



eLearneconomics: Trade – Two Country Trade Model (1)

Student response _____

(a) Draw up the market for timber in New Zealand and market for timber in China (cubic metres million) on the grid provided. Indicate the pre-trade price (P) in both countries.

| New Zealand timber market | | |
|---------------------------|--------|--------|
| Price \$NZ | Demand | Supply |
| 5 | 4 | 1 |
| 10 | 3.5 | 2 |
| 15 | 3 | 3 |
| 20 | 2.5 | 4 |
| 25 | 2 | 5 |
| 30 | 1.5 | 6 |
| 35 | 1 | 7 |

| China timber market | | |
|---------------------|--------|--------|
| Price \$NZ | Demand | Supply |
| 5 | – | – |
| 10 | – | – |
| 15 | 7 | 1 |
| 20 | 6 | 1.5 |
| 25 | 5 | 2 |
| 30 | 4 | 2.5 |
| 35 | 3 | 3 |
| 40 | 2 | 3.5 |

New Zealand timber market

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China timber market

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- (b) Indicate on your diagrams:
- (i) The world price, label as P_w .
 - (ii) The country that will export and the quantity.
 - (iii) The country that will import and the quantity.

(c) Identify two assumptions made when using the two-country trade model.

(d) Identify two items the model is useful for illustrating changes to.

eLearneconomics: Trade – Two Country Trade Model (1a)

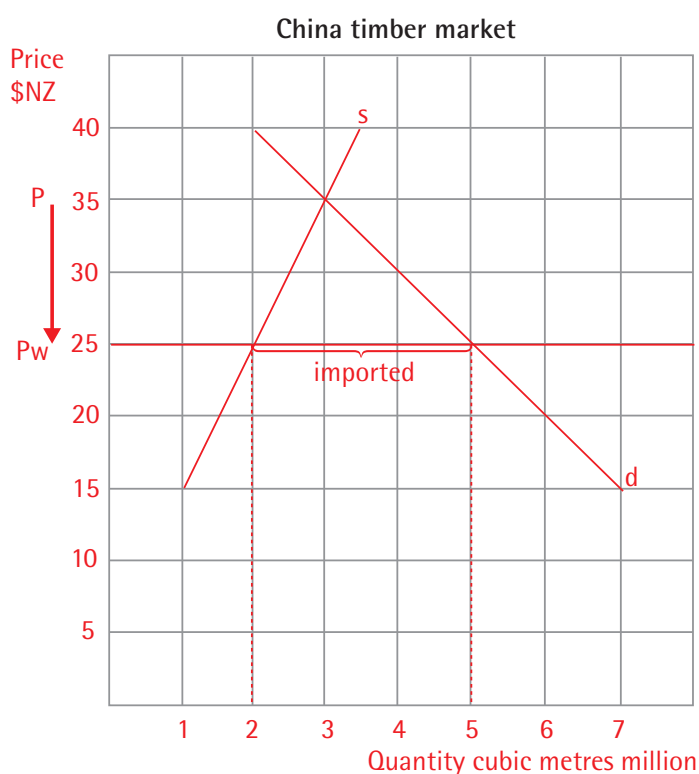
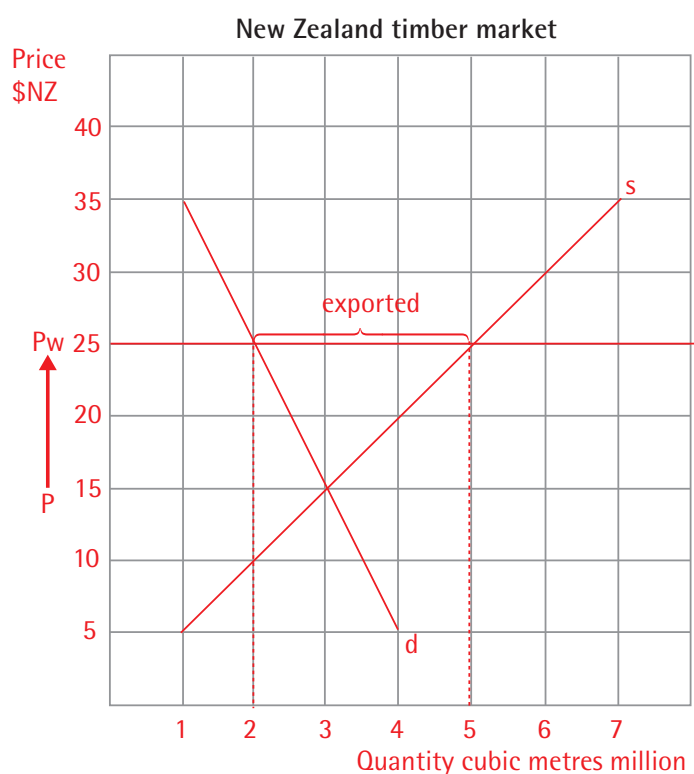


