Problem Set 5: Trade Policy

Part I: In the graph below, determine whether the tariff is a specific tariff or an ad valorem tariff. Explain carefully.

Part II:

1. Answer questions 2, 3, 5, and 7 on pages 287 of your textbook.

2. Discuss the main problems associated with both unweighted- and weighted-average tariff rates.
**Part III:** Answer questions 1 and 3 on page 318 of your textbook.

**Part IV:** In class I have shown that a small open economy is always made worse off by a tariff. On the other hand, I have shown that a large open economy can be made better off by a tariff, provided the tariff rate is not too high. Explain carefully what accounts for the difference. (Hint: use two graphs as part of your answer - one for the case of a small open economy, the other for a large open economy.)

**Part V:** Define each of the following import-restricting policies, and describe its likely effects on the welfare of the importing country:

1. domestic content requirement
2. government procurement provision
3. administrative re-classification
4. health and safety standards

**Part VI:** In discussing the Japanese agreement to limit automobile exports to the United States, economists claim that the total costs of the agreement to the United States constitute primarily transfers to Japan rather than efficiency losses.

1. What do they mean by "transfers to Japan".

2. Would these transfers arise if the U.S. imposed a quota on imports of Japanese automobiles rather than negotiating the export restraint agreement? Why or why not?