

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet 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 will give extra time but I won't give a lot.

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

A) The Uruguay Round of GATT said that quotas should be turned into less restrictive tariffs. Why did it say that?

B) Effectively, there are six types/definitions of dumping. One of them is a problem which economists say governments should take actions to stop. Which is that? Why should it be stopped?

2) (12 points) State EITHER the Rybczynski Theorem OR the Stolper-Samuelson Theorem. Explain why the result makes sense.

3) (14 points) Answer EITHER Part A OR Part B.

A) Suppose that the import tariff on cars was 30%; imported parts makeup 50% of the car; and the tariff on imported parts is 40%. What is the effective rate of protection, g ? Why is it greater or less than 30%? Show all work and briefly explain why it is greater than 30%.

B) When discussing the effective rate of protection, g , the book says, "When a_t exceeds t , the effective rate of protection is negative." Explain what a "negative rate of protection" means and how it can happen.

4) (16 points) For EITHER the scientific tariff OR the infant industry argument. Briefly explain what the argument for restricting trade is. Then explain why it is a poor argument.

5) (18 points) Answer EITHER Part A OR PART B.

A) Draw the back-to-back supply/demand, a.k.a. partial equilibrium graph for one product and two countries. Have the USA exporting cranes to China. Show the equilibrium when there are high transportation costs. Explain how your graph shows the costs and the trade is equal.

B) Give an example of a resource-oriented industry. Explain why it fits that definition. Give an example of a market-oriented industry. Explain why it fits that definition.

6) (22 points) Answer EITHER Part A OR Part B.

A) Draw a PPF/CPF diagram for a small capital abundant country. What type of growth would be pro-trade, an increase in capital or an increase in labor? Illustrate the effects of that on the graph. Explain why the graph changed as drawn. How can you tell it is pro-trade?

B) Draw a supply/demand diagram for a good which the small country is importing show the imposition of a quota. Explain why the diagram changed as drawn. Prove the same price and quantities can be achieved through a tariff.

7) (26 points) Answer this for EITHER a large country with an export tariff OR a large country with an import tariff. Draw the S/D diagram for that good. Illustrate the effects of a tariff on that good. Make sure you tell me which type of good you are doing. Explain why the graph changed as drawn. Find the consumer surplus (CS), producer surplus (PS), tariff revenue (TR), dead-weight loss (DWL) and the tariff revenue which comes at the expense of the foreign country. Briefly explain how you found each one.

8) (30 points) Answer EITHER Part A OR Part B.

A) Draw the PPF/CPF/indifference curve diagram for a capital abundant small country which is open to trade. Illustrate the effects of an implementation of an import tariff. Show the new trade line, new perceived TOT line, new perceived CPF, and the new indifference curve. Explain how your graph shows: a small country, capital abundant, the tariff changing where they are producing, the tariff revenue, and where they are consuming.

B) Draw a PPF/CPF/indifference curve diagram for computers and raspberries for a large labor abundant country. Illustrate the effects of a growth in the labor supply. Explain why the curves moved as drawn. Draw it so there is immiserizing growth. Explain how you know that there is immiserizing growth.