

Study Questions
(*with Answers*)

Lecture 23
Environment, Labor Standards, and Trade

Part 1: Multiple Choice

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

1. Which of the following is **not** an example of a negative externality?
 - a. Air pollution caused by coal-fired electricity generation.
 - b. Drowning of dolphins accidentally trapped in the nets of tuna fishers.
 - c. Reduced fertility of soil when a farmer fails to rotate crops on his land.
 - d. Emission of sulfur dioxide into the air by automobiles.
 - e. Runoff of fertilizer from cropland into streams and rivers.

Ans: *c*

2. Which of the following policies deals optimally with a polluting industry?
 - a. Pass and effectively enforce a law that prevents the industry from polluting.
 - b. Tax producers, setting the tax equal to the harm done to others by their pollution.
 - c. Issue permits for each producer to pollute at only half the level that they have done in the past, and make it illegal to pollute more than that.
 - d. Issue permits for each producer to pollute at only half the level that they have done in the past, and allow producers to buy and sell these permits among themselves.
 - e. Use no policy at all, except to let the market determine behavior in the industry.

Ans: *b*

3. Suppose that production of steel pollutes the air, causing respiratory problems both for the local population and for people in neighboring countries.
- The steel industry will need to be subsidized, since otherwise no one will produce steel for fear of harming their neighbors.
 - Each country's government should provide health care for the affected people.
 - No policy is necessary, as steel producers will limit pollution themselves to the extent that they can do so at reasonable cost.
 - Each country's government will regulate steel for the benefit of their local population, and this will be optimal for the neighboring countries as well.
 - Separate country governments have incentive to under-regulate or under-tax their own producers, since part of the harm is borne abroad.

Ans: e

4. Should all countries have the same environmental standards?
- Yes. Otherwise countries with low standards will have an advantage in international trade.
 - Yes. The environment is a global problem and needs to be dealt with globally.
 - No. Sovereign nations have the right to set their own standards.
 - No. The costs and benefits of environmental standards vary across countries, requiring different standards.
 - It doesn't matter. Environmental standards are ineffective anyway.

Ans: d

5. In the "shrimp-turtle" case,
- The EU placed a tariff on imports of turtles under a certain size.
 - France banned imports of shrimp that had been genetically modified to taste like turtles.
 - The United States banned imports of shrimp from countries that failed to use turtle excluder devices.
 - Mexico complained to the WTO that its shrimp fishing industry was being devastated by hungry turtles exported by the US.
 - China was accused by Japan of dumping toys that were made from the shells of shrimp and turtles.

Ans: c

6. Which of the following is **not** included as one of the “Fundamental” labor standards according to the ILO?
- a. Payment of a minimum wage
 - b. Elimination of child labor
 - c. The right to collective bargaining
 - d. Abolition of forced labor
 - e. Avoidance of discrimination

Ans: a

7. Which of the following best characterizes the extent to which countries have ratified the fundamental conventions of the International Labour Organization?
- a. The United States and other developed countries have ratified all of them, while most developing countries have ratified only a few, if any.
 - b. The United States has ratified more of them than any other country and is putting pressure on others, both developed and developing, to do the same.
 - c. The ILO is a very new organization, and only a handful of countries have yet ratified any of its conventions.
 - d. All but two of the fundamental conventions have been ratified by well over 100 countries, including the United States.
 - e. Most countries of the world have ratified most of the fundamental conventions, but the United States has not.

Ans: e

8. Which of the following is **not** one of the labor standards that the United States has required that certain developing countries enforce in return for preferential treatment of their exports into the U.S.?
- a. Minimum wage
 - b. Minimum age for employment
 - c. Minimum hours of work
 - d. Freedom of association
 - e. The right to organize

Ans: c

9. What, according to the assigned reading by Porter, “Globalization That Works for Workers at Home,” might succeed in improving the conditions of workers in the United States?
- a. Reduce the minimum wage so that more workers will be employed.
 - b. Use a trade agreement with Europe to raise US labor standards to European levels.
 - c. Revise NAFTA to prevent US firms from relocating to Mexico.
 - d. Attract greater investment in the US by firms from China.
 - e. Nothing: US labor standards are already the highest in the world.

