

Study Questions
(*with Answers*)

Lecture 7
Reasons for Protection

Part 1: Multiple Choice

Select the **best** answer of those given.

1. The following include several reasons that government might give for using a tariff on imports? Which is **not** valid, in the sense that the effect described will not happen.
 - a. To raise government revenue.
 - b. To help consumers.
 - c. To raise incomes of producers.
 - d. To respond to political pressures from import competing industries.
 - e. To increase national welfare at the expense of foreigners.

Ans: *b*

2. For many purposes, the use of a tariff is said by economists to be “second best.” This means that
 - a. The tariff cannot be beneficial for the country as a whole.
 - b. The tariff does not help those with the highest incomes, but only those with the second highest.
 - c. Another policy exists that would accomplish the same purpose as the tariff at lower economic cost.
 - d. The tariff benefits the country only by making other countries worse off.
 - e. The country should use a subsidy.

Ans: *c*

3. By restricting imports with a tariff, a large country will
- a. Improve its terms of trade.
 - b. Increase the welfare of other countries.
 - c. Raise the price of the imported good on world markets.
 - d. Cause domestic producers of the imported good to reduce their output and raise their price.
 - e. Hurt itself, compared to what it could have accomplished by subsidizing imports.

Ans: a

4. According to the infant-industry argument for a tariff,
- a. Tariffs on baby clothes save children's lives.
 - b. A small tariff must be beneficial for a small country.
 - c. A small tariff must be beneficial for a large country.
 - d. A tariff can protect a new industry while it gains experience and reduces costs.
 - e. Some industries should be given tariff protection indefinitely.

Ans: d

5. Those in high-wage countries who fear trade with low-wage countries are often forgetting that
- a. Prices of imports will fall due to trade.
 - b. Low wage countries have lower productivity.
 - c. Trade is not a zero-sum game.
 - d. People with low wages are happier than people with high wages.
 - e. Production causes pollution.

Ans: b

6. Anti-dumping laws
- a. Are used only by the United States and Europe, against unfairly priced imports from each other.
 - b. Are used only by the United States and Europe, against unfairly priced imports from less developed countries.
 - c. Are no longer as common as they were before the World Trade Organization provided alternative policy tools.
 - d. Are being used against the United States today considerably more than they were fifteen years ago.
 - e. Exist on the books of many countries, but are seldom used.

Ans: *d*

7. The political-economy explanation of why countries have positive tariffs, summarized in the phrase “protection for sale,” says that
- Legislators provide tariff protection to industries in response to political campaign contributions.
 - Importers pay bribes to customs officers to let them pay tariffs that are lower than legally required.
 - Protection is provided by import quotas that are auctioned off to the highest bidder.
 - Industries seeking protection from imports pay bribes to customs officers to get them to charge tariffs higher than legally required.
 - Insurance companies sell policies that promise to pay any tariff charges on traded goods when requested.

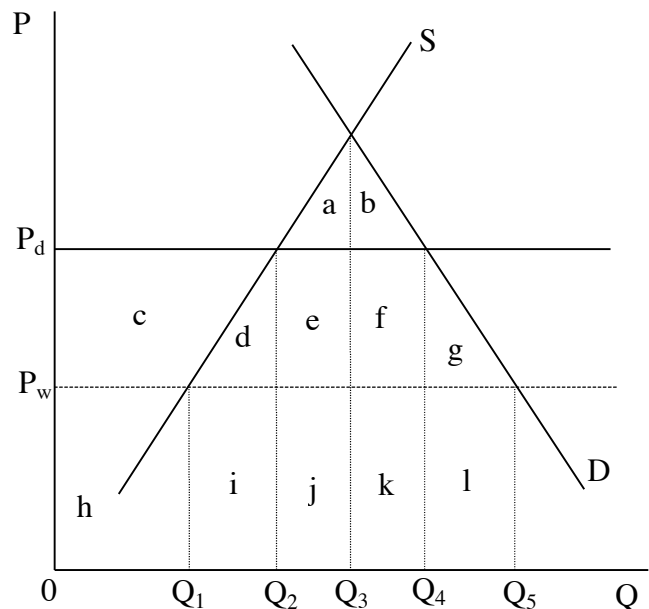
Ans: *a*

Part II: Short Answer

Answer in the space provided.

1. The figure at the right shows a country's domestic supply and demand curves, S and D , for a good, as well as the world price, P_w , for the good that it faces, as a small country, on the world market. Initially, the country is trading freely at that price

- a. Identify the following



The quantity produced in free trade..... Q_2

The quantity consumed in free trade..... Q_4

- b. Suppose that the government of this country wants to increase the incomes of the producers of this good and that, to accomplish this, it uses a tariff that raises the domestic price to the level marked P_d . Identify:

The quantity produced with the tariff..... Q_2

The quantity consumed with the tariff Q_4

The benefit to the suppliers..... c

The loss to the demanders..... $c+d+e+f+g$

The dead-weight loss to the country..... $d+g$

- c. Suppose instead, again starting from free trade, that the government were to pay a subsidy of $P_d - P_w$ to suppliers for each unit of output that they produce. What then would be

The quantity produced with the subsidy..... Q_2

The quantity consumed with the subsidy..... Q_3

The benefit to the suppliers..... c

The loss to the demanders..... 0

The dead-weight loss to the country..... d

2. The assigned article by Mastel, “Keep Anti-Dumping Laws Intact,” identifies several practices in exporting countries that, he says, justify the use of anti-dumping duties. What are some of these practices, what countries does he identify as using them, and in what sectors?

Practices: *Ans: industrial policies, market collusion, government pricing, and sanctuary markets*

Countries: *Ans: Japan, Korea, and Brazil*

Sectors: *Ans: primarily steel (also semiconductors and autos)*

3. Define the following terms:

a. pauper labor *Ans: Labor with very low wages.*

b. retaliation *Ans: The use by a country of any policy prompted by the harm done to it by another country's policy, especially in order either to harm it in return, or to neutralize the damage.*

c. economic sanction *Ans: The use of a trade restriction intended to put pressure on another country to change their behavior.*

d. political economy *Ans: The interaction between political processes, such as lobbying, and economic policies such as tariffs.*

4. The following table lists six suggested reasons why US tariffs are lower than political-economy theories of protection might lead one to expect. Indicate in the spaces provided (using a check mark ✓) which of these are mentioned in the reading

on this topic by Magee, and which he regards as in fact being part of the answer.
 Indicate with a triple check mark (✓✓✓) the one that he views as most important.

Reasons	Mentioned by Magee	Viewed as valid
A majority of the public favors free trade.		
The GATT was successful in restraining trade barriers.	✓	✓
Politicians are not responsive to lobbying efforts.	✓	
Tariffs are set by large corporations that want them low.		
Protection is given through NTBs, which are high.	✓	✓✓✓
Free riding by firms hinders lobby organization.	✓	✓