CONCORDIA COLLEGE
MOORHEAD, MINNESOTA

- Name: ______________________
- Date: ______________________
- Section: ______________________

# BUS 201: Principles of Global Economics

# Problem Set #3: Suggested Solutions

# Fall 2025

**INSTRUCTIONS:**

- Write your full name, date, and section clearly at the top of the first page.
- This problem set is designed as a check-in assignment to help you practice the core ideas. It is not intended to be difficult, but you are expected to think carefully about your answers.
- For multiple-choice problems, circle the best answer.
- For short-answer problems, limit your response to no more than 4 sentences. Be concise but complete, and use economic reasoning in your answers.
- You may use your textbook, lecture slides, and personal notes.

## Problem 1. Multiple Choice

1.A. In welfare economics, total surplus is defined as:

a) The total revenue collected by sellers.

**b) The sum of consumer surplus and producer surplus.**

c) The difference between consumer and producer surplus.

d) The total benefits received only by consumers.

1.B. A decrease in the market price of a good will:

**a) Increase consumer surplus and decrease producer surplus.**

b) Decrease both consumer and producer surplus.

c) Increase both consumer and producer surplus.

d) Leave total surplus unchanged.

1.C. In a competitive market at equilibrium, which of the following is true?

a) Total surplus is minimized.

b) The marginal buyer's willingness to pay is less than the marginal seller's cost.

**c) The allocation of goods maximizes total surplus.**

d) Some mutually beneficial trades do not occur.

1.D. The deadweight loss from a tax represents:

a) The tax revenue collected by the government.

**b) The loss in total surplus that is not recaptured by any other party.**

c) The reduction in producer surplus only.

d) The transfer of surplus from buyers to sellers.

1.E. When supply and demand are both highly elastic, the deadweight loss from taxation tends to be:

a) Smaller, because the tax affects few buyers and sellers.

**b) Larger, because quantity traded falls sharply.**

c) Zero, because the burden is shared equally.

d) Independent of elasticity.

**Problem 1. Multiple Choice (continued)**

1.F. According to the Laffer Curve, increasing a tax rate will:

a) Always increase tax revenue.

b) Always decrease deadweight loss.

**c) Initially raise but eventually lower total tax revenue.**

d) Have no relationship with tax revenue.

1.G. When a country opens to trade and becomes an exporter of a good:

a) Domestic consumers gain, and domestic producers lose.

**b) Domestic producers gain, and domestic consumers lose.**

c) Both domestic consumers and producers gain.

d) Both domestic consumers and producers lose.

1.H. A tariff on imports generally leads to:

a) Higher domestic prices, larger imports, and higher total surplus.

**b) Higher domestic prices, lower imports, and a deadweight loss.**

c) Lower domestic prices, higher consumer surplus, and no deadweight loss.

d) No effect on consumer or producer surplus.

1.I. The "Jobs Argument" for restricting trade claims that free trade:

a) Increases domestic employment in import-competing industries.

**b) Shifts jobs away from inefficient sectors but creates new ones elsewhere.**

c) Reduces overall employment permanently.

d) Makes the labor market less flexible.

1.J. The "Protection-as-a-Bargaining-Chip" argument can fail because:

a) It always raises national welfare.

**b) Threats to impose trade restrictions may backfire and harm the domestic economy.**

c) It guarantees that the trading partner will reduce its tariffs.

d) Economists widely support it as a negotiation tactic.

### Problem 2. True / False

Determine whether each statement is `TRUE` or `FALSE`. If you deem that the statement is `FALSE`, you MUST justify your verdict by providing a brief explanation.

2.A. Total surplus is maximized when a market is in equilibrium under perfect competition.

- `TRUE`

2.B. A tax on a good always increases total welfare in the economy.

- `FALSE`
- Taxes transfer part of surplus to government but create DWL, lowering overall welfare.

2.C. When the supply of labor is inelastic, an increase in the income tax results in a small deadweight loss.

