

Sample Questions and Answers (copy righted materials)

The Instruments of Trade Policy

■ Multiple Choice Questions

1. Specific tariffs are
 - (a) import taxes stated in specific legal statutes.
 - (b) import taxes calculated as a fixed charge for each unit of imported goods.
 - (c) import taxes calculated as a fraction of the value of the imported goods.
 - (d) the same as import quotas.
 - (e) None of the above.Answer: B
2. Ad valorem tariffs are
 - (a) import taxes stated in ads in industry publications.
 - (b) import taxes calculated as a fixed charge for each unit of imported goods.
 - (c) import taxes calculated as a fraction of the value of the imported goods.
 - (d) the same as import quotas
 - (e) None of the above.Answer: C
3. The excess supply curve of a product we (H) import from foreign countries (F) increases as
 - (a) excess demand of country H increases.
 - (b) excess demand of country F increases.
 - (c) excess supply of country H increases.
 - (d) excess supply of country F increases.
 - (e) None of the above.Answer: D
4. If a good is imported into (large) country H from country F, then the imposition of a tariff in country H
 - (a) raises the price of the good in both countries (the “Law of One Price”).
 - (b) raises the price in country H and cannot affect its price in country F.
 - (c) lowers the price of the good in both countries.
 - (d) lowers the price of the good in H and could raise it in F.
 - (e) raises the price of the good in H and lowers it in F.Answer: E

5. If a good is imported into (small) country H from country F, then the imposition of a tariff in country H
- (a) raises the price of the good in both countries (the “Law of One Price”).
 - (b) raises the price in country H and does not affect its price in country F.
 - (c) lowers the price of the good in both countries.
 - (d) lowers the price of the good in H and could raise it in F.
 - (e) raises the price of the good in H and lowers it in F.

Answer: B

6. If a good is imported into a large country H from country F, then the imposition of a tariff in country H ,
- (a) raises the price of the good in both countries (the “Law of One Price”).
 - (b) raises the price in country H and cannot affect its price in country F.
 - (c) lowers the price of the good in both countries.
 - (d) lowers the price of the good in H and could raise it in F.
 - (e) raises the price of the good in H and lowers it in F.

Answer: C

7. The effective rate of protection measures
- (a) the “true” ad valorem value of a tariff.
 - (b) the quota equivalent value of a tariff.
 - (c) the efficiency with which the tariff is collected at the customhouse.
 - (d) the protection given by the tariff to domestic value added.
 - (e) None of the above.

Answer: D

8. If the tariff on computers is not changed, but domestic computer producers shift from domestically produced semiconductors to imported components, then the effective rate of protection in the computer industry will
- (a) increase.
 - (b) decrease
 - (c) remain the same.
 - (d) depend on whether computers are PCs or “Supercomputers.”
 - (e) None of the above.

Answer: A

9. If the tariff on computers is not changed, but the government then adds hitherto nonexistent tariffs on imported semi-conductor components, then the effective rate of protection in the computer industry will
- (a) increase.
 - (b) decrease
 - (c) remain the same.
 - (d) depend on whether computers are PCs or “Supercomputers.”
 - (e) None of the above.

Answer: B

10. If a small country imposes a tariff, then
- (a) the producers must suffer a loss.
 - (b) the consumers must suffer a loss.
 - (c) the government revenue must suffer a loss.
 - (d) the demand curve must shift to the left.
 - (e) None of the above.

Answer: B

11. If a large country imposes a tariff, then
- (a) the producers must suffer a loss.
 - (b) the consumers must suffer a loss.
 - (c) the government revenue must suffer a loss.
 - (d) the demand curve must shift to the left.
 - (e) None of the above.

Answer: B

12. The imposition of tariffs on imports results in deadweight (triangle) losses. These are
- (a) production and consumption distortions referred to as protective and consumption effects.
 - (b) redistribution effects.
 - (c) revenue effects
 - (d) efficiency effects.
 - (e) None of the above.

Answer: A

13. Suppose the United States eliminates its tariff on ball bearings used in producing exports. Ball bearing prices in the United States would be expected to
- (a) increase, and the foreign demand for U.S. exports would increase.
 - (b) decrease, and the foreign demand for U.S. exports would increase.
 - (c) increase, and the foreign demand for U.S. exports would decrease.
 - (d) decrease, and the foreign demand for U.S. exports would decrease.
 - (e) None of the above.

Answer: C

14. A specific tariff provides home producers more protection when
- (a) the home market buys cheaper products rather than expensive products.
 - (b) it is applied to a commodity with many grade variations.
 - (c) the home demand for a good is elastic with respect to price changes.
 - (d) it is levied on manufactured goods rather than primary products.
 - (e) None of the above.

Answer: A

15. A lower tariff on imported steel would most likely benefit
- (a) foreign producers at the expense of domestic consumers.
 - (b) domestic manufacturers of steel.
 - (c) domestic consumers of steel.
 - (d) workers in the steel industry.
 - (e) None of the above.

