Study Questions
(with Answers)

Lecture 6
Non-Tariff Barriers

Part 1: Multiple Choice

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

1. Which of the following is **not** a non-tariff barrier?

   a. A quota on apparel.
   b. A tax equal to 12% of value on imported oil.
   c. A voluntary export restraint on cars.
   d. A regulation requiring government agencies to favor domestically producers.
   e. The threat to levy a tariff on imports that are sold at an unfairly low price.

   Ans: b

2. When the United States imposed a VER on cars from Japan

   a. Japanese firms were the recipients of the rents from the quantitative restriction.
   b. Japanese car companies responded by lowering the U.S. prices of their cars.
   c. Japanese car companies responded by lowering the quality of the cars they sold in the U.S.
   d. It was implemented by the U.S. levying a 25% tariff on cars from Japan.
   e. The effect was to restrict U.S. imports from all foreign countries.

   Ans: a

3. The main difference between a tariff and a quota is

   a. A quota reduces the quantity of imports more than a tariff.
   b. A tariff raises the price of imports more than a quota.
   c. A quota does not harm domestic consumers.
   d. A tariff does not harm foreign producers.
   e. A tariff generates government revenue, while a quota, unless it is sold, does not.

   Ans: e

4. A government procurement regulation or practice constitutes a nontariff barrier when

   a. Government agencies are required to purchase from the lowest bidder.
   b. Government shows a preference for domestic sellers over foreign sellers.
   c. Government requires that goods that it purchases meet a uniform safety standard.
   d. Government purchases are financed by tax receipts.
   e. Government-owned enterprises are not required to make a profit on inputs that they purchase at home or abroad.

   Ans: *b*

5. Import quotas are most commonly administered

   a. By permitting all imports until the quota is filled for the year, then none after that.
   b. By taxing imports.
   c. By auctioning import licenses to the highest bidder.
   d. By granting import rights to domestic firms.
   e. By granting import rights to foreign firms or governments.

   Ans: *e*

6. Which of the following will cause the tariff equivalent of a quota to increase in a small country?

   a. A decrease in domestic demand (the demand curving shifting left).
   b. A decrease in domestic supply (the supply curving shifting left).
   c. A rise in the world price.
   d. A rise in the quantity of imports permitted by the quota.
   e. Nothing: the tariff equivalent of a quota is fixed by law.

   Ans: *b*

7. Who, according to the reading by Lindsey and Ikenson, supports continuing U.S. anti-dumping laws in their current form?

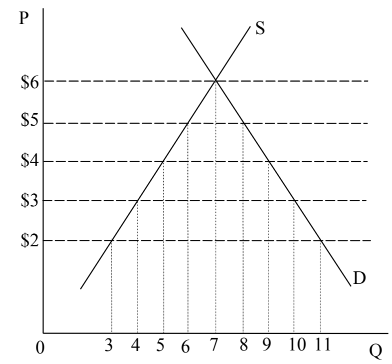
   a. U.S. industries that use the dumped imports as inputs.
   b. Trade ministers of developing countries, whose exporters take advantage of the anti-dumping laws.
   c. The U.S. government, encouraged by protectionist interests in the U.S.
   d. Consumer advocates in the U.S.
   e. Consumer advocates abroad

   Ans: *c*

Part II: Short Answer

Answer in the space provided.

1. In the figure below are shown domestic supply and demand curves for a market, together with several labeled prices and quantities. Use the figure to determine the variables in the table below under the indicated assumptions about the world price and the presence and size of an import quota.



a. If the world price is $4, and there is no restriction on trade, then the quantity of imports will be: *4*

b. If the world price is $2, and there is an import quota of 6, then the domestic price will be: *$3*

   And the quantity of imports will be: *6*

c. If the world price is $2, and there is an import quota of 4, then the quota rent per unit of imports will be: *$2*

