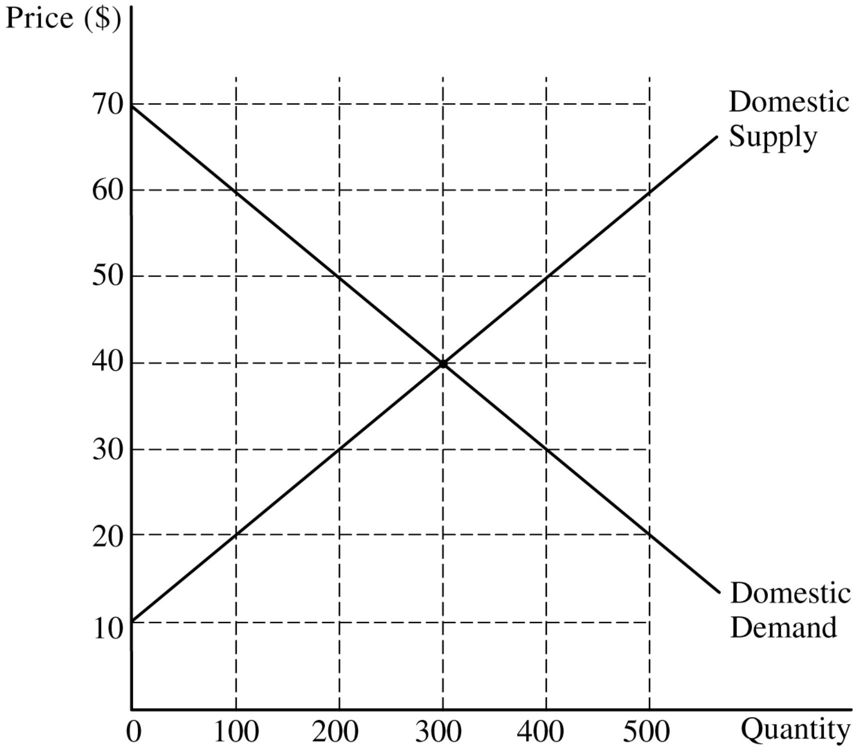

2. The graph provided depicts New Zealand's domestic supply and demand for wool.

(a) Calculate the consumer surplus if New Zealand does not trade with the rest of the world. Show your work.

(b) Instead, assume New Zealand decides to trade wool in the world market. The current world price of wool is $60 per unit, and New Zealand is a price taker in the world market.

(i) How many units of wool will New Zealand export?
(ii) What will happen to the consumer surplus of wool consumers in New Zealand when New Zealand begins to trade with the rest of the world? Explain.
(iii) Will total economic surplus in New Zealand increase, decrease, or remain unchanged when New Zealand begins to trade wool in the world market? Explain using numbers.

(c) Now assume domestic demand in New Zealand increases. Will New Zealand's exports increase, decrease, or stay the same?

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.