 FOREIGN DIRECT INVESTMENT

1. Ford building new engine plants in Mexico to lower production costs is an example of:
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) none of the above

2. Ford building plants for small sedans and SUVs in China, with most of the output sold in China, is an example of:
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) none of the above

3. In 2015, FDI flows into the United States
   a) decreased slightly compared to 2014, due to less corporate restructuring
   b) stayed largely unchanged
   c) increased slightly, remaining at historically high levels
   d) almost quadrupled from unusually low levels in 2014
   e) none of the above

4. In 2015, global FDI flows
   a) decreased by 17% from their peak in 2014
   b) remained largely unchanged, with more FDI into developed countries but less FDI into the developing world
   c) increased by 9%, continuing a trend of modest growth
   d) increased by 38% to their highest level since the global economic crisis of 2008–2009, with a surge in cross-border mergers and acquisitions as the main reason for the rebound
   e) none of the above
TRADE POLICIES

5-8 Consider the consequences of the United States increasing the volume of sugar allowed to be imported through its quota system.

5. US consumer surplus would
   a) rise due to the US price of sugar rising
   b) rise due to the US price of sugar falling
   c) remains the same
   d) fall due to the US price of sugar rising
   e) fall due to the US price of sugar falling

6. US producer surplus would
   a) rise due to the US price of sugar rising
   b) rise due to the US price of sugar falling
   c) remains the same
   d) fall due to the US price of sugar rising
   e) fall due to the US price of sugar falling

7. Relaxing the US quota on sugar improves US welfare through ______ the US consumption and production distortions, and ______ the quota rents transferred to foreign sugar producers.
   a) increasing, increasing
   b) reducing, reducing
   c) eliminating, eliminating
   d) increasing, reducing
   e) reducing, increasing

8. Relaxing the US quota on sugar improves world welfare through ______ the US consumption and production distortions, and ______ the foreign consumption and production distortions.
   a) increasing, increasing
   b) reducing, reducing
   c) eliminating, eliminating
   d) increasing, reducing
   e) reducing, increasing
9-12 Consider the consequences of China *removing* a subsidy on exports of fruits & vegetables. As a large country, China affects world prices.

9. The quantity demanded of fruits & vegetables and consumer surplus in China would
   a) rise due to the Chinese price of fruits & vegetables rising
   b) rise due to the Chinese price of fruits & vegetables falling
   c) remains the same
   d) fall due to the Chinese price of fruits & vegetables rising
   e) fall due to the Chinese price of fruits & vegetables falling

10. The quantity supplied of fruits & vegetables and producer surplus in China would
   a) rise due to the Chinese price of fruits & vegetables rising
   b) rise due to the Chinese price of fruits & vegetables falling
   c) remains the same
   d) fall due to the Chinese price of fruits & vegetables rising
   e) fall due to the Chinese price of fruits & vegetables falling

11. The quantity demanded of fruits & vegetables and consumer surplus in the ROW would
   a) rise due to the ROW price of fruits & vegetables rising
   b) rise due to the ROW price of fruits & vegetables falling
   c) remains the same
   d) fall due to the ROW price of fruits & vegetables rising
   e) fall due to the ROW price of fruits & vegetables falling

12. The quantity supplied of fruits & vegetables and producer surplus in the ROW would
   a) rise due to the ROW price of fruits & vegetables rising
   b) rise due to the ROW price of fruits & vegetables falling
   c) remains the same
   d) fall due to the ROW price of fruits & vegetables rising
   e) fall due to the ROW price of fruits & vegetables falling
13. Which policies could generate a terms of trade gain for a large country able to affect prices on world markets?
   a) import tariff
   b) import quota with quota rights given away for free
   c) export tax
   d) import tariff or export tax
   e) none of the above

14. As a percentage of GDP, who stands to gain the most from a move to free trade?
   a) United States
   b) European Union
   c) Japan
   d) developing countries
   e) world as a whole

15. That trade policies distorting market incentives could increase national welfare by offsetting the consequences of market failures elsewhere in the economy is an example of the theory of the _____ best.
   a) first
   b) second
   c) third
   d) next
   e) none of the above

16. The tariff level that maximizes _________ is called the optimum tariff.
   a) consumer surplus
   b) producer surplus
   c) national welfare
   d) tariff revenue
   e) none of the above
TRADE POLICY PROBLEMS

In the United States (US), inverse demand is \( P = 28 - 2Q_D \), while inverse supply is \( P = 10 + 2Q_S \). In the rest of the world (ROW), inverse demand is \( P^* = 22 - 2Q_D^* \), while inverse supply is \( P^* = 2Q_S^* \).

