

Exports and Imports: A Story Of Depreciation

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The country of Citrustan grows oranges. To promote the growth of their own farming industry, the government has banned the import of oranges into the country.

1. How will the ban on imports effect the price of oranges in Citrustan?
2. If only half of the oranges are purchased in Citrustan, what can the farmers do with the surplus oranges? List at least three possibilities.

The farmers decide to give away the extra oranges for free at the end of each month.

3. What will happen to the price of oranges?

After recovering from the Free Orange Fiasco, the farmers decide to export half of the oranges that they harvest and sell the other half domestically. Lemonia, a neighbouring country, also exports oranges. The cost of living and corresponding wages in Lemonia are lower than in Citrustan.

4. Which country will have a lower domestic price for their oranges?
5. What will happen to the price of Citrustani oranges when they are sold to other countries?
6. How is this price effected by the price of oranges in Lemonia?
7. How does the price of exported Citrustani oranges compare to the domestic price?

Citrustan is pressured into lifting the ban on orange imports during trade negotiations with its neighbouring countries including Lemonia.

8. What happens to the domestic price of oranges in Citrustan after the ban is lifted?
9. What happens to the wages of orange farmers in Citrustan?
10. Once prices and wages are the same in Citrustan and Lemonia, what can Lemonia do to regain their economic advantage in the orange production industry?