

MICROECONOMICS III

CLASS 3

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TARIFFS

Countries levy tariffs and/or import quotas to keep domestic prices higher than world prices

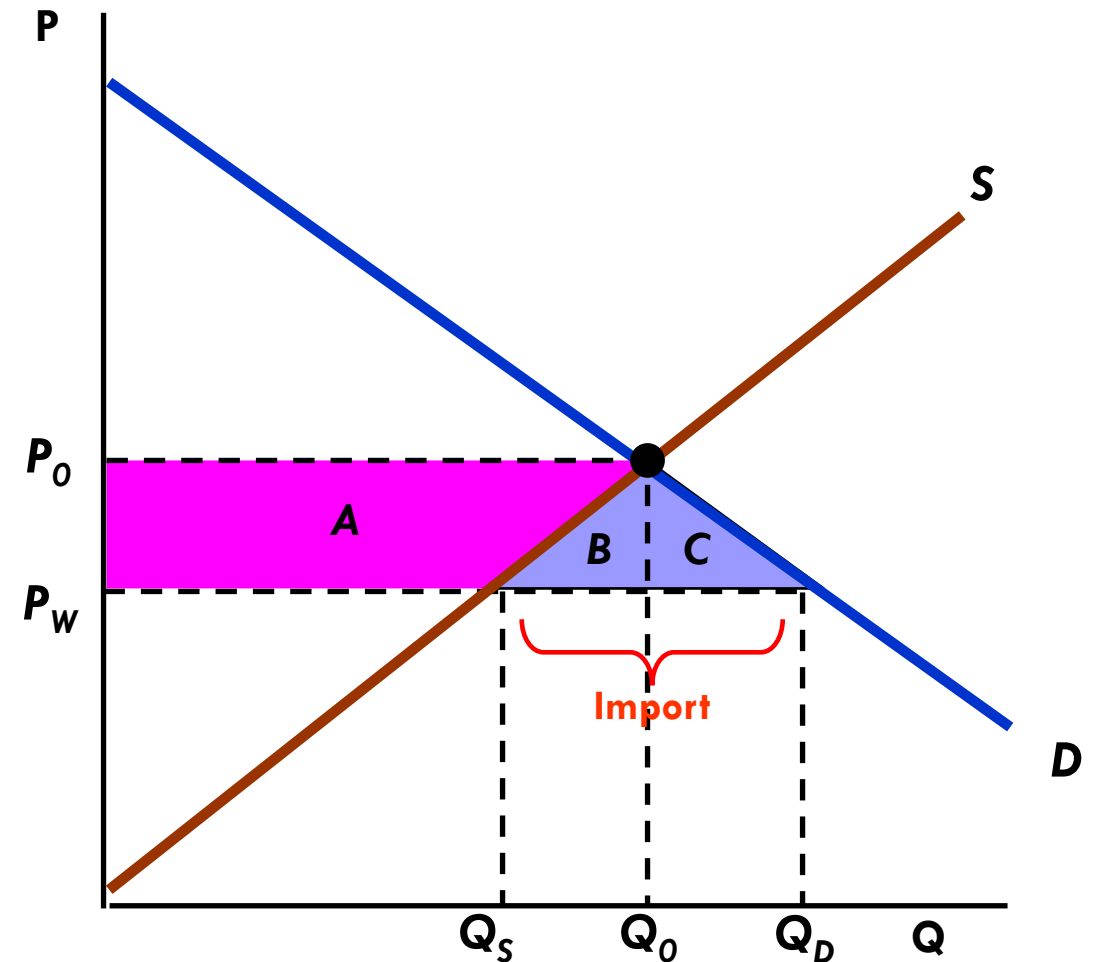
- Support for domestic producers
 - <https://www.thefiscaltimes.com/newsletter/20241015-Trump-Rejects-Tariff-Criticism-Economists-Warn-About-His-Plans>
- Higher costs for consumers

