Name___________________________________

UMID___________________________________

Final Exam
December 20, 2016

Answer on these sheets. Note that the last page of the exam (page 12) is intentionally left blank for you to use if you run out of space to answer any of the questions, although I do not intend that you should necessarily need it.

The exam has a total of 90 points.

1. (30 pts.) Explain any fifteen (15) of the following eighteen institutions, concepts, or policies. (If you answer more than 15, I will grade only the <u>first</u> 15, so be sure to cross out any answers you don't want me to grade.)

   a) The 1934 Trade Act:

   b) COOL dispute:

   c) Single undertaking:

   d) Information Technology Agreement:

   e) International Trade Commission:

f) Generalized System of Preferences:

g) Local Content Requirement:

h) Median voter theory:

i) Factor content of trade:

j) Improvement in the terms of trade:

k) External economies of scale:

l) Trade Diversion:

m) Cumulation:

n) Market-economy status:

o) Escape Clause:

p) Alternative Trade Adjustment Assistance:

q) Injury Margin:

r) Green Box:

2. (18 pts.) True or False (circle one)

   a. The WTO's requires that member countries restrain anti-competitive practices such as monopoly.

      True False

   b. The United States federal government is permitted by the Constitution to enter into trade agreements that would constrain US states.

      True False

   c. Japan is a large source of foreign direct investment, but it is an even larger host of FDI.

      True False

   d. An export subsidy, if not accompanied by an import tariff, will stimulate imports.

      True False

   e. If the US were to levy a large tariff on all exports from China, it would increase US imports from other countries.

      True False

   f. According to the Political Economy theory of tariffs, legislators set tariffs based only on the monetary contributions that they receive from industries.

      True False

   g. In the Standard Model of two countries, if one country grows in a manner that is neither export biased nor import biased, its terms of trade will worsen.

      True False

   h. In the Ricardian Model, if preferences change so that at any given prices consumers want more of one good and less of the other, then both the price and the quantity of the preferred good must increase.

      True False

i. In the Heckscher-Ohlin Model of trade, owners of relatively abundant factors gain from trade and owners of relatively scarce factors lose from trade.

True False

j. If two countries open to trade in an industry with external economies of scale, price will rise in the initially low-price country and fall in the high-price country.

True False

k. NAFTA caused workers in the US to lose jobs, but those losses were less than 0.1% of the normal turnover in the US job market.

True False

l. Members of a customs union give up more of their national sovereignty than do members of a free trade area.

True False

m. Import quotas cannot legally be used for safeguard purposes under WTO rules, since safeguards must be non-discriminatory.

True False

n. Wage insurance is another name for unemployment insurance.

True False

o. Predatory dumping is any dumping that is intended to increase a firm's market share.

True False

p. The European Commission has the option of not levying an anti-dumping duty even if the conditions to permit a duty under WTO rules have been met.

True False

q. In Krugman's Boeing-Airbus game example, a subsidy provides a greater benefit to the subsidized firm than it costs the subsidizing country's government.

True False

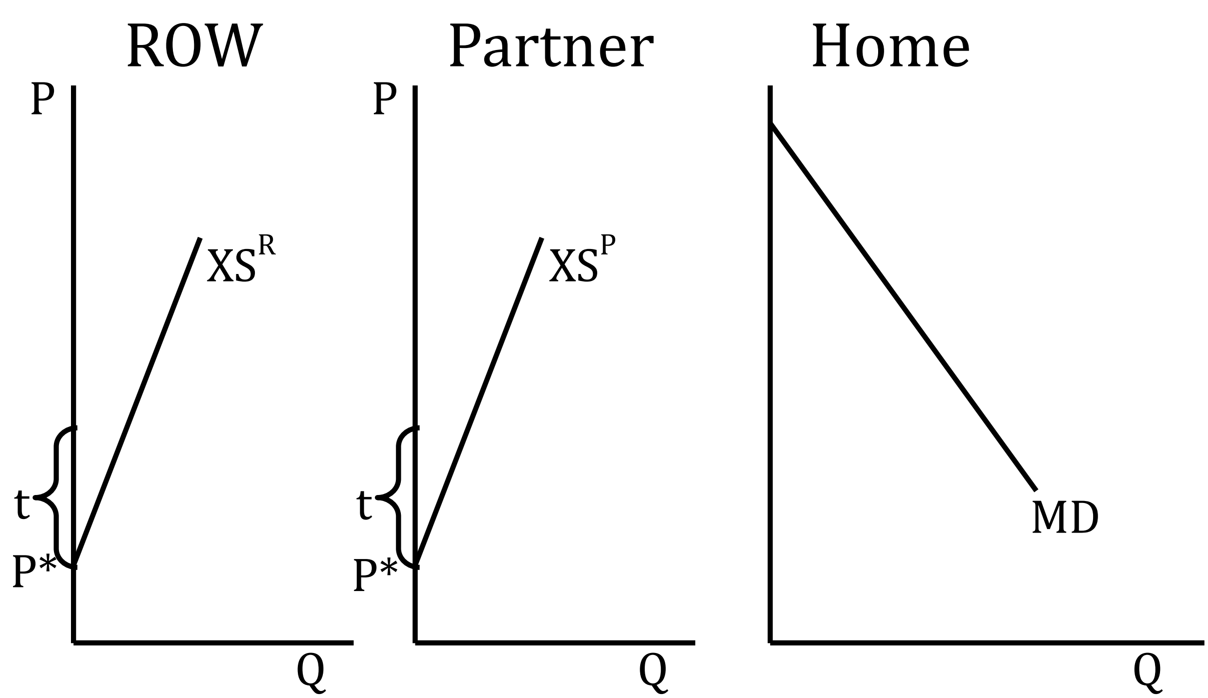
r. All of those in other countries who might be adversely effected by one country's production subsidy can have that harm reversed by their government levying a countervailing duty.

