

Study Questions

Lecture 7 Reasons for Protection

Part 1: Multiple Choice

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

1. The following include several reasons that government might give for using a tariff on imports? Which is **not** valid, in the sense that the effect described will not happen.
 - a. To raise government revenue.
 - b. To help consumers.
 - c. To raise incomes of producers.
 - d. To respond to political pressures from import competing industries.
 - e. To increase national welfare at the expense of foreigners.

2. For many purposes, the use of a tariff is said by economists to be “second best.” This means that
 - a. The tariff cannot be beneficial for the country as a whole.
 - b. The tariff does not help those with the highest incomes, but only those with the second highest.
 - c. Another policy exists that would accomplish the same purpose as the tariff at lower economic cost.
 - d. The tariff benefits the country only by making other countries worse off.
 - e. The country should use a subsidy.

3. By restricting imports with a tariff, a large country will
 - a. Improve its terms of trade.
 - b. Increase the welfare of other countries.
 - c. Raise the price of the imported good on world markets.
 - d. Cause domestic producers of the imported good to reduce their output and raise their price.
 - e. Hurt itself, compared to what it could have accomplished by subsidizing imports.

4. According to the infant-industry argument for a tariff,
 - a. Tariffs on baby clothes save children's lives.
 - b. A small tariff must be beneficial for a small country.
 - c. A small tariff must be beneficial for a large country.
 - d. A tariff can protect a new industry while it gains experience and reduces costs.
 - e. Some industries should be given tariff protection indefinitely.

5. Those in high-wage countries who fear trade with low-wage countries are often forgetting that
 - a. Prices of imports will fall due to trade.
 - b. Low wage countries have lower productivity.
 - c. Trade is not a zero-sum game.
 - d. People with low wages are happier than people with high wages.
 - e. Production causes pollution.

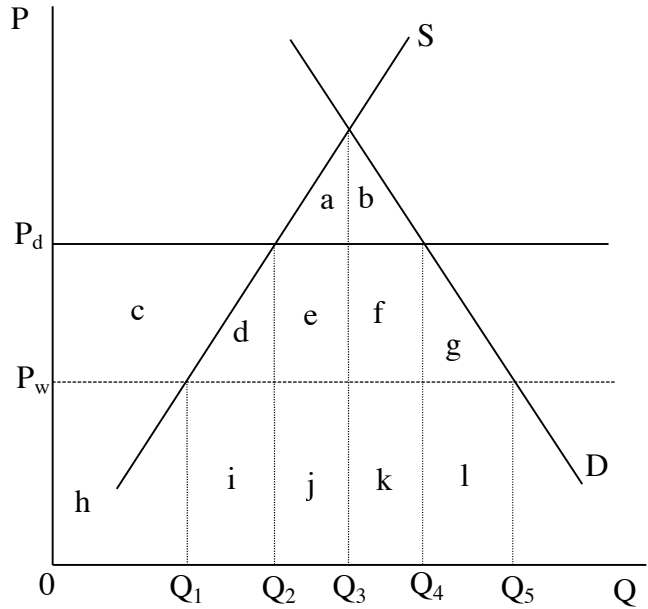
6. Anti-dumping laws
 - a. Are used only by the United States and Europe, against unfairly priced imports from each other.
 - b. Are used only by the United States and Europe, against unfairly priced imports from less developed countries.
 - c. Are no longer as common as they were before the World Trade Organization provided alternative policy tools.
 - d. Are being used against the United States today considerably more than they were fifteen years ago.
 - e. Exist on the books of many countries, but are seldom used.

7. The political-economy explanation of why countries have positive tariffs, summarized in the phrase "protection for sale," says that
 - a. Legislators provide tariff protection to industries in response to political campaign contributions.
 - b. Importers pay bribes to customs officers to let them pay tariffs that are lower than legally required.
 - c. Protection is provided by import quotas that are auctioned off to the highest bidder.
 - d. Industries seeking protection from imports pay bribes to customs officers to get them to charge tariffs higher than legally required.
 - e. Insurance companies sell policies that promise to pay any tariff charges on traded goods when requested.

Part II: Short Answer

Answer in the space provided.

1. 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, P_w , for the good that it faces, as a small country, on the world market. Initially, the country is trading freely at that price



a. Identify the following

The quantity produced in free trade..... _____

The quantity consumed in free trade..... _____

b. Suppose that the government of this country wants to increase the incomes of the producers of this good and that, to accomplish this, it uses a tariff that raises the domestic price to the level marked P_d . Identify:

The quantity produced with the tariff..... _____

The quantity consumed with the tariff _____

The benefit to the suppliers..... _____

The loss to the demanders..... _____

The dead-weight loss to the country..... _____

- c. Suppose instead, again starting from free trade, that the government were to pay a subsidy of $P_c - P_w$ to suppliers for each unit of output that they produce. What then would be

The quantity produced with the subsidy..... _____

The quantity consumed with the subsidy..... _____

The benefit to the suppliers..... _____

The loss to the demanders..... _____

The dead-weight loss to the country..... _____

2. The assigned article by Mastel, "Keep Anti-Dumping Laws Intact," identifies several practices in exporting countries that, he says, justify the use of anti-dumping duties. What are some of these practices, what countries does he identify as using them, and in what sectors?

Practices:

Countries:

Sectors:

3. Define the following terms:

- a. pauper labor
- b. retaliation
- c. economic sanction
- d. political economy

4. The following table lists six suggested reasons why US tariffs are lower than political-economy theories of protection might lead one to expect. Indicate in the spaces provided (using a check mark ✓) which of these are mentioned in the reading on this topic by Magee, and which he regards as in fact being part of the answer. Indicate with a triple check mark (✓✓✓) the one that he views as most important.

Reasons	Mentioned by Magee	Viewed as valid
A majority of the public favors free trade.		
The GATT was successful in restraining trade barriers.		
Politicians are not responsive to lobbying efforts.		
Tariffs are set by large corporations that want them low.		
Protection is given through NTBs, which are high.		
Free riding by firms hinders lobby organization.		