

Name \_\_\_\_\_

UMID \_\_\_\_\_

**Final Exam**  
**April 26, 2018**  
*Answers*

Answer on these sheets. Note that the last page of the exam (page 10) 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 necessarily need it.

The exam has a total of 90 points.

1. (30 pts.) Explain any fifteen (15) of the following eighteen institutions, concepts, or policies. (If you answer more than 15, I will grade only the first 15, so be sure to cross out any answers you don't want me to grade.)

a) Appellate Body:

b) KORUS:

c) Section 301:

d) Effective rate of protection:

e) The United States Export-Import Bank:

f) Contingency measures:

g) Product upgrading:

h) Tariffication:

i) Vertical link:

j) Median voter theory:

k) Customs union:

l) Sensitive sector:

m) ISDS:

n) Negative list:

o) Stolper-Samuelson Theorem:

p) Chapter 19 of NAFTA:

q) Lesser-duty rule:

r) Predatory dumping:

2. (18 pts.) True or False (circle one)

a. The Gravity Model explains trade between rich and poor countries based on the differences in their per capita incomes.

True                  False

b. The next country to join the European union is most likely to be Turkey.

True                  False

c. China is Canada's second largest trading partner, after the United States.

True                  False

d. The exit of the United States from the Trans-Pacific Partnership did not prevent the TPP from going into effect, since it only required that eleven of the twelve countries ratify it, and they did.

True                  False

e. In the Brexit vote, those who voted to “leave” won, even though the “remain” side raised more money.

True                  False

f. An import quota, if allocated to foreigners, can benefit a country only if it is large enough to change the world price of the imported good.

True                  False

g. In order to get safeguard protection, an industry must show a greater level of injury from imports than would be required to get a countervailing duty.

True                  False

h. In the European Union, dumped imports may not be subjected to an anti-dumping duty, even if they cause injury, if they are “against the community interest.”

True                  False

i. A “variable levy” does not violate GATT/WTO rules as long as the country using it has not “bound” the level of the tariff for the protected industry.

True                  False

j. If a country imports a good that is not a perfect substitute for anything that is produced within the country, then there is no reason for it to levy a tariff on it.

True                  False

k. Prior to joining the World Trade Organization in 2001, China’s exports to the U.S. were not subject to its MFN tariffs, but to the higher ones that it had erected in the 1930s.

True                  False

l. An export subsidy, if not accompanied by an import tariff, will stimulate imports.

True                  False

m. Wage insurance is another name for unemployment insurance.

True                  False

n. During his campaign to become US President, Barak Obama spoke in favor of renegotiating NAFTA.

True                  False

o. Manufacturing's share of US employment fell faster after NAFTA than before.

True                  False

p. In the Ricardian Model of international trade between two countries of unequal size, the larger of the two countries that may not gain from trade.

True                  False

q. The theory of comparative advantage is impossible to test, because autarky prices have never been observed.

True                  False

r. If two countries open to trade in an industry with external economies of scale, price will rise in the initially low-price country and fall in the high-price country.

True                  False

3. (6 pts.) In the monopolistic competition model of the text, what happens when two previously closed identical economies open to free trade? Circle the appropriate answers below.

- |   |       |       |                |
|---|-------|-------|----------------|
| a) Number of firms in the world               | Rises | Falls | Stays the same |
| b) Number of varieties available to consumers | Rises | Falls | Stays the same |
| c) Price of each good                         | Rises | Falls | Stays the same |
| d) Average cost of each good                  | Rises | Falls | Stays the same |
| e) Output per firm                            | Rises | Falls | Stays the same |
| f) Profit per firm                            | Rises | Falls | Stays the same |

4. (15 points) The graph below is taken directly from the slides for the class on Subsidies, where we looked at a domestic subsidy paid by the government of Country A per unit of output. Country A is importing the good in the initial equilibrium at price  $P_0$ . Here I'd like you to analyze instead a similar subsidy paid per unit of output produced in the exporting country, Country B, instead. The size of the subsidy,  $s$ , is shown at the bottom of the vertical axis for Country B.

a) In the right panel, draw the domestic supply curve in Country B in the presence of the subsidy, then construct the new export supply curve of Country B in the middle panel.

b) From that, find the new equilibrium price in all three panels, and label it  $P_1$ .