Tariff – a tax on imported goods

Import quota – a restriction on the total quantity of goods imported

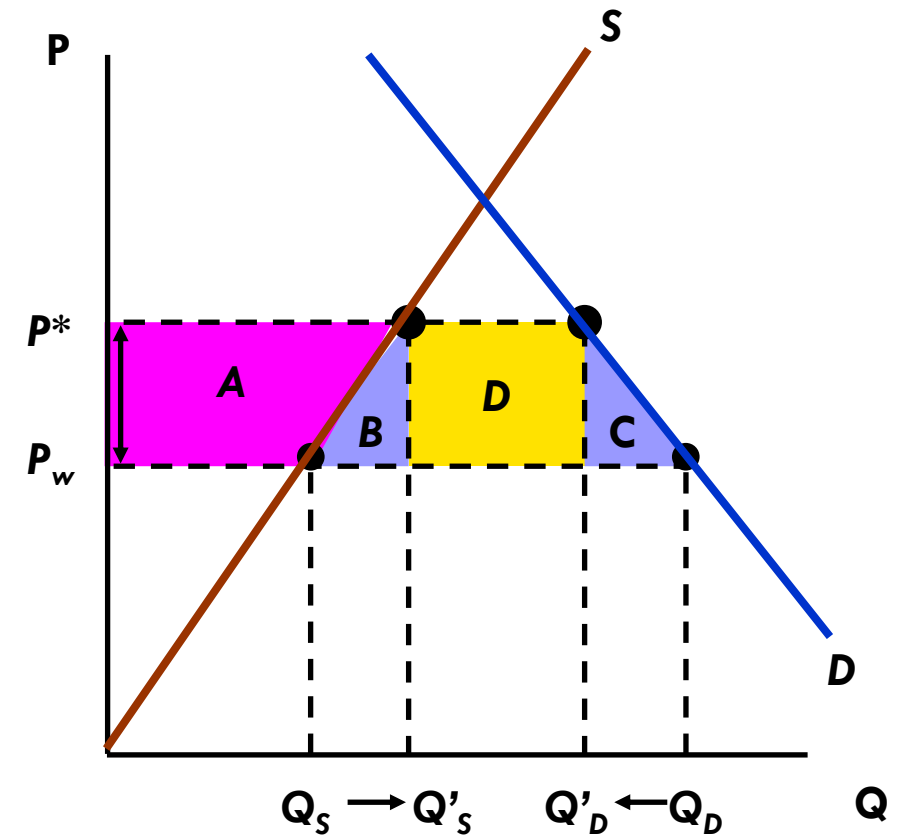
TARIFFS

- In a purely competitive market (no restrictions), the domestic price is set at the world price level
- When import is prohibited:
 - $\Delta CS = -A - B - C$
 - $\Delta PS = A$
 - $\Delta ES = -B - C$



TARIFFS

- When government imposes a tariff:
 - Price increases
 - Domestic supply increases
 - Imported supply decreases
 - Demand decreases



SHORT TEST

Next week (25.10.2024) there will be short test at the beginning of the class

- Don't be late!
- About 10 minutes long
- Similar to the problems we solved in the first 3 classes

PRESENTATIONS

At the last two classes there will be students' presentations

- 17.01.2025
- 24.01.2025

7 minutes each, prepared in 3 person groups

- Accompanied by the short essay

Presentations and essays should be prepared in-relation to some topic discussed in class

- Using some real-life examples
- Referring to scientific literature

EXAMPLE

Presentation could be about the effect of minimum wage

- An example of price controls we discussed today

You could start the presentation by introducing what the minimum wage is

- Maybe some historical background

Explain how it relates to topics discussed in class

Present one or two case studies that were analyzed in the scientific literature

- You will have to judge how much you will be able to fit in a 7-minute slot
- Don't focus on the empirical methods

EXAMPLE

Case-study based on

- Harasztosi, P., and Lindner, A. (2019). Who pays for the minimum wage?. *American Economic Review*, 109(8), 2693-2727
- You should discuss what are they studying and what do they find
- For example, how are minimum wages affect consumer prices?
- Are results in line with intuition from the class?

You should then zoom-out from the case study and briefly comment how these results correspond to other cases/research

- Do other studies find similar effects of minimum wages?

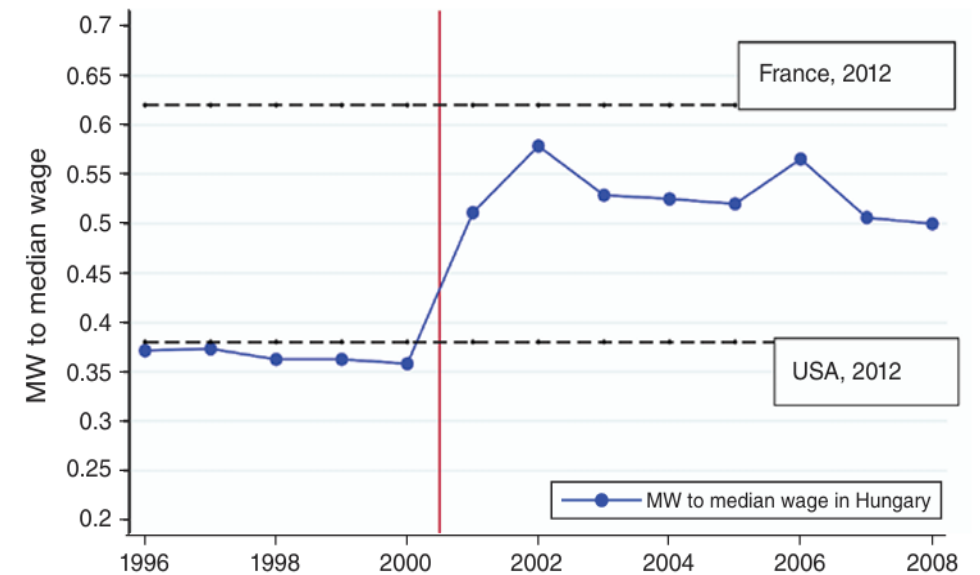


FIGURE 1. MINIMUM WAGE IN HUNGARY

Notes: This figure shows the ratio of the minimum wage to median wage in the private sector for Hungary between 1996 and 2008 (own calculations). The two dashed lines depict the ratio of the minimum wage to the median wage for France and the United States in 2012 (OECD).

ESSAY

Essay should be related to the presentation

- The same topic
- Discuss the same case studies
- May add additional one

The discussion about the results of these case-studies in context of a broader literature should be deeper than in the presentation

- Use [Google Scholar](#)

Doesn't have to be too long

- 3-4 pages should be sufficient, but there are no formal limits

TOPICS

Government interventions

- Taxes, subsidies, price controls, tariffs
- Examples: minimum wage, subsidies in agriculture, US tariffs on China

Externalities

- Examples: social cost of carbon, congestion pricing

Public goods

- Example: Willingness to pay for smog reduction (non-market valuation), Individual transferable quotas in fishing

Asymmetric information

- Adverse selection, signaling, moral hazard
- Example: Education and signaling

DEADLINES

Inform me by email till 01.12.2024 (Sunday) on:

- The topic of your presentation
- The chosen case study/studies – presentations of different groups should involve different case studies (first come, first served)
- Who is in the group

Only one person from the group needs to write to me

- Please put other members of the group in CC

I will give you feedback on whether the topic is ok

- If not you will have a week or two to adjust it or propose a new one
- As well as whether the case-study is already taken

You are welcome to consult me on the topic before the deadline

- Especially if you want to “secure” the case study