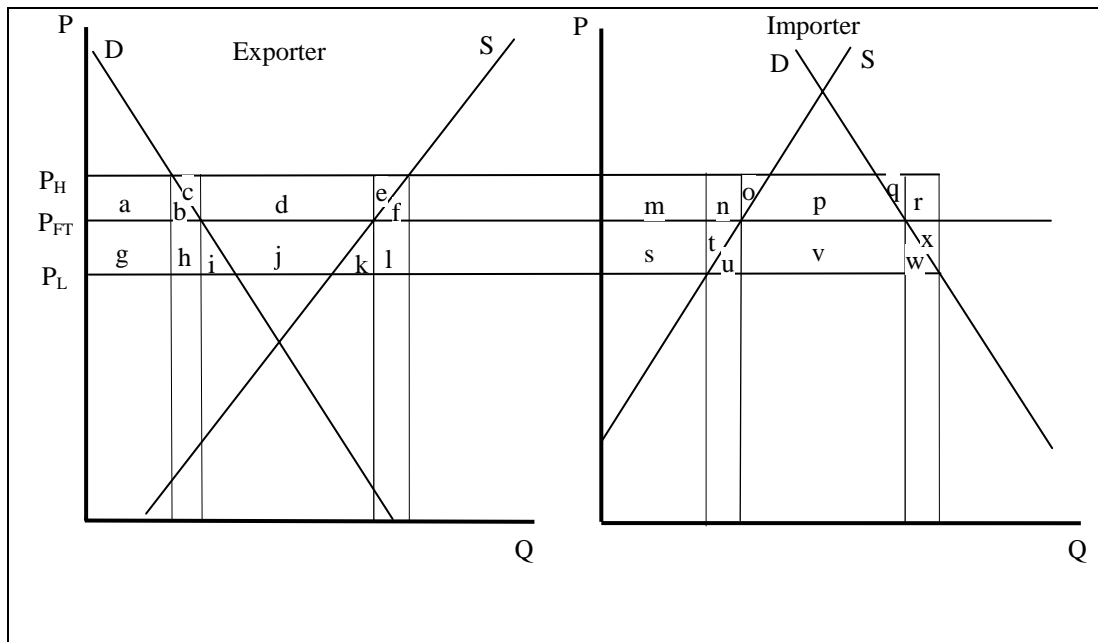


Trade Problem Set 110 2-3

1. Consider a market for computers in two large countries. Suppose the exporting country imposes a specific export subsidy equal to $P_H - P_L$. Afterwards the importing country retaliates with a countervailing duty also set equal to $P_H - P_L$. Use the diagram below to answer the following questions.



A. What is the change in consumer surplus in the exporting country when the export subsidy is imposed?	
B. What is the change in producer surplus in the exporting country when the export subsidy is imposed?	
C. What are government subsidy payments in the exporting country when the export subsidy is imposed?	
D. What is the net national welfare effect in the exporting country when the export subsidy is imposed ?	

E. What is the net national welfare effect in the importing country when the subsidy is imposed ?	
F. What is the change in consumer surplus in the importing country (relative to subsidy in place) with the CVD?	
G. What is the change in producer surplus in the importing country (relative to subsidy in place) with the CVD?	
H. What is the change in govt. revenue in the importing country (relative to subsidy in place) with the CVD?	
I. What is the change in govt. revenue in the exporting country (relative to subsidy in place) with the CVD?	
J. What condition must hold for the CVD to be welfare improving for the importing country (rel. to subsidy)?	