



Trade Problem Set 90 2-7

1. Suppose there are only two countries, the US and China producing and consuming clothing. Suppose in free trade China exports clothing to the US.
 - A. At the free trade price, in which country is the supply of clothing greater than demand?
 - B. At the free trade price how does world supply compare with world demand for clothing? (i.e., greater, less, or equal)
 - C. If the US and China were in autarky rather than free trade, in which country would the price of clothing be higher?
 - D. Based on our class presentation, in moving from autarky to free trade would the price of clothing rise, fall or stay the same in the US?
 - E. Based on our class presentation, in moving from autarky to free trade would the price of clothing rise, fall or stay the same in China?
 - F. Starting from free trade, if the US places a tariff on imports of clothing, how would the price of clothing change in the US?
 - G. Based on our class presentation, starting from free trade, if the US places a tariff on imports of clothing, how would the price of clothing change in China?
 - H. How would a tariff on US imports of clothing affect the amount of clothing produced in the US?

- I. How would a tariff on US imports of clothing affect the amount of clothing demanded in the US?
- J. Suppose a specific US tariff (set at T) is implemented and a new equilibrium is reached. Let P_c be the price in China, P_{us} the price in the US, M is the quantity of US clothing imports and X is the quantity of Chinese clothing exports. How does the US price compare with the Chinese price?