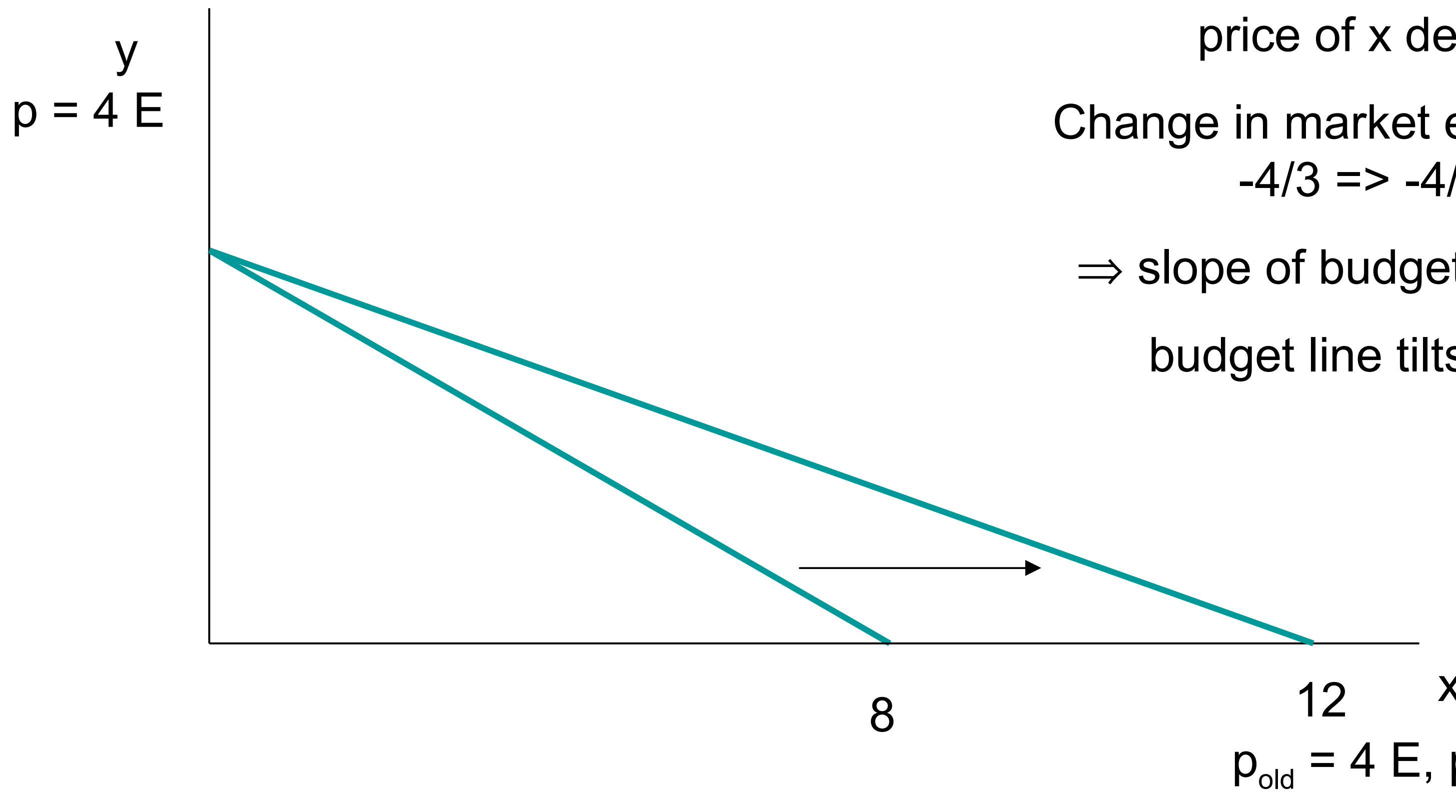
Consumer-related arguments pro free trade

- Consumer welfare increases because imported consumption goods are (relatively) cheaper
- Consumer welfare increases because variety in goods increases (imagine an isolated country that produced only good x)
- Consumer welfare increases because monopoly power of domestic suppliers is constrained through imports (=> domestic good's price declines)

