

## Study Questions

### Lecture 18 Preferential Trading Arrangements

#### Part 1: Multiple Choice

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

1. Which of the following is **not** a preferential trading arrangement?
  - a. EU
  - b. NAFTA
  - c. OECD
  - d. GSP
  - e. Anti-dumping duty
  
2. Which of the following explains why **trade diversion** is undesirable for an importing country that lowers its tariff against a partner in a free trade area?
  - a. The country imports from the partner at higher cost than it previously imported from some other country.
  - b. Domestic producers suffer a loss of income.
  - c. Workers are laid off as producers shift production into the partner country.
  - d. Consumers pay a higher price for the good imported from the partner.
  - e. All of the above.
  
3. When a country eliminates its tariff against a partner country, keeping the tariff positive against other countries, the effect of that change alone is that the partner country as a whole
  - a. Must gain.
  - b. May either gain or lose.
  - c. Will neither gain nor lose.
  - d. Must lose.
  - e. None of the above; it depends on whether there is trade creation or trade diversion.

4. Because wages in Mexico before the NAFTA were only a small fraction (perhaps 1/10) of wages in the U.S., we should infer that
  - a. Prior to NAFTA, Mexican workers were paid far below their productivity.
  - b. After NAFTA, most U.S. firms would be unable to compete with imports from Mexico.
  - c. After NAFTA, most U.S. firms would close their U.S. plants and move to Mexico.
  - d. Prior to NAFTA, since U.S. tariffs against Mexico were small, the productivity of Mexican workers must also have been only a small fraction of that in the U.S.
  - e. After NAFTA, forcing Mexican workers to compete with more productive U.S. workers would drive their wages even lower.
  
5. Mexico's international reserves
  - a. Declined during the years that NAFTA was being negotiated, which was one of the reasons Mexico wanted the agreement.
  - b. Rose until NAFTA went into effect, but have declined ever since.
  - c. Fell during the year after NAFTA went into effect, precipitating the Peso Crisis.
  - d. Rose until the Peso Crisis, which caused them to fall precipitously.
  - e. Have risen steadily throughout the 1990s and since 2000.
  
6. With which of the following countries did the US negotiate a free trade agreement in 2007 that was not approved in the US Congress until late in 2011?
  - a. Canada
  - b. Morocco
  - c. Russia
  - d. South Korea
  - e. Vietnam
  
7. What effect did the NAFTA have on US unemployment?
  - a. NAFTA caused the 1991 recession.
  - b. NAFTA caused the 2001 recession.
  - c. NAFTA caused US unemployment to rise by two percentage points, in 1994, when it went into effect.
  - d. NAFTA caused US unemployment to rise by two percentage points, but not until 1995 when the Peso Crisis hit.
  - e. NAFTA did not disrupt the more-or-less steady decline in the US unemployment rate that took place throughout the period between the 1991 and 2001 recessions.

**Part II: Short Answer**

Answer in the space provided.

1. For each of the types of preferential arrangement named across the top of the following table, indicate with a check mark below it whether it has the properties indicated:

	Free Trade Area	Customs Union	Common Market
Higher tariffs against non-members than against members			
Zero tariffs against members			
Common external tariff			
Free movement of labor among members			

2. Fill in the blanks:

- a. The Maquiladora system permitted U.S. producers to take unfinished goods to \_\_\_\_\_, perform further processing on them there, and bring them back into the United States with reduced tariffs.
- b. A predecessor of the U.S.-Canada FTA and the NAFTA was a free trade arrangement between the U.S. and Canada involving what product? \_\_\_\_\_ . Before bringing it to Congress for approval, the Clinton administration augmented the NAFTA by negotiating side agreements with Mexico, one of which was about \_\_\_\_\_.
- d. Economists expected the NAFTA to have only very small effects on the United States, in part because U.S. tariffs were \_\_\_\_\_.

- e. Contrary to expectations, U.S. exports to Mexico declined a year or so after it went into effect. The reason for this decline was that the \_\_\_\_\_ fell in value.
- f. During the 2008 Democratic primary campaign, candidates \_\_\_\_\_ and \_\_\_\_\_ argued for renegotiating NAFTA.
- g. During the 2012 US presidential campaign, which of the candidates, Obama and Romney, argued for renegotiating NAFTA? \_\_\_\_\_
3. Circle the appropriate word in the sentence below, and then write an explanation in the space below that.

An RTA is	An example of	
	A violation of	MFN.
	Unrelated to	

4. Define or explain:
- a. Maquiladora industry
- b. Trade creation
- c. Tequila Crisis

d. Mercosur

e. Fund for investment in Mexico