

Toys and LNG

Suppose the data in Table 1 shows the Australian demand and domestic supply schedules for toys. Imports are banned through a zero quota or embargo.

1. What is the equilibrium price and quantity of toys with the embargo in operation?
2. Draw the demand and domestic supply curves for the toy market.
3. State the:
 - (a) equilibrium price and quantity traded.
 - (b) level of consumer surplus of consumers.
 - (c) level of producer surplus of domestic toy makers.

Price	Domestic demand each week	Domestic supply each week
40	0	1500
30	250	1000
20	500	500
10	750	0
0	1000	0

Suppose the governments of Australia and China sign a free trade deal. Australia can now import toys from China.

The capacity of the Chinese toy industry is so big that (for all intents and purposes) an infinite number of toys can be imported at a price of \$15.

The photograph shows Chinese workers at the Mattel toy factory in South East China.



4. Add a Chinese supply curve to your diagram to show the supply of toys from China. Why is this shown as a horizontal line at price \$15?
5. With the flood of imported toys what happens to the equilibrium price and quantity of toys traded in Australia?
6. (a) What is the level of supply by domestic toy producers at \$15? At what point do Chinese producers become cheaper suppliers of toys than Australian toy makers?
 - (b) How many of the 575 toys now being sold in the market will be imported?
7. What is the impact of the free trade in toys on the level of consumer surplus? Calculate the new level of consumer surplus. Show this on your diagram.
8. What is the impact of the free trade on level of domestic producer surplus? Calculate the new level of domestic producer surplus. Show this on your diagram.
9. Overall has the free trade deal raised or reduced community surplus in the toy market? Calculate the new level of community surplus. Show this on your diagram.

10. What was the deadweight loss in the toy market caused by the ban on Chinese imports?

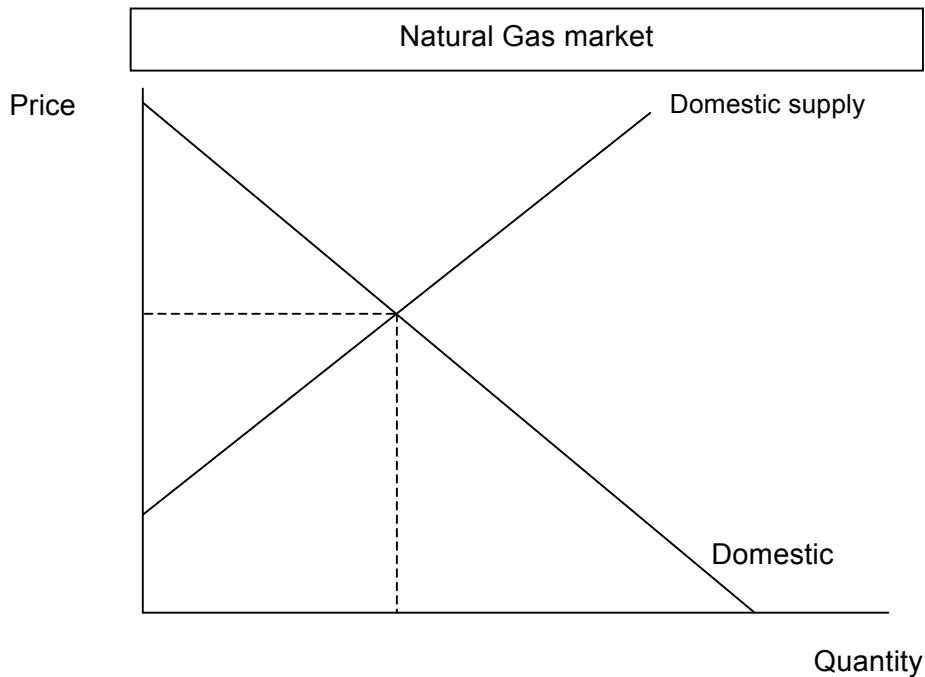
11. As a result of the free trade deal did:

- (a) Australian consumers gain at the expense of Australian toy makers
- (b) Chinese toy producers gain at the expense of Australian toy makers

But the free trade deal is two sided. Not only does Australia reduce import restrictions (which allows Chinese imports to penetrate the Australian market) but Australian producers get free access to Chinese markets. We can export products to China that we are produce in an efficient way. Suppose we can now export as much gas as we want at a price above the domestic market equilibrium price.



12. On the diagram below draw in a 'supply gas to China' supply as a horizontal line above the domestic market price curve. Show the change in domestic consumer surplus, domestic producer surplus and overall community welfare as a result of the gas exports to China.



13. Overall what does this analysis suggest about the plus, minus and interesting points about free trade?