

Name_____

UMID_____

Midterm Exam
November 1, 2018

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. (12 pts.) Define or explain any six (6) of the following eight terms. (If you answer more than 6, I will grade only the first 6, so be sure to cross out any answers you don't want me to grade.)

a. Terms of trade:

b. National treatment:

c. Single undertaking:

d. Specific tariff:

e. TRIPs:

f. Trade Promotion Authority:

g. USMCA:

h. Section 232:

2. (12 pts.) True or False (circle one)

- a. The United States wins most of the dispute settlement cases that it brings against other countries for unfair trade practices.

True False

- b. In the “semi-truce” agreed by President Trump when he met with European Commission President Jean-Claude Juncker, Trump promised to remove his tariffs on EU exports of steel and aluminum.

True False

- c. The benefit to suppliers when their product is protected by a tariff is the increase in their revenue.

True False

- d. The Swiss National Bank, in an effort to reduce the value of its currency, used a policy of negative interest rates.

True False

- e. In 2015, the value of world exports fell, in part because the US dollar depreciated.

True False

- f. Decisions in the WTO are made by consensus, which is interpreted as “no member present objecting.”

True False

- g. In order to file for protection under the US anti-dumping law, a firm or group of firms must account for 50% or more of domestic production.

True False

- h. In the anti-dumping law of the European Union, anti-dumping duties are set equal to the dumping margin.

True False

- i. The use of “buy-local” rules has increased substantially in recent years.

True False

- j. The United Steelworkers Union opposed tariffs on automobile tires imported from China because its members would be hurt as consumers.

True False

- k. A US safeguard tariff applied to imports of hot-rolled steel is expected to increase the US price of steel slab.

True False

- l. Import tariffs were increased dramatically in the early 1930s and did not fall until negotiations to reduce them began in the late 1940s among the countries that signed onto the General Agreement on Tariffs and Trade.

True False

3. (8 pts.) For each of the following place a check in just one column to indicate whether the transaction enters as a credit or a debit in the current or financial accounts of the US balance of payments.

	Current Account		Financial Account	
	Credit	Debit	Credit	Debit
a. A German corporation buys a US auto parts manufacturer.				
b. University of Michigan President Schlissel earns dividends on stock in Toyota				
c. New York University builds a campus in Singapore				
d. Boeing (a US company) sells ten jets to Saudi Arabia				

4. (14 pts) The figure at the right shows the domestic market for a good in a small country, facing a world price of P_0^W and levying an *ad valorem* tariff, t . Using the labeled areas in the figure, identify the following effects of the tariff compared to free trade, always using plus (+) and/or minus (-) signs to indicate the direction of the change):

a. The change in revenue of suppliers:

b. The change in total cost of suppliers:

c. The change in producer surplus of suppliers:

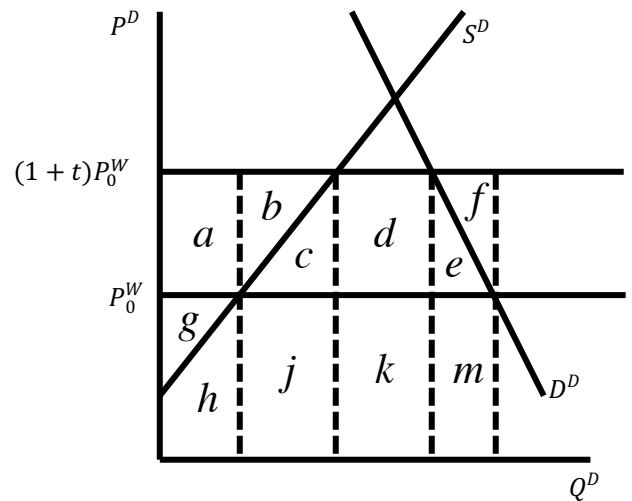
d. The change in expenditure by demanders:

e. The change in consumer surplus of demanders:

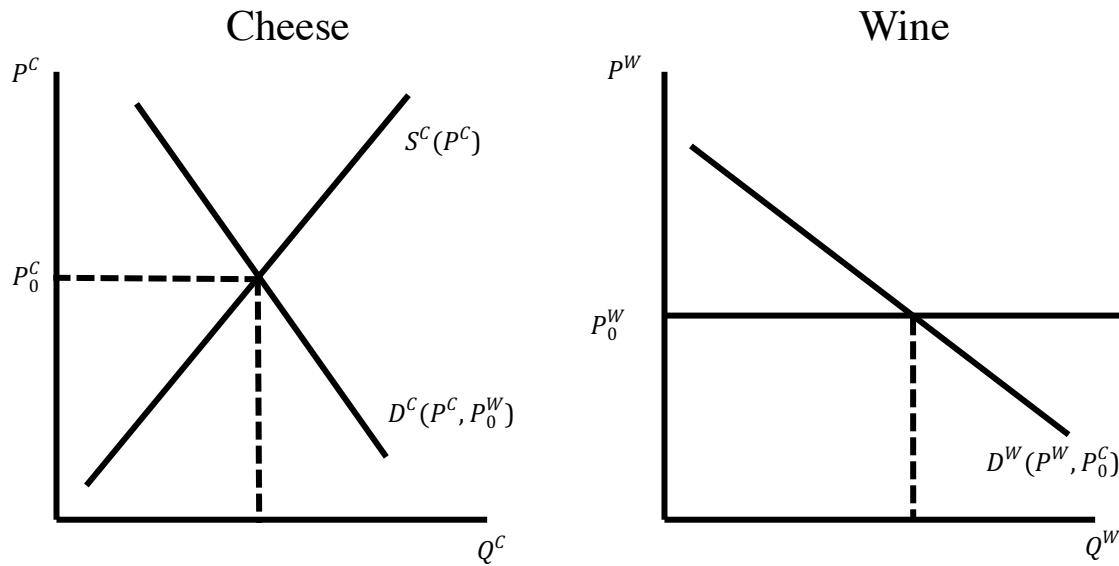
f. The change in tariff revenue:

g. The change in welfare of the country as whole:

Domestic Market



5. (8 pts) Switzerland produces no wine but it produces a lot of cheese, which for the purpose of this question it neither imports nor exports. Wine and cheese are complements for many consumers, but some other people consume only wine and still others only cheese. The graphs below show the Swiss domestic markets for (non-traded) cheese and for imported wine, with wine infinitely elastically available for the world price P_0^W .



- (6 pts) Show in the figure the effects of a tariff on imports of wine and on the quantity and price of cheese. Who gains and who loses (no need to say how much) from the tariff?
- (2 pts) Is there anyone in this scenario who would be expected to lobby for this tariff?

6. (6 pts) Earlier this year, President Trump placed a 10% tariff on imports of aluminum from most countries. In the space below, write a short essay explaining (without any formal analysis) the following:
- a. The basis under US law for this tariff.
 - b. The effect that this tariff has presumably had on markets for aluminum in the US and the world.
 - c. Its effects on the well-being of people in the US and abroad.

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