   And the total quota rent (on all imports together) will be: *$8*

2. What do the following acronyms stand for?

   a. VER *Ans:* *Voluntary Export Restraint*

   b. TRQ *Ans:* *Tariff-rate quota*

   c. VRA *Ans:* *Voluntary Restraint Agreement*

   d. NTB *Ans:* *Nontariff barrier*

   e. CAP *Ans:* *Common Agricultural Policy (of the European Union)*

3. Define the following terms:

   a. Quota rent — *Ans: The difference between the domestic and foreign prices of a good caused by a quota, and thus the excess price or profit received by the holder of the quota.*

   b. Variable levy — *Ans: A tariff on imports that is varied automatically in order to maintain a set domestic price.*

   c. Import license — *Ans: A permit to import a specified quantity of a good that is subject to a quota.*

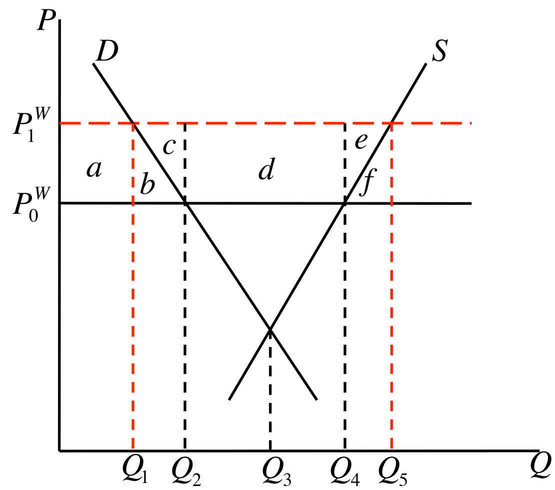
4. The world's largest exporter of cotton is the United States, whose cotton farmers are given $4 billion a year in production subsidies. The world's largest producer of cotton is China, but because it uses even more cotton than it produces, it is also the world's large importer of cotton. However, there are other countries that depend even more on cotton trade than these two, since the US and China both export and import lots of other things as well. For example, in five countries of Africa – Benin, Burkina Faso, Chad, Mali and Togo – cotton makes up more than 50% of their exports, and contributes a significant share to their (small) GDPs. In contrast, other poor countries such as Bangladesh, depend heavily on cotton imports to supply inputs to their manufacture of clothing.[1]

   From the facts in the preceding paragraph, indicate which of the groups below gain, and which lose, from the US cotton subsidies:

	Gain	**Lose**	**Can't tell**
Cotton farmers in the United States	✓		
Cotton farmers in China		✓	
Cotton farmers in Burkina Faso		✓	
Garment manufacturers in Bangladesh	✓		
Garment manufacturers in Mali	✓		
The country of China as a whole	✓		
The country of Benin as a whole		✓	
The country of the United States as a whole		✓	

[1] These facts from Food and Agriculture Organization of the United Nations and from US Department of Agriculture:
http://www.fao.org/newsroom/en/focus/2005/89746/article_89759en.html and
http://www.ers.usda.gov/Briefing/Cotton/trade.htm.

5. The figure shows domestic supply and demand for a good – let's call it food – in a small country that initially faces a world price for food P_0^W, which it exports (be sure you understand why).



a. Suppose now that the world price of food rises from P_0^W to P_1^W. Who gains and who loses, in this country, from this rise in price? Use the labeled areas to indicate the sizes of these changes:

	Gain	**Lose**	**No change**
Suppliers	*a+b+c+d+e*		
Demanders		*a+b*	
Government (i.e., taxpayers)			*0*
Country as a whole	*c+d+e*		

b. The government of this country now decides to tax these exports, using an export tax equal to $t = P_1^W - P_0^W$. This pushes the domestic price of food back down to P_0^W. (Be sure you understand why.) Who benefits and who loses from the tax alone (that is, holding the world price now constant at P_1^W)?

	Gain	**Lose**	**No change**
Suppliers		*a+b+c+d+e*	
Demanders	*a+b*		
Government (i.e., taxpayers)	*d*		
Country as a whole		*c+e*	

c. Combining (a) and (b), what is the effect on welfare of the country as a whole of the rise in world price <u>together with</u> the export tax?

	Gain	**Lose**	**No change**
Country as a whole	*d*		