True False

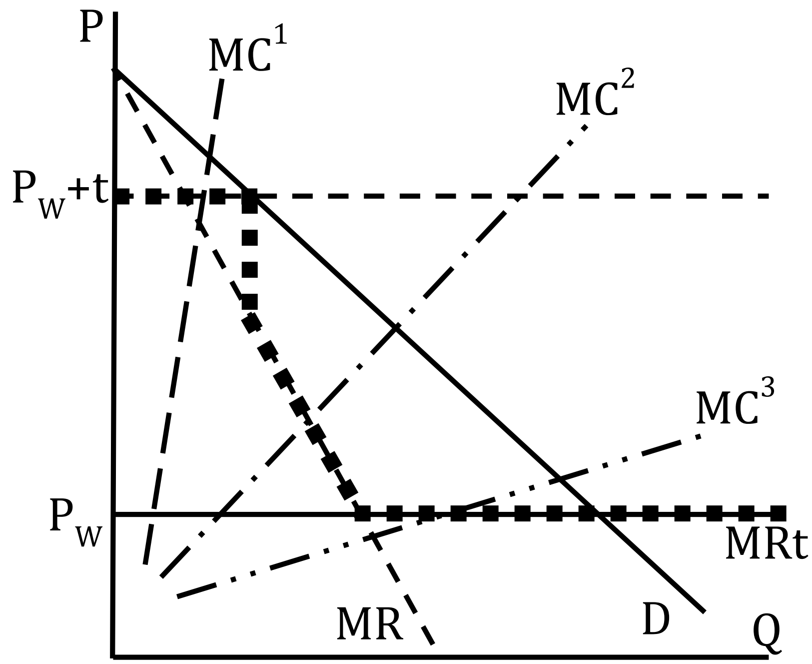
3. (6 pts.) In the monopolistic competition model of the text, what happens when two previously closed identical economies open to free trade? Circle the appropriate answers below.

a) Number of firms in the world	Rises	Falls	Stays the same
b) Number of varieties available to consumers	Rises	Falls	Stays the same
c) Price of each good	Rises	Falls	Stays the same
d) Average cost of each good	Rises	Falls	Stays the same
e) Output per firm	Rises	Falls	Stays the same
f) Profit per firm	Rises	Falls	Stays the same

4. (15 points) The graph below is taken directly from the slides for the class on Free Trade Agreements. It shows the demand curve for a good in the Home Market at the right, and identical supply curves for the good from a proposed Partner country in the middle and the rest of world (ROW) on the left. Also shown, in the left and middle, is the size of the MFN tariff that Home levies against both countries prior to any FTA.
   a) In the left and middle panels, draw the export supply curves relevant to the Home market prior to the FTA, by shifting the curves XS^R and XS^P appropriately.
   b) In the right panel, construct the pre-FTA equilibrium price and quantity, and label them P_0^H and Q_0^H.
   c) Now assume that Home removes its tariff on exports from Partner while keeping it on exports from ROW. Construct the new supply curve for exports into Home.
   d) Using the curve from part (c), find the new equilibrium price and quantity in Home and label them P_1^H and Q_1^H.
   e) Suppose now that the tariff on ROW is also removed. Find the new equilibrium price and quantity in Home and label them P_2^H and Q_2^H.
   f) In words, below the figure, state how the second tariff removal in part (e) has affected the Partner country's trade and welfare.



5. (6 pts.) The figure below is taken directly from the slides for the class on dumping, but with the addition of three different choices for the firm's marginal cost curve: MC^1, MC^2, and MC^3. The graph shows the demand curve, D, that the single domestic firm faces in its home market; the world price of the good for export and/or import, P_W; and the tariff, t. MR is the marginal revenue curve that the firm would face if the economy were closed to both exports and imports, while MRt, -- the oddly shaped line of little black squares, is the marginal revenue for the firm when it can sell both at home, protected by the tariff, and for export at the world price. In the table below the figures, indicate for each of the three cases the price that the firm will charge to buyers in the home market and whether the firm will be engaged in dumping. For the price, use a label that is already in the figure, if appropriate, or add your own label to the figure if necessary



Marginal Cost Curve	Home Price	Dumping? (circle one)
MC^1		Yes No
MC^2		Yes No
MC^3		Yes No

6. (15 pts.) President-Elect Donald Trump has said he may levy a tariff of 45% on all imports from China. In the space below, indicate what you would expect the effects of that action to be. Be sure to consider the following:Who would benefit and who would lose from this tariff, if there is no response from other countries,
   i. Within the United States.
   ii. In China.
   iii. In other countries.

   b) Whether the 45% tariff would be consistent with the powers that the president has in the United States political system.Whether the 45% tariff would be permitted under the rules of the WTO.
   d) How you would expect China and other countries to respond to this action.
   e) What would be the ultimate impact of both the tariff and the foreign response(s) on world trade and on the world trading system.

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