

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

Due to Assignment #5's movement to Wednesday, and Exam #3 will be on Wednesday because of my conference, I thought it would be best to have this assignment due on Wednesday. Moving it also means there will be less material which was not on a homework assignment.

1) (10 points) Suppose a wheelbarrow has an import tariff of 19% on it. The 25% of the costs of the wheelbarrow is from the imported wooden handles which have an import tariff of 10% on them. The 15% of the costs of the wheelbarrow is from the imported wooden handles which have an import tariff of 30% on them. What is the effective rate of protection? Show all work and briefly explain what you did.

2) (5 points) Explain how an effective rate of protection could be negative.

3) (10 points) Without drawing a diagram, explain how an import tariff can possibly raise the welfare of a large country but it must lower the welfare of a small country.

4) (30 points) Draw the offer curve diagram for two large countries. Suppose that xylophones are labor intensive and kitchen equipment is capital intensive. Assume that China is labor abundant and the USA is capital abundant. Draw one indifference curve for each country. Draw it such that the level of utility is the level of utility if that country had its optimal tariff and the other country had no tariff. Explain why these indifference curves take the curvature you drew and are located where you put them. Draw the two offer curves which would result from each country using its optimal tariff.

5) (10 points) Suppose elasticity of your trading partner's offer curve is -2, what is the tariff rate for the optimal tariff? Suppose elasticity of your trading partner's offer curve is -3, what is the tariff rate for the optimal tariff? Show all work for both calculations. What is economic reason why one tariff rate is higher than the other?

6) (20 points) Draw the supply and demand for a good which a small country imports. Show the effects of an import tariff. Find the consumer surplus, producer surplus, and tariff revenue and state how you found them. Explain how the country could achieve the same results with quota except for the tariff revenue. Who gets that?

7) (15 points) Define the three types of dumping. From the importing country's point of view, which one is not a problem? Explain why it is not a problem.