3. In Gurkeland, the domestic market for cucumbers is characterized by a downward-sloping demand curve and an upward-sloping supply curve, and the market for cucumbers is currently in equilibrium at a price of $20 per bushel.

Part A

Draw a correctly labeled graph of the market for cucumbers and show the equilibrium price, labeled $20, and the equilibrium quantity, labeled Q_1.

Part B

Suppose that Gurkeland engages in free trade with other countries and that the world price of cucumbers is $10 per bushel.

i. On your graph in part A, show the world price of cucumbers, labeled $10, and the quantity of cucumbers sold by domestic producers, labeled Q_2.

ii. Will total economic surplus in Gurkeland increase, decrease, or remain the same after engaging in free trade?

Part C

Now suppose that the government of Gurkeland imposes a $5 tariff per bushel on the import of cucumbers.

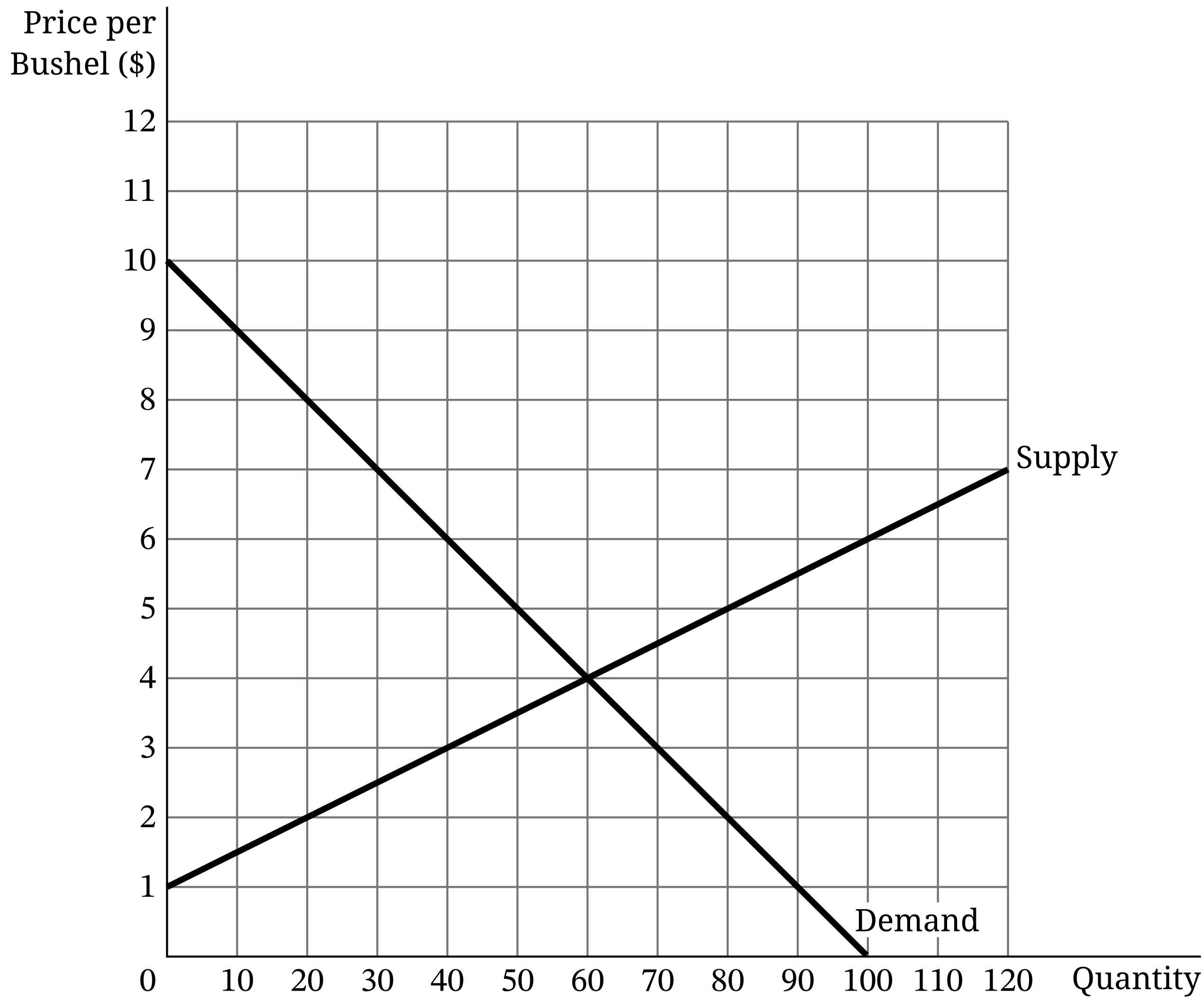
i. On your graph in part A, show the new quantity of cucumbers, labeled Q_3, that will be sold by domestic producers as a result of the $5 tariff imposed on the import of cucumbers.

