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3. In Gurlerland, the domestic market for cucumbers is characterized by a downward-sloping demand curve and an upward-sloping supply curve, and the market for cucumbers is currently in equilibrium at a price of \$20 per bushel.

Part A

Draw a correctly labeled graph of the market for cucumbers and show the equilibrium price, labeled \$20, and the equilibrium quantity, labeled Q_1 .

Part B

Suppose that Gurlerland engages in free trade with other countries and that the world price of cucumbers is \$10 per bushel.

- i. On your graph in part A, show the world price of cucumbers, labeled \$10, and the quantity of cucumbers sold by domestic producers, labeled Q_2 .
- ii. Will total economic surplus in Gurlerland increase, decrease, or remain the same after engaging in free trade?

Part C

Now suppose that the government of Gurlerland imposes a \$5 tariff per bushel on the import of cucumbers.

- i. On your graph in part A, show the new quantity of cucumbers, labeled Q_3 , that will be sold by domestic producers as a result of the \$5 tariff imposed on the import of cucumbers.
- ii. As compared with the free trade described in part B, will domestic producer surplus in the market for cucumbers increase, decrease, or remain the same as a result of the \$5 tariff imposed on the import of cucumbers? Explain.

STOP
END OF EXAM