

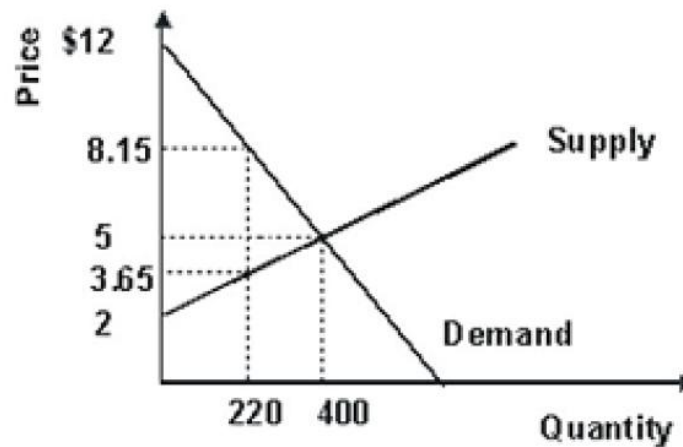
Homework 3:

Consumer Surplus & Taxation

Professor Schenk

Due: November 15, 2011

1. A basic argument for trade is through comparative advantage. Under specific circumstances, comparative advantage and specialization between two or more countries can allow countries to consume beyond their production possibilities frontier. Write a brief essay on the adverse consequences that are not addressed in this syllogism. Identify at least 3 adverse consequences. Clearly identify and write at least a paragraph explaining each adverse consequence.



2. Refer to the graph above. Assume the market is in equilibrium, calculate the consumer surplus.
3. Refer to the graph above. Assume the market is in equilibrium, calculate the producer surplus.
4. Refer to the graph above. Assume that the government has imposed a \$3.15 tax on each unit sold.
 - a. Calculate the tax revenues received by the government.
 - b. Calculate the new consumer surplus with the tax.
 - c. Calculate the new producer surplus with the tax.
 - d. Calculate the deadweight loss with the tax.