Answer: C

16. When a government allows raw materials and other intermediate products to enter a country duty free, this generally results in a(an)
- (a) effective tariff rate less than the nominal tariff rate.
 - (b) nominal tariff rate less than the effective tariff rate.
 - (c) rise in both nominal and effective tariff rates.
 - (d) fall in both nominal and effective tariff rates.
 - (e) None of the above.

Answer: B

17. Of the many arguments in favor of tariffs, the one that has enjoyed significant economic justification has been the
- (a) cheap foreign labor argument.
 - (b) infant industry argument.
 - (c) even playing field argument.
 - (d) balance of payments argument
 - (e) domestic living standard argument.

Answer: B

18. The main redistribution effect of a tariff is the transfer of income from
- (a) domestic producers to domestic buyers.
 - (b) domestic buyers to domestic producers.
 - (c) domestic producers to domestic government.
 - (d) domestic government to domestic consumers.
 - (e) None of the above.

Answer: B

19. The principle benefit of tariff protection goes to
- (a) domestic consumers of the good produced.
 - (b) foreign consumers of the good produced.
 - (c) domestic producers of the good produced.
 - (d) foreign producers of the good produced.
 - (e) None of the above.

Answer: C

20. As globalization tends to increase the proportion of imported inputs relative to domestically supplied components,
- (a) the nominal tariff automatically increases.
 - (b) the rate of (effective) protection automatically decreases.
 - (c) the nominal tariff automatically decreases.
 - (d) the rate of (effective) protection automatically increases.
 - (e) None of the above.

Answer: D

21. Which of the following policies permits a specified quantity of goods to be imported at one tariff rate and a higher tariff rate to imports above this quantity?
- (a) Import tariff
 - (b) Voluntary exports restraint
 - (c) Tariff quota
 - (d) Ad valorem tariff
 - (e) None of the above.

Answer: C

22. Should the home country be “large” relative to its trade partners, its imposition of a tariff on imports would lead to an increase in domestic welfare if the terms of the trade rectangle exceed the sum of the
- (a) revenue effect plus redistribution effect.
 - (b) protective effect plus revenue effect.
 - (c) consumption effect plus redistribution effect.
 - (d) protective distortion effect plus consumption distortion effect.
 - (e) None of the above.

Answer: D

23. A problem encountered when implementing an “infant industry” tariff is that
- (a) domestic consumers will purchase the foreign good regardless of the tariff.
 - (b) the industry may never “mature.”
 - (c) most industries require tariff protection when they are mature.
 - (d) the tariff may hurt the industry’s domestic sales.
 - (e) None of the above.

Answer: B

24. Which of the following is a fixed percentage of the value of an imported product?
- (a) Specific tariff
 - (b) Ad valorem tariff
 - (c) Nominal tariff
 - (d) Effective protection tariff
 - (e) None of the above.

Answer: B

25. A tax of 20 cents per unit of imported garlic is an example of a(n)
- (a) specific tariff.
 - (b) ad valorem tariff.
 - (c) nominal tariff.
 - (d) effective protection tariff.
 - (e) None of the above.

Answer: A

26. A tax of 20 percent per unit of imported garlic is an example of a(n)
- (a) specific tariff.
 - (b) ad valorem tariff.
 - (c) nominal tariff.
 - (d) effective protection tariff.
 - (e) None of the above.

Answer: B

27. Which type of tariff is forbidden in the United States on Constitutional grounds?
- (a) Import tariff
 - (b) Export tariff
 - (c) Specific tariff
 - (d) Prohibitive tariff
 - (e) None of the above.

Answer: B

28. The deadweight loss of a tariff
- (a) is a social loss because it promotes inefficient use of national resources.
 - (b) is a social loss because it reduces the revenue of the government.
 - (c) is not a social loss because it merely redistributes revenue from one sector to another.
 - (d) is not a social loss because it is paid for by rich corporations.
 - (e) None of the above.

Answer: A

29. Tariffs are not defended on the ground that they
- (a) improve the terms of trade of foreign nations.
 - (b) protect jobs and reduce unemployment.
 - (c) promote growth and development of young industries.
 - (d) prevent over-dependence of a country on only a few industries.
 - (e) None of the above.

Answer: A

30. The most vocal political pressure for tariffs is generally made by
- (a) consumers lobbying for export tariffs.
 - (b) consumers lobbying for import tariffs.
 - (c) consumers lobbying for lower import tariffs.
 - (d) producers lobbying for export tariffs.
 - (e) producers lobbying for import tariffs.

Answer: E

31. A policy of tariff reduction in the computer industry is
- (a) in the interest of the United States as a whole and in the interest of computer producing regions of the country.
 - (b) in the interest of United States as a whole but not in the interest of computer producing regions of the country.
 - (c) not in the interest of the United States as a whole but in the interests of computer producing regions of the country.
 - (d) not in the interest of the United States as a whole and not in the interests of computer consumers.
 - (e) None of the above.

