Assignment 5 (Chapter 5)

1. The imposition of a tariff on imported steel for the home country results in:
   
   a) Improving terms of trade and rising volume of trade
   b) Higher steel prices and falling steel consumption
   c) Lower profits for domestic steel companies
   d) Higher unemployment for domestic steel workers

2. Which of the following refers to a market-sharing pact negotiated by trading partners to moderate the intensity of international competition?

   a) Orderly marketing agreement
   b) Local content requirements
   c) Import quota
   d) Trigger price mechanism

3. Suppose the government grants a subsidy to domestic producers of an import-competing good. The subsidy tends to result in deadweight losses for the domestic economy in the form of the:

   a) Consumption effect
   b) Redistribution effect
   c) Revenue effect
   d) Protective effect

4. Domestic content legislation applied to autos would tend to:

   a) Support wage levels of American autoworkers
   b) Lower auto prices for American autoworkers
   c) Encourage American automakers to locate production overseas
   d) Increase profits of American auto companies

5. Assume the U.S. has a competitive advantage in producing calculators, while the rest of the world has a competitive advantage in steel. Suppose the U.S. and the rest of the world enter into an agreement to lower import quotas below existing levels on calculators and steel. Which of the following would least likely occur for the U.S.? Rising levels of:

   a) Consumer surplus for American buyers of steel
   b) Producer surplus for American steelmakers
   c) Production in the American calculator industry
   d) Producer surplus for American calculator producers

6. The practice of Canadian firms dumping their products in Sweden poses a problem for economic policymakers since dumping tends to:

   a) Favor Swedish consumers over Canadian consumers
   b) Favor Swedish producers over Canadian producers
   c) Become widespread as firms operate at full productive capacity
   d) Result in firms charging prices above the total costs of production
7. The United Auto Workers union attempted to win the approval of legislation that would moderate the practice of foreign sourcing on the part of American auto manufacturers. Which of the following best represents this legislation?

   a) Voluntary export quotas  
   b) Trigger price mechanism  
   c) Tariff quotas  
   d) Local content laws

8. From the perspective of the American public as a whole, export subsidies levied by overseas governments on goods sold to the United States:

   a) Help more than they hurt  
   b) Hurt more than they help  
   c) Are equivalent to an import quota  
   d) Are equivalent to an export quota

9. If import licenses are auctioned off to domestic importers in a competitive market, their scarcity value (revenue effect) accrues to:

   a) Foreign corporations  
   b) Foreign workers  
   c) Domestic corporations  
   d) The domestic government

10. A specification of a maximum amount of a foreign produced good that will be allowed to enter the country over a given time period is referred to as a(n):

    a) Domestic subsidy  
    b) Export subsidy  
    c) Import quota  
    d) Export quota

11. To maintain that South Koreans are dumping their VCRs in the United States is to maintain that:

    a) Koreans are selling VCRs in the United States below their production cost  
    b) Koreans are selling VCRs in the United States above their production cost  
    c) The cost of manufacturing VCRs in Korea is lower in Korea than in the United States since wages are lower in Korea  
    d) The cost of manufacturing VCRs in Korea is higher in Korea than in the United States since wages are higher in Korea
12. Figure 5.1 illustrates the steel market for Mexico, assumed to be a "small" country that is unable to affect the world price. Suppose the world price of steel is given and constant at $200 per ton. Now suppose the Mexican steel industry is able to obtain trade protection, as discussed in the questions below. Answer the question(s) on the basis of this information.

Consider Figure 5.1. With free trade, the quantity of steel imported by Mexico equals:

a) 2 tons  
b) 4 tons  
c) 6 tons  
d) 8 tons

13. Figure 5.1 illustrates the steel market for Mexico, assumed to be a "small" country that is unable to affect the world price. Suppose the world price of steel is given and constant at $200 per ton. Now suppose the Mexican steel industry is able to obtain trade protection, as discussed in the questions below. Answer the question(s) on the basis of this information.

Refer to Figure 5.1. Suppose the Mexican government imposes an import quota equal to 2 tons of steel. If foreign exporters behave as monopoly sellers, and Mexican importers behave as competitive buyers, the overall welfare loss of the quota to Mexico equals:

a) $200  
b) $400  
c) $600  
d) $800
14. Figure 5.1 illustrates the steel market for Mexico, assumed to be a "small" country that is unable to affect the world price. Suppose the world price of steel is given and constant at $200 per ton. Now suppose the Mexican steel industry is able to obtain trade protection, as discussed in the questions below. Answer the question(s) on the basis of this information.

