

Name _____

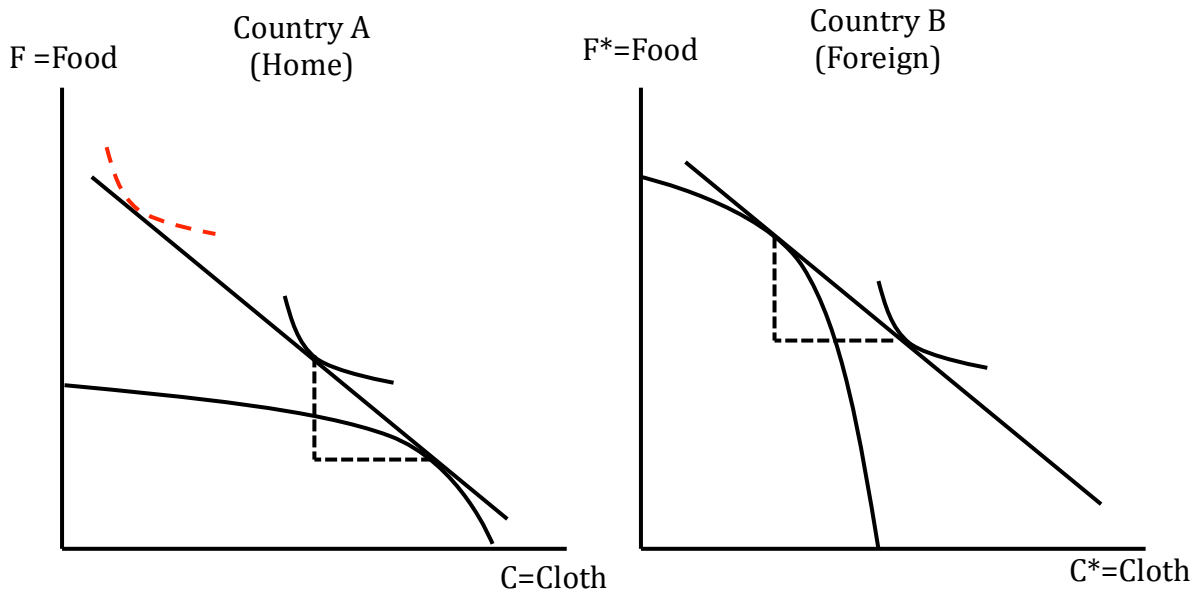
UMID _____

Final Exam
December 13, 2013

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. (10 points) The report by Fetzer on the US safeguards against tires from China reported that “Petitioner estimates the domestic supply elasticity to be in the range of 5 to 7.” In contrast, “respondents indicate that the domestic supply elasticity ‘with respect to subject imports’ should be near zero”. Who were these sources of information, and why would their estimates of this elasticity be so different?

2. (20 points) The solid curves in figure below show a free-trade equilibrium for two countries (the only countries in the world) in the Standard Trade Model of the textbook.

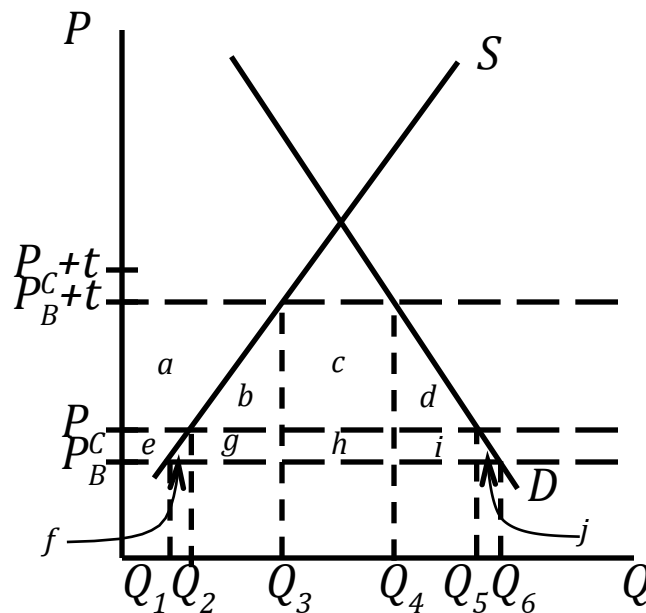


- a. In the space below, draw the relative supply and demand curves that underlie this world market equilibrium.

- b. Now suppose that preferences shift, in Country A only, so that consumers there prefer more food and less cloth than they did before, for any given prices, as indicated by the new dashed indifference curves shown in Country A. Show in your relative supply and demand diagram how this change will shift the curve or curves and therefore how the world equilibrium relative price will change as a result.

- c. Draw into the first diagram (for separate countries A and B) the resulting lines and curves, and the quantities produced and consumed in each country. In what direction will the quantities produced of cloth and food change in each country?
- d. How has this change in preferences in Country A changed the terms of trade for each country, and the level of welfare of consumers in Country B?

4. (15 points) The graph below shows the domestic market in country A for a good, which it could import from either country B or country C for the prices indicated. Its tariff on this good is the amount t .



- With the tariff applied to imports from both countries, from whom will it import, why, and how much?
- If country A forms a free trade area (FTA) with country B, from whom will it import, and how much? What will be the net welfare effect on country A of forming the FTA in this case (compared to the situation in part (a))? Does this appear to be positive or negative?
- If country A instead forms an FTA with country C, from whom will it import, and how much? What will be the net welfare effect of this FTA on country A, again compared to the situation in part (a)? Does this appear to be positive or negative?

5. (15 points) You have been called in to advise the workers in the US plastic toy industry, which competes with imports from China. Imports have recently increased, and employers are warning that they must reduce wages in order to compete, or their factories will have to shut down. As an expert on international trade policy, you are to advise the workers and their employers on options for help that they could request from the US government. Write an essay explaining what those options are (i.e., what sort of help do they provide), and what information would be needed in order to qualify for them.

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