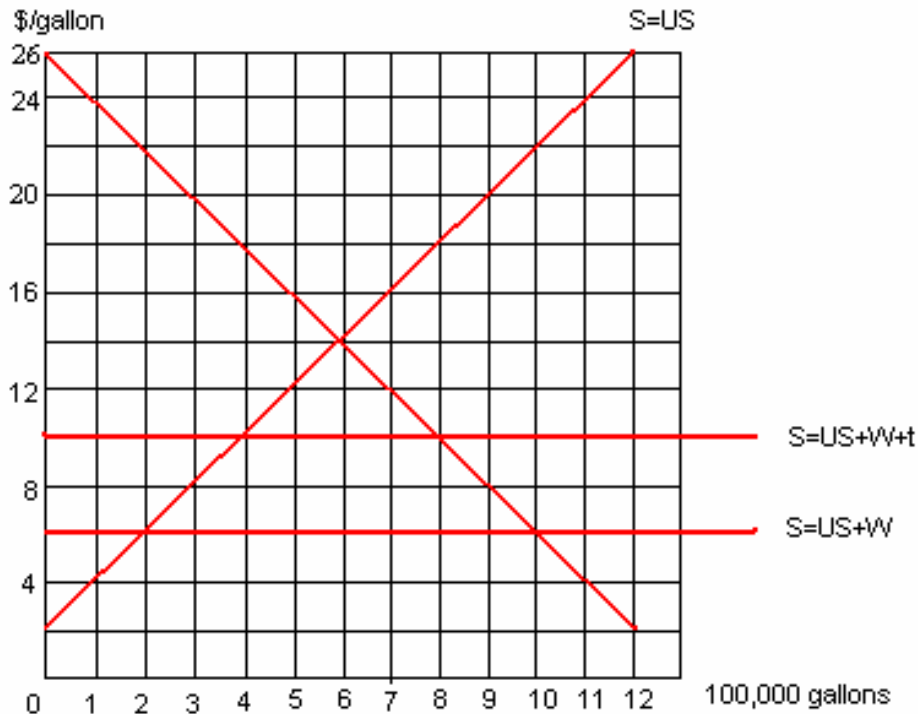


1. Use the following demand and supply for wine to answer the questions below.



- Is this country able to affect the world price of wine? How can you tell?
 - In autarky, what are the domestic consumer surplus and producer surplus values, respectively?
 - 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?
 - 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?
 - In dollar terms, what is the deadweight loss as a result of this tariff?
 - In dollar terms, what is the revenue effect? Who receives this revenue?
 - 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.)
- 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?
 - What defines the difference between a large trading country and a small trading country? Can a small country improve its overall welfare by imposing a tariff on imports? Can a large country improve its overall welfare by imposing a tariff on imports? Support your answer.
 - 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.