

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet and any graph paper used, with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (12 points) Answer EITHER Part A OR Part B.

A) President Trump has put tariffs on goods imported from China. Ignoring political consequences of this action, explain how it could help our economy. Why doesn't that logic work for a small country? Explain your logic.

B) Suppose a firm is competing against imports which have a 10% tariff on them. It is possible for the effective rate of protection to be negative. What does a negative effective rate of protection mean? Explain how this could happen.

2) (12 points) For ONE of the following, explain why the Uruguay Round of GATT included it.

A) Quotas are to be replaced by tariffs.

B) Subsidies on exports are to be reduced.

3) (20 points) For EITHER the infant industry argument OR the scientific tariff, explain that argument for restricting trade. Why is that a weak argument for restricting trade?

4) (26 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand diagram for a product exported by a small country. Add an export subsidy. Explain why the curve(s) moved as drawn. Find the consumer surplus, producer surplus, subsidy paid, and dead weight loss for both with and without the export subsidy. Briefly state how you found each.

B) Draw the supply and demand diagram for a product imported by a small country. Add an import quota. Explain why the diagram changed as drawn. Find the consumer surplus, producer surplus, quota revenue (assuming the rights are auctioned off), and dead weight loss for both free trade and the import quota. Briefly state how you found them.

5) (30 points) Answer EITHER Part A OR Part B.

A) Draw the PPF/CPF/indifference curve diagram for a small country with a tariff on imported sculptures when they export cars. Illustrate production and consumption points under both free trade and with a tariff. Explain how you found the points.

B) Draw the supply/demand diagram for a product which a large country exports. Show the world price. Draw the effects of an export tariff which still allows trade. Explain why the line(s) moved as drawn. Find the consumer surplus, producer surplus, tariff revenue, and overall utility for both free trade and with the tariff. Determine whether your diagram has the country is better off with the tariff or without it. Explain your logic.