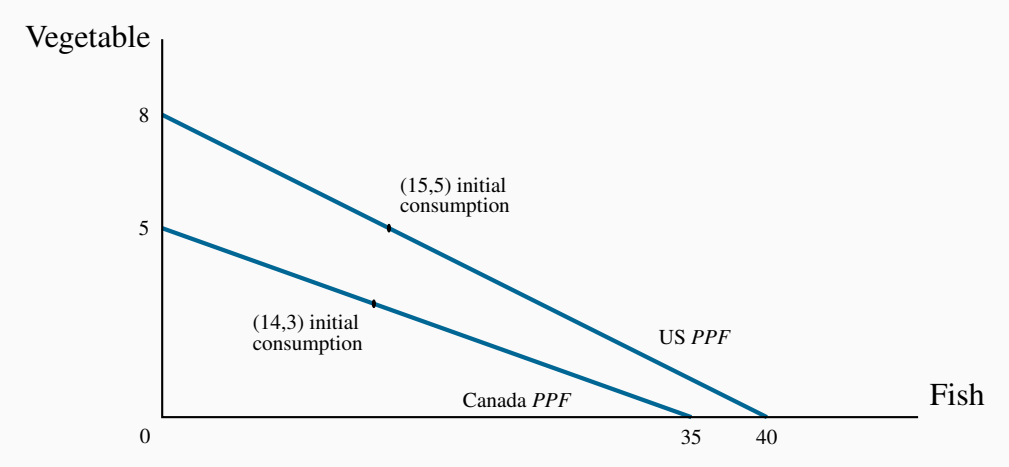

Figure 1: Comparative advantage – production

Canada specializes completely in Fish at (35,0), where it has a comparative advantage. Similarly, the US specializes in Vegetable at (0,8). They trade at a rate of 1:6. The US trades 3V to Canada in return for 18F.

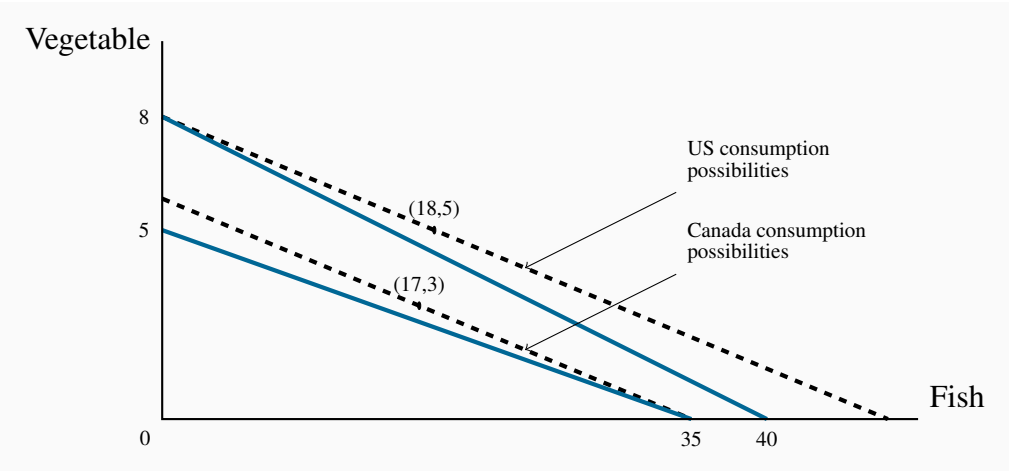

Figure 2: Comparative advantage – consumption

Post specialization the economies trade 1V for 6F. Total production is 35F plus 8V. Hence once consumption possibility would be (18,5) for the US and (17,3) for Canada. Here Canada exchanges 18F in return for 3V.

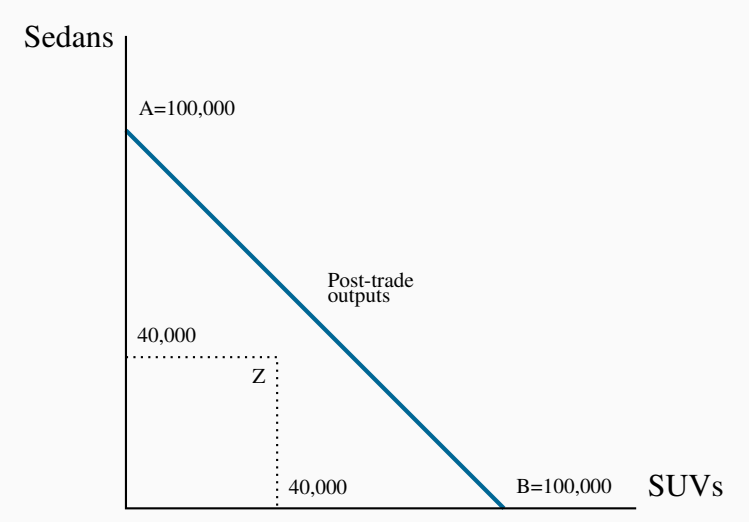

Figure 3: Intra industry trade

Hunda can produce either 100,000 of each vehicle or 40,000 of both in each plant. Hence production possibilities are given by the points A, Z, and B. Pre-trade it produces at Z in each economy due to trade barriers. Post-trade it produces at A in one economy and B in the other, and ships the vehicles internationally. Total production increases from 160,000 to 200,000 using the same resources.