Answer: B

32. The fact that industrialized countries levy very low or no tariff on raw materials and semi processed goods
- (a) helps developing countries export manufactured products.
 - (b) has no effect on developing country exports.
 - (c) hurts developing country efforts to export manufactured goods.
 - (d) hurts developing country efforts to export raw materials.
 - (e) None of the above.

Answer: C

37. In an inflationary environment, then over time
- (a) A specific tariff will tend to raise more revenue than an *ad valorem* tariff.
 - (b) An *ad valorem* tariff will tend to raise more revenue than a specific tariff
 - (c) An optimum tariff will tend to raise more revenue than an escalating tariff
 - (d) A tariff quota will tend to raise more revenue than a specific tariff.
 - (e) None of the above

Answer: B

38. The imposition of tariffs will help a nation attain which of the following goals?
- (a) Decreased domestic consumer prices
 - (b) Increased domestic employment
 - (c) Increased amount and variety of goods available for consumers
 - (d) Increased competition between domestic and foreign producers
 - (e) None of the above

Answer: E

40. What is a true statement concerning the imposition in the U.S. of a tariff on steel?
- (a) It lowers the price of cheese domestically
 - (b) It raises the price of cheese internationally
 - (c) It raises revenue for the government
 - (d) It will always result in retaliation from abroad
 - (e) None of the above

Answer: C

41. An important difference between tariffs and quotas is that tariffs
- (a) raise the price of the good
 - (b) generate tax revenue for the government
 - (c) stimulate international trade
 - (d) help domestic producers
 - (e) None of the above

Answer: B

■ Essay Questions

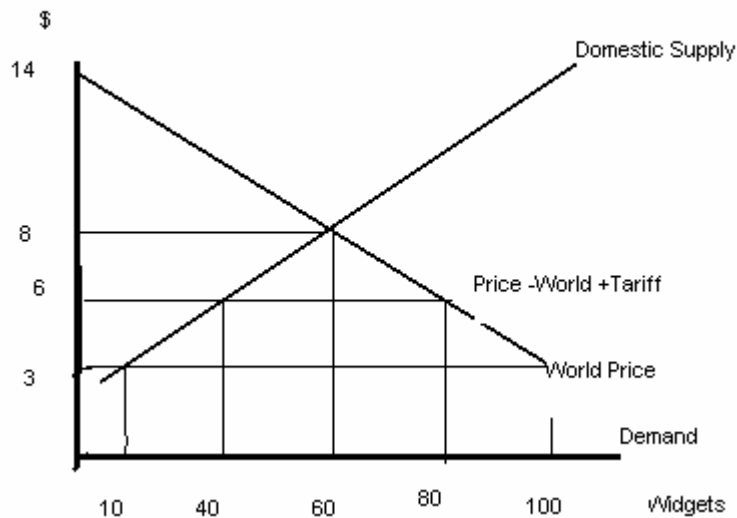
1. The two deadweight triangles are the *Consumption distortion* and *Production distortion* losses. It is easy to understand why the *Consumption distortion* constitutes a loss for society. After all it raises the prices of goods to consumers, and even causes some consumers to drop out of the market altogether. It seems paradoxical that the *Production distortion* is considered an equivalent burden on society. After all, in this case, profits increase, and additional production (with its associated employment) comes on line. This would seem to be an offset rather than an addition to the burden or loss borne by society. Explain why the *Production distortion* is indeed a loss to society, and what is wrong with the logic that leads to the apparent paradox.

Answer: The *Production Distortion* represents an inefficient shift of society's resources to produce a good, which it could not sell profitably at world prices. Since (with full employment assumed) these resources were formerly used to produce export goods, which could compete profitably, the net result is a loss in real income to the country.

2. It is argued that a tariff may help promote employment in a single industry, but is not likely to help employment in general. Discuss.

Answer: A general tariff on all imports is equivalent to a depreciation in the value of the country's currency. It would raise the prices of all imports, and have a considerable income effect. This income effect will have a negative effect on total consumption of the import-competing sector (as well as the exportables and non-tradables). In addition, under conditions of a flexible exchange rate regime (assuming the Marshal-Lerner Conditions hold) it will lower the supply of the country's currency in the foreign exchange market, and hence cause an appreciation of the currency. This will harm the country's exports, and negatively affect this sector's employment.

■ Quantitative/Graphing Problems



1. In the Figure above, in the absence of Trade how many Widgets does this country produce and consume?

Answer: 60

2. In the absence of trade what is the country's consumer plus producer surplus?

Answer: \$180, \$180

3. With free trade and no tariffs, what is the quantity of Widgets imported?

Answer: 90

4. With a specific tariff of \$3 per unit, what is the quantity of Widget imports?

Answer: 40

5. The loss of Consumer Surplus due to the tariff equals

Answer: \$270