International Economics: Non-tariff barriers to trade

Figure 1 illustrates the calculator market for Venezuela, assumed to be a "small" country that is unable to affect the world price. $S_{\text{Venezuela}}$ is the domestic supply schedule and $D_{\text{Venezuela}}$ is the domestic demand schedule. On the basis of this information answer the question(s).

Figure 1. Venezuelan Calculator Market

1. Consider Figure 1. Suppose the rest of the world supplies calculators to Venezuela at a price of $4 each. With free trade, Venezuelan imports total:
   a. 8 calculators  
   b. 16 calculators  
   c. 20 calculators  
   d. 24 calculators

2. Consider Figure 1. Assume the Venezuelan government grants its manufacturers a production subsidy of $4 per calculator. After the subsidy is granted, Venezuelan imports total:
   a. 8 calculators  
   b. 12 calculators  
   c. 16 calculators  
   d. 20 calculators

3. Consider Figure 1. The cost of the production subsidy to the Venezuelan government totals:
   a. $32  
   b. $40  
   c. $48  
   d. $54

4. Consider Figure 1. The increase in Venezuelan producer surplus under the production subsidy totals:
   a. $16  
   b. $20  
   c. $24  
   d. $32

5. Consider Figure 1. The production subsidy results in an overall welfare loss for Venezuela totaling:
   a. $8  
   b. $12  
   c. $16  
   d. $20
Assume Boeing Inc. (of the United States) and Airbus Industrie (of Europe) rival for monopoly profits in the Canadian aircraft market. Suppose the two firms face identical cost and demand conditions, as seen in Fig. 6.1.

**Figure 2. Strategic Trade Policy: Boeing versus Airbus in the Canadian Market**

6. Refer to Figure 2 and assume that Boeing is the first to enter the Canadian market. Without a governmental subsidy, the firm maximizes profits by selling ____ aircraft at a price of $____, and realizes profits totaling $____.
   a. 4, $12 million, $16 million   c. 8, $12 million, $16 million
   b. 4, $16 million, $12 million   d. 8, $16 million, $12 million

7. Consider Figure 2. At the monopoly price as established by Boeing, Canadian consumers realize $____ of consumer surplus from the availability of aircraft.
   a. $4 million   b. $8 million   c. $12 million   d. $16 million

8. Consider Figure 2. Suppose the European government provides Airbus a subsidy of $4 million on each aircraft manufactured, and that the subsidy convinces Boeing to exit the Canadian market. As the monopoly seller, Airbus maximizes profit by selling ____ aircraft at a price of $____, and realizes profits totaling $____.
   a. 6, $10 million, $36 million   c. 12, $10 million, $36 million
   b. 6, $12 million, $24 million   d. 12, $12 million, $24 million

9. Refer to Figure 2. The total cost of the Airbus subsidy to the European taxpayer equals:
   a. $16 million   b. $20 million   c. $24 million   d. $28 million

10. Refer to Figure 2. The Airbus subsidy leads to a(n) increase/decrease in Canadian consumer surplus of $____, as compared to the consumer surplus that existed in the absence of a subsidy.
    a. Increase of $8 million   c. Decrease of $8 million
    b. Increase of $10 million   d. Decrease of $10 million

11. Consider Figure 2. For Europe as a whole (Airbus and European taxpayers), the subsidy leads to a(n) increase/decrease in net revenues of $____.
    a. Increase of $12 million   c. Decrease of $12 million
    b. Increase of $16 million   d. Decrease of $16 million