ii. As compared with the free trade described in part B, will domestic producer surplus in the market for cucumbers increase, decrease, or remain the same as a result of the $5 tariff imposed on the import of cucumbers? Explain.

STOP

END OF EXAM

2. The graph provided shows the market for rice in the country of Rushland.



A. Calculate the total economic surplus at market equilibrium. Show your work.

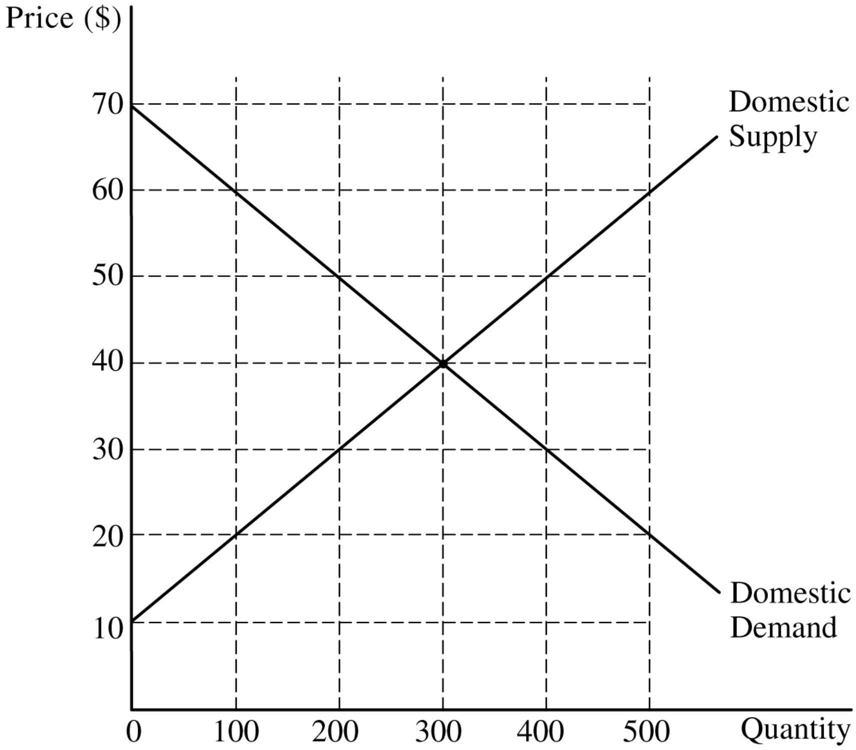
B. If the government sets a price floor at $3 per bushel, will there be a surplus, a shortage, or neither? Explain.

C. Suppose that instead of the price floor, Rushland engages in international trade and the world price of rice is $5 per bushel.

i. Will Rushland export or import rice? Explain using numbers from the graph.

ii. Calculate the domestic consumer surplus when Rushland engages in international trade. Show your work.

iii. Calculate the total revenue that Rushland's farmers will earn at the world price. Show your work.



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.