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Economics 311

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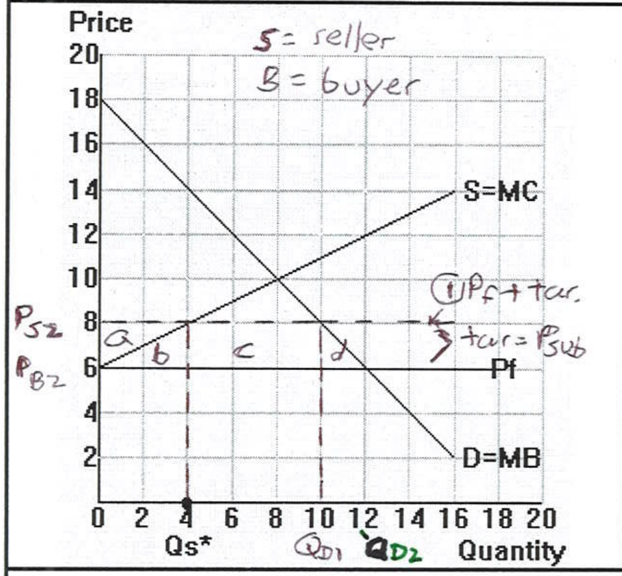
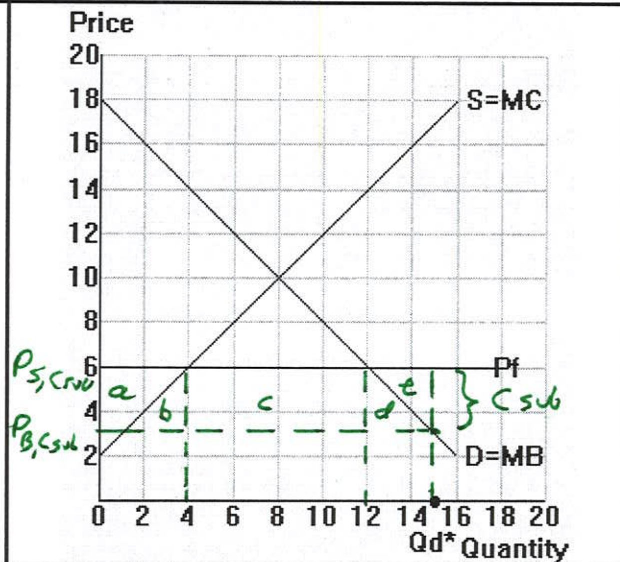
**First-best policy making with global markets : Key**

### Example 1: An infant industry



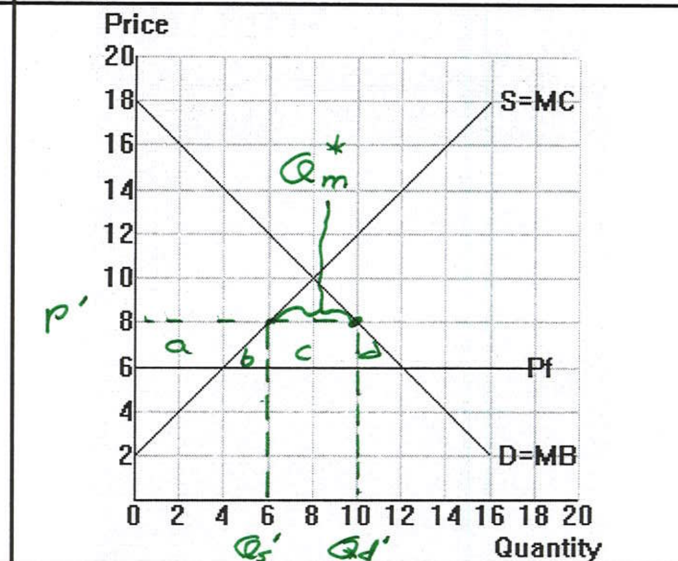

Brazilian steel market

### Example 2: Solar power




Domestic solar power market

### Example 3: Oil




Domestic oil market

**Complete the tables below to indicate the impact of each policy compared to free trade**

| Goal: produce Qs* of steel | | |
|---|---|---|
| Policy option: | 1 | 2 |
| Policy choice: | tariff | Prod. sub |
| ΔCS | −abcd | 0 |
| ΔPS | +a | +a |
| ΔGovtRev | +c | −ab |
| ΔNW | −bd | −b |

Production subsidy = first-best
Tariff = a second-best policy

If social benefit of domestic steel production > b, then NW rises overall

| Goal: consume Qd* of solar power | |
|---|---|
| Policy choice: | Consumption subsidy |
| ΔCS | +abcd |
| ΔPS | 0 |
| ΔGovtRev | −abcde |
| ΔNW | −e |

If social benefit of more solar power use > e, then NW rises overall

| Goal: Cut dependency on imports to Qm=4 | |
|---|---|
| Policy choice: | trade restriction |
| ΔCS | −abcd |
| ΔPS | +a |
| ΔGovtRev | +c |
| ΔNW | −bd |

If social benefit of reduced imports > bd, then NW rises overall