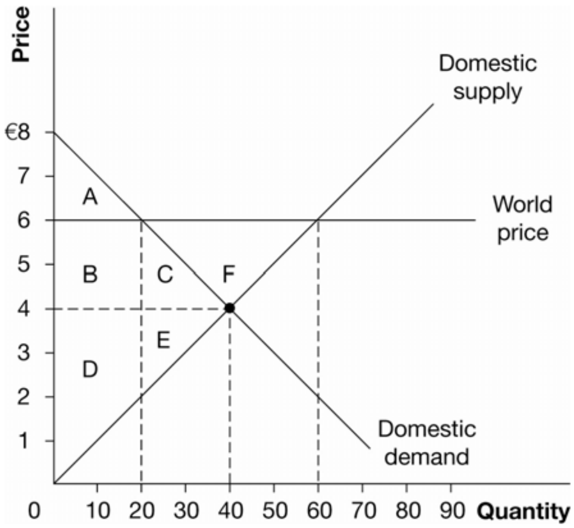
Chapter 9

1. Use Exhibit 3 to answer the following questions.

Exhibit 3



a. If trade is not allowed, what is the equilibrium price and quantity in this market?

b. If trade is allowed, will this country import or export this commodity? Why?

c. If trade is allowed, what is the price at which the good is sold, the domestic quantity supplied and demanded, and the quantity imported or exported?

d. What area corresponds to consumer surplus if no trade is allowed?

e. What area corresponds to consumer surplus if trade is allowed?

f. What area corresponds to producer surplus if no trade is allowed?

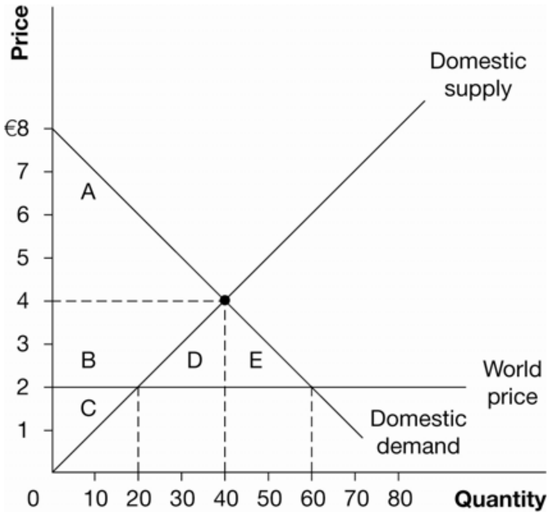
g. What area corresponds to producer surplus if trade is allowed?

h. If free trade is allowed, who gains and who loses, the consumers or the producers, and what area corresponds to their gain or loss?

i. What area corresponds to the gains from trade?

2. Use Exhibit 4 to answer the following questions.

Exhibit 4



a. If trade is not allowed, what is the equilibrium price and quantity in this market?

b. If trade is allowed, will this country import or export this commodity? Why?

c. If trade is allowed, what is the price at which the good is sold, the domestic quantity supplied and demanded, and the quantity imported or exported?

d. What area corresponds to consumer surplus if no trade is allowed?

e. What area corresponds to consumer surplus if trade is allowed?

f. What area corresponds to producer surplus if no trade is allowed?

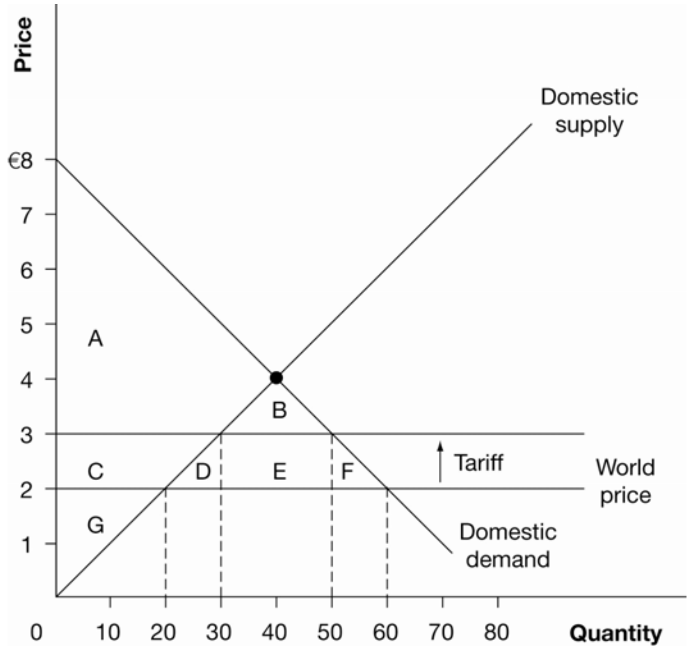
g. What area corresponds to producer surplus if trade is allowed?

h. If free trade is allowed, who gains and who loses, the consumers or the producers, and what area corresponds to their gain or loss?

i. What area corresponds to the gains from trade?

3. Use Exhibit 5 to answer the following questions.

Exhibit 5



a. If free trade is allowed, what is the domestic quantity supplied, domestic quantity demanded, and the quantity imported?

b. If a €1 tariff is placed on this good, what is the domestic quantity supplied, domestic quantity demanded, and the quantity imported?

c. What area corresponds to consumer and producer surplus before the tariff is applied?

d. What area corresponds to consumer surplus, producer surplus, and government revenue after the tariff is applied?

e. What area corresponds to the deadweight loss associated with the tariff?

f. Describe in words the sources of the deadweight loss from a tariff.

g. What is the size of the import quota that would generate results most similar to this €1 tariff?

h. What is the size of the tariff that would eliminate trade altogether (i.e. that would return the market to its no-trade domestic solution)?