Study Questions

Lecture 18 Preferential Trading Arrangements

Part 1: Multiple Choice

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

- 1. Which of the following is **not** a preferential trading arrangement?
 - a. EU
 - b. NAFTA
 - c. OECD
 - d. GSP
 - e. Anti-dumping duty
- 2. Which of the following explains why **trade diversion** is undesirable for an importing country that lowers its tariff against a partner in a free trade area?
 - a. The country imports from the partner at higher cost than it previously imported from some other country.
 - b. Domestic producers suffer a loss of income.
 - c. Workers are laid off as producers shift production into the partner country.
 - d. Consumers pay a higher price for the good imported from the partner.
 - e. All of the above.
- 3. When a country eliminates its tariff against a partner country, keeping the tariff positive against other countries, the effect of that change alone is that the partner country as a whole
 - a. Must gain.
 - b. May either gain or lose.
 - c. Will neither gain nor lose.
 - d. Must lose.
 - e. None of the above; it depends on whether there is trade creation or trade diversion.

- 4. Because wages in Mexico before the NAFTA were only a small fraction (perhaps 1/10) of wages in the U.S., we should infer that
 - a. Prior to NAFTA, Mexican workers were paid far below their productivity.
 - b. After NAFTA, most U.S. firms would be unable to compete with imports from Mexico.
 - c. After NAFTA, most U.S. firms would close their U.S. plants and move to Mexico.
 - d. Prior to NAFTA, since U.S. tariffs against Mexico were small, the productivity of Mexican workers must also have been only a small fraction of that in the U.S.
 - e. After NAFTA, forcing Mexican workers to compete with more productive U.S. workers would drive their wages even lower.
- 5. Why did NAFTA not have a significant effect on US unemployment?
 - a. No jobs were lost in the US due to NAFTA.
 - b. The number of workers who lost jobs due to NAFTA was a tiny fraction of normal US labor turnover.
 - c. Workers who lost jobs in the US were able to move to Mexico.
 - d. The US reneged on its NAFTA promise to lower tariffs on imports from Mexico.
 - e. Mexican companies built factories in the US that employed US workers that had been laid off from US factories.
- 6. How has the US share of employment in manufacturing changed before and after NAFTA?
 - a. It rose before NAFTA and fell after.
 - b. It fell before NAFTA and rose after.
 - c. It rose both before NAFTA and after.
 - d. It fell both before NAFTA and after.
 - e. It was constant over time before NAFTA and fell after.
- 7. Why did the NAFTA not require free trade within North America in energy?
 - a. Because the NAFTA countries did not then produce energy products.
 - b. Because Ross Perot, an oil company executive, would have objected.
 - c. Because that would have violated the rules of the GATT.
 - d. Because Republicans owned the US oil companies.
 - e. Because the oil sector in Mexico at that time was state owned.

8.	Once the USMCA is in place, how much of a car imported into the US from Mexico with zero tariff can be imported from China?				
	a.	None			
	b.	10%			
	c.	25%			

Part II: Short Answer

d. 37.5%e. 50%

Answer in the space provided.

1. For each of the types of preferential arrangement named across the top of the following table, indicate with a check mark below it whether it has the properties indicated:

	Free Trade Area	Customs Union	Common Market
Higher tariffs against non-members than against members			
Zero tariffs against members			
Common external tariff			
Free movement of labor among members			

2.	Fill in the blanks:				
	a.	During the 2008 Democratic primary campaign, candidates			
		and argued for renegotiating NAFTA.			
	b.	During the 2016 US presidential campaign, which of the candidates, Trump			
		and/or Clinton, argued for renegotiating NAFTA?			

	c. In the USMCA, autos will be imported from Mexico to the US duty-free only if							
	over 40% of their value was added by workers making over per							
hour								
d. The USMCA requires that members must inform the others 3 months prior t								
	beginning trade negotiations with							
3. Circle the appropriate word in the sentence below, and then write an explanati the space below that.						planation in		
				An example of				
			An RTA is	A violation of Unrelated to	MFN.			
4.	4. Define or explain:							
	a.	•	Trade creation					
	b		Mercosur					
	c.	•	Fund for investr	ment in Mexico				

- d. Sunset clause
- e. BIT
- f. Standing