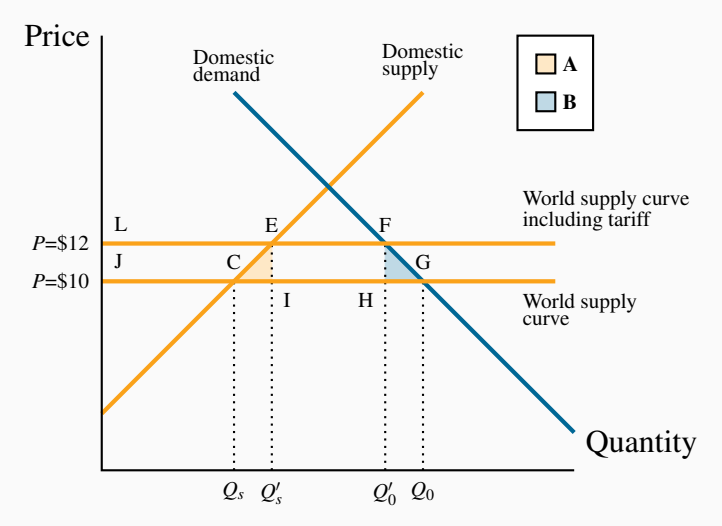

Figure 4: Tariffs and trade

At a world price of $10 the domestic quantity demanded is Q_0. Of this amount Q_s is supplied by domestic producers and the remainder by foreign producers. A tariff increases the world price to $12. This reduces demand to Q'_0; the domestic component of supply increases to Q'_s. Of the total loss in consumer surplus (LFGJ), tariff revenue equals EFHI, increased surplus for domestic suppliers equals LECJ, and the deadweight loss is therefore the sum of the triangular areas A and B.

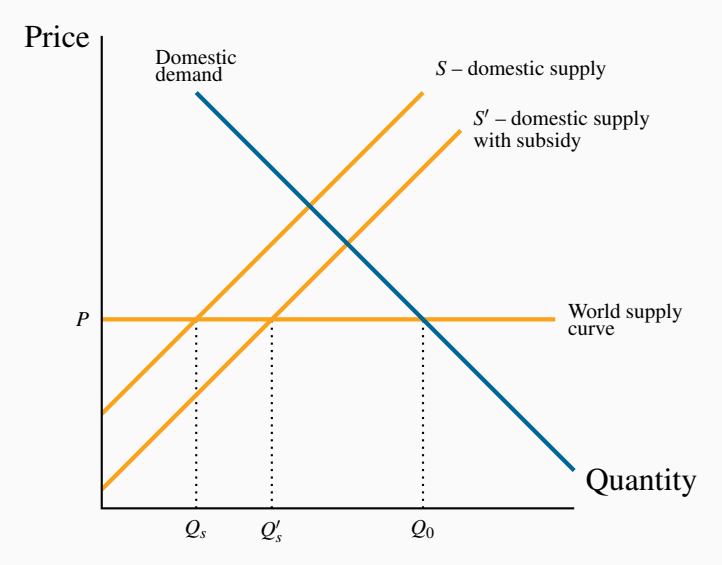

Figure 5: Subsidies and trade

With a world supply price of P, a domestic supply curve S, and a domestic demand D, the amount Q_0 is purchased. Of this, Q_s is supplied domestically and $(Q_0 - Q_s)$ by foreign suppliers. A per-unit subsidy to domestic suppliers shifts their supply curve to S', and increases their market share to Q'_s.

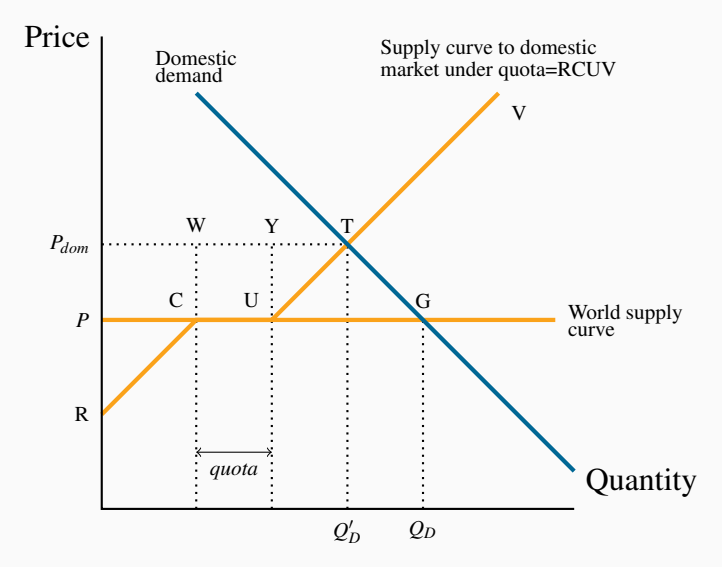

Figure 6: Quotas and trade

At the world price P, plus a *quota*, the supply curve becomes RCUV. This has three segments: (i) domestic suppliers who can supply below P; (ii) *quota*; and (iii) domestic suppliers who can only supply at a price above P. The quota equilibrium is at T, with price P_{dom} and quantity traded Q'_D; the free-trade equilibrium is at G. Of the amount Q'_D, *quota* is supplied by foreign suppliers and the remainder by domestic suppliers. The quota increases the price in the domestic market.