**Problem Set on Trade Policy**

1. Home’s demand function for wheat is: D = 100−20P.

Its supply function is: S = 20+20P.

1. Derive and graph Home’s import demand schedule. What would the price of wheat be in the absence of trade? 1.5

Now consider Foreign country which has a demand function D\* = 80−20P, and a supply function S\* = 40+20P.

(b) Derive and graph Foreign’s export supply curve and ﬁnd the price of wheat that would prevail in Foreign in the absence of trade. 1.5

(c)Now allow Foreign and Home to trade with each other, at zero transportation cost. Find and graph the equilibrium under free trade. What is the world price? What is the volume of trade? 2

(d) Suppose Home government imposes a speciﬁc tariﬀ of 0.5 on wheat imports. Determine and graph the effects of the tariff on the following: (i) the price of wheat in each country; (ii) the quantity of wheat supplied and demanded in each country; (iii) the volume of trade. 4

(e) Discuss the effect of the tariff on the welfare of each of the following groups: (i) Home import-competing producers; (ii) Home consumers; (iii) the Home government. \