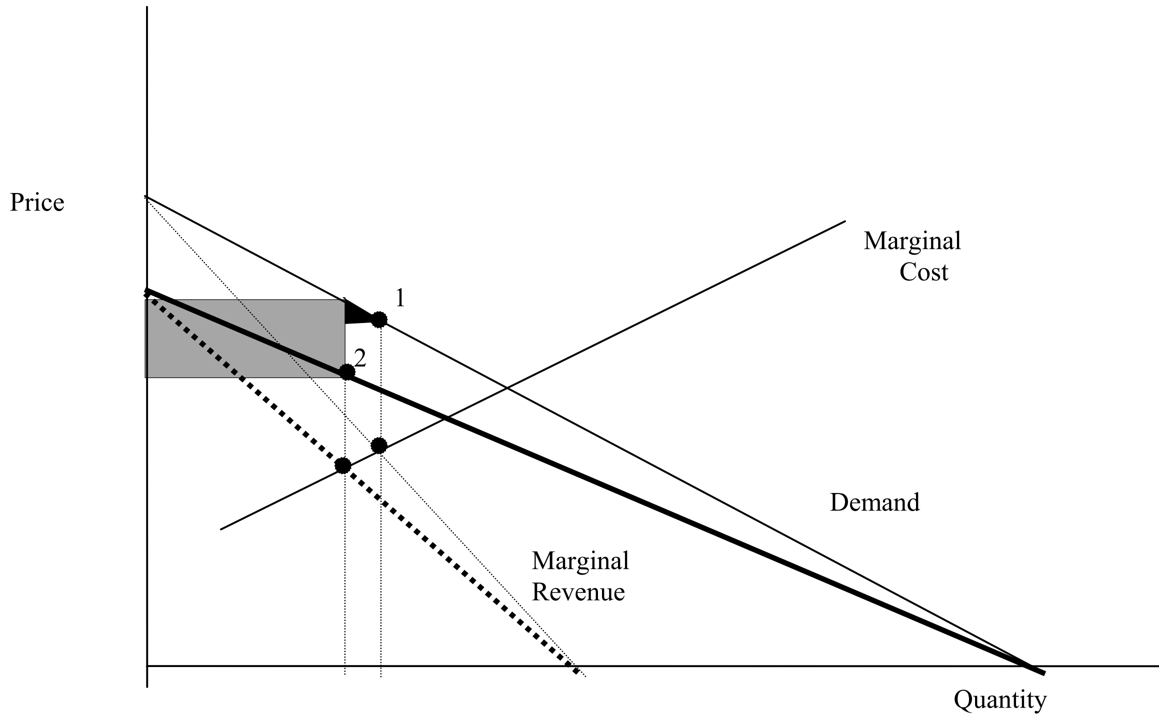


Globalization and Domestic Monopoly

Here we have the domestic firm lowering price and increasing output. But this depends on where the marginal cost lies. If it is higher, crossing above where the two marginal revenue curves cross, then the firm cuts back output. Probably need to be careful about how we rotate the supply curve Q = a + bP has elasticity (dQ/q)/(dp/p) = bp/Q = bp/ (a+bp). This elasticity can be increased by raising b or lowering a. ???



Tariffs applied to Foreign Monopoly



Buy less, pay less