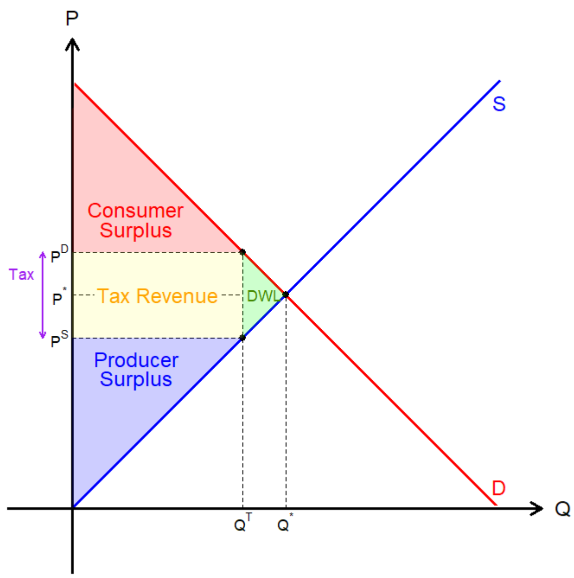
- `TRUE`

2.D. A nation that imports a good must have a comparative advantage in producing that good.

- `FALSE`
- Countries import goods they produce at relatively higher opportunity cost.

## Problem 3. Short Answer

3.A. Using a properly labeled supply-and-demand diagram, illustrate consumer surplus, producer surplus, and total surplus in equilibrium. Then show how a per-unit tax reduces total surplus and creates deadweight loss.




3.B. Explain how elasticities of supply and demand determine who bears the greater burden of a tax. Include an example of a good with relatively inelastic demand.

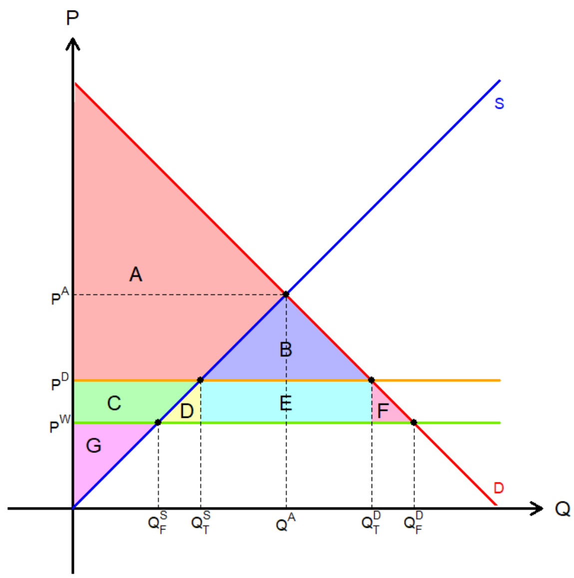
- Tax burden falls more on the side that is less elastic.
- For instance, the demand for gasoline in the short-run is price inelastic, so consumers bear more of the burden.

**Problem 3. Short Answer (continued)**

3.C. Draw a diagram showing the effects of a tariff on an imported good. Label and identify:

- Changes in consumer and producer surplus,
- Tariff revenue, and
- Deadweight loss.

Explain in one paragraph who gains, who loses, and why total welfare falls.




- Domestic consumers lose C+D+E+F
- Domestic producers gain C
- Tariff revenue is E
- Deadweight loss is equal to D+F
- $P^A$: Autarky Price
- $P^D$: Domestic Price after Tariffs
- $P^W$: World Price
- $Q_F^S$: Domestic producers' $Q^S$, Free Trade
- $Q_T^D$: Domestic consumers' $Q^D$, Tariffs

3.D. Evaluate the "Jobs Argument" and "Infant-Industry Argument" for restricting trade. How do economists respond to each of these claims?

- The jobs argument often ignores job creation in other sectors, and the role of automation in job replacements.
- The infant-industry argument is often misused by those with political capital, and the temporary protections rarely are removed.
- Overall, economists are in favor of adjustment aid, not protectionism, as long-run efficiency favors open trade.

- Original Score: ____________________
- Recovered Score: ____________________
- Original Date: ____________________
- Recovered Date: ____________________