

Name \_\_\_\_\_

UMID \_\_\_\_\_

**Final Exam**  
**December 18, 2018**

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 need it.

The exam has a total of 90 points.

1. (12 points) The WTO includes many rules. Some rules say what member countries *must* do, some what they *must not* do, and some rules say things that they *may* (but need not) do, so long as they do them in specified ways. For each of the rules listed below, indicate by circling the correct response which category each belongs to.

Rule	Must	Must Not	May	Not a WTO rule
Reduce tariffs on imports	Must	Must Not	May	Not a WTO rule
Raise tariffs on imports	Must	Must Not	May	Not a WTO rule
Levy anti-dumping duties against dumped imports	Must	Must Not	May	Not a WTO rule
Subsidize exports of goods	Must	Must Not	May	Not a WTO rule
Treat imported goods, once inside the country, the same as domestically produced goods	Must	Must Not	May	Not a WTO rule
Set tariffs above “bound” levels	Must	Must Not	May	Not a WTO rule
Abide by decision of Dispute Settlement Mechanism or suffer retaliation	Must	Must Not	May	Not a WTO rule
If levying safeguards a tariff, apply it to imports from all countries	Must	Must Not	May	Not a WTO rule
If levying countervailing duty, apply it to imports from all countries	Must	Must Not	May	Not a WTO rule
Enact and enforce intellectual property rights	Must	Must Not	May	Not a WTO rule
Enact and enforce adequate labor standards	Must	Must Not	May	Not a WTO rule
If levying an anti-dumping duty, set it equal to the minimum of the dumping margin and the injury margin	Must	Must Not	May	Not a WTO rule

2. (34 pts.) Explain any seventeen (17) of the following twenty-one institutions, concepts, or policies. (If you answer more than 17, I will grade only the first 17, so be sure to cross out any answers you don't want me to grade.)

a) Gravity Model:

b) United States Trade Representative:

c) Plurilateral agreement:

d) Comprehensive and Progressive Agreement for Trans-Pacific Partnership:

e) Brexit:

f) Section 232:

g) Forced technology transfer:



p) Heckscher-Ohlin Theorem:

q) Internal economies of scale:

r) Diagonal cumulation:

s) Exempted sector:

t) The non-market-economy-trade provision of USMCA:

u) Trade Adjustment Assistance:

3. (19 pts.) True or False (circle one)

- a. Under President Trump, the United States became the first country to block the re-appointment of a member of the WTO's Appellate Body.

True                  False

- b. As part of the negotiated amendments to the free trade agreement between the United States and South Korea, the US was allowed to keep its 25% tariff on imports of light trucks for more years than permitted previously.

True                  False

- c. In the vote on Brexit in 2016, a majority of voters chose to remain in the EU, but the decision was to leave because Scotland, Wales, and Northern Ireland were given greater weight in the outcome than was England.

True                  False

- d. The US tariffs on imported washing machines were recommended by the independent US International Trade Commission, but President Trump could have chosen not to levy the tariffs.

True                  False

- e. The US recently raised tariffs on exports from Rwanda to higher than its MFN rates, in retaliation for Rwanda banning imports of used clothing.

True                  False

- f. A specific tariff is a tariff levied on a single product in the tariff schedule.

True                  False

- g. The World Trade Organization permits the United States to restrict shipping in national waters to US ships.

True                  False

- h. The role of the United States Export-Import Bank is to negotiate increased exports of critical products to other countries in return for importing more from them.
- True                  False
- i. In an anti-dumping case in the European Union, the duty is set at either the dumping margin or the injury margin, whichever is smaller.
- True                  False
- j. The Chinese government is committed to eliminating state-owned enterprises.
- True                  False
- k. Assuming perfect competition, an export subsidy can be beneficial to the country using it if the country is large enough to alter the world price.
- True                  False
- l. In the Standard Trade Model (of the KOM textbook), growth that is neutral (neither export-biased nor import-biased) will worsen the country's terms of trade.
- True                  False
- m. Beginning in the 1980s, the wages of skilled and educated workers in the United States began to rise relative to the wages of unskilled and less educated workers.
- True                  False
- n. In the monopolistic competition model of the textbook, a move from autarky to free trade causes the number of firms in each country to increase.
- True                  False
- o. When preferential liberalization of trade in services causes trade diversion, this is less likely to be harmful than trade diversion in goods because the barriers to trade in services are real.
- True                  False

p. Under US Section 201, a tariff will be provided only if imports have been the most important cause of injury.

True                  False

q. In the EU (but not the US), an anti-dumping duty is subject to a “proportionality test.”

True                  False

r. China is insisting that it be given “market economy status,” because without that the US is allowed by the WTO to levy tariffs on its exports under Section 301.

