Midterm Exam 2

The total time for the exam is 60 minutes, although you are given 70 minutes to complete it. Points are allocated proportionally to the time allocations. Answer all questions in your bluebook.

Part I: Multiple Choice [40 minutes]

History and accident determine the details of trade involving
A. Ricardian and Classical comparative advantage.
B. Heckscher-Ohlin model consideration.
C. taste reversals.
D. scale economies.
E. None of the above.

2. External economies of scale arise when the cost per unit
A. rises as the industry grows larger.
B. falls as the industry grows larger rises as the average firm grows larger.
C. falls as the average firm grows larger.
D. remains constant.
E. None of the above.

3. Selling goods abroad at a price lower than sold at home
A. is sometimes called dumping.
B. never makes economic sense if the home firm is a monopolist.
C. is a manifestation of price discrimination, when the foreign market demand is elastic.
D. A and C above.
E. None of the above.

4. If the tariff on computers is not changed, but domestic computer producers shift from domestically produced semiconductors to imported components, then the effective rate of protection in the computer industry will
A. increase.
B. decrease
C. remain the same.
D. depend on whether computers are PCs or “Supercomputers.”
E. None of the above.

5. A lower tariff on imported steel would most likely benefit
A. foreign producers at the expense of domestic consumers.
B. domestic manufacturers of steel.
C. domestic consumers of steel.
E. workers in the steel industry.
E. None of the above.
6. Which of the following policies permits a specified quantity of goods to be imported at one tariff rate and a higher tariff rate to imports above this quantity?
A. Import tariff
B. Voluntary exports restraint
C. Tariff quota
D. Ad valorem tariff
E. None of the above.

7. An Optimal Tariff
A. could theoretically happen when a small country levies a tariff.
B. refers to a situation when a tariff hurts a country’s economic welfare.
C. refers to a situation when the imposition of a tariff lowers domestic prices.
D. refers to a situation when the imposition of a tariff helps foreign exporters.
E. None of the above.

8. The General Agreement on Tariffs and Trade and the World Trade Organization have resulted in
A. the establishment of universal trade adjustment assistance policies.
B. the establishment of the European Union.
C. the reciprocal trade clause.
D. reductions in barriers to goods trade via multilateral negotiations.
E. None of the above.

9. Countervailing duties are intended to neutralize any unfair advantage that foreign exporters might gain because of foreign
A. tariffs.
B. subsidies.
C. quotas.
D. Local-Content legislation.
E. None of the above.

10. Under U.S. commercial policy, which clause permits the modification of a trade liberalization agreement on a temporary basis if serious injury occurs to domestic producers as a result of the agreement?
A. Adjustment assistance clause
B. Escape clause
C. Most favored nation clause
D. Prohibitive tariff clause
E. None of the above.
Part II: Short Answer [20 minutes]

1. Consider a small country that is considering a variety of trade measures to protect its grape industry.

   a. (7 minutes) Using a diagram like that displayed above, show what happens if a specific tariff on grapes, \( t > \theta \), is implemented. Show the extent of imports and the price of grapes. What is the net effect on society’s welfare?

   b. (7 minutes) Suppose the government decides to effect a specific export subsidy \( s > \theta \). Using a diagram, show the impact on imports or exports, and show the price at which grapes will be sold at home and in the rest of the world. What is the net effect on imports and exports and the balance of trade in grapes?

2. (6 minutes) Suppose there are two producers of electric cars in the world market -- GM (US) and Toyota (Japan), and they only export to third markets. If Japan imposes a subsidy of 10, and the payoff matrix is that shown below, is Japan better or worse off than if it had not imposed the policy? Explain why or why not.

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