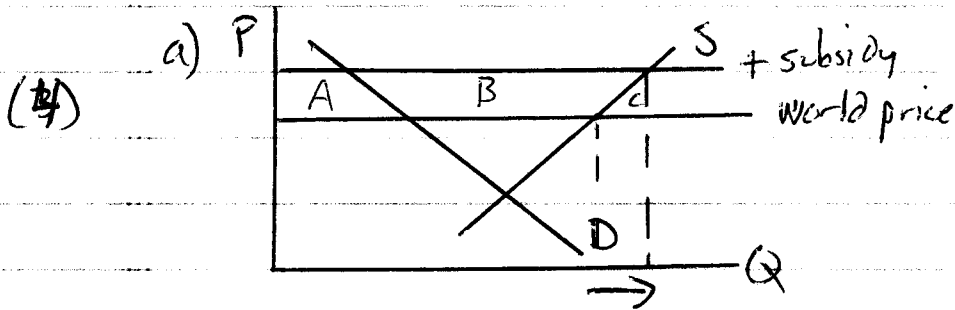


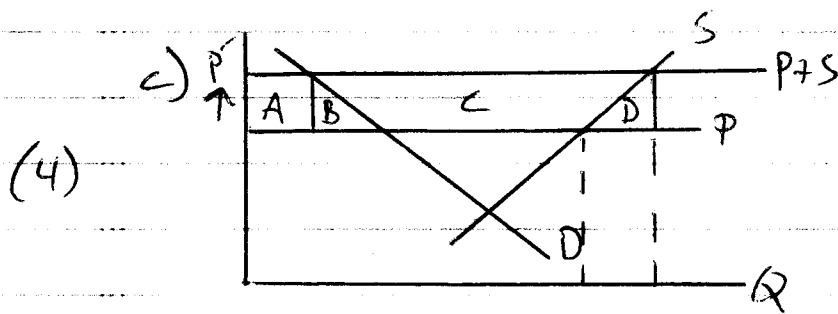
[20 points]

Quiz 6 Key



Production subsidy does not affect market price or consumption. It does increase production.

(3) b) $\Delta PS = +AB$
 $\Delta CS = 0$
 $\Delta GB = -ABC$ } Net welfare effect = $-C$ (deadweight loss)

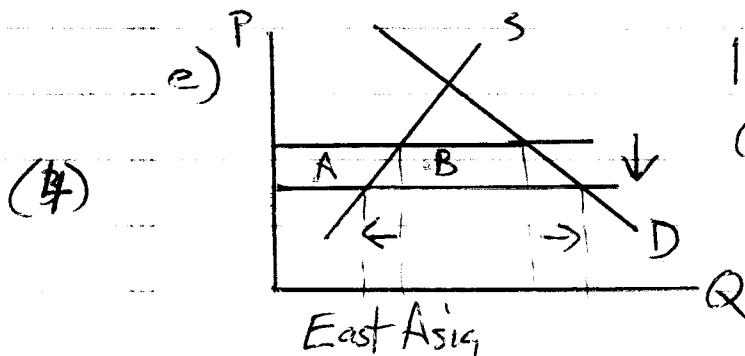


Production subsidy is above. Export subsidy raises price in domestic market.

$\Delta CS = -AB$
 $\Delta PS = +ABC$
 $\Delta GB = -BCD$ } Net = $-BD$

Export subsidy has more deadweight loss, but costs government less.

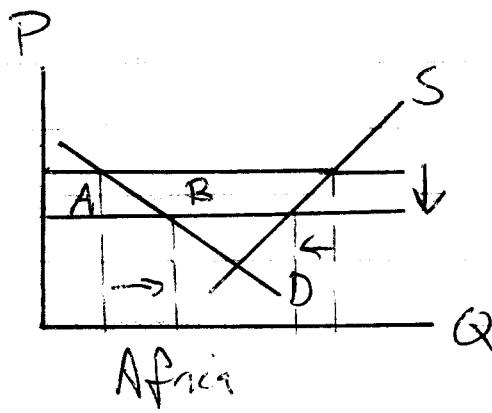
(1) d) US exports more, world price falls.



In East Asia, cotton prices fall.
 $Q_d \uparrow, Q_s \downarrow, \Delta PS = -A, \Delta CS = +AB,$
Net gain = +B

(4)

f)



In Africa, P falls,
 $Q_s \downarrow, Q_D \uparrow$

$$\Delta PS = -AB$$

$$\Delta CS = +A$$

$$\underline{\text{Net Loss} = -B}$$