Homework EE451

Due date: Friday 16 February 2018, 4pm, at BE office

Problem 1:

The table below shows possible terms of trade for country I and country I's corresponding demand for imports of good Y at each terms of trade.

Combinations	Possible terms of trade	Country I's quantity demanded for imports of Y
(a)	1X: 1Y or Px/Py = 1	20 units
(b)	1X: 2Y or Px/Py = 2	46 units
(c)	1X: 3Y or Px/Py = 3	69 units
(d)	1X: 4Y or Px/Py = 4	84 units

Calculate the supply of exports of good X by country I at each terms of trade and plot the offer curve. What is the nature of the elasticity of demand for imports between [i] points (a) and (b); [ii] points (b) and (c); and [iii] points (c) and (d)? How do you know? What might account for these respective elasticities?

Problem 2:

When Spain and Portugal joined the European Community (EC) in 1986, the United States had concerns that this phenomenon might have resulted in a shift in demand for agricultural products by Spain and Portugal away from the United States and towards other Community members. In response, the United States threatened to impose stiff trade measures on a variety of exports of the rest of the EC to the US. Using offer curve diagrams for (a) the US and Spain/Portugal, (b) Spain/Portugal and the rest of the EC, and (c) the US and the rest of the EC, illustrate and explain the effects of these potential events on the terms of trade and volume of trade.