Study Questions
(with Answers)

Lecture 5
Tariffs

Part 1: Multiple Choice

Select the **best** answer of those given.

1.   A specific tariff is

   a.   Any tax on a particular imported good (as opposed to one on all imports).
   b.   An import tax that must be paid in kind (giving the government the good itself).
   c.   A requirement to pay the government a specified fraction of the monetary value
        of an imported good.
   d.   A tax on imports defined as an amount of currency per unit of the good.
   e.   The revenue that the government earns by auctioning off import quotas.

        Ans: d

2. A tariff on imports benefits domestic producers of the imported good because

   a. They get the tariff revenue.
   b. It raises the price for which they can sell their product on the domestic market.
   c. It prevents imports from rising above a specified quantity.
   d. It reduces their producer surplus, making them more efficient.
   e. All of the above.

   Ans: b

3. When a large country levies a tariff on imports

   a. The world price falls.
   b. Demanders of the good on the domestic market are hurt
   c. Foreigners are hurt.
   d. The domestic price rises by less than the tariff.
   e. All of the above.

Ans: *e*

4. Starting from free trade, when a tariff is applied to imports in a small country, which of the following increase?
> I. Domestic output
> II. Domestic demand
> III. Domestic price
> IV. Tariff revenue
> V. Quantity of imports

a. I and III only
b. II, and IV only
c. I, III, and IV only
d. All but V
e. II and V only

Ans: *c*

5. According to the assigned article by Feenstra

a.   The efficiency costs of U.S. protectionism are quite small, less than one percent of U.S. GDP.
b.   The rents from U.S. quantitative restrictions are much smaller than the deadweight losses that they cause.
c.   The deadweight loss due to protection consists primarily of lost quota rents.
d.   The deadweight loss due to U.S. protection is large, more than 7% of U.S. GDP.
e.   The losses to foreigners due to U.S. protection are negligible, and can be ignored in estimating the global effects of U.S. trade policies.

Ans: *a*

6. Suppose that the tariff on shirts is 20% while the tariff on the cloth used to make the shirts is also 20% and there is no tariff on any of the inputs needed to produce cloth. The tariff on cloth is now reduced to 10%. Which of the following, if any, is ***not*** true? (Answer e if all of a-d are true.)

a. The nominal rate of protection on cloth is reduced.
b. The effective rate of protection on cloth is reduced.
c. The nominal rate of protection on shirts is unchanged.
d. The effective rate of protection on shirts is unchanged.
e. None. All of the above are true.

Ans: *d (See Gerber for this, though it is touched on in just the last slide of the lecture)*

7. Which of the following refers to the fact that a large country can benefit by levying a tariff?

    a. The "optimal tariff"
    b. The "terms of trade effect of a tariff"
    c. The "monopoly effect of a tariff"
    d. All of the above
    e. None of the above

    Ans: d

8. The WTO's Agreement on Textiles and Clothing promised

    a. To prevent job losses in these industries in developed countries.
    b. To phase out all quotas on textiles and apparel by Dec. 31, 2004.
    c. To eliminate tariffs on these products in the next round of trade negotiations.
    d. To help developing countries escape from these dead-end industries.
    e. To assign feasible export targets to each developing country.

   *Ans: b (see article by Schavey)*

Part II: Short Answer

Answer in the space provided.

1. About how high are U.S. tariffs today? Answer this by checking one box in each
    row of the following table, indicating which of the ranges best describes the tariffs or
    tariff averages indicated.

	0 - 10%	10 - 40%	40 - 100%	100 - 500%
Average tariff on all US imports	✓			
US tariff on cars	✓			
US tariff on trucks		✓		
US tariffs on textiles		✓		
US tariff on steel		✓		

2. The figure at the right shows a
    country's domestic supply and demand
    curves, *S* and *D*, for a good, as well as
    the world price of the good, P_w, that it
    faces, as a small country, on the world
    market. Initially, however, the country
    is not trading freely, but is instead
    imposing a tariff on imports of this
    good that causes the domestic price to
    be P_d, as shown.
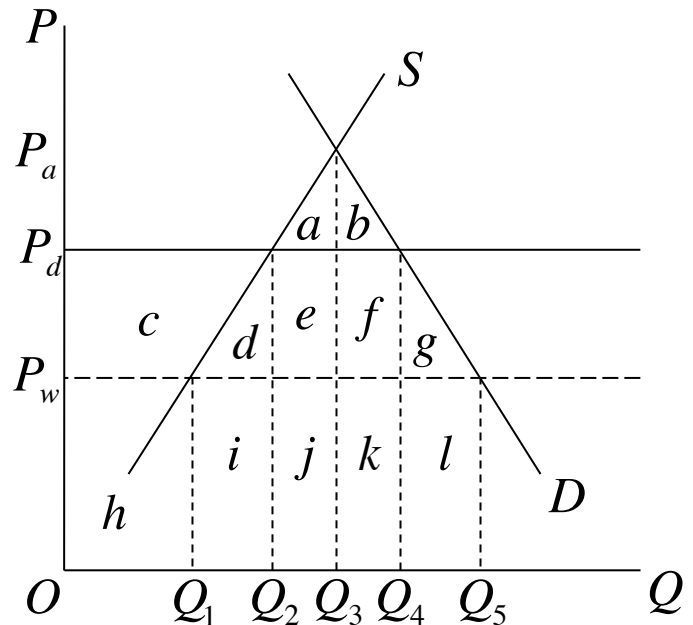
    a. Identify the autarky price in the
        figure, and label it P_a.

        Ans: At intersection of S and D

    b. Identify the size of the tariff in the
        figure, and label it *t*.

        Ans: $P_d - P_w$

c. Various quantities are labeled on the axes as Q_1, Q_2, …, etc., while several areas in the figure have been labeled a, b, c, … etc. Use these labels to identify the following in the blanks provided:

The quantity produced in autarky………………… Q_3

The quantity produced domestically with the tariff Q_2

The change in quantity demanded if the tariff is
        removed……………………………………… $Q_5 - Q_4$

The value (price times quantity) of imports in the
        presence of the tariff, valued at the world price $j+k$

The tariff revenue………………………………… $e+f$

The loss of producer surplus when the tariff is
        removed……………………………………… c

The gain in consumer surplus when the tariff is
        removed……………………………………… $c+d+e+f+g$

The dead-weight loss due to the tariff…………… $d+g$

3. Define the following terms:

a. Specific Tariff   *Ans: A tax on imports, defined at an amount of currency per unit of the good.*

b. Dead Weight Loss   *Ans: Pure economic loss, with no corresponding gain elsewhere in the economy.*

c. Collective Action   *Ans: An action by a group of individuals that will benefit them all by small amounts, and that none individually has an incentive to undertake.*

d. Consumer Surplus   *Ans: The excess value that consumers would be willing to pay above what they are actually paying for a good.*

4. Compare the effects of a tariff of given size in a small country and a large country by filling in the blanks below with "more than," "less than," or "the same amount as." (Assume that the countries you are comparing have the same domestic supply and demand curves and face the same initial world price.)

    a. Domestic price rises in the large country by   *less than*   in the small country

    b. Domestic quantity supplied rises in the large country by   *less than*   in the small country

    c. Quantity imported falls in the large country by   *less than*   in the small country

    d. Tariff revenue rises in the large country by   *more than*   in the small country

    e. Consumer surplus falls in the large country by   *less than*   in the small country