

Name _____

UMID _____

Final Exam
December 18, 2015

Answer on these sheets. Note that the last page of the exam (page 11) 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 80 points.

1. (20 pts.) Explain any ten (10) of the following twelve institutions, concepts, or policies. (If you answer more than 10, I will grade only the first 10, so be sure to cross out any answers you don't want me to grade.)

a) International Trade Organization:

b) Trade Facilitation Agreement:

c) International Trade Administration:

d) Generalized System of Preferences:

e) Variable Levy:

f) Tariff-Rate Quota:

g) Mercantilism:

h) Reversal of Trade Diversion:

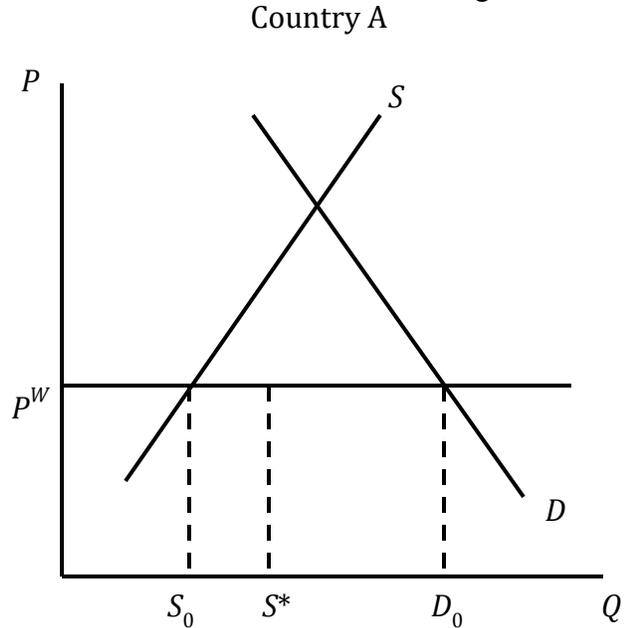
i) Safeguards:

j) Wage Insurance:

k) Dumping Margin:

l) Amber Box:

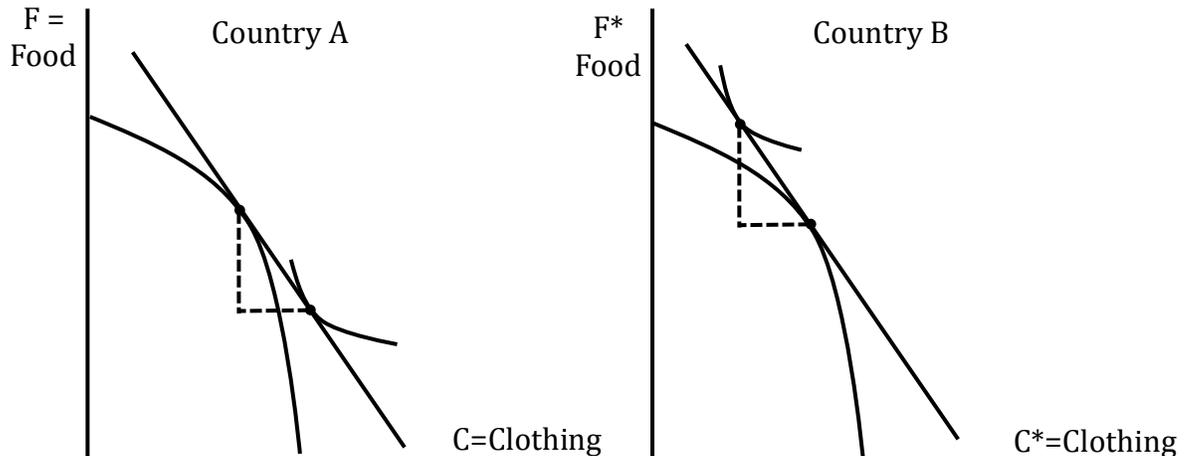
2. (20 points) The diagram at the right shows the domestic market for a good in Country A, which initially has no tariff or other policy affecting that market. It faces a world price P^W and therefore demands quantity D_0 , supplies quantity S_0 , and imports the difference. Now, for political reasons, the government of Country A becomes committed to increasing the output of this industry to the larger quantity shown as S^* .



