1. Refer to the above figure and answer the following questions.

(a) In the absence of trade, how many Widgets does this country produce and consume?
(b) In the absence of trade, what is the country’s consumer plus producer surplus?
(c) With free trade and no tariffs, what is the quantity of Widgets imported?
(d) With a specific tariff of $3 per unit, what is the quantity of Widget imports?
(e) What is the loss of Consumer Surplus due to the tariff?
(f) What is the lowest specific tariff which would be considered prohibitive? \[6 \times 2 = 12\]

2. Some argue that tariffs always hurt the imposing country’s economic welfare, and are typically designed to shift resources from one sector to another, protected or preferred one, within an economy. Find and discuss a counterexample to this argument. \[4\]

3. The two deadweight triangles associated with the graphical analysis of a tariff are the Consumption distortion and Production distortion losses. It is easy to understand why the Consumption distortion constitutes a loss for society. After all it raises the prices of goods to consumers, and even causes some consumers to drop out of the market altogether. It seems paradoxical that the Production distortion is considered an equivalent burden on society. After all, in this case, profits increase, and additional production (with its associated employment) comes on line. This would seem to be an offset rather than an addition to the burden or loss borne by society. Explain why the Production distortion is indeed a loss to society, and what is wrong with the logic that leads to the apparent paradox. \[4\]