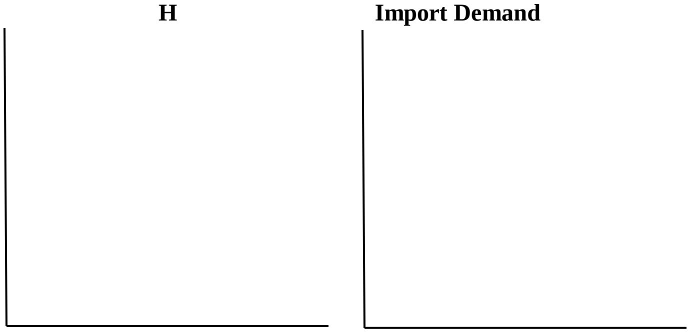
INTERNATIONAL TRADE **EXERCISE I**

NAME:

The Instruments of Trade Policy: Export Subsidy

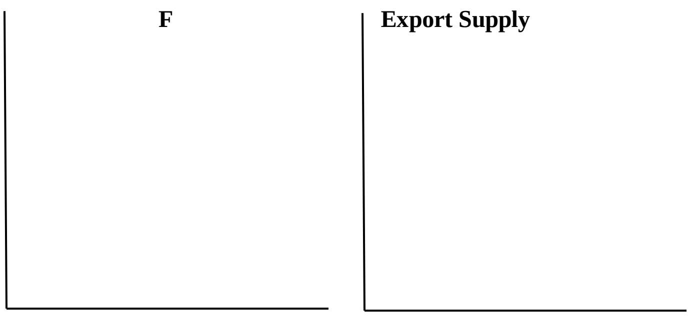
a) The demand curve for wheat in country H is given by **D = 100 – 20P**, while its supply curve is **S = 20 + 20P**. Derive and show graphically the import demand curve of country H. What is the price of wheat in the absence of international trade?

H **Import Demand**



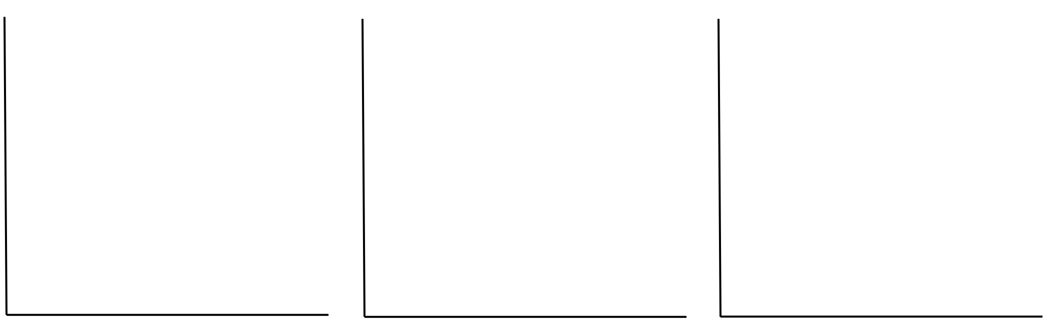
b) The demand curve for wheat in country F is given by **D* = 80 – 20P**, while its supply curve is **S* = 40 + 20P**. Derive and show graphically the export supply curve of country F. What is the price of wheat in the absence of international trade?

F **Export Supply**



c) Consider now the case in which the two countries, H e F, engage in trade without trade costs. Derive and show graphically the equilibrium in case of free trade. In particular, what is the world price in this case? What is the quantity of wheat being traded?

H **World** **F**



d) Suppose now that country F offers an export subsidy equivalent to 0.5 per unit exported. For each country, calculate and represent graphically the effect of the subsidy on the price and the new quantity traded worldwide.

H **World** **F**

e) In the graph below, show the impact of the subsidy on welfare of country F for each group in the economy (consumers, producers, government) and the total effect.