- a) (14 points) Suppose first that Country A is a small country, facing the fixed world price P^W .
- Identify in the figure the size of the specific tariff, t^* , that will increase output from S_0 to S^* . Adding appropriate labels to the figure, determine the welfare effects on suppliers, demanders, the government, and the country as a whole of this tariff (without trying to quantify any political benefit to the government), and record them in the table below including plus or minus signs to indicate gain or loss compared to no policy.
 - Indicate in the same figure the size of the subsidy to domestic production, s^* , that if used instead of the tariff, will increase output from S_0 to S^* . Record the welfare effects of this subsidy, compared to no tariff and not subsidy, also in the table below.
 - In the final column of the table below, indicate for each group, whether they would be better off (+), worse off (-), or equally well off (0) under the subsidy as compared to the tariff.

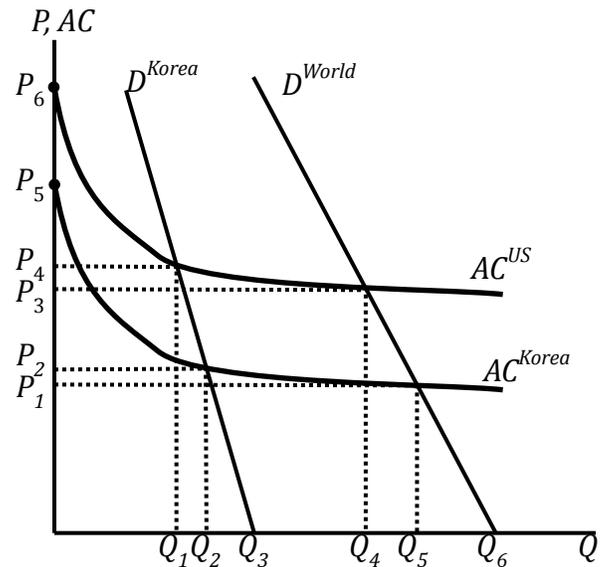
Welfare effects of			
	Tariff	Subsidy	Subsidy relative to tariff
Suppliers			
Demanders			
Government			
Country as a whole			

3. (10 points) The graph below shows a free trade equilibrium in the Standard Model for a world of two countries, A and B, with two special assumptions: i) The two countries have identical production possibilities, and therefore their production possibility curves are identical. ii) The countries differ in their preferences, perhaps because Country A has a colder climate than Country B. Specifically, if they face the same relative prices (as they do with free trade), Country A prefers more clothing and less food than Country B.



- In the free trade equilibrium, which country produces more clothing? And which country exports food?
- Add lines and/or curves to the figure as needed to show the autarky equilibria in each country.
- Comparing the free trade equilibrium to the autarky equilibria you just drew, have either or both of these countries gained from trade?
- In autarky, in which country is the price of clothing (relative to food) lower than in the other country?
- In which country is the marginal cost of clothing (relative to the marginal cost of food) higher in autarky than in that same country with free trade? Why has the move from autarky to free trade caused the marginal cost of clothing in that country to fall?

4. (10 pts.) Suppose that there are external increasing returns to scale in the industry for producing phones, in a world that consists only of the US and Korea. Their the average cost curves are shown in the graph at the right. Initially only the US has the technology for producing phones, but later Korea acquires it and, because of lower wages, has the lower cost curve shown.



a. Initially, with free trade and only the US able to produce phones, what will be the price and quantity of phones on the world market?

b. When Korea now acquires the technology to produce phones, still with free trade, how much will it produce, and why?

c. If Korea now imposes a prohibitive tariff on phones, what will become the price and quantity of phones in Korea? Has Korea gained or lost from prohibiting imports?

d. Once the equilibrium without trade is established in Korea, what will happen to the world market for phones if Korea now removes its barrier to trade?

- c. Who will be the gainers and losers from the TPP inside the United States, and why?
- d. If particular industries lose from the TPP, what recourse will they and their employees have under US law?

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