

The last one!

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.

1) (25 points) Draw the supply and demand for a product we import. Assume we are a small country. Draw two free trade prices, one for China and one for the EU and have the EU price be higher than China's but lower than our autarky price. Draw one price line which represents the Chinese price with tariffs making sure China's tariff distorted price is higher than the EU's free trade price but lower than our autarky price. Find the following: the quantity imported before a customs union (CU) was formed with the EU, the quantity imported after the CU with the EU was formed, and the area of trade creation and the area of trade diversion. Explain how you found each area.

2) (15 points each) For each of the following qualities of a customs union would be more likely to have more trade creation than trade diversion. Reference either lines or areas from your graph in Question #1 in your explanation.

- A) The customs union has low tariffs with respect to the rest of the world.
- B) The members of the customs union are competitors rather than complements.

3) (10 points each) For each of the following, explain why GATT/WTO included the following.

- A) Quotas were to be replaced with tariffs.
- B) Antidumping actions could be taken quicker.
- C) Patents were to last 20 years.

4) (15 points) As time went on, each round of GATT was less successful at moving towards world-wide free trade. Give two reasons why you think this was true. Explain your logic.