

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Tuesday 4/3.

Chapter 7.5 - 7.6: Understand what is meant by the **terms-of-trade effect** and the **wealth effect** of growing the economy. Understand how **immiserizing growth** can result and be able to show it on PPF/CPF diagram. Be able to show on both the PPF/CPF diagram and the offer curve diagram how a country could have growth which benefits both its terms of trade and its wealth. For Section 7.6, understand how growth in both countries can undo the negative effects of the other country's growth and that tastes can move the offer curve. (I will not ask you to move the indifference curves because that is messy.)

Chapter 8: What are meant by **import tariff**, **export tariff**, **ad valorem tariff**, **specific tariff**, and **compound tariff**? Be able to show the partial equilibrium analysis (S/D) of an import tariff and an export tariff for a small country. Be able to find **consumer surplus (CS)**, **producer surplus (PS)**, and **tariff revenue (TR)** (if applicable) for free trade, autarky, and with the tariff. Use that to find the **dead-weight loss (DWL)**. Know which part of the DWL is from **consumption inefficiency** and which part is from **production inefficiency**. Be able to calculate the **effective rate of protection, a.k.a., rate of effective protection (ERP)** for an industry from its tariff rate, the tariff rates of imported inputs, and the **value added** which comes from domestic sources and that which comes from abroad. Note that I changed $a_i t_i$ to $\sum a_i t_i$ and a_i to $\sum a_i$ so that there could be different tariffs on imported inputs. Be able to show the general equilibrium (PPF/CPF) diagram for a small country. *Note: with the tariff, the production and consumption points are where the new domestic price line is tangent to the PPF and the indifference curves respectively. However, they are both on the same line whose slope equals the world price. The distance between the two domestic price lines is the tariff revenue. Note the graph in the book is a tariff on importing the labor intensive good. If it was an import tariff on the capital intensive good, then the tariff revenue would be measured vertically.* Know the **Stolper-Samuelson Theorem**. Be able to draw the effects of a tariff on the offer curve diagram for a large country. *Note that in Figure 8.6, the tariff revenue is horizontal because it is an import tariff and imports for Country 1 are measured horizontally.* Be able to add the **indifference curves** to the offer curve diagram. *Note that for the labor abundant country, the indifference curves get steeper because as the country moves to the right, they are exporting more so they must get an ever increasing amount of imports (move up more). Similarly, for the capital abundant country, the indifference curves get flatter because as the country moves up, they are exporting more so they must get an ever increasing amount of imports (move right more).* Be able to find the **optimal tariff** and explain how the large country is gaining from the

tariff and how we know the world is losing. The graph can be seen in Appendix A8.6. Ignore the Metzler Paradox. Understand why retaliation is a problem for the optimal tariff.

Chapter 9 - 9.6: Be able to show the effects of an **import quota** in the partial equilibrium analysis (S/D) for a small country. *The D'_x in Figure 9.1 is showing the results of an increase in demand. It is not what I drew. You can draw the diagram and have the distance between S and D be the quota size (the books method) or you can add the quota to the supply and you will get the total supply available for our consumption (the way I did it in class.)* Be able to find the consumer surplus, producer surplus and the area which either goes to the foreign firms or our government depending upon how the quotas are distributed. *Note that the end result of the quota and the tariff are the same providing the curves do not move.* Repeat the above for an **export quota** or **voluntary export restraints (VER)**. *Note that in this case, my method is to add the quota to the demand because the demand from home plus the quota (demand from abroad) is the total demand for our products.* Understand how other **non-tariff barriers (NTBs)** restrict trade. Some of these are **technical, administrative, and other regulations**. What are **international cartels** and how do they work? What are **persistent dumping, predatory dumping, and sporadic dumping**? Why would companies act those ways? Which should the receiving country protect itself from? Why? How does a **trigger-price mechanism** work? Is that good or bad? What are **export subsidies**? How do they hurt and help each country? Ignore FSCs. What are **countervailing duties** and when are they used? Ignore the graph on Page 300. Explain the strengths (if they exist) and weaknesses of the **scientific tariff** and the **infant-industry argument**. What determines who gets protected? Understand the general idea of **strategic trade policy**. Do not worry about the game theory.

Non-graded Homework Assignment #6A to be reviewed with Assignment #6.

- 1) (30 points) Draw a supply and demand diagram for a small country which is exporting the good. Draw the effects of an export quota which is auctioned off. Find the consumer surplus, producer surplus, and quota revenue for free trade and with the quota. Use that to find the dead-weight loss. Which part of the DWL is because of consumption inefficiency and which is because of production inefficiency. Briefly explain how you found all areas asked for. If the quotas are not auctioned off, then who gets that area?
- 2) (15 points) Technical regulations are a controversial NTB. Explain why a country might want them (other than to reduce trade) and how they reduce trade.
- 3) (15 points) Explain the scientific tariff. Why do economists dislike it? (Of interest, one of the first attempts to legislate a tariff like that was the Payne Aldrich Act. Aldrich was my great-great-grandfather. In reality, their restrictions were not set up in the manner to do what was intended.)
- 4) (15 points) Explain why export subsidies are bad and how countervailing duties help the situation.
- 5) (25 points) Draw the indifference curves for a labor abundant country on a diagram which will eventually have the offer curves on it. Explain why they take that shape. Use them to derive the offer curve. Explain how you found the offer curve.