

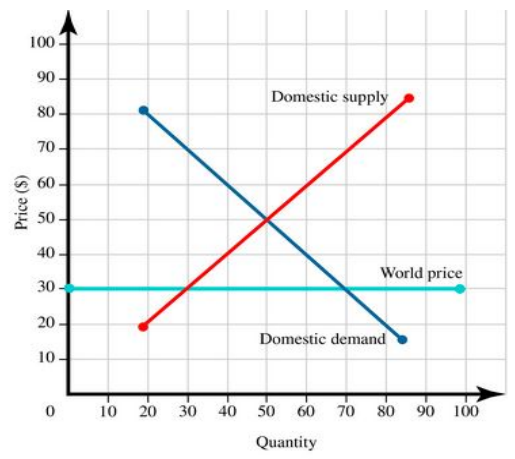
# EC 201: Principles of Macroeconomics

In class exercise 6

March 3, 2022

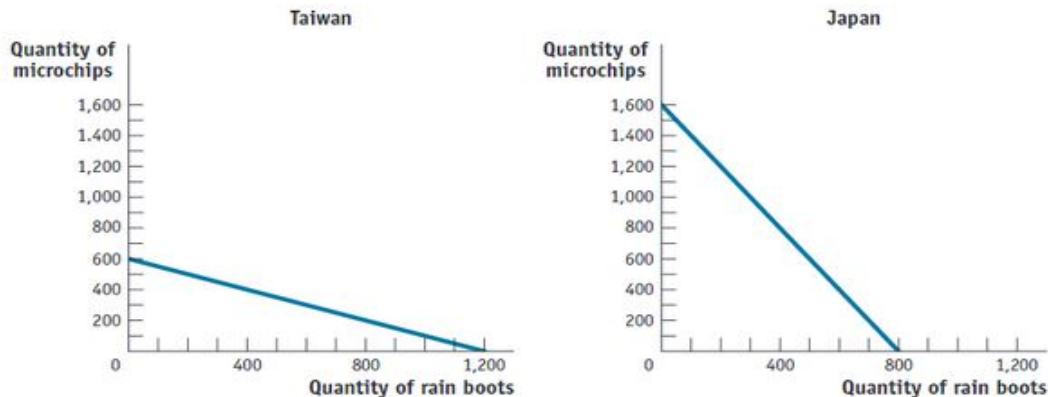
**Exercise 1.** The process of specialization and trade has positive net benefits and is, therefore, beneficial to everyone. True or False? Why?

**Exercise 2.** The graph shows the domestic demand and domestic supply for soybeans. Assume this country is open to international trade, that soybeans are a perfectly competitive good, and that the world price of soybeans is \$30.

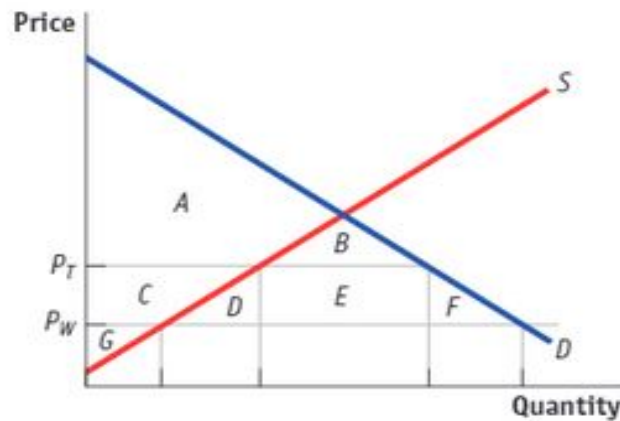


1. Suppose a tariff of \$10 is imposed. What price will result in this country?
2. After the tariff is imposed, how many units of soybeans will be imported?

**Exercise 3.** The Production Possibilities for Taiwan and Japan. Both nations will gain from trade when 1 pair of rain boots trades for ..... microchip(s).



**Exercise 4. The Market for Grapes in California.** When the government imposes a tariff on imported grapes, the price of grapes in California rises from  $P_W$  to  $P_T$ , and the domestic producer surplus ..... to .....



How about domestic consumer surplus?

**Exercise 5.** Mexico has comparative advantage in producing tomatoes. US has a comparative advantage in producing poultry. U.S. imports tomatoes from Mexico. Mexico imports poultry from U.S. Analyze the impact of this trade on the following.

1. Impact of poultry exports on US domestic consumers
2. Impact of poultry exports on US domestic producers
3. Impact of poultry exports on US domestic poultry farm workers' wages
4. Impact of tomato imports on Mexican domestic consumers
5. Impact of tomato imports on Mexican domestic producers
6. Impact of tomato imports on Mexican domestic tomato farm workers' wages

**Exercise 6.** How does international trade increase income inequality?