

**Second Exam**  
**December 12, 2005**

Answer in blue book. Use the point values as a guide to how extensively you should answer each question, and budget your time accordingly.

1. (24 points) Evaluate the welfare effects of a tariff levied by a small country on imports of cigarettes, with the tariff set equal to the harm per cigarette that smoking does to members of society other than the smoker. Based on your analysis, would you recommend such a policy? Would your answer depend at all on the size of the domestic cigarette industry?
2. (28 points) Suppose that a small country has a single firm producing a good subject to marginal cost that increases with output, and that, with free trade, it both sells the good on the domestic market and exports it.
  - a. Suppose that the country were to levy a large tariff on imports of the good, so large that if there were no domestic firm it would reduce demand for the good to zero. In the presence of that tariff, and assuming that the firm is not worried about any policy response abroad, show that it would engage in dumping.
  - b. Suppose that, starting from this dumping equilibrium, the firm now attempts to avert a policy response abroad by ceasing to dump. If it continues to export, how can it avoid dumping? If it does this, how will this affect it and its country's welfare?
  - c. In the absence of any fear of foreign policy response, how large does a tariff have to be in order for the firm to engage in dumping?
3. (24 points) Analyze the effects of a production subsidy provided by a large country to its producers of a homogeneous product, assuming that in equilibrium the country exports the good. The industry is perfectly competitive at home and abroad. Determine the welfare effects on domestic and foreign suppliers and demanders, and on the countries as a whole and the world as a whole.
4. (24 points) Write an essay discussing the positions that various countries and groups of countries (such as developed and developing countries) have taken in the Doha Round negotiations with regard to the following policies, in each case addressing
  - what the groups of countries want to have happen, or not happen, in the negotiations and why, and also
  - whether and why their positions are or are not in the best interests of developing countries.
  - a. Developed countries' tariffs on agricultural products
  - b. Developed countries' subsidies on agricultural products
  - c. Developed countries' tariffs on manufactured goods.
  - d. Developing countries' tariffs on manufactured goods.