

## Setup

The questions for the following solutions are available on Canvas under ‘practice-prob.pdf’. The details surrounding reaching each of these answers can be discussed during email/office hour correspondence.

## Tariff Theory

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Q1.	Price	$Q_d$	$Q_s$	Imports	CS	PS	GS	Welfare	Eff.Loss	DWL
Autarky	166.	348.	348.	0	25923.	20162.	0	46085.	0	0
Free Trade	120	455	210	245	44363.	7350	0	51713.	0	0
Tariff	148	390.	294	95.7	32537.	14406	2679.	49622.	1176	915.

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Q2.	Price	$Q_d$	$Q_s$	Imports	CS	PS	GS	Welfare	Eff.Loss	DWL
Autarky	166.	218.	218.	0	11857.	14821.	0	26678.	0	0
Free Trade	85	380	88	292	36100	2420	0	38520	0	0
Tariff	110	330	128	202	27225	5120	5050	37395	500	625

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Q3.	Price	$Q_d$	$Q_s$	Imports	CS	PS	GS	Welfare	Eff.Loss	DWL
Autarky	350	100	100	0	10000	12500	0	22500	0	0
Free Trade	190	180	36	144	32400	1620	0	34020	0	0
Tariff	235	158.	54	104.	24806.	3645	4658.	33109.	405	506.

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Q4.	Price	$Q_d$	$Q_s$	Imports	CS	PS	GS	Welfare	Eff.Loss	DWL
Autarky	72.7	87	87	0	3364	2944.	0	6308.	0	0
Free Trade	35	129.	38.6	90.8	7439.	579.	0	8018.	0	0
Tariff	50	112.	57.9	54.6	5625	1302.	820.	7746.	145.	127.

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Q5. Consider a final good tariff of 12 percent and an input good tariff of 37 percent.

Variable	No Tariff	+ Tariff on Final Good	+ Tariff on Input Good
Price of Domestic Final Good	2870	3214.	3214.
Value of Imported Inputs	870	870	1192.
Domestic Value-Added	2000	2344.	2022.
Effective Rate of Protection, %	0	17.2	1.12

Q6. Consider a final good tariff of 17 percent and an input good tariff of 20 percent.

Variable	No Tariff	+ Tariff on Final Good	+ Tariff on Input Good
Price of Domestic Final Good	1910	2235.	2235.
Value of Imported Inputs	430	430	516
Domestic Value-Added	1480	1805.	1719.
Effective Rate of Protection, %	0	21.9	16.1

Q7. Consider a final good tariff of 10 percent and an input good tariff of 5 percent.

Variable	No Tariff	+ Tariff on Final Good	+ Tariff on Input Good
Price of Domestic Final Good	4830	5313	5313
Value of Imported Inputs	2415	2415	2536.
Domestic Value-Added	2415	2898	2777.
Effective Rate of Protection, %	0	20	15

## Balance of Payments

ID	Description	Q8.	Q9.
1.	Current Account Balance	-550	-1830
2.	Capital Account Balance	100	290
3.	Financial Account		
3a.	Net acq of financial assets, excl financial der (increase/outflow (+))	870	7000
3b.	Net inc of liabilities, excl financial der (increase/inflow (+))	1200	-6300
3c.	Net change in financial derivatives	-80	-14780
4.	Statistical Discrepancy	-40	-60
5.	Memoranda		
5a.	Balance on current and capital accounts	-450	-1540
5b.	Balance on financial account	-410	-1480

Both balances are maintain current account deficits since their respective current account values are negative. This would imply both countries function as net borrowers, which is a status reflected by negative financial account balances.

## Exchange Rates

Q10.

Exchange Rate	Currency Reserve	% $\Delta$ ExR
11.0	$\approx 753$	
11.4	$\approx 781$	2.98

Q11.

Exchange Rate	Currency Reserve	% $\Delta$ ExR
110	$\approx 240$	
88.9	$\approx 314$	-19.4

Q12.

Exchange Rate	Currency Reserve	% $\Delta$ ExR
489	13.1	
439	14.5	-10.3