ECON 3100
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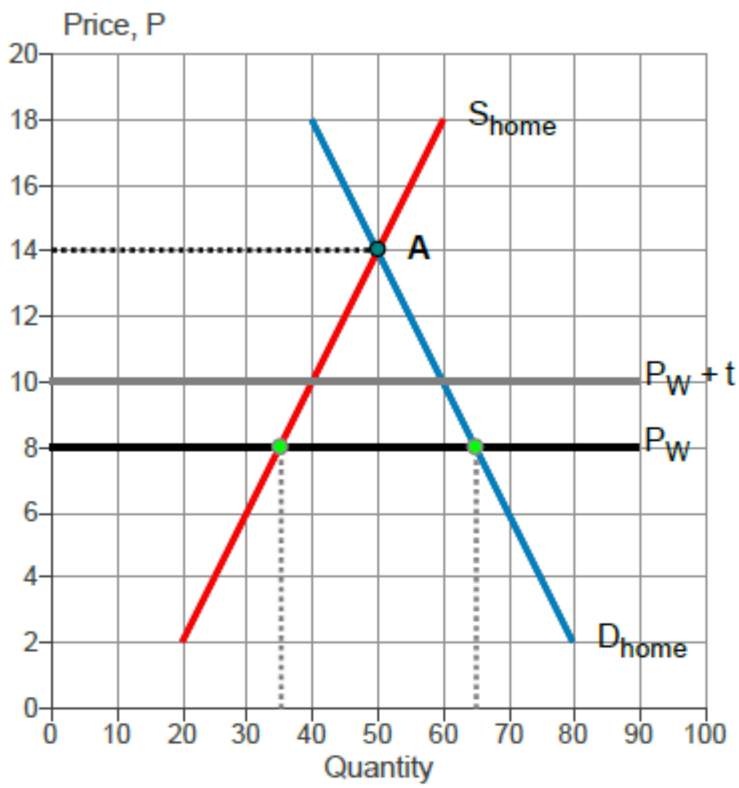
Written Assignment 2
Due: 12:00 PM Monday, March 10th

1. **(Tariff)** Suppose we have a stylized model in which there is a small open economy that is a net importer of a good. Use the graph below to answer the following questions



a) Under autarky, what is the equilibrium price, equilibrium quantity, and equilibrium number of imports?

Under autarky, the equilibrium price is 14, the equilibrium quantity is 50, and there is no equilibrium number of imports.

b) Under free-trade, what is the equilibrium price, equilibrium quantity, and equilibrium number of imports?

Under free-trade, the equilibrium price is 8, the equilibrium quantity is between 35-65, and the equilibrium number of imports is 30.

c) With the implementation of the tariff, what is the equilibrium price, equilibrium quantity, and equilibrium number of imports?

With the tariff, the equilibrium price is 10, the equilibrium quantity is between 40-60, and the equilibrium number of imports is 20.

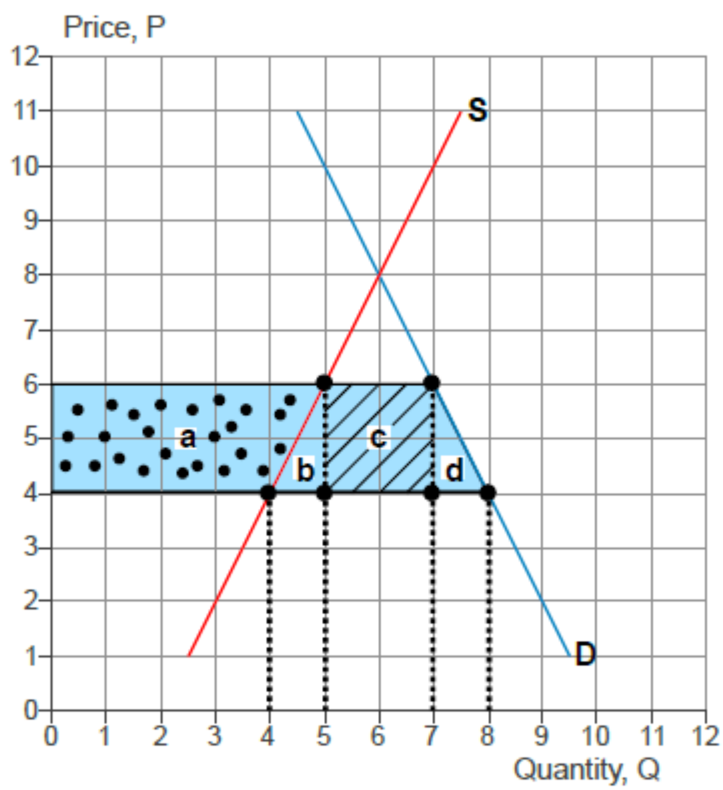
d) With the implementation of the tariff, what is the amount of government revenue generated as well as the amount of deadweight loss?

