

Name _____

UMID _____

Midterm Exam
February 22, 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. RCEP:

b. Brexit:

c. International Trade Administration:

d. Financial account surplus (of the US):

e. GATS:

f. Fast Track:

g. Variable Levy:

h. Injury margin:

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

- a. According to the Gravity Model of Trade, trade between two countries is proportional to the product of their sizes (measured by GDP) and inversely proportional to the square of the distance between them.

True False

- b. The Appellate Body of the World Trade Organization became understaffed when the Obama administration blocked the reappointment of one of its members because of a decision he had made against the United States.

True False

- c. The Trump administration has insisted that both the NAFTA agreement with Canada and Mexico and the KORUS agreement with South Korea be completely renegotiated.

True False

- d. China is seeking “market economy status” because that will require other countries to use Chinese prices and costs as the basis for complaints of dumping.

True False

- e. Economic sanctions are popular politically, but they hardly ever work to accomplish their objectives.

True False

- f. US producers of berries would like to see US anti-dumping law changed to permit cases to be brought on the basis of month-long seasons rather than year-long seasons.

True False

- g. President Trump wishes to take credit for levying tariffs on imported washing machines, but in fact the tariffs were levied under US Section 201, under which the President does not have the option of not levying the tariffs.

True False

- h. The effective rate of protection can never be higher than the nominal rate of protection.

True False

i. A large country can benefit by using a tariff only if it permits its quantity of imports to rise.

True False

j. A country's currency will be viewed as overvalued based on Purchasing Power Parity if the average prices of goods there are higher, at prevailing exchange rates, than in other countries.

True False

k. In the international accounts, "secondary income" is international transfer payments.

True False

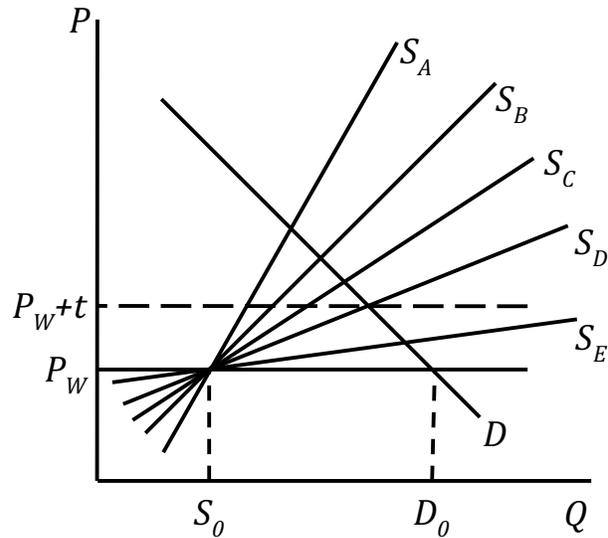
l. In 2015, the value of world exports fell, primarily because the US dollar depreciated reducing US imports.

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 resident of Detroit is paid for work in Windsor, Canada | | | | |
| b. The US government provides foreign aid to Pakistan | | | | |
| c. Donald Trump borrows money from a bank in Russia | | | | |
| d. General Motors (a US company) pays a dividend to its German stockholders | | | | |

4. (10 pts) In the graph, initial price is P_W and quantities are S_0 and D_0 . The tariff, t , is then applied to imports. For which of the supply curves is each of the following in the presence of the tariff largest? For which are they smallest? (Enter S_A, S_B, S_C, S_D , or S_E in the blanks provided. Enter more than one if there are ties.)



Largest:

- a. Quantity supplied _____
- b. Quantity demanded _____
- c. Tariff revenue _____
- d. Quantity Imported _____
- e. Dead weight loss due to tariff _____

Smallest:

- f. Quantity supplied _____
- g. Quantity demanded _____
- h. Tariff revenue _____
- i. Quantity Imported _____
- j. Domestic price _____

5. (18 pts.) On January 22, 2018, President Trump announced tariffs of 30% on imports of solar panels. (The actual policy was a bit more complicated than this, but you need not consider such complications.)
 - a. (8 pts) In the space below, draw a diagram to illustrate the effects of this tariff in partial equilibrium and write a brief essay using this diagram to explain the various economic effects of this tariff.

b. (6 pts) In the space below, explain briefly under what US law or provision of the WTO/GATT he was able to do this legally, and what procedure(s) had been followed prior to his levying the tariff.

c. (4 pts) Outside of the economic analysis that you did in part (a), what other effects would you expect to observe in the US and the world as a result of this tariff?

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