

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) (15 points each) For each of the following arguments to restrict trade, explain the argument and explain its weakness.

A) Infant industry

B) To correct a balance of payments deficit.

2) (25 points) Draw the S/D diagram for a good we import and have a non-prohibitive tariff. Illustrate the effects of joining a customs union such that there is both trade creation and trade diversion. Explain how you found the trade creation and trade diversion. How do you know those areas are what you say they are?

3) (15 points each) for each of the following, determine which case is more likely to have a large trade diversion and which is more likely to have a small (possibly non-existent) trade diversion. Explain your logic.

A) The tariff on non-customs union countries is high vs. the tariff on them is low.

B) The non-customs union countries are similar to those in the union vs. them being different.

C) A large amount of trading within the customs union before the union is formed vs. a small amount of trade within the customs union prior to its formation.