Answer on these sheets. Use the indicated point values as a guide to how extensively you should answer each question, and budget your time accordingly. Note that the last page of the exam (page 9) is intentionally left blank for you to use if you run out of space to answer any of the questions, although I do not intend that you should need it.

The exam has a total of 60 points.
1. (15 pts.) The graph at the right shows the domestic market in a small country for a good that is imported subject to a specific tariff, $t$, from a world market where the price is $P_0^W$.

   a. (5 pts.) Add labels to the figure as needed to identify:

      i. Quantity of domestic production

      ii. Quantity of domestic consumption

      iii. Quantity of imports

      iv. Tariff revenue

      v. Dead weight loss due to the tariff

   b. (2 pts.) Suppose that the tariff in part (a) were doubled in size, to $2t$. State in words what would happen to domestic price, production, consumption, and trade. (Look carefully at the figure before you answer.)
c. (6 pts.) Suppose now, with the tariff back at its level in part (a), that the world price were to rise to $P^w_1$ shown in the figure here. Add any labels that you need to this figure to identify the following changes due to this increase in the world price:

i. Change in quantity supplied

ii. Change in quantity demanded

iii. Change in tariff revenue

iv. Change in producer surplus

v. Change in consumer surplus

vi. Change in dead weight loss due to the tariff

d. (2 pts.) Finally, suppose that we had an import quota instead of a tariff, but that the quota was set at the level of imports that we started with in part (c). And suppose that the quota was allocated to domestic residents. Who now gains, who loses, and who is unaffected by the increase in world price?
2. (8 points) An article in *The Economist*, September 28, 2013, said the following:

“In the run-up to the financial crisis the world economy was marked by huge current-account imbalances. …. Since then the world has rebalanced.”

The article shows data indicating that, as fractions of GDP, both the large surpluses (as of China) and the large deficits (as of the US and also much of Europe, other than Germany) have become smaller than they were before the crisis.

a. How is a current account surplus defined?

b. What does it represent, in terms of aggregate spending and income?

c. What changes in parts of the world economy might have caused the reduced imbalances noted in the data?
3. (10 points) Regarding the World Trade Organization:
   a. What are the three agreements that comprise the WTO, and what, very briefly, does each say?

   b. What are the two principles of the WTO that promote nondiscrimination, and what do they mean?

   c. Name, and very briefly explain, two exceptions that are explicitly permitted in the WTO to one or both of the principles of nondiscrimination in part (b).

   d. What is the Prisoners’ Dilemma, what is its relevance for international trade policy, and how does the WTO address this?
4. (5 points) What is “Fast Track,” and what is its relevance for trade policy and/or trade negotiations? Does Fast Track exist right now, and is it likely to be needed?

5. (4 points) Explain the “variable levy.” What is it, who uses it, and why? Is its use permitted under the rules of the GATT/WTO, and why or why not?
6. (8 points) Suppose that a small domestic economy has only a single firm producing a good that can be imported, under free trade, for the fixed price $P_w$ shown. The firm’s marginal cost is the upward sloping line shown here. Domestic demand is the downward sloping line, $D$, and the firm could earn the marginal revenue $MR$ shown if there were no trade at all. Add lines and labels to the figure, as needed, to identify the following:

a. Suppose first that there is free trade. What will be the domestic price of the good, and what will be the quantities of the good produced by the firm, demanded by the domestic market, and imported?

b. Now suppose that the country imposes an import quota, set equal to the quantity of imports that would have come in under free trade. Determine what will be the quantities produced, demanded, and imported, and at what price?
7. (10 points) In the early 2000’s, the US levied a safeguards tariff on imports of steel. As it turned out, the tariff was ruled illegal by the WTO, but suppose it had not.
   a. Which of the following would you have expected to be in favor of the tariff, and which opposed, and why? (No need for any formal analysis here; just say in words why these different groups might have the interests for or against a tariff on steel.)
      i. US producers of coke (an input to producing steel)
      ii. US producers of cars (for which steel is an input)
      iii. US producers of aluminum (which is a substitute for steel in some uses)
      iv. The US labor union of steelworkers
      v. Foreign steel producers
      vi. Foreign producers of cars abroad
   b. By what mechanism might these interests express themselves in efforts to influence US trade policies.