



- ◆ In the case of free trade, the importing country will produce but not import up to the price P_2 .
- ◆ At the price P_2 , the international market can supply as much product as the importing country wishes to purchase. In free trade, imports are the difference between domestic production and domestic demand ($Q_4 - Q_1$)
- ◆ With a quota of $Q_3 - Q_2$, price will increase to P_1 , domestic production will increase from Q_1 to Q_2 , and domestic demand will decrease from Q_4 to Q_3 .
- ◆ Domestic consumers lose Area EFGHI.
- ◆ Domestic producers gain area E (increase in producer surplus)
- ◆ Foreign producers or domestic import agents gain Area GH.
- ◆ Dead weight loss is Area F + Area I.

- ◆ Restricted trade still dominates autarky (no trade) – consumer and producer surplus is greater.