



# B.E. International Program

## Faculty of Economics, Thammasat University



EE311 Microeconomics Theory, Semester 1/2017

### Problem Set 1

#### INSTRUCTION

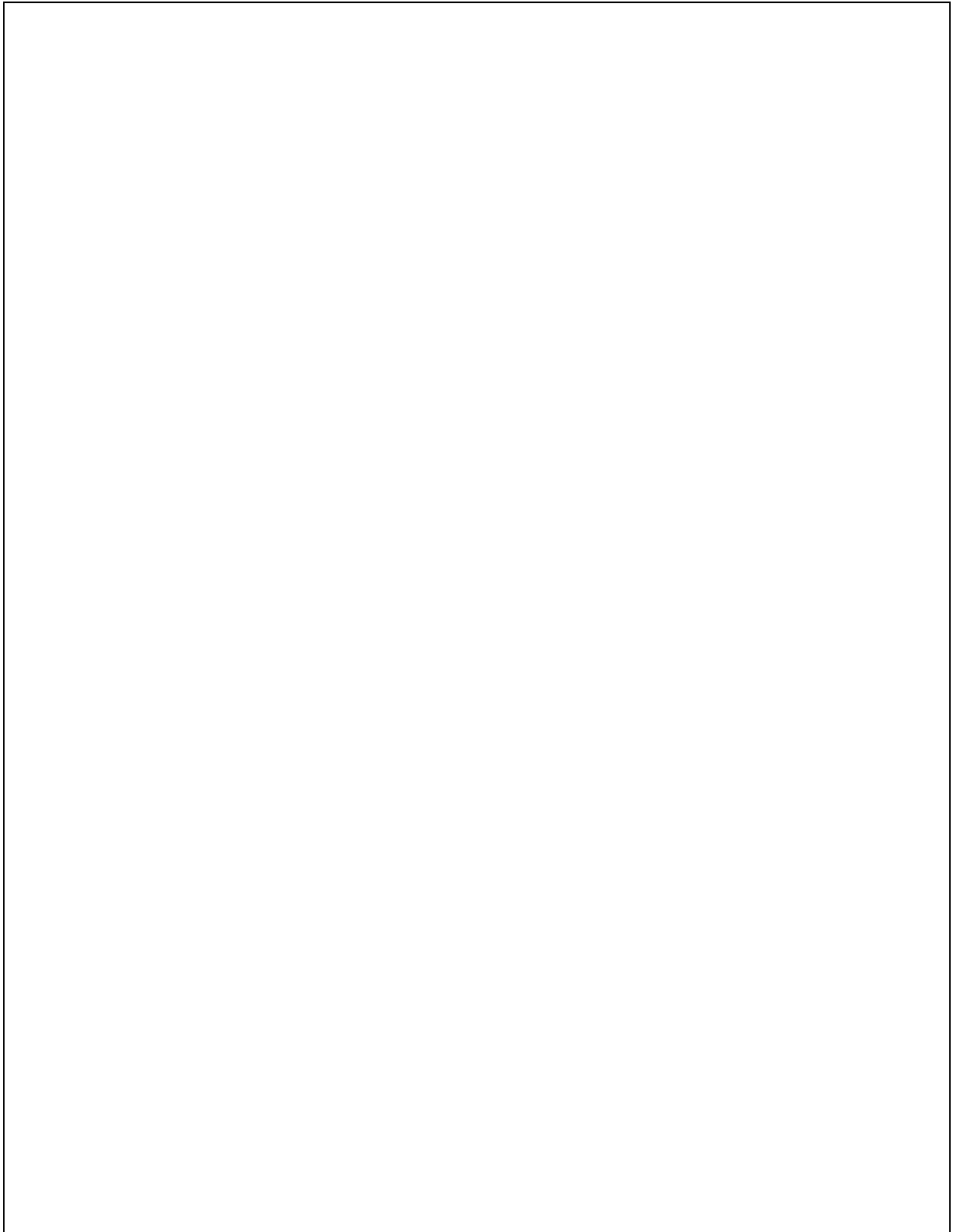
1. You are freely allowed to discuss the problems with your colleagues. But you must complete and submit the finished problem set INDIVIDUALLY.
2. Late submission without proper causes will be rejected. Plagiarism is a violation of honor codes; all parties involved will face serious consequences.
3. Write in the space provided. Due date is Wednesday, August 23, 2017
4. If you have any question, please send me an e-mail at [pwrasai@gmail.com](mailto:pwrasai@gmail.com) or [chanin@econ.tu.ac.th](mailto:chanin@econ.tu.ac.th)

Consider a small economy, The Galápagos Islands that exports and imports banana to the rest of the world. Suppose that world price of banana ( $P^w$ ) is above 'the domestic price before trade.' Now the Galapagos government gives an export subsidy to the domestic producers by  $s$  dollar per unit.

- 1) Describe economic environment **before** the export subsidy: price people buy and sell banana domestically, domestic production of banana, domestic consumption of banana, amount of banana exports.
- 2) Describe economic environment **after** the export subsidy: price that domestic producers get, price that domestic consumers pay, amount of banana exports by domestic producers, amount of banana imports, net exports of banana.
- 3) Does domestic price change after the subsidy has put in place?
- 4) Do the domestic firms sell banana to domestic consumers? If not so, whom do they sell to?
- 5) What happen to the quantity of banana exports after the subsidy has put in place?
- 6) Compare consumer surplus, producer surplus, government revenue, and total surplus with and without subsidy.

NAME \_\_\_\_\_ STUDENT ID \_\_\_\_\_

Solution:



*Row, row, row your boat,  
Gently down the stream.  
Merrily, merrily, merrily, merrily,  
Life is but a dream.*

*Learning is like rowing upstream: not to advance is to drop back.*

*~Chinese Proverb~*