

INTERNATIONAL TRADE AND THE WORLD ECONOMY

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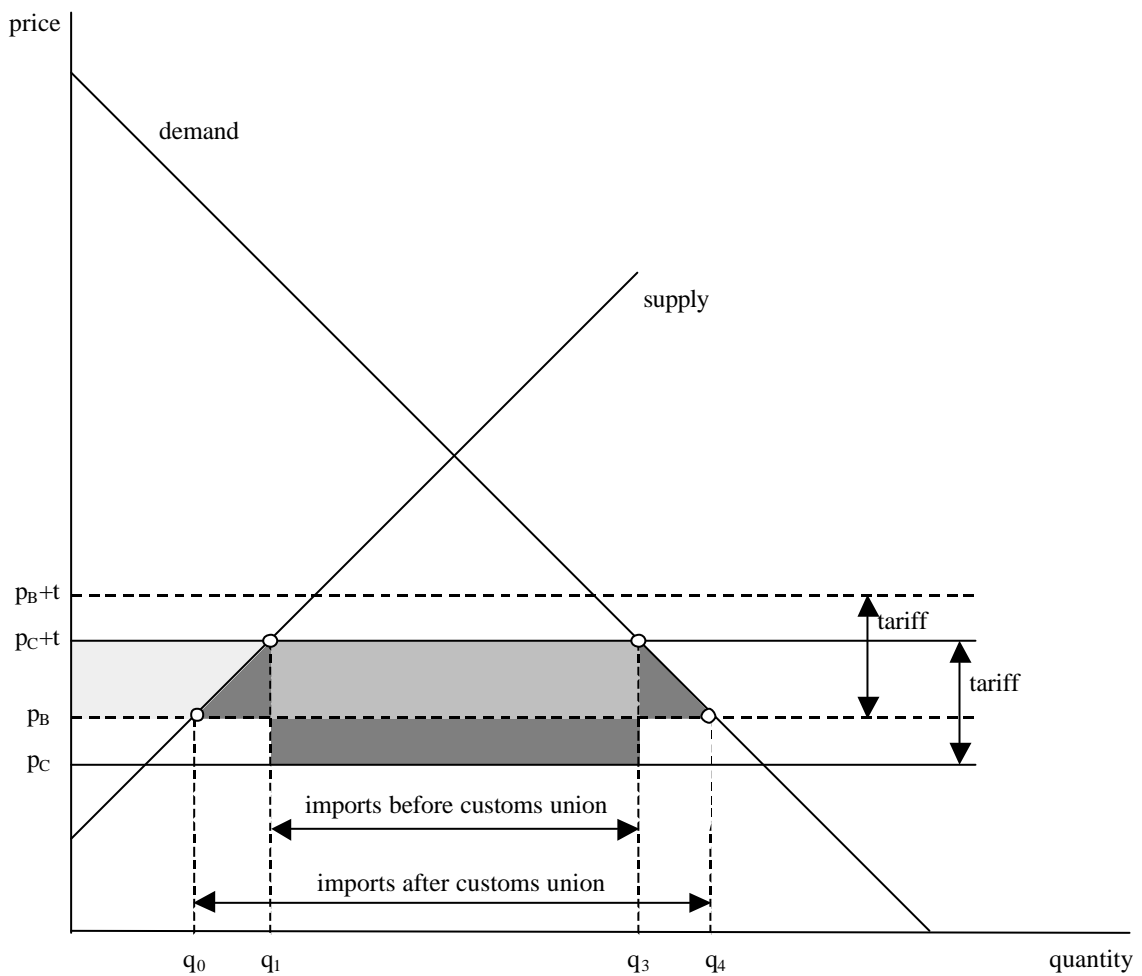
Answers to * exercises in chapter 13 of the Study Guide







STEPHAN SCHÜLLER AND DANIËL OTTENS

The * exercises in chapter 13 are: 13.2.




Question 13.2

Figure 13.3 is repeated below.



-  decrease producer surplus
-  -/-  net gain; possible loss
-   increase consumer surplus
-  decrease government revenue

As is clear from the figure, there are two ways in which the total welfare effect of a customs union can be positive:

- The difference in cost efficiency of producers from countries B and C is small, such that the difference between p_B and p_C , and hence the area , is small.
- The price-elasticity of demand is high. This ensures that the slope of the demand curve is small and therefore that the area   is large.