True                  False

s. The WTO permits countervailing duties against subsidized imports only if those subsidies are “generally available.”

True                  False

4. (9 points) Use the graph below of domestic supply and demand for a good in a small open economy to calculate the following:

a) If the world price is \$3 and the import tariff is 100%,

The domestic price \_\_\_\_\_

The quantity of imports \_\_\_\_\_

The tariff revenue \_\_\_\_\_

b) If the world price is \$8 and the import tariff is \$4.00 per unit

The domestic price \_\_\_\_\_

The quantity of the good demanded domestically \_\_\_\_\_

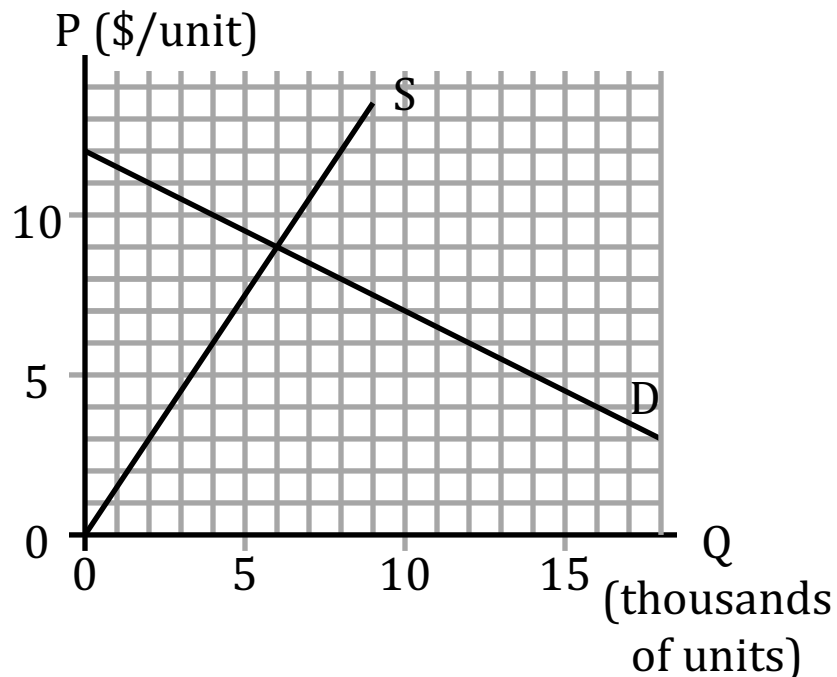
The tariff revenue \_\_\_\_\_

c) If the world price is \$12 and the import tariff is \$1.00 per unit

The domestic price \_\_\_\_\_

The quantity of the good supplied domestically \_\_\_\_\_

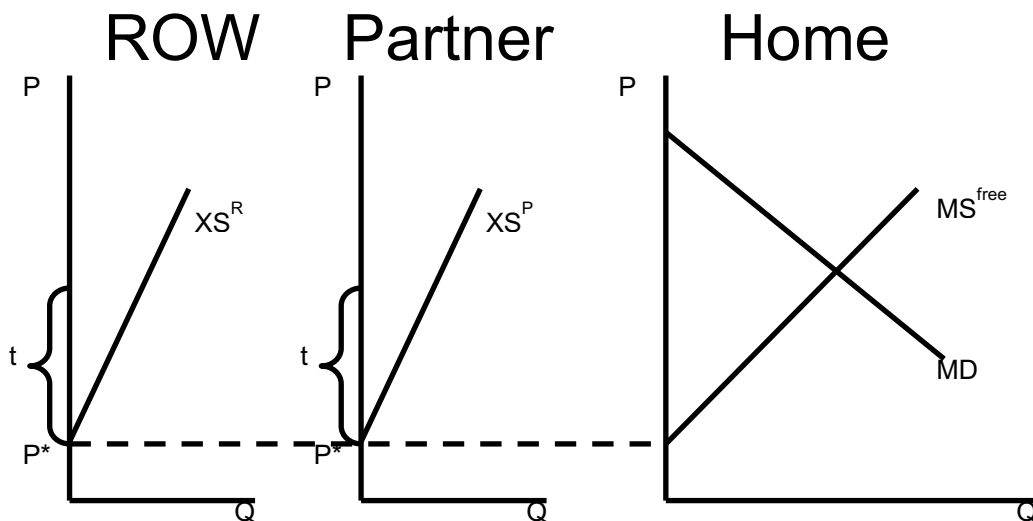
The tariff revenue \_\_\_\_\_

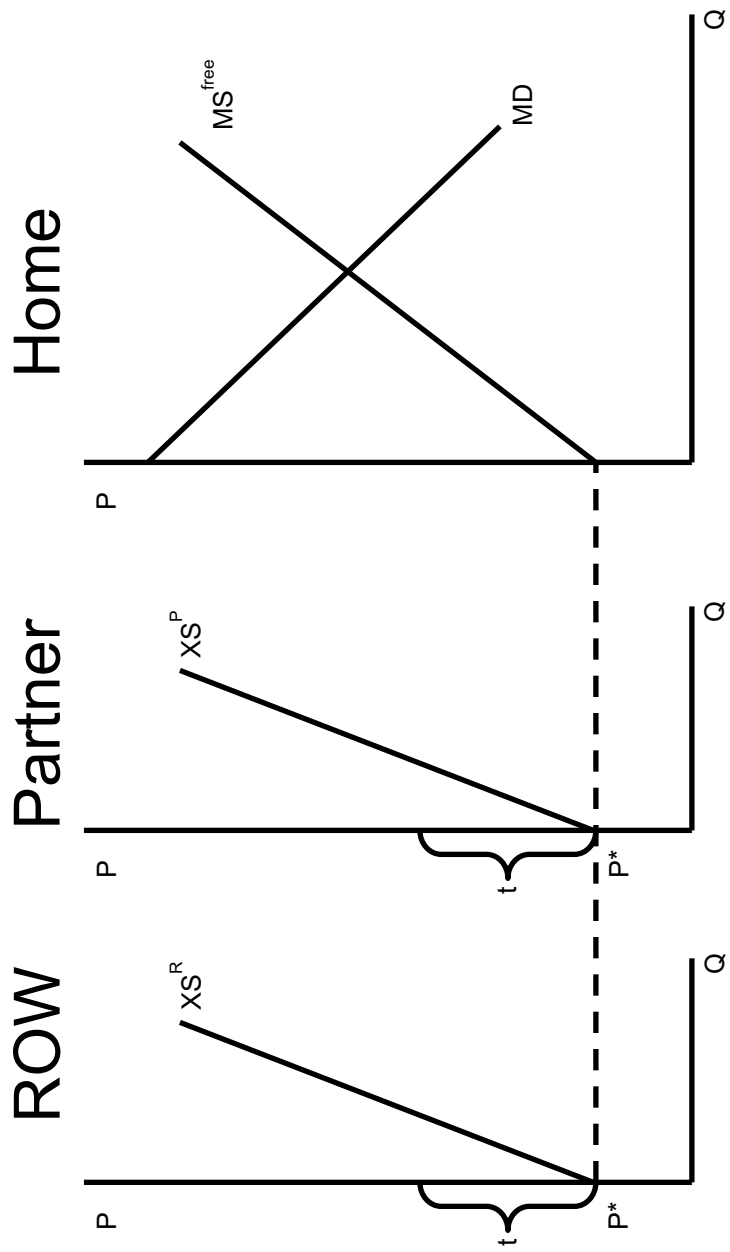


5. (16 points) The graph below (repeated on the next page, where you will answer) is adapted from the lecture on free trade agreements. It shows a situation, with free trade, in which the home country on the right has the import demand curve shown. It faces an export supply curve  $XS^P$  from a potential FTA partner country and an export supply curve  $XS^R$  from the rest of world. These two export supply curves happen to be identical, and they sum to the free-trade import supply curve,  $MS^{free}$ , shown at the right. Following the instructions below, show in version