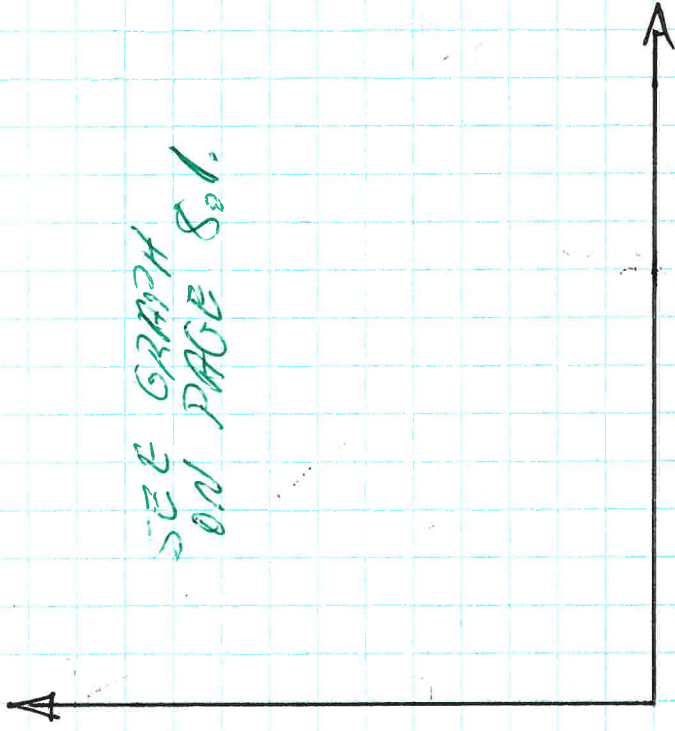


2) No-trade vs free-trade under monopoly

SEE GRAPH
ON PAGE 8.1.



a) Free trade and perfect comp.

$$CS^c = abj \quad PS^c = jic$$

b) Free trade edoly area triangle idh to the total Home surplus.

c) Free trade and monopoly:

With F.T. the MR becomes constant and equal to P^w up to quantity D_1 .

The monopolist will then also produce at quantity S_1 where $MR=MC$. (We assume that the MC production is the same as with perfect comp.) Consequently, there is no effect between monopoly and perfect comp. In fact, once the country goes to free trade.

- d) Compared to no-trade under monopoly, the gains from trade are given by ΔG
- e) We have $\Delta G_{\text{trade}} > \Delta G_{\text{no-trade}}$. The gains from trade are larger when there is a monopoly at home. This is because trade introduces competition into the home market, thereby removing the markup losses of the monopolist. This additional distortion is not present under perfect competition.

REMARK: It is important to note that even though the free-trade equilibrium and monopoly equilibrium are the same with perfect comp. and trade for the different countries because the initial no-trade equilibrium is different.