Solutions

- (a) Draw up the market for timber in New Zealand and market for timber in China (cubic metres million) on the grid provided. Indicate the pre-trade price (P) in both countries.

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| China timber market | | |
|---------------------|--------|--------|
| Price \$NZ | Demand | Supply |
| 5 | – | – |
| 10 | – | – |
| 15 | 7 | 1 |
| 20 | 6 | 1.5 |
| 25 | 5 | 2 |
| 30 | 4 | 2.5 |
| 35 | 3 | 3 |
| 40 | 2 | 3.5 |



- (b) Indicate on your diagrams:
- The world price, label as Pw.
 - The country that will export and the quantity.
 - The country that will import and the quantity.
- (c) Identify two assumptions made when using the two-country trade model.

Two countries and a single good only. Initially there is no trade between the two countries and the demand and supply curves represent the domestic situation in each country.

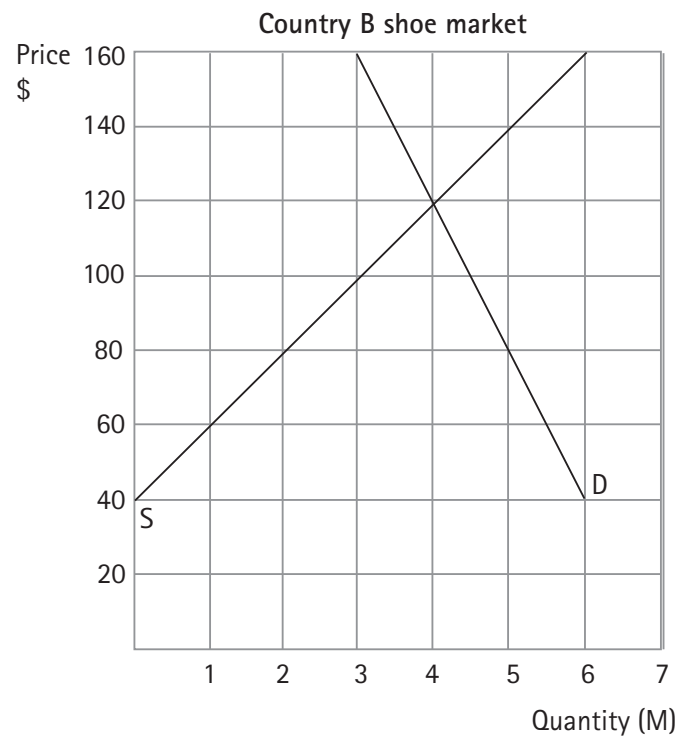
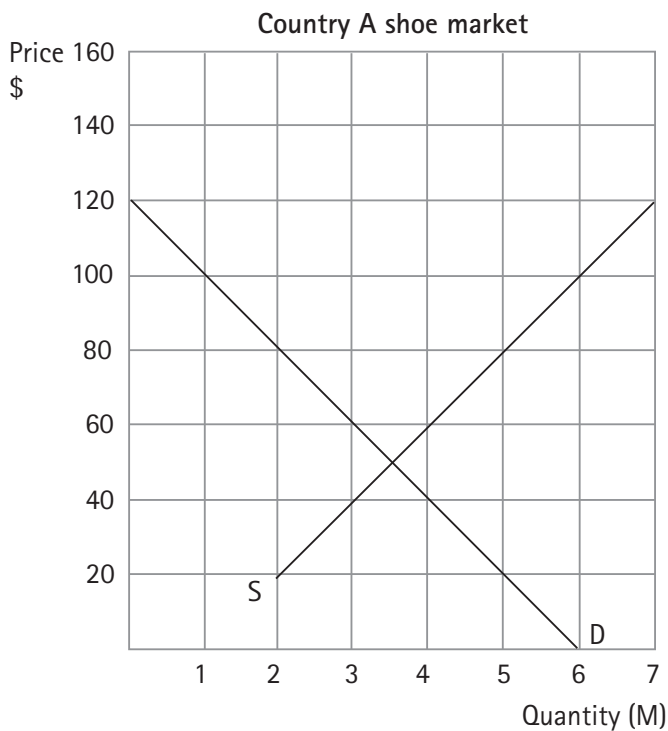
- (d) Identify two items the model is useful for illustrating changes to.

