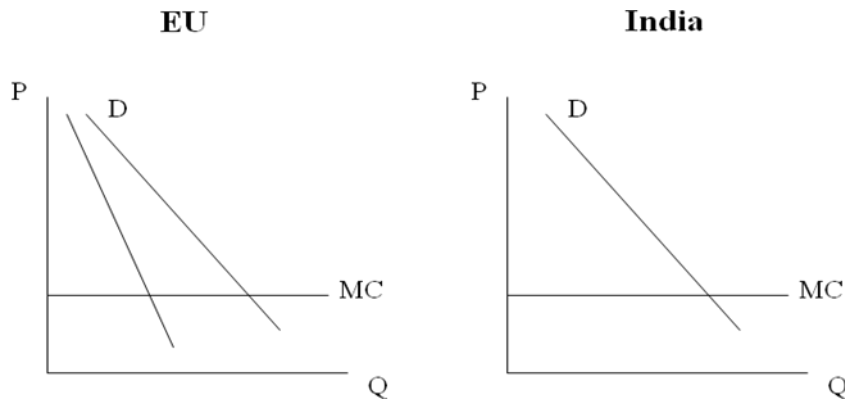


1. Intellectual Property Rights

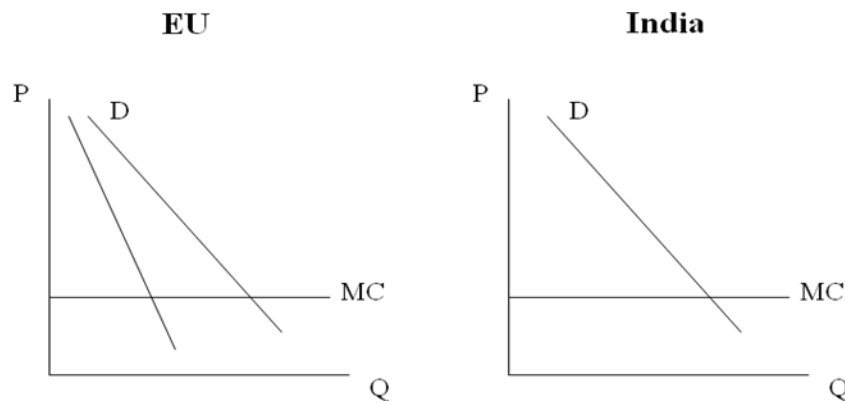
EU protects intellectual property rights. India does not. A European Pharmaceutical firm exports to India, where products are reproduced and sold in the domestic market AND exported back to EU.

a. Write and show in graph the consumer surplus and *total* firm profits in EU and in India.



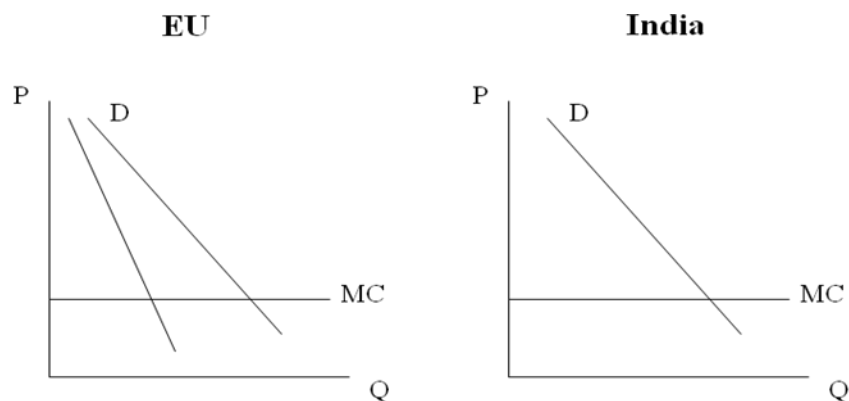
After Patent act 2005, India must also protect Intellectual property rights.

b. Write and show in graph the consumer surplus and *total* firm profits in EU and in India.



The product now also gets produced in a third country with no intellectual property rights protection, and the copies get re-imported back to India.

c. Write and show in graph the change in consumer surplus in India and firm's total profits.



2. Outsourcing

A good is produced using three production activities (a, b, and c) that each use skilled and unskilled labor. The following table shows the number of high-skilled and low-skilled workers needed to produce one unit in each production stage.

	a	b	c
High-skilled labor	1	2	3
Low-skilled labor	4	3	2

There are two countries: Home (H) and Foreign (F). The high-skilled workers wage is \$4 in H and \$5 in F. The low-skilled worker wage is \$2 in H and \$1 in F. Transport costs of \$2 per unit must be added to cost of a production stage if that production stage is outsourced to F.

a. Given this information, which production activities are done in which country?

b. If the transport cost falls to zero, what happens to the location of production of each stage (assume that the wage don't change)?

c. How has the reduction in transport cost in Foreign affected the relative demand for high-skilled labor?