

Attention: Not all questionnaires are the same. This is questionnaire **A**. On the answer sheet, you must indicate the letter of your questionnaire with the course's number as follows: **ECO3111A**. You must answer according to **the material seen in this course**. Read all answer choices before choosing your answer. GOOD LUCK!

QUESTIONNAIRE A

I. MULTIPLE CHOICE QUESTIONS (2 points each)

1. The tariff imposed to punish a foreign discriminating monopolist is called:
(a) antidumping duty ✓
(b) a subsidy
(c) punitive damages
(d) a fine
2. The Chinese protected its automobile industry through restrictive tariffs and quotas. Which of the following best describes this practice?
(a) antidumping duties
(b) infant industry protection ✓
(c) voluntary export restraint
(d) price discrimination
3. If we allow free trade in a small nation's industry where there is a domestic monopolist, the monopoly firm:
(a) gains more market power.
(b) may lose its market power. ✓
(c) sees its profits rise.
(d) is able to charge a higher price.
4. If a country imposes a \$10 tariff on a foreign monopolist, the domestic consumer price will rise by
(a) \$0.
(b) less than \$10. ✓
(c) \$10.
(d) more than \$10.
5. International dumping occurs when
(a) monopolistic firms charge the same price in domestic and foreign markets.
(b) monopolistic firms charge a higher price in their domestic market and a lower price in the foreign (Home) market. ✓

- (c) monopolistic firms charge a lower price in their domestic market and a higher price in the foreign (Home) market.
 - (d) domestic monopolistic firms relocate operations abroad.
6. To justify infant industry protection,
- (a) a firm must move down its average cost curve to produce more output.
 - (b) a firm's average cost curve must shift upward over time.
 - (c) daycare centers must be subsidized.
 - (d) a firm's average cost curve must shift downward over time.✓
7. In the 1980s, the United States negotiated a voluntary export agreement with Japan in which each Japanese auto producer voluntarily agreed to reduce the number of its automobiles exported to the United States. This voluntary export agreement caused each Japanese auto producer to
- (a) raise the prices of their automobile exports to the United States.✓
 - (b) lower the prices of their automobile exports to the United States.
 - (c) not change the prices of their automobile exports to the United States.
 - (d) increase the number of automobiles exported to the United States.
8. If a quota license is awarded to a domestic firm without an auction, it may generate bribes or lobbying spending to earn this revenue. Economists call this a(n) activity.
- (a) efficient
 - (b) unnecessary
 - (c) profit-maximizing
 - (d) rent-seeking✓
 - (e) productive
9. Suppose that the United States is a large country and it wishes to impose optimal tariffs on its imports of avocados, bananas, and cherries. The export supply elasticities of avocados, bananas, and cherries are 1, 2, and 3, respectively. Rank the products on the basis of their optimal tariffs from lowest to highest tariff.
- (a) cherries, bananas, avocados✓
 - (b) avocados, cherries, bananas
 - (c) bananas, avocados, cherries
 - (d) avocados, bananas, cherries
 - (e) There is no such thing as an optimal tariff.
10. What is a difference between a tariff imposed by a large country and a tariff imposed by a small country?
- (a) A tariff imposed by a large country has no deadweight consumption and production losses.
 - (b) A tariff imposed by a large country has a terms-of-trade effect.✓
 - (c) A tariff imposed by a small country has a terms-of-trade effect.
 - (d) A tariff imposed by a large country has no deadweight consumption loss.
 - (e) A tariff imposed by a large country has no deadweight production loss.

11. Suppose that imports and exports in an industry are \$100 million and \$200 million, respectively. Will the index of intra-industry trade for this industry rise, fall, or remain unchanged if exports fall to \$100 million?
 - (a) fall
 - (b) rise✓
 - (c) stay the same
 - (d) There is not enough information to determine how the index will change.

12. To analyze monopolistic competition in trade, we make several assumptions about the market. Which is NOT an assumption of imperfect competition?
 - (a) many firms in the industry
 - (b) free entry and exit in the long run
 - (c) constant average cost✓
 - (d) non-homogeneous products
 - (e) zero profits in the long run

13. An economy produces and consumes only two goods: shoes and computers. Shoe production is labor intensive while computers are capital intensive. Suppose that after opening up to trade, the price of computers has dropped by 10% at Home. According to the H-O model, which of the following can you say for sure?
 - (a) Home wages will rise by more than 10%.
 - (b) Home wages will drop by more than 10%.
 - (c) Home capital rental rates will rise by more than 10%.
 - (d) Home capital rental rates will drop by more than 10%.✓
 - (e) Home capital rental rates will drop by 10%.

14. According to a study discussed in class, Mexico's gains from NAFTA appears to have benefited
 - (a) maquiladora unskilled workers
 - (b) non-maquiladora unskilled workers
 - (c) agricultural workers
 - (d) maquiladora higher-income workers✓
 - (e) No positive effect on workers' income was found

15. A Study of U.S.-Canadian free trade has concluded that free trade produced what effect on Canadian firms?
 - (a) More important increased productivity among industries that were well protected before the agreement.✓
 - (b) More important lower productivity among industries that were well protected before the agreement.
 - (c) More important increased productivity among industries that received little protection before the agreement.
 - (d) More important increased productivity among industries that received little protection before the agreement.
 - (e) No productivity effect could be measured conclusively.

You may go to the washroom before picking up the essay questions.

II. PROBLEM

1) (30 points) Free trade under imperfect competition

a) (15) Explain why free trade is more beneficial for the Home country when there is a monopoly at Home than when there is perfect competition at Home. Use graphical analysis. Be as complete as possible with your assumptions and describe all the different types of gains and losses.

b) (15) With the help of a graphic, describe the effects of a tariff when there is a Home monopoly. Compare it with the effect of a tariff when there is perfect competition at Home.

2) (30 points) Import tariff: The large country case

a) (15) Describe the effects of a tariff in the large country case. Use graphical analysis. Be as complete as possible with your assumptions and describe all the different types of gains and losses.

b) (10) Explain why the optimal tariff is positive in the large country case while it is zero in the small country case. Use graphical analysis.

c) (5) In the large country case, is a very high tariff always better than no tariff at all? Explain with the help of your graphics above.

3) (10 points) Free trade and externalities

Explain why the comparative advantage argument fails to hold when the production of a good entails negative externalities. (You can explain this intuitively, i.e. without math, or with the help of a graphic and/or some math. As you prefer. I will look for clarity and completeness.)