

Name _____

UMID _____

Final Exam
December 18, 2012

Answer on these sheets. Page 7 is intentionally left blank in case you need more space than is provided. If you do extend an answer to page 7, be sure to indicate that with the question itself.

Use the indicated point values as a guide to how extensively you should answer each question, and budget your time accordingly. (Actually, they are all the same, 12 points each; so spend about the same amount of time on each.) The exam has a total of 60 points.

1. (12 points) Your government has a tariff on imports of T-Shirts. It is contemplating removing that tariff completely. A government analyst has used the perfectly competitive model of a small country importing a homogeneous product to estimate the effects of this tariff removal on items (i)-(vii) listed in the table below. How would these results be changed if it were known that the country is large instead of small?

In the space below, draw an appropriate diagram with which to answer this question. Then record in the table whether, if the country were large rather than small, the indicated changes would be larger (+) or smaller (-) in absolute value, or would be no different (0) than the government analyst has calculated. If the change could be either larger or smaller depending on elasticities, then enter a question mark (?).

<i>i.</i>	Increase in quantity of imports	
<i>ii.</i>	Decrease in domestic price of imports	
<i>iii.</i>	Decrease in domestic production	
<i>iv.</i>	Decrease in government revenue	
<i>v.</i>	Loss of producer surplus	
<i>vi.</i>	Gain of consumer surplus	
<i>vii.</i>	Net gain in welfare of country	

5. (12 points) You are the government of a country where a domestic industry is experiencing increased competition from imports. What are some of the policy options that you have for dealing with this, and to what extent are they allowed by your commitments as a member of the WTO?

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