

Name \_\_\_\_\_

UMID \_\_\_\_\_

**Final Exam**  
**December 16, 2011**

Answer on these sheets. Use the indicated point values as a guide to how extensively you should answer each question, and budget your time accordingly. The exam has a total of 75 points.

1. (15 points) State and explain, in the spaces below, three reasons why countries restrict imports. For each reason say also how, if at all, you would argue against these actions in these circumstances. Or if you would not argue against them, explain why you accept the reason as more valid than our conventional economist's argument in favor of free trade.

a)

b)

c)

2. (15 points) Using appropriate partial-equilibrium (i.e., single industry) diagrams for a world of two countries (neither of them small), analyze the welfare effects (as compared to free trade) of an import quota for which the rights to import under the quota are distributed to foreign exporters. Make clear, in both the diagrams and in words, the gains and losses to domestic and foreign suppliers, demanders, and governments, as well as the net effects on each country and on the world as a whole.



4. (16 points) In 2001, the US economy fell into recession, and demand for many products, including imported ones, was reduced. In response to that event, suppose that exporters of flat-screen TVs from Japan reduced their export prices in order to compete in the US market. As a result they were selling TVs below both average cost and below the price they were able to charge in their home market. At about the same time, suppose that sales of TVs by US producers fell substantially and US TV factories closed down.

Explain the options under US trade law that US producers of flat-screen TVs and the unions representing their workers had or didn't have for dealing with these events using the trade policy tools listed below. Be sure to explain, in cases where some action is possible, who in the US government makes the decision. Also in those cases, state briefly whether and why the action is justified economically (as opposed to legally).

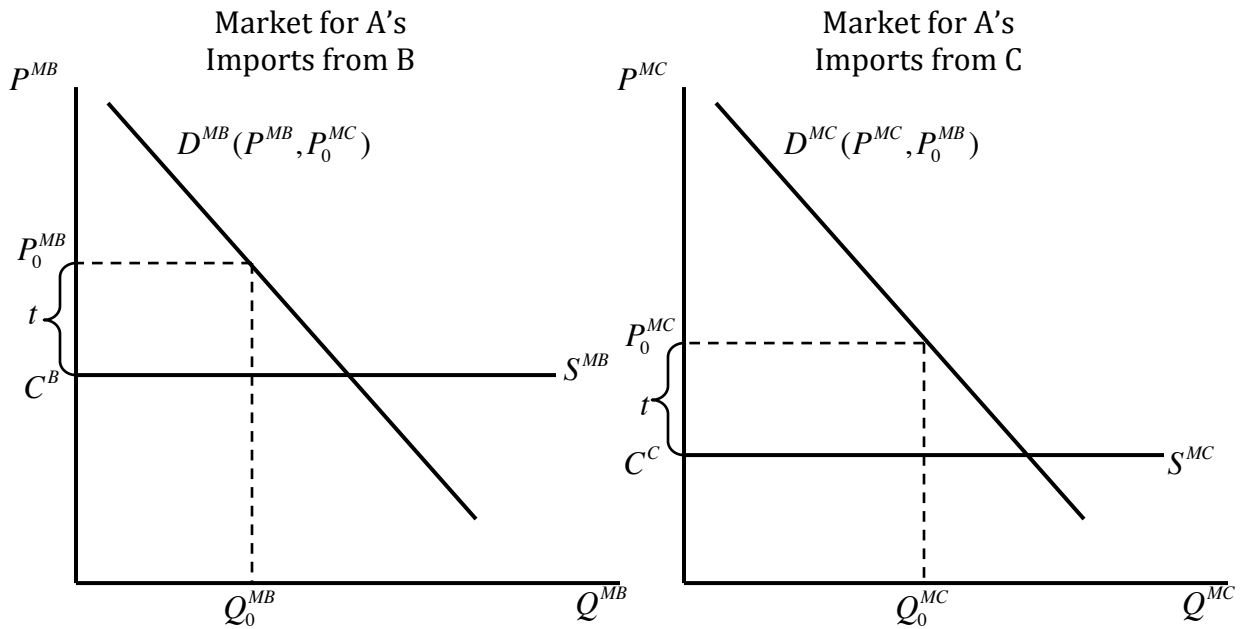
a. Safeguards tariffs

b. Anti-dumping duties

c. Countervailing duties

d. Trade Adjustment Assistance (no need to say who decides in this case)

5. (16 points) The diagram below shows the markets for imports of a good into Country A from two other countries, B and C. Country A does not produce the good itself. The imported good is a differentiated product, so that imports from the two countries are substitutes but not perfect substitutes. Supply of the good is infinitely elastic from each country, with constant costs  $C^B$  and  $C^C$  respectively, as shown. In the equilibrium shown initially, Country A levies a tariff  $t$  on imports from both B and C, resulting in the quantities of imports shown as  $Q_0^{MB}$  and  $Q_0^{MC}$ . Country A now forms a free trade agreement with Country B (but not with Country C).
- Show the effects of this FTA in both markets, clearly labeling any new curve or curves that you draw and identifying the resulting prices and quantities of the two goods inside country A:  $P_1^{MB}$ ,  $P_1^{MC}$ ,  $Q_1^{MB}$  and  $Q_1^{MC}$ .
  - Has this FTA caused trade creation, trade diversion, or both? Why?
  - Label areas in the diagram as needed and use those labels to quantify the welfare effects of the FTA on Country A.



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