

# EC 131 - Lecture 9

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Textbook readings: Chapter 9

## 1 Welfare and International Trade

- Relationship between equilibrium price and opportunity cost
- World price and reasons why domestic price will equal world price
- Small economy assumption
- Conditions for exporting and importing (on  $P^*$  and  $P^w$ )
- Welfare effects of opening to international trade: export/imports (graphical and using demand/supply functions)
- Gains from trade in the welfare analysis
- Winners and losers in each case
- Tariffs
  - Graphical representation
  - Welfare effects