Economics 514

Final Exam

There are 100 total points. GOOD LUCK!

Answer true or false and explain your answer. Each question in this section is worth 5 points.

1. A capital-abundant country levies a tariff on its labor-intensive imports (production is Hecksher-Ohlin). This will raise workers' real wages.

2. A small country facing given world prices will raise welfare by imposing a tariff, which will reduce imports by reducing demand and by increasing local production of import substitutes.

3. Gross trade exceeds net trade. This fact is not fully explained by the traditional international trade theories.

4. Free-trade production of stridek is too low. The optimal policy for encouraging greater domestic production is to impose a tariff on imports of stridek.

5. Free trade is passé.

6. U.S. protection increases foreign investment in the United States.

7. In the 1950s and 1960s the neoclassical argument for an open trade regime was rejected on the grounds that it was "static" and ignored "dynamic considerations".

8. If consumers value variety, the market should respond with a countless proliferation of products, each differing only slightly from its competitors.

These questions are 15 points each.

9. You are a domestic manufacturer persuading your government to protect your industry. You can secure either a 20% tariff of a fixed quota that is equivalent to it. You expect the market to grow in real terms. What will you choose and why?

10. Why might we expect regional free trade to yield greater benefits to the Latin American developing countries than to the Asian Newly Industrializing Countries (NICs)?

11. Discuss infant-industry protection. Is this a good idea from the perspective of efficiency? Are there ways it can increase a country's welfare? What are the conditions?

Economics 514 Review for Final Exam

True or false and explain.

1. If foreign response to tariff-induced price changes is sufficiently inelastic, then the relative world price of the tariff-ridden good could fall by more than the tariff itself.
2. A tariff is an inferior way to redistribute income between countries.
3. Firm size and product variety tend to be larger (in practice) with world trade than under autarky.
4. Industrial policy might increase a country's welfare.
5. Quotas or voluntary export restraints are comparable to tariffs but generally impose on the importing nation higher welfare costs than do tariffs of equal incidence.
6. A regional preferential trade agreement such as a free trade area is likely to shift the terms of trade of each party.
7. In the 1950s and 1960s, the broad consensus was that trade policy for development should be based on "import substitution".
8. U.S. quotas impose a loss on our trading partners. In some cases this loss is comparable in magnitude to the transfer of rents. This means that world efficiency losses from U.S. protection may be about as large as U.S. costs.

Examples of longer questions (10-20 points)

9. Draw tariff effects with PPF, offer curves, partial equilibrium supply and demand curves. Small country case versus large country case.
10. Show how, with given world prices, a country capable of producing many commodities chooses a subset. Show how factor prices depend on technology, world prices for commodities and factor endowments.
11. Discuss the 6 premises or "facts" wiely accepet about underdeveloped countries. (They are 1)low living standards due to dependence on primary commodity production and export; 2)free trade means dependence forever on primary commodity production 3) global income and price elasticities for primary commodities are low, so export earnings growth in these is slow; 4) zero marginal product of labor 5)K-accumulation necessary for growth; 6) little response to price incentives
12. Discuss trade creation versus trade diversion