Name: …………..

Number:…………

For each correct answer you get 0.5; **for each wrong answer you lose 0.5.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Question | T | F | Question | T | F |
| 1 |  |  | 21 |  |  |
| 2 |  |  | 22 |  |  |
| 3 |  |  | 23 |  |  |
| 4 |  |  | 24 |  |  |
| 5 |  |  | 25 |  |  |
| 6 |  |  | 26 |  |  |
| 7 |  |  | 27 |  |  |
| 8 |  |  | 28 |  |  |
| 9 |  |  | 29 |  |  |
| 10 |  |  | 30 |  |  |
| 11 |  |  | 31 |  |  |
| 12 |  |  | 32 |  |  |
| 13 |  |  | 33 |  |  |
| 14 |  |  | 34 |  |  |
| 15 |  |  | 35 |  |  |
| 16 |  |  | 36 |  |  |
| 17 |  |  | 37 |  |  |
| 18 |  |  | 38 |  |  |
| 19 |  |  | 39 |  |  |
| 20 |  |  | 40 |  |  |

**1.** In the chapter of his book, Krugman asserts that countries can engineer substantial cuts in real wages through devaluations without bringing about serious social unrest.

**2.** *Everything else the same*, a tariff on the imports of a certain good is less advisable in the case of a large country than in the case of a small country.

**3.** In the case of a large country, a tariff on the imports of a certain good improves the country’s terms of trade but increases the price paid by consumers.

**4.** A tariff of 5 dollars on the imports of each unit of a certain good from a foreign company with market power in a certain country tends to increase by more than 5 dollars the price paid by the consumers of that country.

**5.** A tariff on the imports of a certain good from a foreign company with market power in a certain country leads to consumption inefficiency. This inefficiency is associated with only part of the reduction that occurs in the welfare of consumers. And both things happen despite the fact that the tariff improves the country’s terms of trade.

**6.** In the example presented in our lectures, if the Thailand’s government protects the infant industry of watches, then the Swiss specialization in the watch industry will not remain.

**7.** In the trade policy analysis, the movement of a large country from autarky to free trade increases the price of the good it imports and decreases the price of the good it exports.

**8.** The Common Agriculture Policy of the European Union decided to destroy the surpluses of production, because the alternative – to subsidize exports – would have been too expensive.

**9.** The effective rate of protection cannot exceed 100%.

**10.** The effective rate of protection measures the protection over the value added.

**11.** The effective rate of protection can only be negative if the tariff on the final good is zero.

**12.** If the tariff on the final good and the tariff on the imported input are both equal to x%, then the effective rate of protection is equal to x% as well.

**13.** A subsidy given to each exported unit of a certain good leads to the replacement of some lower cost foreign production by some higher cost domestic production.

**14.** Consider a small country. A subsidy per unit produced attributed to an industry which competes with imports has two consequences: it induces some higher cost domestic firms to replace some lower cost foreign firms; and it makes some consumers choose not to buy some units produced by that sector that would give them more utility than their production cost in the rest of the world.

**15.** A subsidy given to each exported unit of a certain good leads in a first stage to a scarcity of that good in the domestic market.

**16.**If country A forms a Customs Union with country B, the welfare of the two countries will increase - especially if they start buying from each other many goods that formerly they used to buy from countries that are not integrated in that Customs Union.

**17.** If country A forms a Customs Union with country B, the new trade that will take place between the two countries is associated with ‘trade creation’.

**18.** A Free Trade Area may worsen the terms of trade of the participating countries and, besides, may only reduce - without eliminating - the inefficiencies in production and in consumption.

**19.** When countries eliminate all tariffs and quotas on each other exports and, in addition, agree to charge the same tariffs on the imports from the rest of the world, they are said to create a Common Market.

**20**. As far as imported goods are concerned, a Free Trade Area cannot lead to an increase in the prices paid by consumers, but may increase the prices paid by the countries.

**21.** The WTO (GATT before 1994) is an organization in which most countries of the world meet with the aim of liberalizing the trade between them. The governments of these countries are not allowed to give subsidies to the exports of industrial goods or to impose quotas on their imports of these goods. But the governments of those countries are allowed to give subsidies to the exports of agricultural goods.

**22.** The GATT was renamed WTO in 1994. Since then, the member countries have had a greater capacity punish the members that happen to violate the WTO rules.

**23.** The negotiations conducted in the WTO are subject to various rules: bilateralism, reciprocity, the most favoured nation, and the irreversibility of decisions to liberalize imports.

**24.** *Everything else constant*, in a Free Trade Area (FTA) trade creation is less likely to outweigh trade diversion for a country whose pre-FTA tariffs are very high.

**25.** The Hecksher-Ohlin (HO) model assumes the existence of competition between the producers of each good. As a result, in the HO model the price of each good is equal to its production cost.

**26.** In the HO model, the price of capital is not equal to the price of acquisition of a unit of capital. Instead, in that model the price of capital is equal to the return that companies must pay per period for the financing that allows them to buy a unit of capital.

**27.** According to the HO theorem, a country has a lower cost in the good whose production uses intensively the factor that is cheaper in that country.

**28.** According to Leontieff (1953), the goods exported by the US were more intensive in capital – the factor abundant in that country – than the goods imported by the US.

**29.** Consider a country abundant in qualified labour – country A – and another country abundant in non-qualified labour – country B. According to the HO theorem, country A will export the good intensive in qualified labour even if its greater abundance in qualified labour does not imply a wage of this type of labour lower than in country B.

**30.** One implication of the HO theorem is that countries with the same technologies in the production of the two goods do not trade with each other.

**31.** In the chapter of his book, Krugman argues that it makes sense for countries to share the same currency only if there is a high degree of economic integration between them.

**32.** In the chapter of his book, Krugman argues that the Eurozone crisis was essentially caused by the fiscal irresponsibility of some governments.

**33.** In the chapter of his book, Krugman argues that the European Central Bank should stand ready to buy the government bonds of the countries in difficulty.

**34.** In the chapter of his book, Krugman is opposed to increases in both wages and spending in the Northern European countries with surpluses in their current accounts.

**35.** According to the HO model, in the long run a country does not have to export one of the goods in order to be capable to finance the imports of the other good.

**36.** Free trade may be associated with the following benefits: elimination of production and consumption inefficiencies in industries that operate under competition with a spectrum of firms from very efficient to very inefficient ones; exploration of external and internal economies of scale; greater varieties of each good to choose from; elimination of consumption inefficiency and of exploitation of consumers by domestic producers in industries that in autarky are monopolistic or oligopolistic; and dumping.

**37.** The prices guaranteed by the Common Agricultural Policy of the European Union imply a protection from the competition from the rest of the world. But those prices are not higher than those that would prevail under competition between European farmers in autarky.

**38.** The fact that even in less-developed countries businessmen do not overweight short-term losses and give due weight to future profits can be used in favour of the Infant Industry Argument.

**39.** The argument for temporary protection is more difficult to make in the case of a large less developed country than in the case of a small less developed country.

**40.** The lack of effective financial systems in many developing countries cannot be used as an argument for temporary protection of specific industries.