

## Non-Tariff Barriers

Quotas  
VERs

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### Non-Tariff Barriers

- Generally, as countries lower tariff barriers, non-tariff barriers (NTBs) have been on the increase
- Some Types of NTBs:
  - 1) Import Quotas
  - 2) VERs
  - 3) Licenses
  - 4) Domestic Content Provisions

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### Quotas

- Limit the quantities (or value) of goods entering the country
- Viewed as more prohibitive than tariffs
  - Prohibited by the WTO
  - Quotas being replaced by “Tariff Rate Quotas”
    - Certain amount of a good is let in at low (or no) tariff, but once a certain amount is reached, substantially high tariff placed on the good.

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### Quotas

- Flexible tools
  - Can be imposed against all countries (global quota) or just a few
- Common for quotas to be given on the basis of a license
  - License may be sold or given away

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### Example of Quota

Market for motorcycles

Price in world: \$1000      Price in US: \$15,000

US: 50,000 consumed per year/ 10,000 produced domestically

Suppose that the Quota is set at 20,000 motorcycles per year

Result: Price will rise up to the point where only 20,000 will be imported

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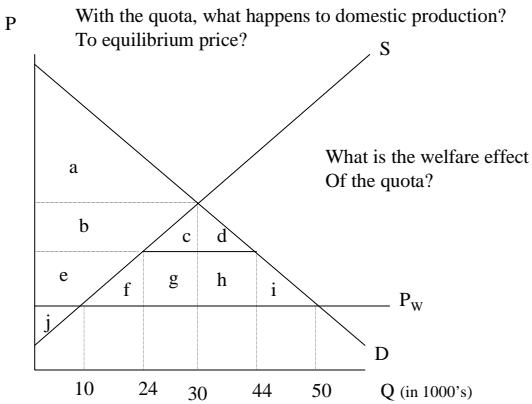
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Quota

- Free-trade (Pre-Quota)  $CS = CS_{FT} = (a+b+c+d+e+f+g+h+i)$
- $PS_{FT} = j$
- $GR_{FT} = 0$                       So net welfare =  $-(b+d)$

With the Quota,                      Area (g+h) is called quota  
 $CS_Q = a+b+c+d$                       rent – per unit additional profit  
 $PS_Q = j+e$                               because of quota

$GR_Q = g+h$                               Who gets to keep this area?

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Quota Rents

- 3 things the government can do with the quota rents
- 1) Auction license off
- 2) Give license to domestic firms
- 3) Give license to foreign firms

What do we know about the welfare effects of each method?

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Quota Rents

1) Auction license – competitive bidding for the license - how much are competitors willing to pay?  
 Here, Government revenue under quota is equal to revenue under tariffs . However, governments don't often auction licenses off.

2) Give license to domestic firms (ex. 1960s – oil quotas given to US Oil companies)                      Producer surplus increases in this situation

3) Give license to foreign firm – now domestic deadweight loss  
 Is area (f+g+h+i) – this is similar to a VER

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## Quotas versus Tariffs

- Why choose a Quota over a Tariff?

1) Alternate effects on protected industry

2) Changing market forces

3) Administrative difficulty

4) Political Concerns

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