

Write your name on the back of this page and nowhere else. Enclose this sheet with the graph paper you used. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 230 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give some extra time but not much.

1) (14 points) Answer ONE of the following parts.

- A) Suppose there is a 10% tariff rate on imported cars. There is a 40% import tariff rate on aluminum and aluminum is 30% of a car. What is the effective rate of protection for the car industry? Show all work and briefly explain what you did. What does that number tell you? Explain your logic.
- B) The *infant industry* argument for restricting trade is one which is commonly cited by non-economists. Explain the argument and state one of the problems with it.
- C) *What is persistent dumping?* Why aren't economists concerned about it?

2) (18 points) Answer EITHER Part A OR Part B.

- A) Explain how economic growth could be immiserizing. Make sure you mention both of the effects when you explain your logic.
- B) Suppose China is labor abundant, cars are capital intensive, and clothing is labor intensive. If the amount of capital increases in China, then will this unambiguously make them better off, probably make them better off, probably make them worse off, or definitely make them worse off? Explain your logic.

3) (20 points) Answer EITHER Part A OR Part B.

- A) Draw the offer curves for two countries. Show the implementation of an export quota by the labor abundant country. Explain why you chose that offer curve and why you drew the change in the manner you drew it.
- B) Draw the offer curves for two countries. Show the implementation of an import quota by the capital abundant country. Explain why you chose that offer curve and why you drew the change in the manner you drew it.

4) (24 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand for a good a small country exports. Draw the effects of an export tariff on the diagram. Explain why the curve(s) moved as drawn. Find the consumer surplus (CS), producer surplus (PS), tariff revenue (TR) if applicable, and the dead weight loss (DWL) if applicable, for both free trade and the tariff. BRIEFLY explain why you chose those areas.
- B) Draw the supply and demand for a good a small country imports. Draw the effects of an import quota on the diagram. Explain why the curve(s) moved as drawn. Find the consumer surplus (CS), producer surplus (PS), foreign producer surplus (FPS) if applicable, and the dead weight loss (DWL) if applicable, for both free trade and the tariff. BRIEFLY explain why you chose those areas.

5) (24 points) Answer EITHER Part A OR Part B.

- A) Draw the offer curves for the USA and Brazil. Assume we are capital abundant and Brazil is labor abundant. The two goods are sweaters (labor intensive) and computers (capital intensive). Draw the indifference curve for free trade for the USA and the indifference curve which will tell us where the optimal tariff adjusted offer curve should go. Draw the offer curve with the tariff. Explain how you know which offer curve corresponds to which country, the curvature of the indifference curve, and how you found the point the optimal tariff adjusted offer curve should go through.
- B) Suppose Mexico is labor abundant, tomatoes are labor intensive and cameras are capital intensive. Draw three of their trade indifference curves and use those three curves to find the Mexican offer curve. Explain how you know the curvature of the indifference curves is correct and how you found the offer curve.