

# Trade Policies with Market Imperfections and Distortions

## Section 1

- 1a. market imperfections or market distortions
- 1b. first best policy
- 1c. theory of the second best

## Section 2

- 1a. positive production externality
- 1b. a negative consumption externality
- 1c. non-excludability and non-rivalry
- 1d. policy imposed distortions
- 1e. monopsony power
- 1f. monopoly power

## Section 3

- 1a. a second-best equilibrium
- 1b. a first-best policy
- 1c. Richard Lipsey and Kelvin Lancaster
- 1d. first best
- 1e. second best policy

#### Section 4

1.	Trade Policy	Domestic Policy
1) Unemployment in a small import-competing industry suffering from a surge of imports	import tariff, import quota	production subsidy
2) A small country in which an export decline causes unemployment	export subsidy	production subsidy

2.

	Import Tariff by a Small Country with Unemployment	Production Subsidy by a Small Country with Unemployment
Domestic Consumer Price	+	0
Domestic Producer Price	+	+
Domestic Industry Employment	+	+
Unemployment Welfare Effect	+	+
Domestic Consumer Welfare	-	0
Domestic Producer Welfare	+	+
Domestic Government Revenue	+	-

Domestic National Welfare	A	A
Foreign National Welfare	0	0