

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 10 points. 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) (30 points) Draw the S/D diagram for a small country with trade diversion. Explain how you know where the price lines go. Does your graph show more trade creation or more trade diversion? Explain your logic.

2) (15 points each) Answer each part in separate paragraphs. Each of the following statements are true statements about the proposal for TPP which President Obama agreed to. Does that statement mean that TPP would have been more likely to have trade diversion greater than trade creation for the USA or does it mean that the trade creation is more likely to be bigger than the trade diversion for the USA? Explain your logic.

A) The USA has low tariff barriers prior to the TPP.

B) The TPP originally had 12 countries, which is a large number for a FTA.

C) The TPP has been ratified by New Zealand and would have included the USA.

3) (10 points) Why is a common market better than a custom's union? Why are customs unions reluctant to become common markets?

4) (5 points) Why might free trade areas have trade deflection?

5) (10 points) Your book says that a customs union increases competition. How does it do that? Why is that good for the long run?