

**International Trade**

Questions 1 – 2 are based on the following information: Initially, the US prohibits international trade in kumquats, which are produced on farms owned by friends of influential politicians. We observe the following when international trade is prohibited:

Price in the US = \$1.50 / pound

Price in the rest of the world (foreign) = \$1 / pound

Quantity consumed in US = 200,000 pounds

1. Which of the groups listed below would likely oppose free trade in kumquats?
  - a. US kumquat consumers
  - b. US kumquat producers
  - c. Foreign kumquat producers
  - d. Both (a) and (c)
  - e. Both (b) and (c)
  
2. From this information, we can conclude
  - a. the free trade price of kumquats will increase above \$1.50
  - b. the free trade price of kumquats will be between \$1.00 and \$1.50
  - c. the free trade price of kumquats will be less than \$1.00
  - d. the free trade price of kumquats will be exactly \$1
  - e. the free trade price of kumquats will be exactly \$1.50
  
3. Tariffs levied on foreign producers of rainbow suspenders
  - a. increase the price of imported rainbow suspenders
  - b. decrease the price of domestically produced rainbow suspenders
  - c. increase the quantity of domestically produced rainbow suspenders
  - d. all of the above
  - e. both (a) and (c)
  
4. An import quota on sugar would
  - a. increase the price of sugar
  - b. increase domestic producer's producer surplus (profits)
  - c. increase consumer surplus
  - d. all of the above
  - e. only (a) and (b)

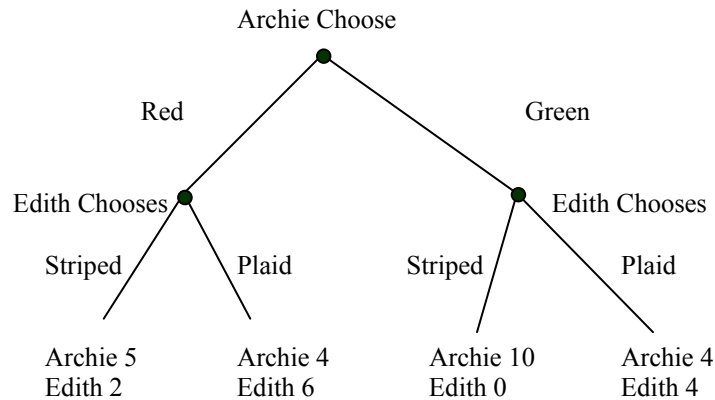
**Game Theory**

Questions 5-9 refer to the following information:

		Ethel	
		Heads	Tails
Fred	Heads	\$5 for Fred, \$5 for Ethel	\$0 for Fred, \$9 for Ethel
	Tails	\$10 for Fred, \$1 for Ethel	\$2 for Fred, \$2 for Ethel

5. What is Fred's best response if Ethel chooses Heads?
6. What is Fred's best response if Ethel chooses Tails?
7. Does Fred have a dominant strategy?
8. Does Ethel have a dominant strategy?
9. What is the Nash Equilibrium of the game?

One more game is illustrated below, with a slightly different solution. Suppose that first Archie chooses, then Edith chooses.



10. Suppose Archie were to Choose Red. What would Edith do in response?
11. Suppose Archie were to choose Green. What would Edith do in response?
12. Does Edith have a dominant strategy?
13. Given your answer to #12, which should Archie choose? That is, what is the equilibrium to this game? Is there more than one?

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**Solutions**

1. B
2. B
3. E
4. E
5. Tails
6. Tails
7. Yes, play Tails
8. Yes, play Tails
9. Both play Tails (the prisoner's dilemma again)
10. Plaid
11. Plaid
12. Yes, Plaid
13. It doesn't matter what Archie does, as in both cases, he will end up with 4. So, both (Red, Plaid) and (Green, Plaid) are both Nash equilibria. There are two equilibria here.