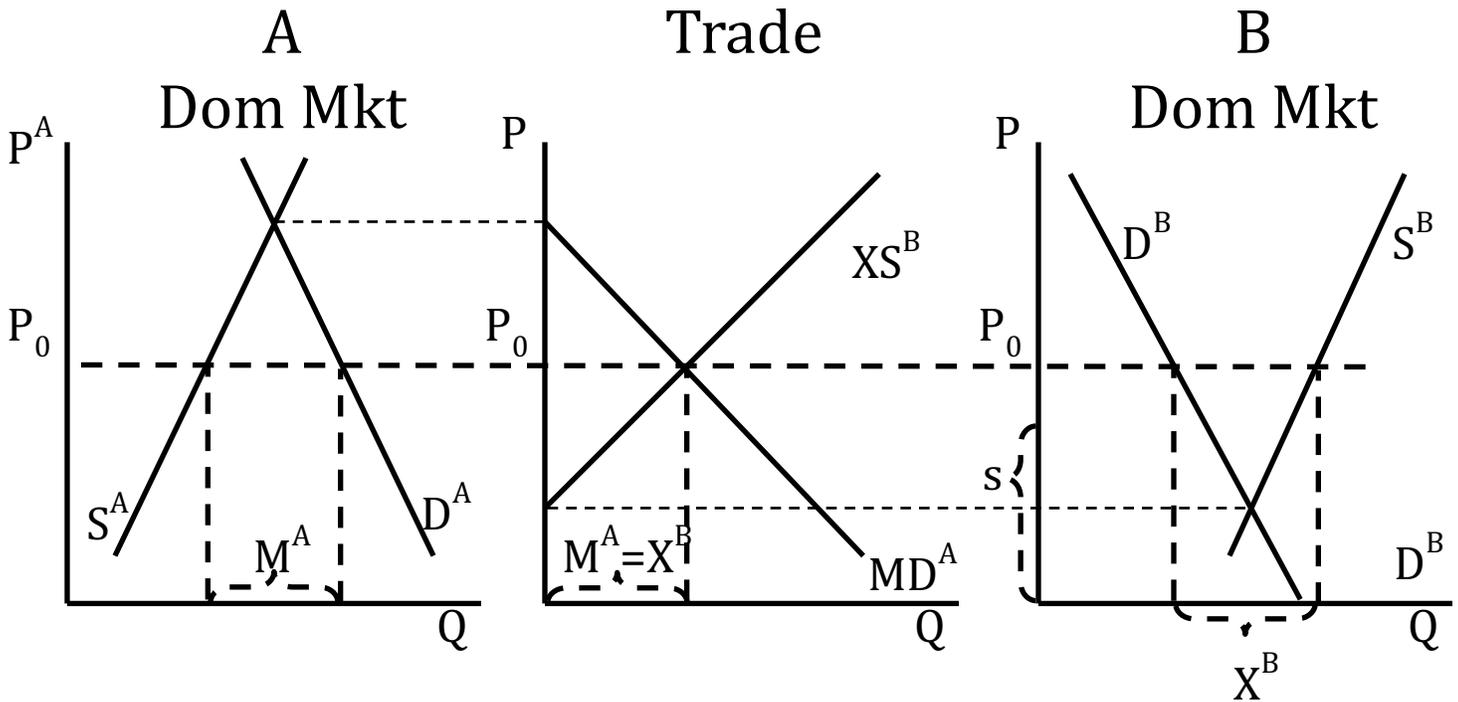
c) Based on the price change that you found in part (b),

i. circle the directions of change of the quantities supplied, demanded, and traded by each country:

$S^A$ + -	$D^A$ + -	$S^B$ + -	$D^B$ + -	$M^A$ + -	$X^B$ + -
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ii. Shade in for Country A the net gain or loss of its welfare and write "gain" or "loss" next to it.

iii. Shade in for Country B the change in producer surplus and write "gain" or "loss" next to it.



d) Without doing any further formal analysis, state here whether you expect Country B as a whole to gain or lose from this production subsidy, and why.

5. (21 pts.) Early in the course, in an article by Mauldin, we saw that China was taxing exports of raw minerals of which China is the world's major producer. Write a short essay including the following:
- a) (5 pts.) What effects this tax would have on the prices of these minerals, both in China and in the rest of the world.
  - b) (8 pts.) Illustrate your argument with an appropriate diagram or diagrams.
  - c) (4 pts.) Explain on what basis the US is able to complain about this action to the WTO.
  - d) (4 pts.) Why China may want to cause the effects that you identified in part (a).

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