

3. In Gurland, 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 Gurland engages in free trade with other countries and that the world price of cucumbers is \$10 per bushel.

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

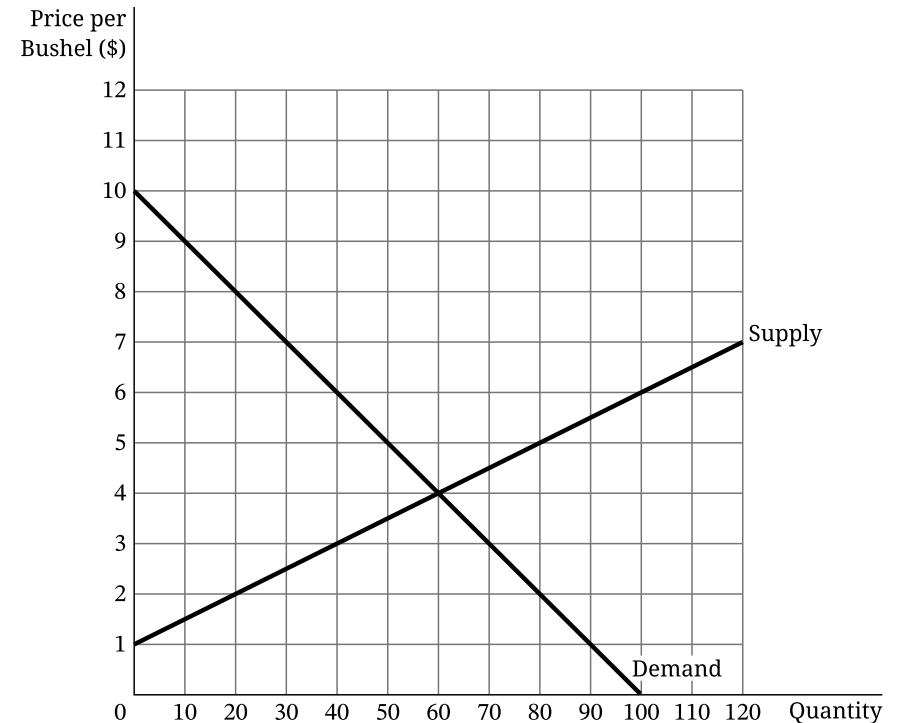
Part C

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

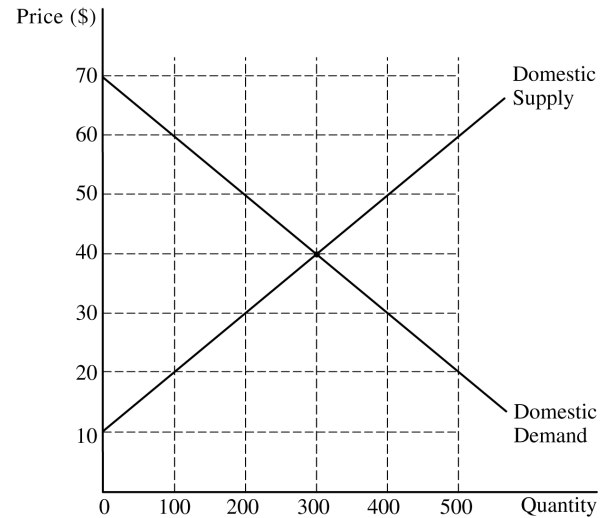
- On your graph in part A, show the new quantity of cucumbers, labeled Q_3 , that will be sold by domestic producers as a result of the \$5 tariff imposed on the import of cucumbers.
- As compared with the free trade described in part B, will domestic producer surplus in the market for cucumbers increase, 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.



- Calculate the total economic surplus at market equilibrium. Show your work.
- If the government sets a price floor at \$3 per bushel, will there be a surplus, a shortage, or neither? Explain.
- Suppose that instead of the price floor, Rushland engages in international trade and the world price of rice is \$5 per bushel.
 - Will Rushland export or import rice? Explain using numbers from the graph.
 - Calculate the domestic consumer surplus when Rushland engages in international trade. Show your work.
 - 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.
- How many units of wool will New Zealand export?
 - 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.
 - 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.