

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 (3 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.
 - (e) a quota.

2. In order to avoid congressional action in the United States, in the early 1980s the Japanese resorted to:
 - (a) infant industry protection.
 - (b) dumping of automobiles.
 - (c) voluntary export restraint (VER).✓
 - (d) price discrimination.
 - (e) import tariffs.

3. Which of the following is a justification for infant industry protection?
 - (a) The firm's learning must shift its average cost curve down over time so that it becomes competitive at world prices.✓
 - (b) The firm's output must increase so that it moves down along its average cost curve over time and becomes competitive at world prices.
 - (c) The firm's total cost curve must shift leftward over time so that it becomes competitive at world prices.
 - (d) The firm can take advantage of increasing returns to scale and become competitive right away.
 - (e) Recent studies conclude that too many young children have suffered from concussions.

4. Although tariff and quota protections for China auto imports were very costly to consumers, which of the following was a benefit?
 - (a) Auto prices, compared with other prices in the economy, actually fell.
 - (b) Auto consumption skyrocketed, but there were environmental effects.
 - (c) Firms that were involved in joint ventures were able to “learn” and to significantly lower their costs.✓
 - (d) China’s government realized it had to keep its hands off entrepreneurial concerns.
 - (e) None of the above.

5. Most favored nation status requires:
 - (a) a WTO member that reduces a tariff on imports from one WTO trading partner to apply the lower tariff to imports from all other countries.
 - (b) a WTO member that increases a tariff on imports from one WTO trading partner to raise the tariff on imports from all other WTO members.
 - (c) a WTO member that increases a tariff on imports from one WTO trading partner to raise the tariff on imports from all other countries.
 - (d) a WTO member that reduces a tariff on imports from one WTO trading partner to apply the lower tariff to imports from all other WTO members.✓

6. Why should small nations impose import tariffs, even though they tend to reduce national welfare?
 - (a) Tariffs constitute a relatively easy way to raise government revenues for many poor countries.
 - (b) Based on the infant industry argument, there may be some long-run compensating gains.
 - (c) Governments may be politically motivated to provide help for some industries to the detriment of consumers.
 - (d) All of the above are good explanations.✓

7. Why didn’t U.S. tire producers support the recently enacted tariff on imported Chinese tires?
 - (a) They wanted the government to impose an import quota rather than an import tariff.
 - (b) They were already earning monopoly profits.
 - (c) Many of them manufacture tires in China.✓
 - (d) Since the union supported the tariff, they naturally had to oppose it.
 - (e) None of the above.

8. Which of the following is NOT a characteristic of monopolistic competition?
 - (a) Firms have some control over their markets.
 - (b) Firms produce an identical product.✓
 - (c) Firms retain some ability to control prices.
 - (d) The average cost for firms declines as they produce more output.
 - (e) Firm profits are zero.

9. Using a model of imperfect competition, economist Daniel Trefler concluded that the North American Free Trade Agreement:
- (a) cost Canada more than 100,000 jobs that were never replaced.
 - (b) presented no real issue about job loss in Canada.
 - (c) caused Canada to lose 5% of jobs in manufacturing because Canadian tariffs had to be cut, but over time the trade agreement created higher productivity and more jobs to offset losses.✓
 - (d) created new jobs in Canada from day one as firms sold across the border and undercut U.S. firms.
10. Several economists have hypothesized that the terms of trade for developing countries will decline over time. According to the Prebisch-Singer hypothesis, which of the following might be a cause of this decline?
- (a) Technological progress in manufactured goods has caused their prices to fall.
 - (b) Some developing countries are able to keep the price of their exports high by restricting supplies on the world market.
 - (c) Increased demand for developing country exports has caused prices of developing country exports to rise.
 - (d) The demand for food exports from developing countries has not risen as fast as the demand for manufactured exports of industrialized countries.✓

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

II. PROBLEM

1. (30 points) Dumping and anti-dumping

- (1) (5) Provide two conditions under which dumping is said to occur under the WTO agreements.
- (2) (10) With the help of a *discriminating monopoly* model and graphical analysis, explain why a foreign firm would want to practice dumping. Assume that the foreign country is the USA and the Home country is Canada. Make sure to mention the important assumptions of the model. Two assumptions will be that there is perfect competition in the Canadian market and a monopoly in the USA market.
- (3) (5) Explain why would the USA firm find it profitable to sell at a lower price in Canada than the price it can obtain in the USA.
- (4) (10) With the help of graphical analysis, explain why the *anticipation* of an anti-dumping duty (or threat of duty) may lead to a larger welfare loss than the standard loss from an import tariff.

2. (25 points) Import quotas under perfect competition

- (1) (15) With the help of a graphic, analyze the welfare effects of an import quota for a small open economy when there is perfect competition at home.
- (2) (5) Describe two scenarios under which the quota is equivalent to an import tariff in terms of its welfare effects. (Keep the assumption of a small open economy when there is perfect competition at home.)
- (3) (5) Describe two scenarios under which the quota is worse than an import tariff in terms of its welfare effects. (Keep the assumption of a small open economy when there is perfect competition at home.)

3. (15 points) The specific-factors model of trade

Suppose an economy with two sectors: manufacturing and agricultural. Use the specific-factors model in order to analyse the effect of a fall in the price of manufactured goods.

- (1) (5) Describe what happens to the real labor wage in terms of manufactured goods.
- (2) (5) Describe what happens to the real labor wage in terms of agricultural goods.
- (3) (5) Are the workers better off or worse off with trade? Explain.