

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) (10 points) In 2011, the US exported \$67,204 million dollars of car parts and imported \$107,723 million worth of car parts. How much was our measure of intra-industry trade? Show all work. (Source: International Trade Association, part of the U.S. Department of Commerce.) http://www.trade.gov/wcm/groups/public/@trade/@mas/@man/@aai/documents/web_content/uto_stats_parts_trade_pdf.pdf

2) (30 points) Draw the ATC/MC/D/MR diagram for a monopolistically competitive firm which is making positive profits. Find the price charged and the quantity produced. State how you found them and how you know they are making profits. Illustrate the effects of time. Explain why the curve(s) moved as drawn, why it (they) stopped as drawn. What happens to the price charged, the quantity sold, and the profits?

3) (10 points) Explain how monopolistic competition can result in intra-industry trade.

4) (20 points) Draw the diagram which has the price and costs as a function of the number of firms for a monopolistically competitive industry. Explain why the curves look as drawn.

5) (20 points) Draw the PPF for a country which experiences increasing returns to scale. Explain why it takes that shape and how that can cause intra-industry trade.

6) (10 points) Explain why intra-industry trade requires product differentiation.