

Write your name on the cover of the test booklet and nowhere else. (So that I do not know who wrote the answers.) Enclose this sheet and any graph paper you used with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time, but I will not give much.

1) (8 points each) For TWO of the events below, set up the double entry bookkeeping. Briefly explain how you determined the debits and the credits.

- A) I pay for a hotel in London for \$500.
- B) A citizen of the USA sends \$500 worth of clothes to Haiti for earthquake relief.
- C) A Japanese company buys \$600 worth of stock in Ford.
- D) An American buys \$300 worth of computer supplies from South Korea.

2) (12 points each) Find THREE of the following account balances using the table to the right. Briefly explain how you found them.

- A) Current Account
- B) Capital Financial Account
- C) Balance of Goods and Services
- D) Short-term Financial Account

Account	Credit (+)	Debit (-)
Exports of goods	\$300.00	
Exports of services	\$100.00	
Income from abroad	\$50.00	
Imports of goods		\$400.00
Imports of services		\$150.00
Income paid to foreigners		\$30.00
Capital account, net		\$5.00
Exports of stocks and bonds	\$330.00	
Imports of stocks and bonds		\$220.00
Bank liabilities to foreigners		\$15.00
US owned accounts abroad	\$22.00	
Statistical discrepancy	\$18.00	

3) (12 points) Answer EITHER Part A OR Part B.

A) Without drawing a graph, what would be the effects at home and abroad of us imposing an export quota which is not auctioned off? What happens to the prices in both countries, quantity sold in both countries, and our producer's profits? Assume we are a small country.

B) We said the quotas can have the same effects (on prices and quantity sold) as tariffs. Explain the economic reason why they have the same effect.

4) (14 points) Answer EITHER Part A OR Part B.

A) What is meant by *persistent dumping*? Why would a firm do that? Is that good or bad for the country which is dumped on? Explain your logic.

B) What type of dumping is the worse one for the country dumped on? Explain what it is and why it is bad.

5) (14 points) For EITHER part A OR Part B, determine whether that condition is more likely to lead to increased welfare (trade creation greater than trade diversion) or decreased welfare. Explain your logic.

- A) The countries in the customs union are economically large.
- B) The countries in the customs union are geographically close.

6) (14 points) Answer EITHER Part A OR Part B.

- A) Would you consider the EU to be a free trade area, customs union, common market, or economic union? Explain why you chose that rather than the others.
- B) From an economic point of view, what are the advantages of moving from a common market to an economic union?

7) (16 points) For EITHER the scientific tariff OR the infant industry, explain that argument for restricting trade. In addition to the problem of retaliation by our trading partners, what is a problem with the argument?

8) (28 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand for a good we import and we are a small country. Illustrate the effects of an import quota which is **not** auctioned off. Explain why the curve(s) moved as drawn. Find the consumer surplus and producer surplus with and without the quota. Briefly state how you found them. What areas are lost with the quota? Are any of those areas gained by somebody else? If yes, explain who earns it and why.
- B) Draw the supply and demand for a good we import and we are a small country and have a non-prohibitive import tariff on. Suppose we join a customs union. Draw the diagram such that  $P_C + T > P_N + T > P_C > P_N$ . Here “<sub>C</sub>” represents a country in the customs union and “<sub>N</sub>” represents a non-union country. Find the consumer surplus, producer surplus, and tariff revenue for both the pre-union situation and for the customs union. Briefly state how you found them. Given your diagram, is there more trade creation than trade diversion or vice versa? How do you know?