Free trade: cheaper imported goods

Income = 24 Euro;

new price of x: 2 Euro => 24E/2E = 12 pieces



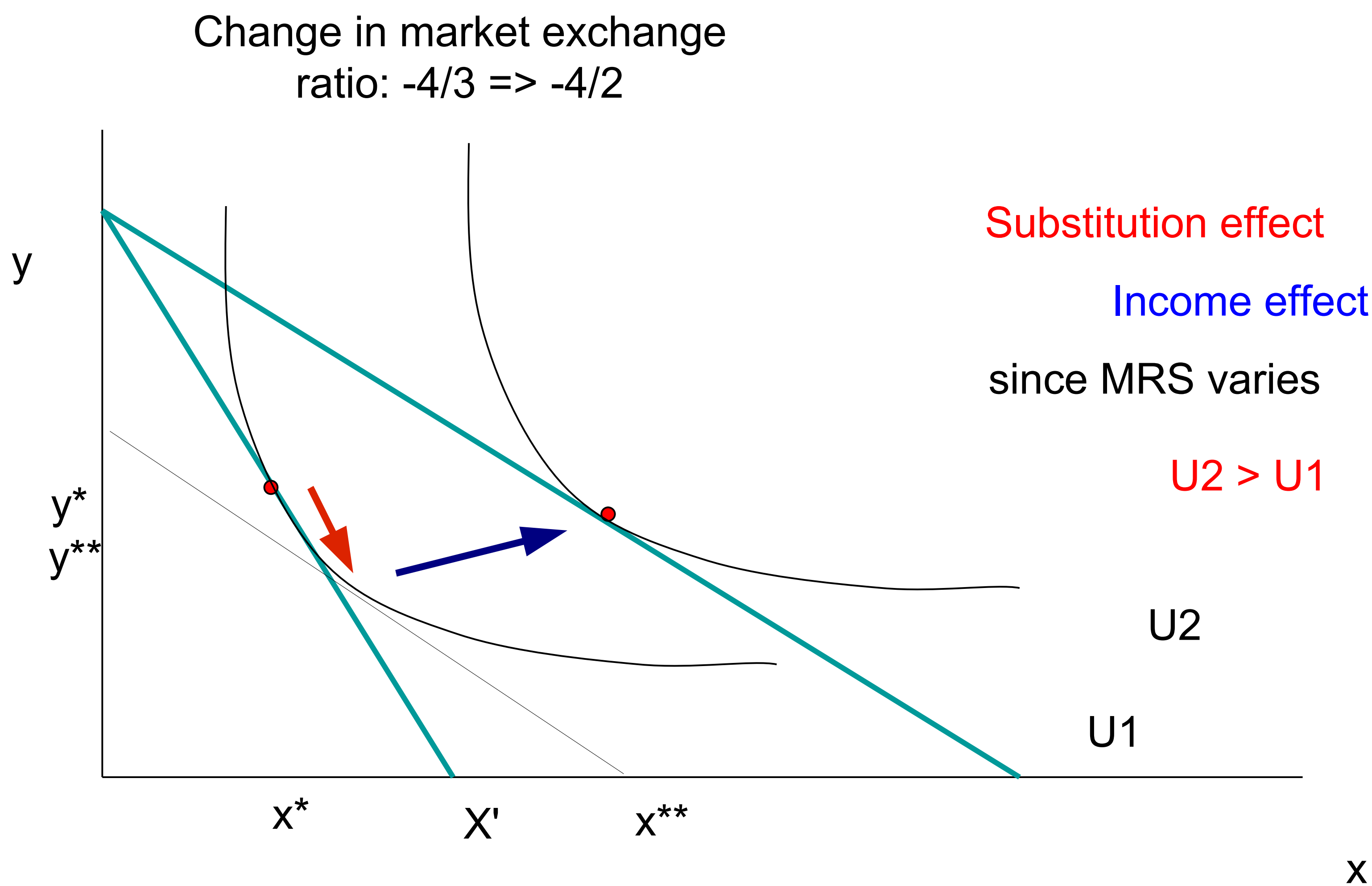
price of x decreases

Change in market exchange ratio:
-4/3 => -4/2 = -2

$\Rightarrow$ slope of budget line changes

budget line tilts outwards

Utility effects of cheaper imports



Utility effects of cheaper imports

Good's price falls => two effects:

- 1. Substitution effect:

new market exchange ratio => different bundle of x,y becomes optimal on ‚old' indifference curve (U1)

=> substitution of the more expensive good with the cheaper good

- 2. Income effect

Given new market exchange ratio (price ratio), a higher indifference curve is achieved (U2). Income effect reenforces substitution effect in case of normal good.

Total demand change: in general (normal good), demand for imported (cheaper) good rises

  - Utility of consumer increases through cheaper imports