Problem Set 1:

Part I:

a) Define consumer and producer surplus.
b) Explain how economists measure the gains from trade for a country.
c) Explain how consumer and producer surplus can be used to identify winners and losers from trade.

Part II:

Do problems No. 3, 4, 8, and 12 on pp 29-30 of your textbook.

Part III:

Refer to the article "The Illusion of Conflict in International Trade" by Paul Krugman (from his book "Pop Internationalism") available from my website.

1. Describe how trade affects the well-being of countries according to the standpoint of a "trained economist" such as Krugman.

2. Describe, in contrast, how the authors of Krugman’s "sample list" view trade between countries.

3. Based on your class notes, who is right? Carefully explain your answer using three graphs (U.S., International, and ROTW).

4. Find an economic policy that would be wrong from Krugman’s point of view but right from the viewpoint of the authors of Krugman’s "sample list".

Part IV:

Refer to the New York Times (NYT) article "Free-Trade’s Benefits Bypass Border Towns" available from my website.

1. Describe how trade (and in particular NAFTA) has affected the well-being of people in the Texas border towns according to the NYT article.
2. Is the impact that NAFTA seems to have on the Texas border towns consistent or inconsistent with the theoretical impact of trade on the distribution of income discussed in class? Explain.

3. Assume you had to consult the mayor of some Texas border town in his/her quest for reelection. Based on your class notes, discuss three different policy options toward the issue of how to deal with the impact of trade on the Texas border region. Have any of these options been applied to the border region according to the article? If so, evaluate the effectiveness of these initiatives.

4. In addition to the policy options discussed in class, are there any additional initiatives that have been pursued in the border region according to the article? If so, briefly describe these initiatives.

5. According to the article, what is the future outlook for the Texas border region?