Factors affecting supply in either country, factors affecting demand in either country, prices in either country, quantities exported and imported, quantities supplied and demanded in either country.



eLearneconomics: Trade – Two Country Trade Model (2)

Student response _____



- (a) Indicate on your diagrams:
- (i) The world price, label as P_w .
 - (ii) The country that will export and the quantity.
 - (iii) The country that will import and the quantity.

- (b) State and explain the effect trade would have on:

Country B shoe producers:

Effect: _____

Explanation: _____

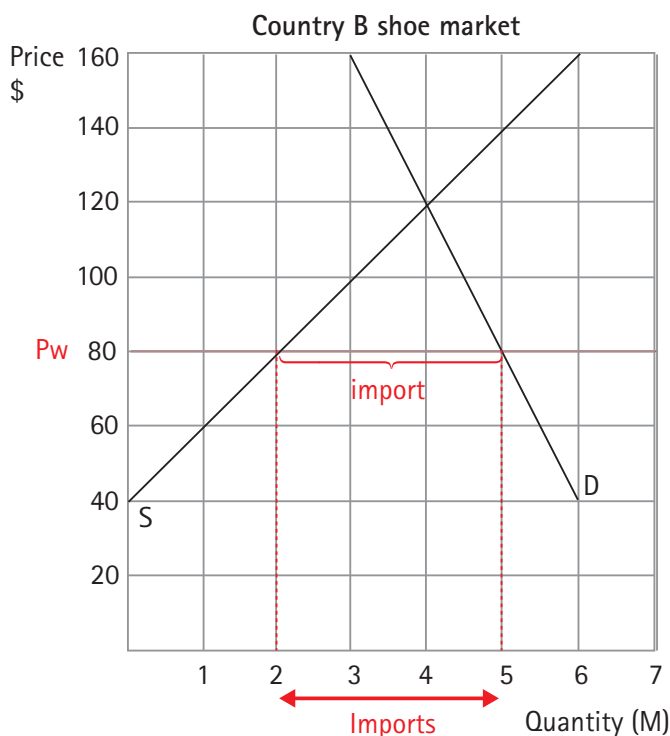
- (c) Complete the spaces in the sentences below.

When Country A exports products overseas the price that domestic consumers pay _____ and the quantity purchased _____, as supply to the domestic market _____. When Country B imports products from _____ the price that domestic consumers pay decreases and the quantity purchased _____.

eLearneconomics: Trade – Two Country Trade Model (2a)



Solutions



- (a) Indicate on your diagrams:
- (i) The world price, label as P_w .
 - (ii) The country that will export and the quantity.
 - (iii) The country that will import and the quantity.
- (b) State and explain the effect trade would have on:

Country B shoe producers:

Effect: Decrease the level of sales.

Explanation: Country B producers will not be able to compete as well because imports will now be cheaper than before so Country B consumers will buy more imported products and fewer products made in Country B.

- (c) Complete the spaces in the sentences below.

When Country A exports products overseas the price that domestic consumers pay increases and the quantity purchased decreases, as supply to the domestic market falls. When Country B imports products from overseas the price that domestic consumers pay decreases and the quantity purchased increases.