

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]

1. The effective rate of protection measures
 - A. the quota equivalent value of a tariff.
 - B. the efficiency with which the tariff is collected at the customhouse.
 - C. the "true" ad valorem value of a tariff.
 - D. the protection given by the tariff to domestic value added.
 - E. None of the above.

2. The domestic market failure argument is a particular case of the theory of
 - A. the third best.
 - B. the sufficing principle.
 - C. the optimum, or first-best.
 - D. the second best.
 - E. None of the above.

3. 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 lowers the price at which the foreign country (or countries) export the goods at a lower price.
 - E. None of the above.

4. Monopolistic competition is associated with
 - A. product differentiation.
 - B. explicit consideration at firm level of the feedback effects of other firms' pricing decisions.
 - C. high profit margins.
 - D. both (A) and (C) above.
 - E. None of the above.

5. The simultaneous export and import of widgets by the United States is an example of
 - A. intra-industry trade.
 - B. inter-industry trade.
 - C. increasing returns to scale.
 - D. imperfect competition.
 - E. None of the above.

6. 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 trade barriers via multilateral negotiations.
 - E. None of the above.

7. International trade based on external scale economies in both countries is likely to be carried out by a
- relatively small number of competing oligopolists.
 - monopoly firms in each country/industry.
 - relatively large number of price competing firms.
 - relatively small number of price competing firms.
 - None of the above.
8. The imposition of tariffs on imports results in deadweight (triangle) losses. These are
- production distortion effects.
 - revenue effects.
 - redistribution effects.
 - consumption distortion effects.
 - (A) and (D) above.
9. "Dumping"
- can be economically efficient.
 - is a form of price discrimination.
 - is always economically inefficient.
 - is usually legal under WTO rules.
 - both (A) and (B) above.
10. Should the home country be "large" relative to its trade partners, its imposition of a tariff on imports would lead to an increase in domestic welfare if the terms of the trade rectangle exceeds in area the sum of the
- revenue effect plus redistribution effect.
 - consumption effect plus redistribution effect.
 - production distortion effect plus consumption distortion effect.
 - protective effect plus revenue effect.
 - None of the above.

Part II: Short Answer [20 minutes]

- (10 minutes) Consider a large country importing widgets from another large country. The domestic Home and Foreign markets are competitive.
 - Show, using a diagram, the effect of the imposition of a quota. *Clearly* label the pre- and post-quota levels of imports, consumption and production.
 - Discuss the implications for consumer, producer surplus and national welfare. Be as specific as possible.
- (10 minutes) Consider a small country, with a negative externality in the *consumption* of Sport Utility Vehicles (SUVs).
 - Consider the imposition of an import tariff or import subsidy for SUVs that would set the quantity demanded equal to the optimal level. What would be the effect on welfare relative to the free-trade situation? Use graphs to answer the question.
 - Can you think of a policy that would obtain the social optimum? Explain your answer using a graph.