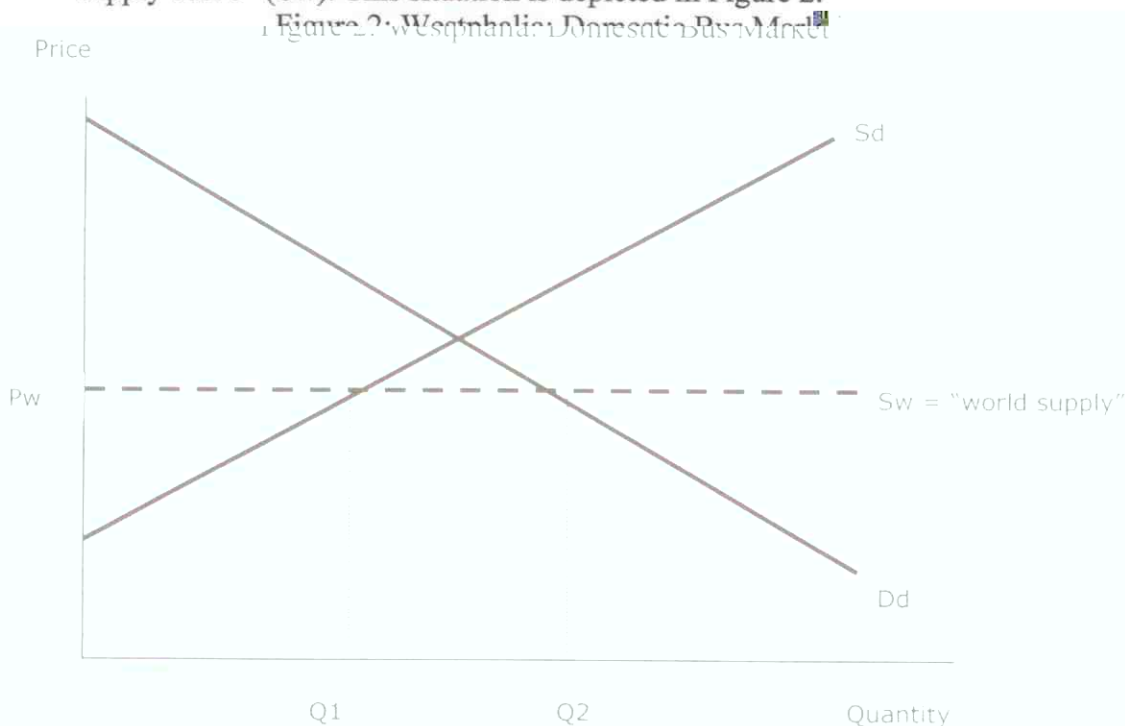


In his ECO 324: International Economics course, Professor Mario González-Corzo asked students to complete exam prep journals in which they applied theories and definitions from the week's reading to hypothetical situations, using informal writing to make sense of quantitative data. Below is an assignment related to a unit on Nontariff Barriers.

1. Westphalia imports buses from its eastern neighbor, Eastphalia. Its domestic supply and demand curves are given by D_d and S_d , respectively, and the "world price" for automobiles in its domestic market is given as P_w . At this price, Westphalia's domestic auto manufacturers produce Q_1 cars, and its consumers demand Q_2 cars. Since Westphalia is a "small country," and acts as a "price taker" in the international automobile market, P_w also represents the "world supply curve" (S_w). This situation is depicted in Figure 2.



Assume that Eastphalia imposes an export subsidy (s). Use Figure 2 to illustrate (explain) the effects of this subsidy on Westphalia's:

- (a) automobile prices
- (b) domestic automobile production