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**EC 231 DUE DATE: Feb. 19th**

**HW2**

**Spring 2017 Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

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**Please answer both questions. To receive full credit you must show you work and properly label all graphs**

1. Suppose the WTO eventually declares China’s currency policy to be an unfair trade practice and authorizes the U.S. to impose a tariff on Chinese products as a result. The U.S. decides to impose a 50% tariff on electrical transformers. Currently, the market price for a standard mid-range transformer is $5000. The total sales of this form of transformer are 3 million units per year, with imports (from China) taking 40% of the market. After the imposition of the tariff, the market falls to 2.5 million units, with imports making up 1/5 of the total.
2. Graphically illustrate the:

 -Loss in consumer surplus

 -The gain in producer surplus

 -The tariff revenue

 -The dead-weight loss

b. Find the numerical values for the above.

1. The U.S. and Canada both produce automobiles and timber. Automobile production is capital-intensive, while the lumbering industry is land-intensive. The U.S. is relatively capital-rich, while Canada possesses relatively more land for timber.
2. Draw an Edgeworth Box for both Canada and the U.S.
3. Add isoquants, and indicate three efficient points on your graph.
4. Map these points to two well-drawn PPC’s and demonstrate that both countries can be made better off through specialization.

Part II – The Heckscher-Ohlin Model is also known as the Resource Endowment Model. How are resource endowments reflected in the diagrams you drew above? What aspect of comparative advantage might be missing from the H-O model?