Economics 3050 | Issues in Global Trade and Finance | Mulholland

Homework #2

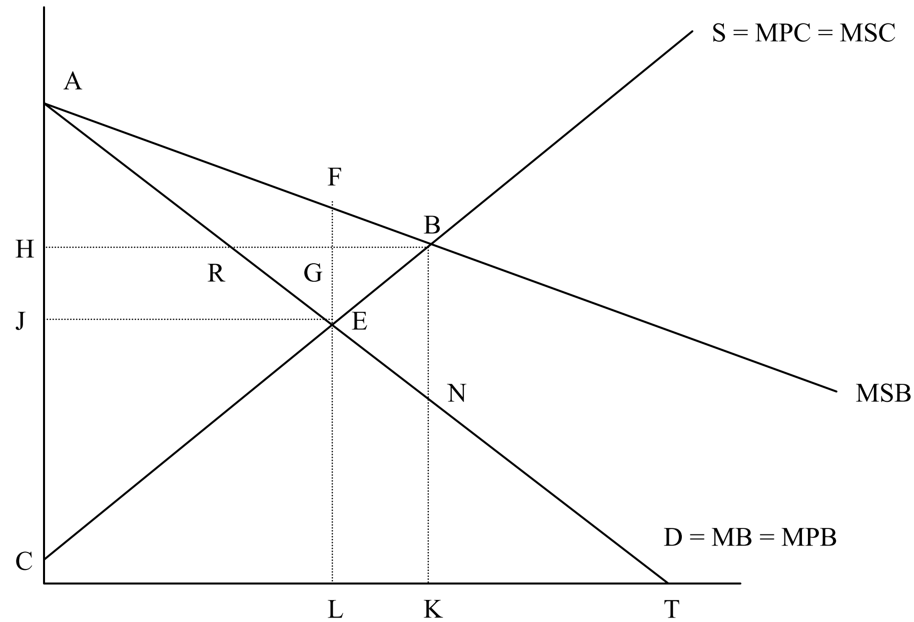
DUE 10/13/04

1. Use the following demand and supply for wine to answer the questions below.

   a. Is this country able to affect the world price of wine? How can you tell?
   b. In autarky, what are the domestic consumer surplus and producer surplus values, respectively?
   c. If this country then allows for the free exchange of wine, what is the new domestic producer surplus in dollar terms? In dollar terms, what is the increase in the domestic consumer surplus?
   d. The domestic vineyards are successful at imposing a tariff on all imported wine. This tariff, t, increases the imported price. What is the effect on consumer surplus? What is the effect on domestic producer surplus?
   e. In dollar terms, what is the deadweight loss as a result of this tariff?
   f. In dollar terms, what is the revenue effect? Who receives this revenue?
   g. Is this country able to increase its welfare through the creation of the tariff? Why not? (Hint: Compare the total gains from trade before and after the tariff.)

2. If, in 2003, the United States exported $30 million in tobacco and imported $10 million in tobacco, how much of our trade in tobacco was intra-industry exchange?

Use the following to answer the questions 3 and 4 below:



3. If the benefits are not internalized by those consuming the above good
    a. What is the consumer surplus?
    b. What is the producer surplus?
    c. What are the gains from trade?
    d. What is the deadweight loss?

4. If the government is able to induce consumers to behave efficiently,
    a. What is the consumer surplus?
    b. What is the producer surplus?
    c. What are the gains from trade?
    d. What is the deadweight loss?

5. What is a VER? How do they work? Assume the domestic country is large; show how a VER affects consumer and producer surplus in the domestic country. Show how a VER affects the foreign producers selling to the domestic country. Use graphs to support your answers.