Chapter 35 Exercises

Self-Check Questions

1. Explain how a tariff reduction causes an increase in the equilibrium quantity of imports and a decrease in the equilibrium price.
2. Explain how a subsidy on sugar adversely affects the income of foreign producers of imported sugar.
3. Explain how trade barriers save jobs in protected industries, but only by costing jobs in other industries.
4. Explain how trade barriers raise wages in protected industries by reducing average wages economy-wide.
5. How does international trade affect working conditions of low-income countries?
6. Do the jobs for workers in low-income countries that involve making products for export to high-income countries typically pay those workers more or less than their next-best alternative?
7. How do trade barriers affect the average income level in an economy?
8. How does the cost of saving jobs in protected industries compare to the workers' wages and salaries?
9. Explain how predatory pricing could be a motivation for dumping.
10. Why do low-income countries like Brazil, Egypt, or Vietnam have lower environmental standards than high-income countries like Germany, Japan, or the United States?
11. Explain the logic behind the race-to-the-bottom argument and the likely reason it has not occurred.
12. What are the conditions under which a country may use the unsafe products argument to block imports?
13. Why is the national security argument not convincing?
14. Assume there's a perfectly competitive market and a small exporting country. Using a demand and supply diagram, show the impact of increasing standards on a low-income exporter of toys. Show the impact of a tariff. Is the effect on the price of toys the same or different? Why is a standards policy preferred to tariffs?
15. What is the difference between a free trade association, a common market, and an economic union?
16. Why would countries promote protectionist laws while also negotiating for freer trade internationally?
17. What might account for the dramatic increase in international trade over the past fifty years?
18. How does competition, whether domestic or foreign, harm businesses?
19. What are the gains from competition?

Review Questions

20. Who does protectionism protect? What does it protect them from?

21. Name and define three policy tools for enacting protectionism.

22. How does protectionism affect the price of the protected good in the domestic market?

23. Does international trade, taken as a whole, increase the total number of jobs, decrease the total number of jobs, or leave the total number of jobs about the same?

24. Is international trade likely to have roughly the same effect on the number of jobs in each individual industry?

25. How is international trade, taken as a whole, likely to affect the average level of wages?

26. Is international trade likely to have about the same effect on everyone's wages?

27. What are the main reasons for protecting infant industries? Why is it difficult to stop protecting them?

28. What is dumping? Why does prohibiting it often work better in theory than in practice?

29. What is the race-to-the-bottom scenario?

30. Do the rules of international trade require that all nations impose the same consumer safety standards?

31. What is the national interest argument for protectionism with regard to certain products?

32. Name several of the international treaties where countries negotiate with each other over trade policy.

33. What is the general trend of trade barriers over recent decades: higher, lower, or about the same?

34. If opening up to free trade would benefit a nation, why do nations not just eliminate their trade barriers and not bother with international trade negotiations?

35. Who gains and who loses from trade?

36. Why is trade a good thing if some people lose?

37. What are some ways that governments can help people who lose from trade?

Critical Thinking Questions

38. Show graphically that for any tariff, there is an equivalent quota that would give the same result. What would be the difference, then, between the two types of trade barriers? (*Hint*: it is not something you can see from the graph.)

39. From the Work It Out in Lesson 35.1, you can see that a tariff raises the price of imports. Interestingly, the price rises by less than the amount of the tariff. Who pays the rest of the tariff amount? Can you show this graphically?

40. If trade barriers hurt the average worker in an economy (due to lower wages), why does the government create trade barriers?

41. Why do you think labor standards and working conditions are lower in the low-income countries of the world than in countries like the United States?

42. How would direct subsidies to key industries be preferable to tariffs or quotas?

43. How can governments identify good candidates for infant industry protection? Can you suggest some key characteristics of good candidates? Why are industries like computers not good candidates for infant industry protection?

