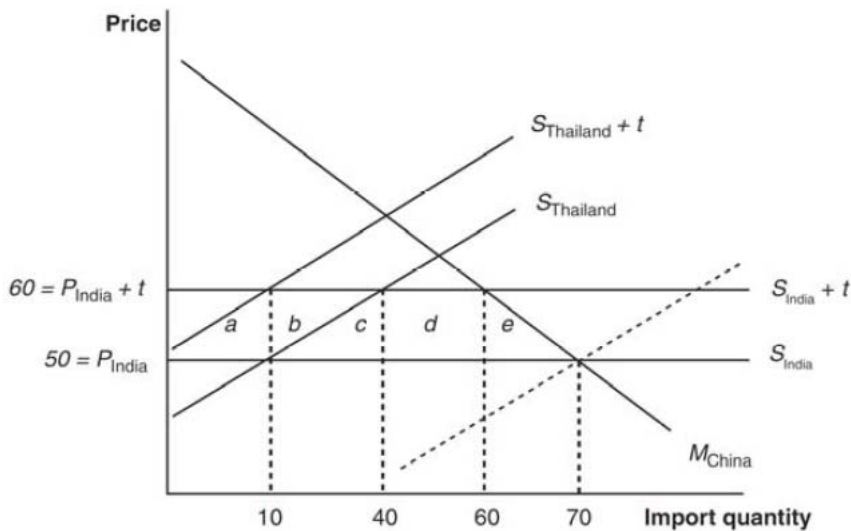


**Problem Set 4**

This problem set is due in lecture on Monday, April 29.

**Problem 1**

Assume that Thailand and India are potential trading partners of China. Thailand is a member of ASEAN but India is not. Suppose the import price of textiles from India ( $P_{India}$ ) is 50 per unit under free trade and is subject to a 20% tariff. As of January 1, 2010, China and Thailand entered into the China–ASEAN free-trade area, eliminating tariffs on Thai imports. Use the following figure to answer these questions.



- Before the China–ASEAN free-trade area, how much does China import from each trading partner? What is the import price? Calculate the tariff revenue.
- After the China–ASEAN free-trade area, how much does China import from each trade partner? What is the import price? What is the total tariff revenue of China?
- Based on your answer to part (b), what is the impact of the China–ASEAN free-trade area on the welfare of China?
- What is the effect of the China–ASEAN free-trade area on the welfare of Thailand and India?