Tutorial: Instruments of Trade Policy

March 25, 2004

Multiple Choice Questions

Refer to Figure 8.9 in Krugman and Obstfeld. P_w is the price at which good A is imported by the country before any tariff is imposed.

1. If the country is a large country and places a tariff on the good, price of the good will , while world price of the good will
   a. decrease to P_{T*}, increase to P_T
   b. decrease to P_{T*}, remain unchanged
   c. increase to P_T, decrease to P_{T*}
   d. increase to P_T, remain unchaged
2. If the country is a small country then which of the above options hold?
3. If the country places a tariff on imported cars, the change in consumer surplus is
   a. loss of area a
   b. loss of area a + c
   c. loss of areas a + b + c + d
   d. loss of areas b + d
4. If the country is a small country, the amount of revenue generated by the tariff is equal to
   a. area a + c
   b. area c
   c. area e
   d. area c + e
5. If the country is a large country, the amount of revenue generated by the tariff is equal to

a. areas a + c

b. area c

c. area e

d. areas c + e

6. The terms-of-trade gain from the tariff (assuming the country is a large country) is

    a. area a

    b. area c

    c. area e

    d. no terms of trade exist

7. If the country were a small country, the terms-of trade gain from the tariff would be

    a. area a

    b. area c

    c. area e

    d. no terms of trade exist

Question 2

Do you agree with the following statement, "A tariff always results in a net loss for the country imposing the tariff. Therefore tariffs should not be used to try to increase domestic production". Give reasons.

Question 3

Using the information in the given table calculate the effective tariff rate for industry A

	Firm in Country A	Firm in Country B
Truck Price	Rs.12000	Rs.10000
Steel Input	Rs.6000	Rs.5000
Value Added	Rs.6000	Rs.5000