of this figures on the next page first what will happen when the tariff,  $t$ , shown in the left and middle panels, is applied on an MFN basis to both exporters. Then show what will happen if the Home country enters into a free trade agreement with the Partner country while keeping its tariff,  $t$ , on ROW.
- First draw the export supply curves of ROW and Partner, as viewed by home, once they incorporate the tariff as part of their costs, and label these  $XS^{Rt}$  and  $XS^{Pt}$ .
  - Use these to construct the import supply curve facing Home,  $MS^{MFN}$ , and show the resulting MFN equilibrium in the panel on the right. Label the MFN quantity and price of Home imports  $Q_0^H$  and  $P_0^H$ . Also, find the quantities exported by ROW and Partner in the left and middle panels, and label them  $Q_0^R$  and  $Q_0^P$  respectively. This is the initial equilibrium for the comparisons below.
  - Now let Home form a FTA with Partner. Construct the new import supply curve in the rightmost panel, and label it  $MS^{FTA}$ .
  - Using that, identify the new quantity and price of imports in Home, and label them  $Q_1^H$  and  $P_1^H$ .
  - Show in the left and middle panels the resulting quantities of exports by ROW and Partner, and label them  $Q_1^R$  and  $Q_1^P$  respectively.
  - Using the quantities that you have labeled in the figure, state here the quantity of trade creation and the quantity of trade diversion.

Trade creation: \_\_\_\_\_

Trade diversion: \_\_\_\_\_





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