

## Study Questions

### Lecture 7 Reasons for Protection

#### Part 1: Multiple Choice

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

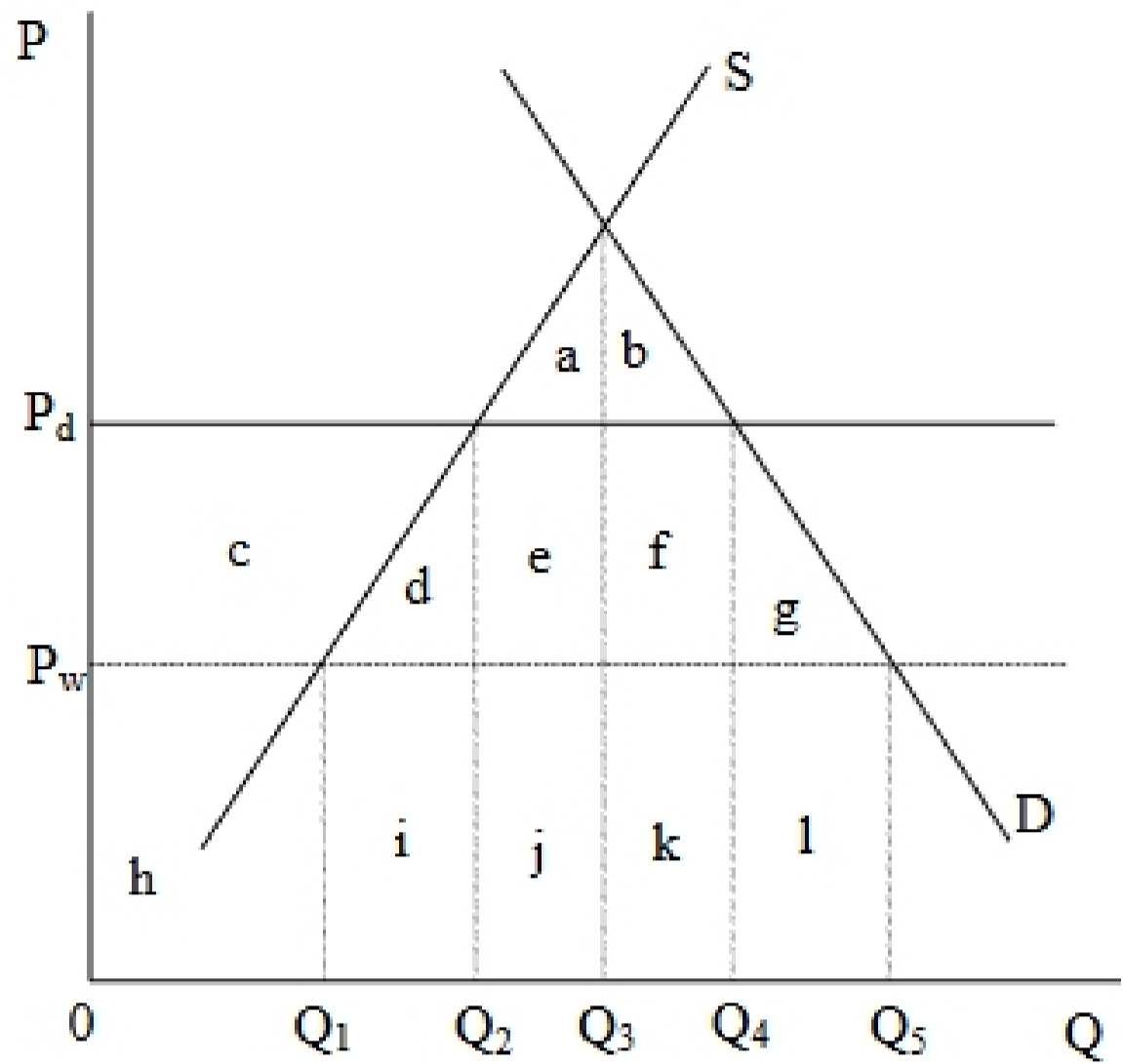
1. The following include several reasons that government might give for using a tariff on imports? Which is **not** valid, in the sense that the effect described will not happen.
  - a. To raise government revenue.
  - b. To help consumers.
  - c. To raise incomes of producers.
  - d. To respond to political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

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

**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..... \_\_\_\_\_

The quantity consumed in free trade..... \_\_\_\_\_

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..... \_\_\_\_\_

The quantity consumed with the tariff..... \_\_\_\_\_

The benefit to the suppliers..... \_\_\_\_\_

The loss to the demanders..... \_\_\_\_\_

The dead-weight loss to the country..... \_\_\_\_\_