Deadweight loss is 10, and the amount of government revenue generated is 40.

e) What is the minimum size of tariff that must be implemented in this country in order to be considered a prohibitive tariff? Explain.

The price of the good with the tariff is at 10 which is a $2 difference form the world price.

2. **(Quota)** Suppose we have a stylized model in which there is a small open economy that is a net importer of a good. Suppose that economy chooses to implement an import quota, using a voluntary export restraint agreement with the exporting country. Use the graph below to answer the following questions



a. What is the size of the quota being implemented in the economy? What is the domestic price change associated with this quota?

I'm haven't been able to figure out how to calculate the size of the quota, but the free trade price before the quota was 4, and after the quota is 6. So the size could be equated to the difference between them, so $2.

b. Given the fact that areas A, B, C, and D were originally part of consumer welfare, explain what occurs with each; where does each amount of welfare end up and explain the reasoning behind each movement.

A represents producer surplus, B & D represent deadweight loss, and C represents the total of quota rents.

c. Draw the corresponding import demand – export supply graph under the shown quota. Indicate on the graph the areas of quota rents and deadweight loss.

d. What is the numerical value of the deadweight loss? What about the value of the quota rents? Who ends up with the quota rents?

The numerical value of deadweight loss is 2 (area of b and d added together). The value of the quota rents is 4 (Quota price – world price multiplied by the quota size). Foreign exporters end up with the quota rents.

3. **(Commercial Policy)** Suppose we examine a fictional stylized example of commercial policy. Consider the U.S. and Indonesia as trading partners with relatively low tariffs among most products they trade. Firms in the U.S. steel industry are concerned that the Indonesian steel industry is dumping product into the U.S. in order to drive out domestic business.
   a. What are two ways that domestic firms can discover if this dumping is occurring? What are some potential issues with those avenues of investigation?

Dumping is basically when foreign companies drop their prices so low that they have the ability to drive out domestic business when it comes to that product. The domestic firm can compare the prices that the foreign company is labeling said products in their country versus the home country. If the prices are a lot lower in the domestic market compared to the foreign country's market, that could be a sign of dumping. Another way they could check if dumping is occurring is to see if the foreign company is even profiting from dropping prices. If the prices they are exporting their products at don't match how much went into them (cost of production), just to get a foothold in the domestic market could indicate dumping.

   b. Suppose by using one of the above strategies, U.S. firms show that dumping is occurring, what is the second requirement that must be shown in order for an anti-dumping duty to be granted?

The U.S. firms have to show that dumping has caused material injury to its firms.

c. Suppose instead of the U.S. steel industry finding dumping, they are instead simply inundated with imports and cannot keep up. In order to preserve their industry, the U.S. steel producers may advocate for a tariff in what alternative way?

They can use the Escape Clause Relief which is a temporary tariff on imports to allow a domestic industry to escape the pressure of imports and obtain a period of adjustment.

d. Give one other reason the U.S. may implement a tariff on steel that does not require the domestic steel industry to advocate for the tariff.

They could claim national security issues, such as the price of steel coming from Indonesia is undermining the U.S.'s ability to fund industries needed for national defense.

4. **(Labor and Environmental Standards)** Suppose we examine a fictional stylized example of differing standards. consider two countries, Spain and Morocco, who are currently trading partners who have recently moved from having relatively high tariffs on most products to low or no tariffs in many areas.

   a. What are the two issues mentioned in class that may affect international trade beyond the trade barriers that have been lowered?

   Two other issues that affect international trade beyond the trade barriers that have been lowered are differences in labor standards and environmental regulations.

   b. Suppose the higher income country is Morocco, if the government of Morocco observes firms leaving Morocco to produce in Spain, what might be true about the labor standards in Spain? What would then potentially happen to the labor standards in Morocco? What is this called?

Morocco could assume that the labor standards in Spain are lower or laxer than in Morocco, enticing domestic firms to move their production there. In response, labor standards in Morocco could also be lowered due to the idea of a "race to the bottom".

   c. Given the reasons discussed in class, do you think either Spain or Morocco should use trade policy to impact standards? Explain.

It depends on the economic health of a country's economy. Considering that Spain and Morocco both have moved to most of their products to low or no tariffs in many areas, I would infer that both of their economies are at a point where they can shift their focus from purely profit and domestic protection to environmental regulations (which typically is most common in developed countries). They could come up with minimum standards that are most beneficial to both parties.