Refer to Figure 5.1. Suppose the Mexican government imposes an import quota equal to 2 tons of steel. If the Mexican government auctions import licenses to the highest foreign bidder, the overall welfare loss of the quota to Mexico equals:

a) $200  
b) $400  
c) $600  
d) $800

15. Figure 5.1 illustrates the steel market for Mexico, assumed to be a "small" country that is unable to affect the world price. Suppose the world price of steel is given and constant at $200 per ton. Now suppose the Mexican steel industry is able to obtain trade protection, as discussed in the questions below. Answer the question(s) on the basis of this information.

Consider Figure 5.1. Suppose instead that the Mexican government provides a subsidy of $200 per ton to its steel producers, as indicated by the supply schedule $S_M$ (with subsidy). The quantity of imports equals:

a) 1 ton  
b) 2 tons  
c) 3 tons  
d) 4 tons

Figure 5.2. International Dumping

16. Figure 5.2 illustrates the revenue and cost conditions of ABC Inc., which sells calculators in Canada and France. On the basis of this information, answer the question(s).

Consider Figure 5.2. Compared with the total revenue and total profit that ABC Inc. realizes in the absence of dumping, with dumping the firm attains a:

a) Fall in revenue of $18; fall in profits of $15  
b) Fall in revenue of $18, fall in profits of $18  
c) Rise in revenue of $18, rise in profits of $15  
d) Rise in revenue of $18, rise in profits of $18
17. Figure 5.3 illustrates the apple market for Sweden, assumed to be a "small" country that is unable to affect the world price. $S_{\text{Sweden}}$ is the domestic supply and $D_{\text{Sweden}}$ is the domestic demand. $S_{\text{Sweden+Quota}}$ is Sweden's supply schedule with an import quota. On the basis of this information answer the question(s).

Consider Figure 5.3. In the absence of trade, Sweden's equilibrium price and quantity of apples would be:

a) $0.60 and 22 pounds  
b) $0.60 and 14 pounds  
c) $1.00 and 18 pounds  
d) $1.40 and 14 pounds

18. Figure 5.3 illustrates the apple market for Sweden, assumed to be a "small" country that is unable to affect the world price. $S_{\text{Sweden}}$ is the domestic supply and $D_{\text{Sweden}}$ is the domestic demand. $S_{\text{Sweden+Quota}}$ is Sweden's supply schedule with an import quota. On the basis of this information answer the question(s).

Consider Figure 5.3. At the free-trade price of $0.60 per pound, Sweden's consumer surplus totals $____ and producer surplus totals $____.

a) $10.80, $2.40  
b) $14.60, $3.90  
c) $24.20, $1.80  
d) $32.40, $2.30
19. Figure 5.3 illustrates the apple market for Sweden, assumed to be a "small" country that is unable to affect the world price. $S_{\text{Sweden}}$ is the domestic supply and $D_{\text{Sweden}}$ is the domestic demand. $S_{\text{Sweden+Quota}}$ is Sweden's supply schedule with an import quota. On the basis of this information answer the question(s). Consider Figure 5.3. As a result of the quota, Sweden's consumer surplus:

a) Increases by $6
b) Increases by $8
c) Decreases by $6
d) Decreases by $8

20. A voluntary export agreement:

a) Typically applies only to the world's most important exporting nation(s)
b) Typically applies only to the world's least important exporting nation(s)
c) Is always more restrictive on trade than a tariff or import quota
d) All of the above

21. When voluntary export limits are imposed on the world's chief exporter:

a) The exports of the nonrestrained suppliers may be stimulated
b) A trade diversion effect may occur
c) Both a and b
d) None of the above

22. Concerning international dumping, many economists argue that "fair value" should be based on:

a) Average variable cost
b) Average fixed cost
c) Marginal cost
d) Total cost

23. An elimination of nontariff barriers on apples tends to increase apple imports, reduce profits of import-competing apple producers, and generate job losses for domestic apple workers.

a) True
b) False

24. Sporadic (distress) dumping would occur if domestic orange producers dispose of an excess quantity of oranges, resulting from an abnormally large harvest, by selling them at lower prices abroad than at home.

a) True
b) False

25. If the Australian government imposes a domestic content requirement of 75 percent on autos, at least 25 percent of an auto's value must be produced in a foreign country if that auto is to be sold in Australia.

a) True
b) False