

Name _____

UMID _____

Final Exam
December 14 or 22, 2010

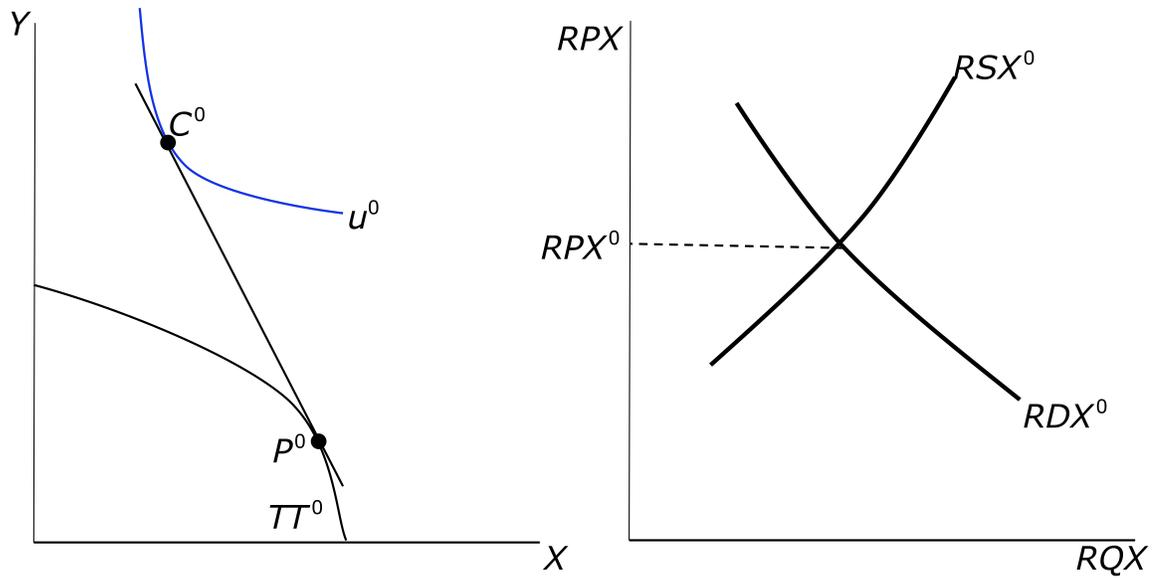
Answer on these sheets. Use the indicated point values as a guide to how extensively you should answer each question, and budget your time accordingly. The exam has a total of 75 points.

1. (11 points) In the space below, indicate the implications of the fact that China continues to accumulate reserves of US dollars.
 - a. What does this intervention mean for the yuan/dollar exchange rate?
 - b. How does that, in turn, affect the exports and imports of both China and the US?
 - c. Assuming that this reserve accumulation continues into the future, what affect does it have on the terms of trade of the two countries and consequently on the welfare of the people of China and the US?

2. (12 points) In the space below, first draw the usual partial-equilibrium diagram showing the effects of a specific tariff in the domestic market of a small country that, in the presence of the tariff, imports the good. Then add to the diagram a fall in the world price equal to one-half the size of the tariff. (For example, the world price might have been \$75 and the tariff \$50. The world price then falls by \$25, from \$75 to \$50.) Use the diagram to analyze the effects of this fall in world price on:
- Welfare of domestic suppliers
 - Welfare of domestic demanders
 - Domestic government
 - Country as a whole

(Note: you are not asked to show the effects of the tariff compared to free trade, either before or after the fall in world price. You are only asked to find the effects of that fall in world price, given the presence of the unchanged specific tariff.)

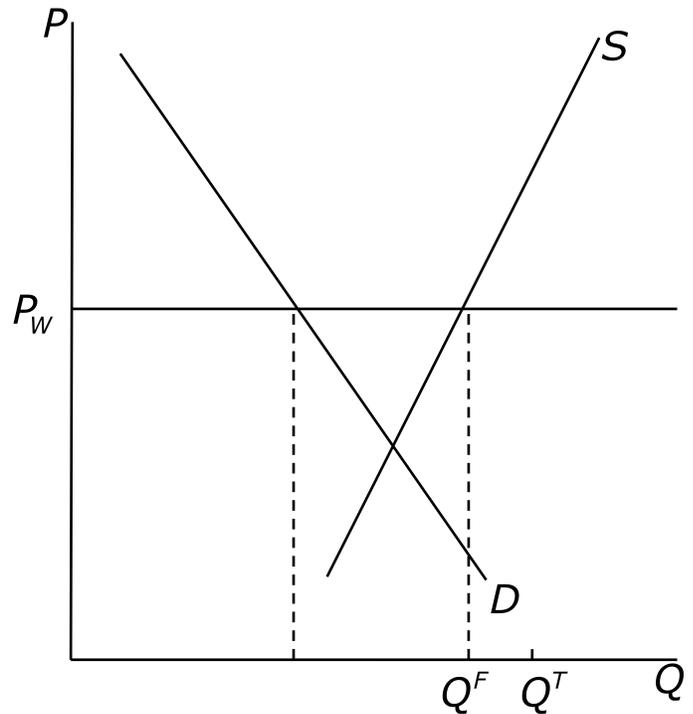
3. (12 points) Define “immiserizing growth,” explain it in words, and use the Standard Model, the diagrams of which are shown below for the equilibrium prior to growth, to illustrate it.



4. (12 points) Suppose that a small country imports a good that it does not produce itself, and suppose, as a first case, that it also does not produce any good that is a substitute for the imported good.
- a. Show the welfare effects of a tariff on that imported good.
- Now assume as a second case that the country does produce a good that is an imperfect substitute for the imported good, the demand for which depends as before on its own price but now also on the price of the substitute.
- b. Use the two markets to show how the tariff on the imported good affects price and quantity of this substitute, and how this in turn affects what happens in the import market.
 - c. State and explain (but there is no need to show this in the diagrams) how the welfare effects of the tariff in the second case differ from those in the first case. That is, how does the presence of the domestic substitute alter the welfare effects of the tariff on domestic consumers, domestic producers, and the domestic government? You do not need to answer this for the country as a whole, as that would be difficult.

5. (10 points) In the space below, write a short essay in which you first define “dumping,” then list and explain reasons why a firm might dump and what the welfare effects of dumping for each reason would be.

6. (10 points) Suppose that the government of a small country wishes, for whatever reason, to increase production of a good that the country exports from its free-market level, Q^F to some target level, Q^T . Using the partial equilibrium diagram that is started for you below, show how this can be done with an export subsidy combined with an equal or larger tariff, and show also how it can be done with a domestic (i.e., production) subsidy. Then compare the two policies in terms of their costs to the government, the welfare of domestic suppliers and demanders, and the welfare of the country as a whole. Which policy is better?



7. (8 points) In the news, China is said to have cut off exports of rare earths (which are essential inputs to many high-technology products, such as smart phones) to Japan. For some years, China has been essentially the only supplier of rare earths anywhere in the world. Write an essay discussing what may have been the motivations for doing that and what effects you expect that this action might have on Japan, on China, and on the world market for rare earths.