

## File: Ch08; Chapter 8: Economic Growth and International Trade

## Multiple Choice

1. Which of the following statements is incorrect?
  - a. An ad valorem tariff is expressed as a percentage of the value of the traded commodity
  - b. a specific tariff is expressed as a fixed sum of the value of the traded commodity.
  - c. export tariffs are prohibited by the U.S. Constitution
  - d. The U.S. uses exclusively the specific tariff
  
2. A small nation is one:
  - a. which does not affect world price by its trading
  - b. which faces an infinitely elastic world supply curve for its import commodity
  - c. whose consumers will pay a price that exceeds the world price by the amount of the tariff
  - d. all of the above
  
3. If a small nation increases the tariff on its import commodity, its:
  - a. consumption of the commodity increases
  - b. production of the commodity decreases
  - c. imports of the commodity increase
  - d. none of the above
  
4. The increase in producer surplus when a small nation imposes a tariff is measured by the area:
  - a. to the left of the supply curve between the commodity price with and without the tariff
  - b. under the supply curve between the quantity produced with and without the tariff
  - c. under the demand curve between the commodity price with and without the tariff
  - d. none of the above.
  
5. If a small nation increases the tariff on its import commodity:
  - a. the rent of domestic producers of the commodity increases
  - b. the protection cost of the tariff decreases
  - c. the deadweight loss decreases
  - d. all of the above
  
6. Which of the following statements is incorrect with respect to the rate of effective protection?
  - a. for given values of  $a_i$  and  $t_i$ ,  $g$  is larger the greater is  $t$
  - b. for a given value of  $t$  and  $t_i$ ,  $g$  is larger the greater is  $a_i$
  - c.  $g$  exceeds, is equal to or is smaller than  $t$ , as  $t_i$  is smaller than, is equal to or is larger than  $t$
  - d. when  $a_i t_i$  exceeds  $t$ , the rate of effective protection is positive

7. With  $a_i=50\%$ ,  $t_i=0$ , and  $t=20\%$ ,  $g$  is:
- 40%
  - 20%
  - 80%
  - 0
8. The imposition of an import tariff by a small nation:
- increases the relative price of the import commodity for domestic producers and consumers
  - reduces the relative price of the import commodity for domestic producers and consumers
  - increases the relative price of the import commodity for the nation as a whole
  - any of the above is possible
9. The imposition of an import tariff by a small nation:
- increases the nation's welfare
  - reduces the nation's welfare
  - leaves the nation's welfare unchanged
  - any of the above is possible
10. According to the Stolper-Samuelson theorem, the imposition of a tariff by a nation:
- increases the real return of the nation's abundant factor
  - increases the real return of the nation's scarce factor
  - reduces the real return of the nation's scarce factor
  - any of the above is possible
11. The imposition of an import tariff by a nation results in:
- an increase in relative price of the nation's import commodity
  - an increase in the nation's production of its importable commodity
  - reduces the real return of the nation's abundant factor
  - all of the above
12. The imposition of an import tariff by a nation can be represented by a rotation of the:
- nation's offer curve away from the axis measuring the commodity of its comparative advantage
  - the nation's offer curve toward the axis measuring the commodity of its comparative advantage
  - the other nation's offer curve toward the axis measuring the commodity of its comparative advantage
  - the other nation's offer curve away from the axis measuring the commodity of its comparative advantage

13. The imposition of an import tariff by a large nation:
- increases the nation's terms of trade
  - reduces the volume of trade
  - may increase or reduce the nation's welfare
  - all of the above
14. The imposition of an optimum tariff by a large nation:
- improves its terms of trade
  - reduces the volume of trade
  - increases the nation's welfare
  - all of the above
15. The optimum tariff for a small nation is:
- 100%
  - 50%
  - 0
  - depends on elasticities
16. Which of the following statements is true?
- an ad valorem tariff is a fixed sum per unit
  - the U.S. does not allow exports tariffs
  - in the case of a small country the cost of a tariff is split between the buyer and seller
  - a specific tariff is a % of the value of the unit
17. The imposition of a tariff will
- increase imports, decrease domestic production, and increase consumption
  - decrease imports, increase domestic production, and decrease consumption
  - decrease imports, decrease domestic production, and increase consumption
  - increase imports, increase domestic production, and decrease consumption
18. The optimum tariff is the tariff rate that
- saved the most domestic jobs
  - generates the largest tax revenue
  - maximizes domestic production
  - maximizes the net benefit from improving the improvement in the terms of trade relative to loss from the reduction in the volume of trade
19. If the tariff rate in inputs is the same as the tariff rate of finished goods the effective rate of protection will be
- the same as the nominal rate of protection

- b. zero
- c. larger than the nominal rate of protection
- d. maximized

20. In general, for the last 50 years tariff rates around the world have been
- a. rising
  - b. falling
  - c. relatively unchanged
  - d. volatile – sometimes rising and sometimes falling quite dramatically

#### Short Answer

21. Explain the difference between an ad valorem, specific and compound tariff

22. Is there such thing as an optimum tariff for a small nation?

23. Explain the redistribution effects of a tariff.

24. Under what conditions can a tariff improve a nation's welfare?

Essay

25. From the following figure, in which  $D_C$  and  $S_C$  refer, respectively, to the domestic demand and supply curves of cloth, and  $S_F$  and  $S_F+T$  refer, respectively, to the world supply curve of cloth under free trade and with a 50% import tariff imposed by the nation on the importation of cloth, determine:

- (a) the consumption, production effect, and the trade effect of the tariff.
- (b) the reduction in consumer surplus, the increase in producer surplus or rent, the tariff revenue, and the protection cost or deadweight loss to the economy as a result of the tariff.

