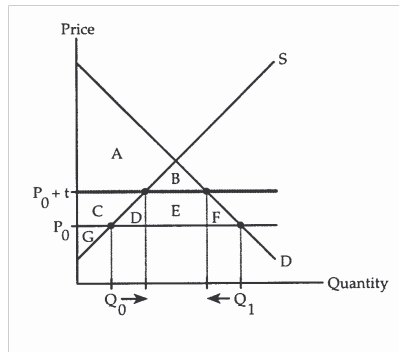


Homework Quiz: Friday, April 4

Consider the following:

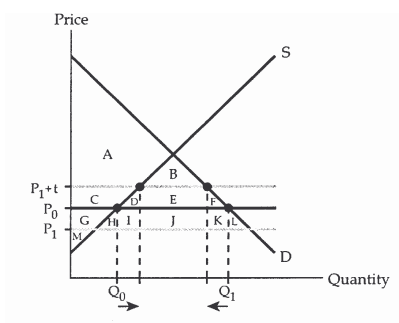
- (i) The accompanying diagram shows the effects of a tariff. Initially, the price is P_0 , domestic firms produce Q_0 units, and $Q_1 - Q_0$ units are imported from foreign firms. When the tariff is imposed, the price increases to $P_0 + t$.



1. How does the tariff affect producers' surplus?
 - a. Producer surplus falls from ABCDEF to AB
 - b. Producer surplus rises from AB to ABCDEF
 - c. Producer surplus falls from CG to G
 - d. Producer surplus rises from G to CG

2. Does imposing the tariff cause the country's social gain to rise or fall?
 - a. It will rise
 - b. It will fall
 - c. It will fall only if $D+F < E$
 - d. It will rise only if $D+F < E$

- (ii) The situation in part i is known as the "small country" case-the country has no market power, so its tariff does not affect the world price P_0 . Now consider the "large country" case shown in the accompanying diagram-in this case, the country has market power, and the tariff (by reducing the demand for imports) causes the world price to fall from P_0 to P_1 . So after the tariff is imposed, the domestic price is $P_1 + t$.

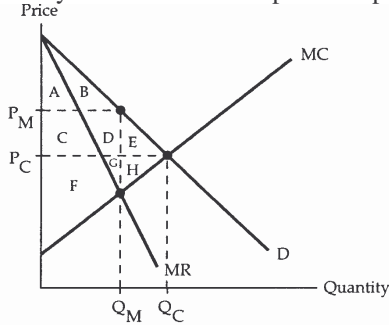


3. When a "large country" imposes a tariff, will its social gain rise or fall?
 - a. It will rise
 - b. It will fall
 - c. It will only rise if $D+F < J$
 - d. It will only fall if $D+F < J$

4. Second-degree price discrimination generally takes the form of
 - a. special prices for students and seniors.
 - b. membership clubs.
 - c. quantity discounts.
 - d. "extras" like free delivery and free customer service.

5. In an Edgeworth box, a point where two indifference curves are tangent represents
- the initial endowment point.
 - an allocation that both consumers prefer to the initial endowment.
 - a competitive equilibrium.
 - a Pareto-optimal allocation of goods.

P_C and Q_C are the equilibrium price and quantity if the firm behaves competitively, and P_M and Q_M are the equilibrium price and quantity if the firm is a simple monopoly.



6. What area represents the producer's surplus earned in the monopoly equilibrium?
- F+G+H
 - A+B+C+D+E
 - A+B
 - C+D+F+G
7. Suppose the firm could perfectly price discriminate. The difference between consumer surplus under a simple monopoly scenario and consumer's surplus under the perfect price discriminating monopoly scenario is:
- F+G+H
 - A+B+C+D+E
 - A+B
 - C+D+F+G

Use the following game matrix VI to answer questions 8-10.

Game VI		Jack's Strategy	
		Left	Right
Jill's Strategy	Up	Jack gets 2 Jill gets 2	Jack gets 1 Jill gets 1
	Down	Jack gets 1 Jill gets 1	Jack gets 3 Jill gets 3

8. Identify all of the Nash Equilibria in the game above.
- (Right, Up) and (Right, Down)
 - (Right, Down) and (Left, Up)
 - (Right, Down) and (Left, Down)
 - (Left, Up)
9. Identify all of the Pareto Optima in the game above.
- (Right, Up) and (Right, Down)
 - (Right, Up) , (Right, Down) , (Left, Up)
 - (Right, Down)
 - (Right, Down) , (Left, Up)
10. What happens if Jack goes first?
- (Right, Down)
 - (Right, Down) and (Left, Up)
 - (Left, Up)
 - (Left, Down)