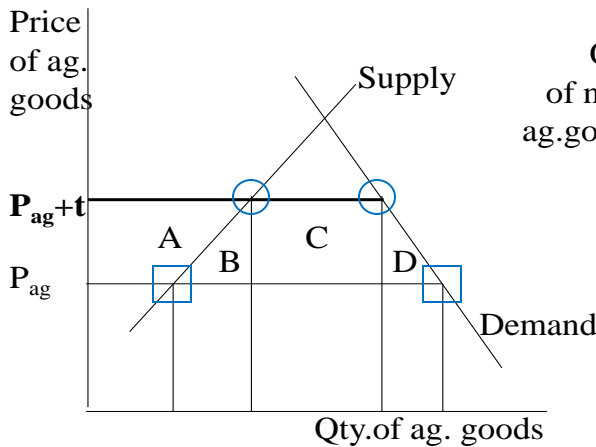


**Quiz No. 5: Trade Policy & Comparative Advantage**

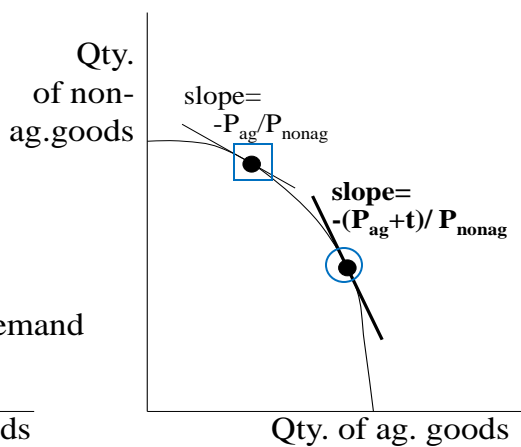
Name: Answer Key

Representatives of almost all the world’s countries meet regularly through the World Trade Organization in Geneva, to negotiate for freer trade. The U.S. Department of Agriculture has hired you to help negotiate for a reduction in tariffs on farm goods. Your first assignment is to help analyze the problem using the following two graphs. The letter "t" represents a government's import tariff. The letters “P<sub>ag</sub>” and “P<sub>nonag</sub>” represent the prices of ag. and nonag. goods in the world market, at the country’s border.

**Supply and demand for agricultural goods in an importing country with a tariff**



**The PPF for ag. and non-ag. production in a country that imports ag. goods with a tariff**



- On both diagrams, please:
  - Draw circles around the points you'd expect to observe *with a tariff in place*
  - Draw squares around the points you'd expect to observe *without any tariff or trade restriction*
- Based on the diagrams above, please **circle the correct parts** of the following sentences:

Using the supply-demand diagram above, if the tariff were now in place, removing the tariff would:

- make consumer surplus higher / lower by the value of area A B C D,
- make producer surplus higher / lower by the value of area A B C D,
- make government revenue higher / lower by the value of area A B C D, and
- make total national surplus higher / lower by the value of area A B C D.

Using the PPF diagram above, if the tariff were now in place, removing the tariff would:

- make production of ag. goods higher / lower, and
- make production of non-ag. goods higher / lower.