Group work 6

Ch 8 #11

1. Suppose Home is a small country. Use the graphs below to answer the questions.



* 1. Calculate Home consumer surplus and producer surplus in the absence of trade
	2. Now suppose that Home engages in trade and faces the world price, *P*\* = $6. Determine the consumer and producer surplus under free trade. Does Home benefit from trade? Explain.
	3. Concerned about the welfare of the local producers, the Home government imposes a tariff in the amount of $2 (i.e., *t* = $2). Determine the net effect of the tariff on the Home economy.