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Assumptions: Let us assume that the Home country (H) is importing a commodity (G) and decides to impose an import tar if on it. For the sake of simplicity and for highlighting the basic components of its effects, it is conventional to analyse its effects under partial equilibrium by assuming the following: i. H is a small country which means that, in international markets, it is a price taker for item G. Changes in its demand for and/or supply of G has no perceptible effect on the international price of G.

For it, the world price of G is given. ii. The demand and supply functions of G in the home country H are given and stable. iii. The demand and supply curves of G in the Home country H obey normal laws of supply and demand; that is to say, its demand is negatively related to its price while its supply is positively related to its price.

iv. In the demand function of buyers for G, only its price varies. Other determining factors like their incomes, tastes, etc. remain unchanged. v. Similarly, in the supply function of producers of G, only its price varies. Other determining factors like its cost of production, etc. remain unchanged.

vi. For the sake of simplicity, transport and other trading costs, etc. are ignored. It should be noted that partial equilibrium analysis of a tariff is quite suitable in the case of a small country because it is a price taker and cannot influence the world price of G by means of tariffs or other methods of trade regulation. This simple description enables us to identify the partial equilibrium effects of a tariff as follows:

1. Price Effect:

Price effect of an import tariff is the change in the domestic price of G which has been subjected to an import duty.

In our illustration, this price effect is an increase in the price of G equal to the rate of tariff, T. Note that the price rise equals the tariff rate because H is a small country and a price taker. For it, the world supply of G is perfectly elastic.

2. Trade Effect:

The change in the quantity of imported G, caused by the imposition of an import duty on it, is termed its trade effect. This effect takes place because (i) the demand for G in the home country H decreases due to an increase in its price, and (ii) its domestic production increases in response to higher domestic price.

3. Production Effect:

It measures the increase in the quantity of domestic output of G on account of an import duty levied on it, and is also known as protective effect.

This effect varies inversely with the slope of the domestic supply curve, and directly with the rate of the tariff. As seen above, this is a part of the trade effect.

4. Consumption Effect:

Reduction in the consumption or demand for G on account of import duty is termed its consumption effect. It may also be termed the demand effect of the tariff.

It depends upon the slope of the demand curve and the rate of import tariff. A steeper demand curve implies a less elastic demand and -a smaller reduction in its demanded quantity. In contrast, reduction in demand is directly related to the rate of the import duty. A higher duty means a greater reduction and vice versa.

5.

Revenue Effect:

It is a measure of the change in government's tax receipts on account of the imposition of the tariff. It equals (post-tariff volume x new tariff rate less original volume of trade x original rate of tariff). It should be noted that the reduction in the volume of trade of G depends upon its elasticities of demand and supply. Revenue effect increases with (a) flatter demand and supply curves and (b) higher rate of duty.

6. Change in Consumers' Surplus:

This is a measure of net change in the consumers' surplus from G. The effect on consumers' surplus is a reduction in it by W1P4P2W.

It should be noted that the change in consumers' surplus depends upon the combined impact of the slope of the demand curve and the rate of tariff on G.

7. Change in Producers' Surplus:

This is a measure of the net change in producers' surplus on account of the tariff.