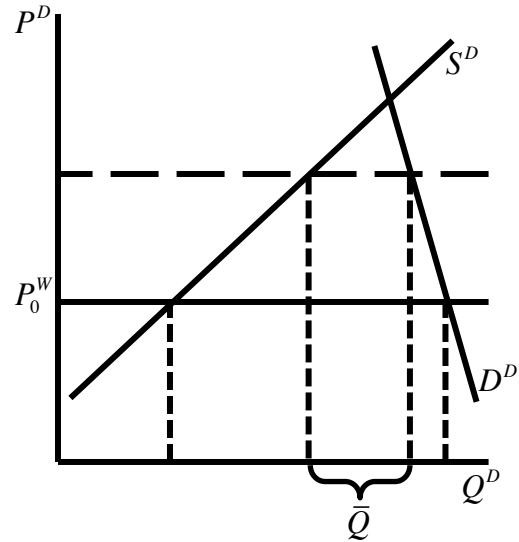


Midterm Exam
November 9, 2015

Answer on these sheets. Use the indicated point values as a guide to how extensively you should answer each question, and budget your time accordingly. Note that the last page of the exam (page 7) is intentionally left blank for you to use if you run out of space to answer any of the questions, although I do not intend that you should need it.

The exam has a total of 60 points.

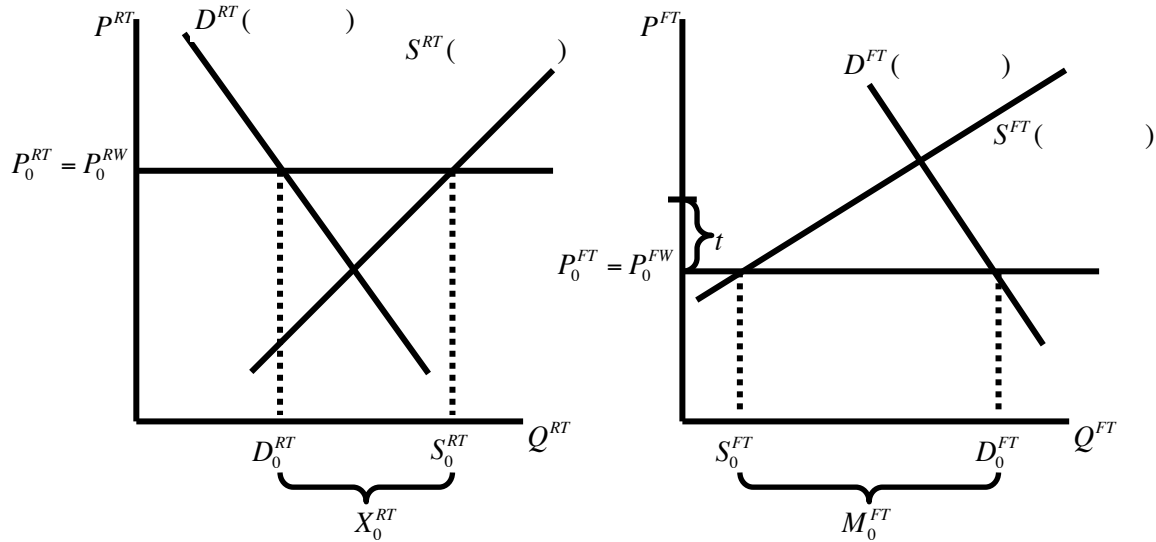
2. (16 pts) The figure at the right shows the domestic market for a good in a small country, facing a world price of P_0^W and using a quota of size \bar{Q} . Suppose now that the government doubles the size of the quota to $2\bar{Q}$. Add your own lines and labels to the figure as needed to indicate the following:



- a. The domestic price in the presence of the initial quota \bar{Q} .
 :
- b. The domestic price in the presence of the new quota $2\bar{Q}$.
 :
- c. The change in producer surplus of domestic suppliers (due to doubling the quota):
 :
- d. The change in consumer surplus of domestic demanders (due to doubling the quota):
 :
- e. The change in quota rents (due to doubling the quota):
 :
- f. The change in welfare of the country as whole, due to doubling the quota, if quota rents, before and after, are retained within the country:
 :
- g. The change in welfare of the country as whole, due to doubling the quota, if quota rents, before and after, go to the foreign country:
 :

5. (10 pts) Write a short essay explaining several (at least 5) sources of gain from trade.

6. (14 pts) Thailand produces a lot of rice, which it exports, but production of rice requires fertilizer, and Thailand's domestic fertilizer industry initially produces less of it than is needed by the rice industry. Thailand is a small economy, initially with free trade in both products. The initial equilibrium is shown in the graphs below, including the initial quantities of rice demanded D_0^{RT} and supplied S_0^{RT} domestically and the initial quantities of fertilizer supplied S_0^{FT} and demanded D_0^{FT} domestically.



- Supply and demand curves are labeled in the figure, but their arguments have been omitted. Fill those in. That is, on what do each of these supplies and demands depend?
- Show in the figure the effects of a tariff, t , of the size shown on prices of both fertilizer P_1^{FT} and rice P_1^{RT} and on quantities supplied, demanded, and traded of each good, S_1^{FT} , D_1^{FT} , M_1^{FT} , S_1^{RT} , D_1^{RT} , X_1^{RT} .
- Who gains and who loses (no need to say by how much) from the tariff?

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