44. Microeconomic theory argues that it is economically rational (and profitable) to sell additional output as long as the price covers the variable costs of production. How is this relevant to determining if dumping has occurred?

45. How do you think Americans would feel if other countries began to urge the United States to increase environmental standards?

46. Is it legitimate to impose higher safety standards on imported goods than exist in the foreign country where the goods were produced?

47. Why might the unsafe consumer products argument be a more effective strategy (from the perspective of the importing country) than using tariffs or quotas to restrict imports?

48. Why might a tax on domestic consumption of resources critical for national security be a more efficient approach than barriers to imports?

49. Why do you think the GATT rounds and WTO negotiations have become longer and more difficult to resolve?

50. An economic union requires giving up some political autonomy to succeed. What are some examples of political power that countries must give up to be members of an economic union?

51. What are some examples of innovative products that have disrupted their industries for the better?

52. In principle, the benefits of international trade to a country exceed the costs, regardless of whether the country is importing or exporting. In practice, it is not always possible to compensate the losers in a country, such as, workers who lose their jobs due to foreign imports. In your opinion, does that mean trade should be inhibited to prevent the losses?

53. Economists sometimes say that protectionism is the second-best choice for dealing with any particular problem. What they mean is that there is often a policy choice that is more direct or effective at dealing with the problem—a choice that would still allow the benefits of trade to occur. Explain why protectionism is a second-best choice for the following:

a. Helping workers as a group

b. Helping industries stay strong

c. Protecting the environment

d. Advancing national defense

54. Trade has income distribution effects. For example, suppose that because of a government-negotiated reduction in trade barriers, trade between Germany and the Czech Republic increases. Germany sells house paint to the Czech Republic. The Czech Republic sells alarm clocks to Germany. Would you expect this pattern of trade to increase or decrease jobs and wages in the paint and alarm clock industries in each country? Sketch a demand and supply diagram for each of these four labor markets to illustrate your answer. What has to happen for there to be no increase in total unemployment in both countries?

Problems

55. Assume two countries, Thailand (T) and Japan (J), have one good: cameras. The demand (d) and supply (s) for cameras in Thailand and Japan are described by the following functions:

$$Q_d^T = 60 - P$$
$$Q_s^T = -5 + \frac{1}{4}P$$
$$Q_d^J = 80 - P$$
$$Q_s^J = -10 + \frac{1}{2}P$$

P is the price measured in a common currency used in both countries, such as the Thai baht.

a. Compute the equilibrium price (P) and quantities (Q) in each country without trade.

b. Now assume that free trade occurs. The free-trade price goes to 56.36 baht. Who exports and imports cameras and in what quantities?

56. You have just been put in charge of trade policy for Malawi. Coffee is a recent crop that is growing well, and the Malawian export market is developing. As such, Malawi coffee is an infant industry. Malawi coffee producers come to you and ask for tariff protection from cheap Tanzanian coffee. What sorts of policies will you enact? Explain.

57. The country of Pepperland exports steel to the Land of Submarines. Information for the quantity demanded (Q_d) and quantity supplied (Q_s) in each country, in a world without trade, are given in the following tables.

Pepperland

Price	Q_d	Q_s
$60	230	180
$70	200	200
$80	170	220
$90	150	240
$100	140	250

Land of Submarines

Price	Q_d	Q_s
$60	430	310
$70	420	330
$80	410	360
$90	400	400
$100	390	440

a. What would be the equilibrium price and quantity in each country in a world without trade? How can you tell?

b. What would be the equilibrium price and quantity in each country if trade is allowed to occur? How can you tell?

c. Sketch two supply and demand diagrams, one for each country, in the situation before trade.

d. On those diagrams, show the equilibrium price and the levels of exports and imports in the world after trade.

e. If the Land of Submarines imposes an antidumping import quota of 30, explain in general terms whether it will benefit or injure consumers and producers in each country.

f. Does your general answer change if the Land of Submarines imposes an import quota of 70?