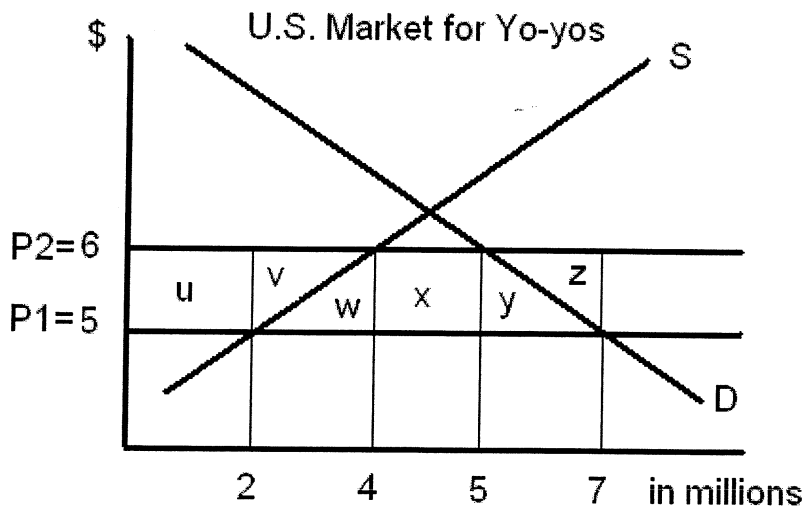


QUIZ 3
 Thursday, March 6
 (20 points)

Fill in the blank/short answer - may be more than one word. (1.5 points each)

- 1) A tariff levied as a percentage of the value of a good is a(n) ad valorem tariff.
- 2) Losses that are not transferred to any other agent are deadweight losses.
- 3) Briefly describe one way in which the importing country can obtain the rents from an import quota:
Give importing rights (licenses) to domestic importers or Government could auction the import rights
- 4) A large country has the ability to gain in welfare from imposing a tariff because the tariff will affect the terms of trade
 (or international price)
- 5) List a non-tariff barrier besides a quantitative restriction:
domestic content restrictions, sanitary restrictions; environmental restrictions; labeling restrictions, etc.

Use the following graph of U.S. market for yo-yos to answer questions 5-9 (2 points each). Assume that P1 is the free trade price and P2 is the domestic price which includes the tariff:



6) Calculate the ad valorem tariff.

$$\frac{6-5}{5} = 0.2 \text{ or } 20\%$$

7) Which lettered region(s) represent the producer surplus gain to U.S. producers of yo-yos?

u and v.

Keep referring to the diagram on the first page for questions 8 and 9.

8) Which lettered region(s) represent the consumer surplus lost by U.S. consumers?

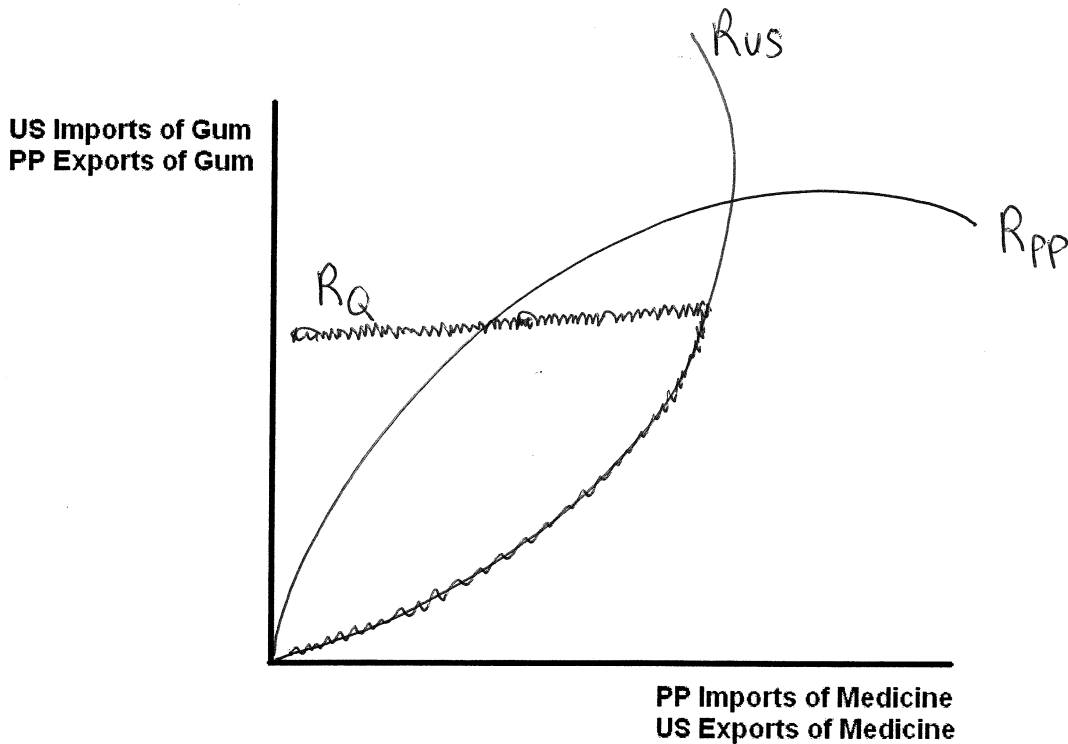
u, v, w, x, y

9) Which lettered region(s) represent the tariff revenue collected?

x Calculate the dollar value of the tariff revenues:

$$\begin{aligned} \text{Tariff revenue} &= \text{tariff} \times \text{import quantity} \\ &= \$1 \times 1 \text{ million} = \$1 \text{ million} \end{aligned}$$

10) Draw an offer curve diagram of the U.S. and Pago Pago on the axes below for the following situations – 1) free trade, and 2) the U.S. puts on a binding import quota. Make sure to label free trade offer curves as R_{US} and R_{PP} , for the U.S. and Pago Pago, respectively. Then label the new U.S. offer curve after the quota is in place as R_Q . (3 points)



11) What happens to the international terms of trade from the perspective of Pago Pago when the US puts on the import quota in the diagram in question 10 above? (improve or worsen) worsens (1.5 points)