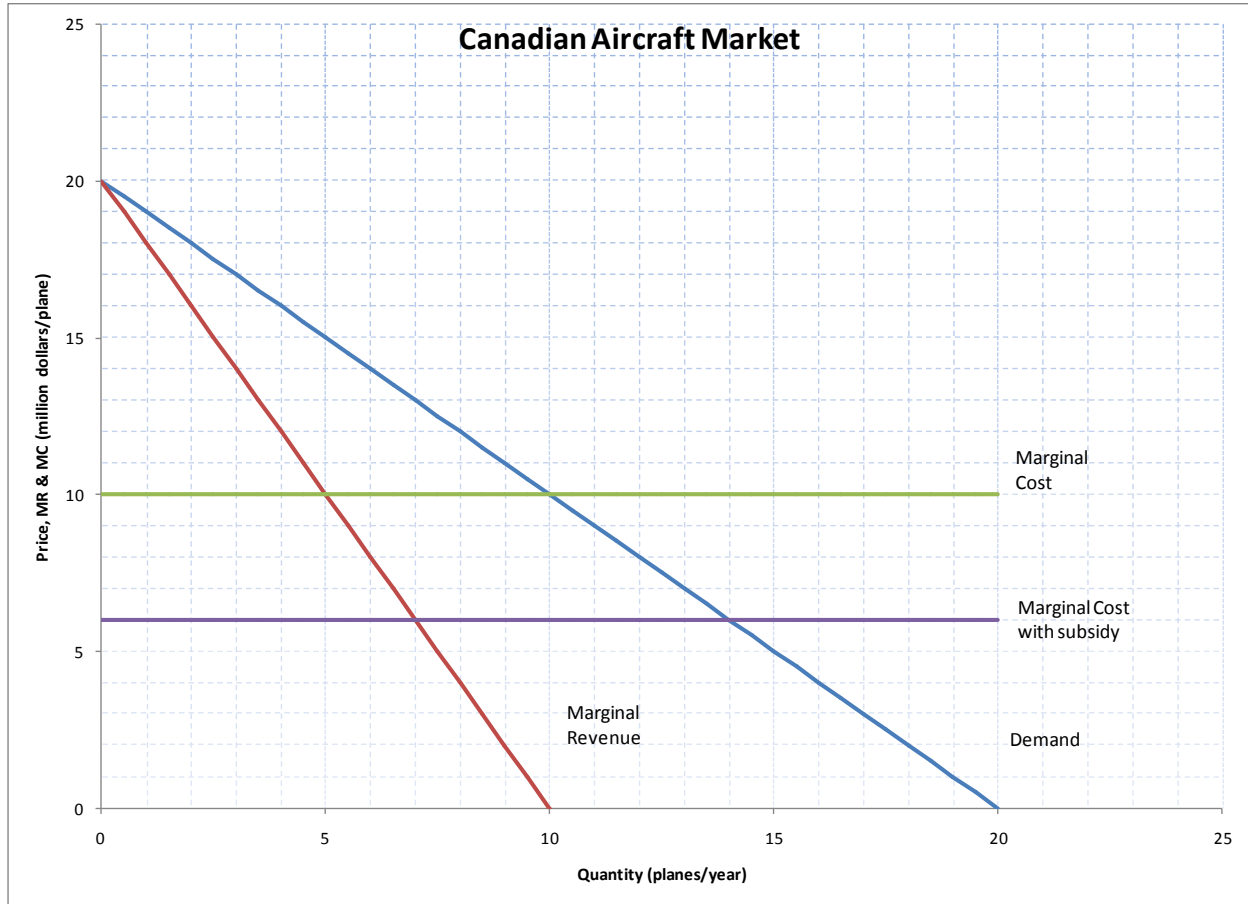


Assume Boeing Inc. (of the United States) and Airbus Industrie (of Europe) rival for monopoly profits in the Canadian aircraft market. Suppose the two firms face identical cost and demand conditions, as seen in Fig. 1.

**Figure 1.** Strategic Trade Policy: Boeing versus Airbus in the Canadian Market



Assume that Boeing is the first to enter the Canadian market (with no subsidy). Boeing maximizes profit by selling \_\_\_\_\_ aircraft at a price of \$\_\_\_\_\_ (million/plane), and realizes profits totaling \$\_\_\_\_\_. At the monopoly price as established by Boeing, Canadian consumers realize \$\_\_\_\_\_ of consumer surplus from the availability of aircraft.

Suppose the European government provides Airbus a subsidy of \$4 million on each aircraft manufactured, and that the subsidy convinces Boeing to exit the Canadian market. As the monopoly seller, Airbus maximizes profit by selling \_\_\_\_\_ aircraft at a price of \$\_\_\_\_\_ (million/plane), and realizes profits totaling \$\_\_\_\_\_. The total cost of the Airbus subsidy to the European taxpayer equals \$\_\_\_\_\_. The Airbus subsidy leads to a(n) increase/decrease in Canadian consumer surplus of \$\_\_\_\_\_. as compared to the consumer surplus that existed in the absence of a subsidy. For Europe as a whole (Airbus and European taxpayers), the subsidy leads to a(n) increase/decrease in net revenues (Airbus profit – cost of subsidy) of \$\_\_\_\_\_.