Question 2: Short — 5 points

A		Calculate the total economic surplus as $270 and show your work.	**1 point**
Point 1		$\text{Total Economic Surplus} = \frac{1}{2} \times (\$10 - \$1) \times (60 - 0) = \frac{1}{2} \times \$9 \times 60 = \$270$ OR $\text{Total Economic Surplus} = \text{Consumer Surplus} + \text{Producer Surplus}$ $= \frac{1}{2} \times (\$10 - \$4) \times (60 - 0) + \frac{1}{2} \times (\$4 - \$1) \times (60 - 0)$ $= \$180 + \$90 = \$270$	
B Point 2		State that there will be neither a surplus nor a shortage and explain that a price floor set below the equilibrium price is not binding and, therefore, will have no effect on the market price and quantity.	**1 point**
C Point 3	**(i)**	State that Rushland will export rice and explain with **ONE** of the following: • At the world price of $5, the domestic quantity supplied is 80 bushels of rice, which is greater than the domestic quantity demanded, which is 50 bushels of rice. • At the world price of $5, Rushland has a domestic surplus of 30 bushels of rice that can be exported.	**1 point**
Point 4	**(ii)**	Calculate the domestic consumer surplus in Rushland as $125 and show your work. $\text{Domestic Consumer Surplus} = \frac{1}{2} \times (\$10 - \$5) \times (50 - 0) = \frac{1}{2} \times \$5 \times 50 = \$125$	**1 point**
Point 5	**(iii)**	Calculate the total revenue Rushland's farmers will earn as $400 and show your work. $\text{Total Revenue} = \text{World Price} \times \text{Quantity Sold} = \$5 \times 80 = \$400$	**1 point**

Question 2: Short — 5 points

(a)		Calculate the consumer surplus in New Zealand before trade as $4,500 and show your work. $\text{Consumer Surplus} = \frac{1}{2} \times 300 \times (\$70 - \$40) = \frac{1}{2} \times 300 \times \$30 = \frac{\$9{,}000}{2} = \$4{,}500$	**1 point**
(b)	**(i)**	State that New Zealand will export 400 units of wool.	**1 point**
	(ii)	State that consumer surplus in New Zealand will decrease and explain with **ONE** of the following: • The domestic price will increase to the world price, which decreases the domestic quantity demanded of wool. • The consumer surplus decreased from $4,500 before trade to $500 after trade.	**1 point**
	(iii)	State that total economic surplus in New Zealand will increase by $4,000 and explain that producer surplus will increase by $8,000 while consumer surplus will decrease by $4,000, resulting in an increase in total economic surplus.	**1 point**
		Total for part (b)	**3 points**
(c)		State that New Zealand's exports will decrease.	**1 point**
		Total for question 2	**5 points**