



Trade Problem Set 100 2-2

1. Consider each of the following imperfect market situations. From the following list of policy options. First, **LIST** the trade policy that can raise national welfare, then **LIST** the policy most likely to be the first best policy. Policy choices may be used more than once.

Policy Options: An import tariff, an import ban, an export tax, an export ban, an export subsidy, a production tax, a production subsidy, a consumption tax, a consumption subsidy.

	Trade Policy	1st Best Policy
A. A small country where production by an export industry causes pollution.		
B. A small country in which the import-competing industry develops innovative cost-saving production techniques that spillover for use in other domestic industries		
C. A country with monopsony power in trade		
D. A small country that exports red wine, consumption of which (in small quantities) causes positive health effects.		

E. A small country for which foreign consumption of a domestically produced product threatens national security.		
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