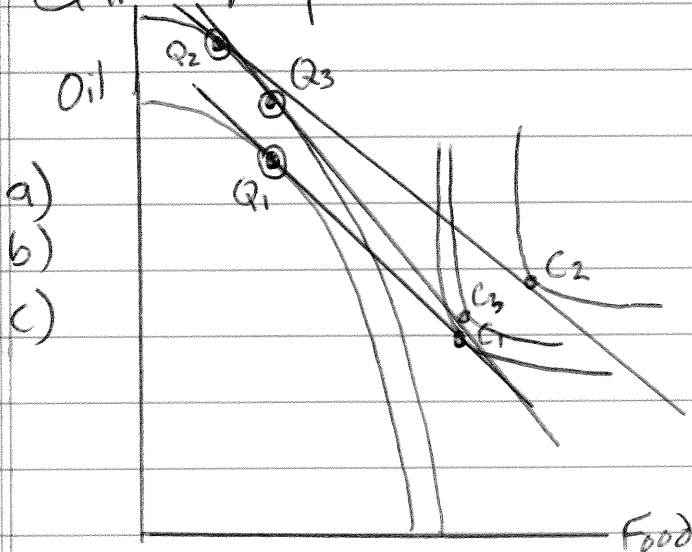


# Quiz 3 Key

①



- a)
- b)
- c)

d) Yes, it can be,  
 - if SA is very dependent on trade,  
 - if terms of trade effect is large due to inelastic supply & demand,  
 - if growth is not too much.

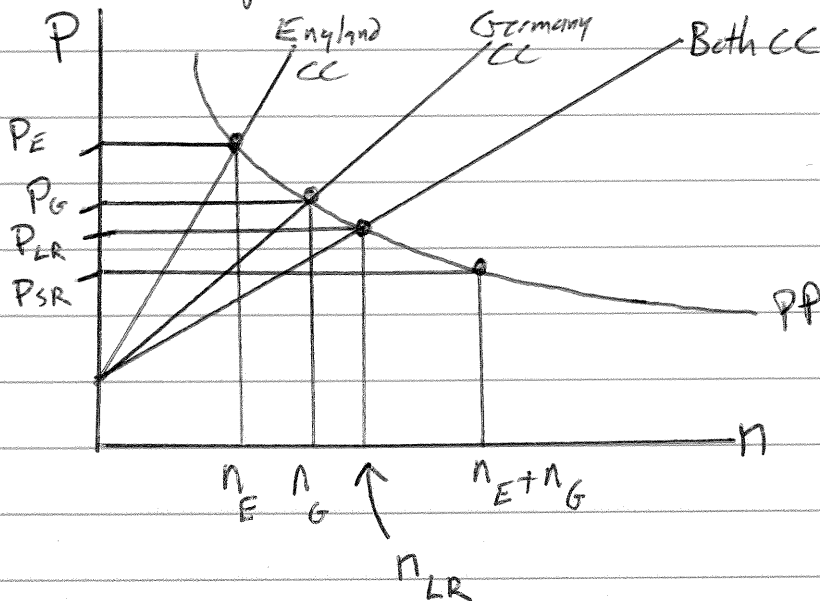
Growth effect is positive, Terms of trade effect negative.

$C_3$  may be better or worse than  $C_1$ .

c) In US, terms of trade effect is positive, so welfare improves.

②

- a) England has higher prices - less competition, smaller firms.
- b) Price falls in both - more competition, fewer and bigger firms.
- c) In SR, profits go negative, firms exit, prices rises somewhat.
- d) Number of firms declines overall.



With trade,  
 $P_E$  and  $P_G$  fall to  $P_{SR}$ , at  $n_E + n_G$ .  
 Firms exit until firms =  $n_{LR}$ ,  
 Prices from  $P_{SR}$  to  $P_{LR}$ .