KEY TERMS

ad valorem tariff, p. 206	export subsidy, p. 217	production distortion
consumer surplus, p. 212	export supply curve, p. 207	loss, p. 217
consumption distortion loss,	import demand curve, p. 207	quota rent, p. 220
p. 217	import quota, p. 207	specific tariff, p. 206
effective rate of protection,	local content requirement,	terms of trade gain, p. 215
p. 211	p. 225	voluntary export restraint
efficiency loss, p. 215	nontariff barriers, p. 207	(VER), p. 224
export restraint, p. 207	producer surplus, p. 213	

PROBLEMS   MyEconLab

1. Home's demand curve for wheat is

$$D = 100 - 20P.$$

Its supply curve is

$$S = 20 + 20P.$$

Derive and graph Home's *import* demand schedule. What would the price of wheat be in the absence of trade?

2. Now add Foreign, which has a demand curve

$$D^* = 80 - 20P$$

and a supply curve

$$S^* = 40 + 20P.$$

   a. Derive and graph Foreign's export supply curve and find the price of wheat that would prevail in Foreign in the absence of trade.
   b. Now allow Foreign and Home to trade with each other, at zero transportation cost. Find and graph the equilibrium under free trade. What is the world price? What is the volume of trade?

3. Home imposes a specific tariff of 0.5 on wheat imports.
   a. Determine and graph the effects of the tariff on the following: (1) the price of wheat in each country; (2) the quantity of wheat supplied and demanded in each country; (3) the volume of trade.
   b. Determine the effect of the tariff on the welfare of each of the following groups: (1) Home import-competing producers; (2) Home consumers; (3) the Home government.
   c. Show graphically and calculate the terms of trade gain, the efficiency loss, and the total effect on welfare of the tariff.

4. Suppose Foreign had been a much larger country, with domestic demand

$$D^* = 800 - 200P, S^* = 400 + 200P.$$

(Notice that this implies the Foreign price of wheat in the absence of trade would have been the same as in problem 2.)
Recalculate the free trade equilibrium and the effects of a 0.5 specific tariff by Home. Relate the difference in results to the discussion of the small country case in the text.