Ans: b

Part II: Short Answer

Answer in the space provided.

1. Define or explain:

a. Montreal Protocol

The international agreement in 1987 to limit the emission of CFCs (chloro-flouro-carbons) into the atmosphere, which emissions had been causing the destruction of the ozone layer.

b. Race to the bottom

The progressive reduction of environmental or labor regulations, in response to pressure from firms on their own governments to help them compete with foreign producers.

c. Pollution haven

A country that competes internationally by offering foreign firms a reduced set of environmental compliance requirements.

d. Produce-more-pollute-more model

The idea, stated by some environmental opponents of trade, that trade stimulates production and production increases pollution.

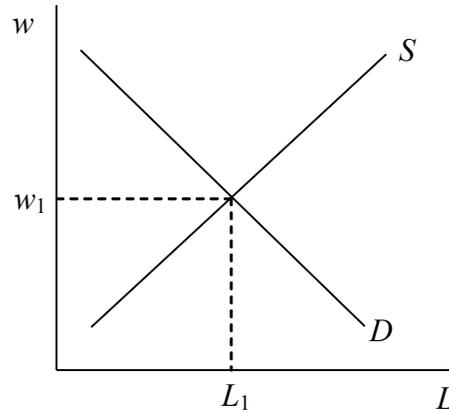
e. The tuna-dolphin case

A US ban on imports of tuna that were not certified as “dolphin safe,” meaning that they had been caught without harming dolphins. The GATT ruled against this policy, saying imports cannot be restricted on the basis of how they were produced.

2. Starting from the assumed equilibrium situations in the labor markets shown in the graphs below, show how the introduction of the stated labor standard would alter the situation. Determine in particular how the standard would change the wage, the income of employed workers, and the levels of employment and unemployment. What can you say, if anything, about whether the standard improves the average well being of those who want to work?

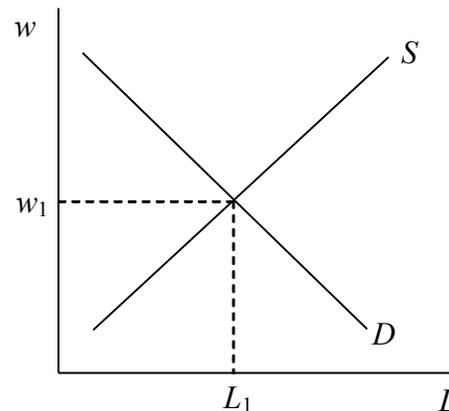
- a. A minimum wage set higher than w_1 .

Ans.: If the minimum wage is w_2 , then the wage rises to w_2 while employment falls to L_2 . The previously employed workers L_1-L_2 become unemployed. So the workers who remain employed get a higher income, workers who become unemployed get a lower (zero) income, employment falls and unemployment rises. Since well being rises for some and falls for others, we can't say what happens to the average.



- b. A safety regulation that costs employers more per hour worked.

Ans: This increased cost reduces the net benefit to employers from hiring workers, and the demand curve for labor shifts down (by the amount of the cost). The equilibrium in the labor market falls to wage w_2 and level of employment L_2 . Thus the wage falls, as does the level of employment and the income of employed workers. If we define unemployment as the people who want to work at the prevailing wage and cannot, then it is zero here, both before and after the change. However, there are nonetheless workers who were previously



employed and now are not, because they don't want to work at the new lower wage. Their income is reduced. As for the well being of the average worker, we again cannot tell. Those who continue to be employed have lower income, but their jobs are presumably safer, and therefore they may view themselves as better off. The workers who choose not to continue to work are worse off.

Note: The answer could well include an additional shift, of the supply curve to the right. This would happen if workers were now more willing to work because their jobs would be safer. This, if added to the figure, would reduce the wage still further but increase employment and even, conceivably, income.