GOVERNMENT INTERVENTION (Tariffs) – Bonus problem

Problems

Problem 1

Assume that the demand for tomatoes in Poland is given by $Q_D(P)=c-dP$, whereas the supply function of the Polish farmers is given by $Q_P(P)=a_1+b_1P$. At the same time, the supply of the imported tomatoes is given by $Q_I(P)=a_2+b_2P$.

(We assume $c> a_1+ a_2$)

i. What will be the equilibrium price of the tomatoes? How much of tomatoes will be supplied by the local farmers, and how much will be imported?

ii. How will the equilibrium change if the government introduces a tariff *t* on the imported tomatoes?