

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Tuesday 4/10.

Chapter 8: What are meant by **import tariff**, **export tariff**, **ad valorem tariff**, **specific tariff**, and **compound tariff**? Be able to show the partial equilibrium analysis (S/D) of an import tariff and an export tariff for a small country and an import tariff for a large country. Be able to find **consumer surplus (CS)**, **producer surplus (PS)**, and **tariff revenue (TR)** (if applicable) for free trade, autarky, and with the tariff. Use that to find the **dead-weight loss (DWL)**. Know which part of the DWL is from **consumption inefficiency** and which part is from **production inefficiency**. Be able to calculate the **effective rate of protection, a.k.a., rate of effective protection (ERP)** for an industry from its tariff rate, the tariff rates of imported inputs, and the **value added** which comes from domestic sources and that which comes from abroad. (Note that I could have changed $a_i t_i$ to $\Sigma a_i t_i$ and a_i to Σa_i so that there could be different tariffs on imported inputs.) The five results on Page 205 are results you should understand why they hold. Result #3 only holds if $t > t_i$. Understand why that is true. Be able to show the general equilibrium (PPF/CPF) diagram for a small country. *Note: with the tariff, the production and consumption points are where the new domestic price line is tangent to the PPF and the indifference curves respectively. However, they are both on the same line whose slope equals the world price. The distance between the two domestic price lines is the tariff revenue. Note the graph in the book is a tariff on importing the labor intensive good. If it was an import tariff on the capital intensive good, then the tariff revenue would be measured vertically.* Know the **Stolper-Samuelson Theorem**. Be able to draw the effects of a tariff on the offer curve diagram for a large country. *Note that in Figure 8.5, the tariff revenue is horizontal because it is an import tariff and imports for Country 1 are measured horizontally.* Be able to add the **indifference curves** to the offer curve diagram. *Note that for the labor abundant country, the indifference curves get steeper because as the country moves to the right, they are exporting more so they must get an ever increasing amount of imports (move up more). Similarly, for the capital abundant country, the indifference curves get flatter because as the country moves up, they are exporting more so they must get an ever increasing amount of imports (move right more).* Be able to find the **optimal tariff** and explain how the large country is gaining from the tariff and how we know the world is losing. The graph can be seen in Appendix A8.6. Ignore the Metzler Paradox. Understand why retaliation is a problem for the optimal tariff.

Chapter 9: Be able to show the effects of an **import quota** in the partial equilibrium analysis (S/D) for a small country. The D'_x in Figure 9.1 is showing the results of an increase in demand. It is not what I drew. You can draw the diagram and have the distance between S and D be the quota size (the books method) or you can add the quota to the supply and you will get the total supply available for our consumption (the way I did it in class.) Be able to find the consumer surplus, producer surplus and the area which either goes to the foreign firms or our government depending upon how the quotas are distributed. *Note that the end result of the quota and the tariff are the same providing the curves do not move.* Understand how other **non-tariff barriers (NTBs)** restrict trade. Some of these are **technical**, **administrative**, and **other regulations**. What are **international cartels** and how do they work? What

are **persistent dumping**, **predatory dumping**, and **sporadic dumping**? Why would companies act those ways? Which should the receiving country protect itself from? Why? How does a **trigger-price mechanism** work? Is that good or bad? What are **export subsidies**? How do they hurt and help each country? Ignore FSCs. What are **countervailing duties** and when are they used? Understand the graph for an export subsidy on S/D. Explain the strengths (if they exist) and weaknesses of the **scientific tariff** and the **infant-industry** arguments. What determines who gets protected? Understand the general idea of **strategic trade policy**. Do not worry about the game theory. What do the following mean: **most-favored-nation principle**, **bilateral trade agreement**, **GATT**, and **WTO**? The list of 10 provisions of the **Uruguay Round** on Page 251 is important, except for #7 because it failed. However, I will not ask you to list them. I will ask you why some of those provisions are important.

Non-graded Homework Assignment #6A to be reviewed with Assignment #6.

1) (15 points each) For each of these types of dumping, explain why a firm might do it. Also determine if it is a reason for a government to take action. Explain your logic.

A) Sporadic dumping

B) Predatory dumping

2) (20 points) Why won't firm do persistent dumping if we use the economists' definition? Why might they do it if we use the politician's definition of dumping? Make sure you give both definitions.

3) (15 points each) For each of the following, explain the logic used to restrict trade. Give a reason why economists either disagree with the argument or give a reason why it might not hold.

A) Cheap labor, a.k.a. the scientific tariff

B) Infant industry

4) (10 points each) For each of the following, explain why the Uruguay Round of GATT included it.

A) Quotas are to be replaced by tariffs.

B) Subsidies on exports are to be reduced.