

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (40 points) Draw the PPF/indifference curve diagram for a large country which is capital abundant. Draw an improvement in the technology of the capital intensive industry such that there is immiserizing growth. Explain why the curve(s) moved as drawn and how you can tell there is immiserizing growth. Draw the same event on the offer curve diagram. Explain why it moves as drawn.

2) (10 points) Assume India is labor abundant. Would adding capital to the Indian economy be more likely to make the country better off or worse off? Explain your logic.

3) (30 points) Draw the supply and demand for a good which is imported by a small country. Show the quantity produced and quantity consumed at autarky, with free trade, and when there is a tariff which yields a price half way between the free trade price and the autarky price. Find the consumer surplus, producer surplus and tariff revenue (if appropriate) for all three prices. Rank the three prices from the most utility for the country to least utility. Briefly explain how you found each of the consumer surplus, producer surplus, and tariff revenue (if appropriate).

4) (20 points) Draw the supply and demand for a good which is exported by a small country. Place an export tariff on the good. Find the consumer surplus, producer surplus, and tariff revenue for when there is a tariff. Explain how you found them. Do not worry about the free trade an autarky.