17. The US autarky price is \( P^a = \)
   a) 19
   b) 17
   c) 13
   d) 11
   e) none of the above

18. US quantity demanded is \( Q_D = \)
   a) \(-14 - P\)
   b) \(-14 + P\)
   c) \(14 + \left( \frac{1}{2} \right) P\)
   d) \(14 - \left( \frac{1}{2} \right) P\)
   e) none of the above

19. US quantity supplied is \( Q_S = \)
   a) \(-5 - \left( \frac{1}{2} \right) P\)
   b) \(-5 + \left( \frac{1}{2} \right) P\)
   c) \(5 + P\)
   d) \(5 - P\)
   e) none of the above

20. US import demand is \( M = \)
   a) \(-11 - P\)
   b) \(-11 + P\)
   c) \(19 + P\)
   d) \(19 - P\)
   e) none of the above

21. US import demand has price intercept ___ and slope ____.
   a) 19, -1
   b) 11, 1
   c) -19, 1
   d) -11, -1
   e) none of the above
22. The ROW autarky price is $P^* =$
   a) 19
   b) 17
   c) 13
   d) 11
   e) none of the above

23. ROW quantity demanded is $Q^*_D =$
   a) $11 + \left( \frac{1}{2} \right) P^*$
   b) $11 - \left( \frac{1}{2} \right) P^*$
   c) $-11 + P^*$
   d) $-11 - P^*$
   e) none of the above

24. ROW quantity supplied is $Q^*_S =$  
   a) $-\left( \frac{1}{2} \right) P^*$
   b) $\left( \frac{1}{2} \right) P^*$
   c) $P^*$
   d) $-P^*$
   e) none of the above

25. ROW export supply is $X^* =$
   a) $-11 - P^*$
   b) $-11 + P^*$
   c) $19 + P^*$
   d) $19 - P^*$
   e) none of the above

26. ROW export supply has price intercept ____ and slope ____.
   a) 19, -1
   b) 11, 1
   c) -19, 1
   d) -11, -1
   e) none of the above
27. The free trade price is $P =$
   a) 19
   b) 17
   c) 13
   d) 11
   e) none of the above

28. US imports under free trade are $M =$
   a) $13/2 = 6.5$
   b) 4
   c) $5/2 = 2.5$
   d) 2
   e) none of the above

29. US quantity demanded under free trade is $D_T =$
   a) $13/2 = 6.5$
   b) 4
   c) $5/2 = 2.5$
   d) 2
   e) none of the above

30. US quantity supplied under free trade is $S_T =$
   a) $13/2 = 6.5$
   b) 4
   c) $5/2 = 2.5$
   d) 2
   e) none of the above

31. The US tariff-ridden import demand for a specific tariff $t = 4$ is $M_T =$
   a) $15 - P^*$
   b) $-15 + P^*$
   c) $-15 - P^*$
   d) $15 + P^*$
   e) none of the above
32. It has price intercept ___ and slope ____.
   a) 15, -1
   b) 15, 1
   c) -15, -1
   d) -15, 1
   e) none of the above

33. The ROW price with the tariff is
   a) 19
   b) 17
   c) 13
   d) 11
   e) none of the above

34. The US price with the tariff is
   a) 19
   b) 17
   c) 13
   d) 11
   e) none of the above

35. US imports with the tariff are
   a) 11/2=5.5
   b) 4
   c) 7/2=3.5
   d) 2
   e) none of the above

36. US quantity demanded with the tariff is $D_2 =$
   a) 11/2=5.5
   b) 4
   c) 7/2=3.5
   d) 2
   e) none of the above
37. US quantity supplied with the tariff is \( S_2 = \)
   a) \( \frac{11}{2} = 5.5 \)
   b) 4
   c) \( \frac{7}{2} = 3.5 \)
   d) 2
   e) none of the above

38. How large of a tariff would the United States need to impose to prohibit all imports?
   a) 12
   b) 8
   c) 6
   d) 4
   e) none of the above

39. The change in US consumer surplus due to the tariff is
   a) -12
   b) -8
   c) -6
   d) -4
   e) none of the above

40. The change in US producer surplus due to the tariff is
   a) 12
   b) 8
   c) 6
   d) 4
   e) none of the above

41. The government revenue collected in the United States due to the tariff is
   a) 12
   b) 8
   c) 6
   d) 4
   e) none of the above
42. The US consumption distortion created by the tariff is
   a) 8
   b) 4
   c) 2
   d) 1
   e) none of the above

43. The US production distortion created by the tariff is
   a) 8
   b) 4
   c) 2
   d) 1
   e) none of the above

44. The US efficiency loss is
   a) 8
   b) 4
   c) 2
   d) 1
   e) none of the above

45. The US efficiency loss occurs because the United States produces ___ and consumes ____ due to the tariff.
   a) too much, too much
   b) too much, too little
   c) too little, too much
   d) too little, too little
   e) none of the above

46. The US terms of trade gain is
   a) 8
   b) 4
   c) 2
   d) 1
   e) none of the above
47. The US terms of trade gain occurs because the United States ____ due to the tariff.
   a) buys imports cheaper
   b) buys more imports
   c) buys fewer imports
   d) has no effect on the ROW price
   e) none of the above

48. The change in welfare in the United States due to the tariff is
   a) 8
   b) 4
   c) 2
   d) 1
   e) none of the above

49. Compared to free trade, is the United States better or worse off with this tariff?
   a) better with this tariff
   b) worse with this tariff
   c) the same with this tariff as with free trade
   d) none of the above
   e) cannot tell from the information provided

50. Why? Because the ________ outweighs the ______ for a large country (able to affect world prices) adopting a small tariff starting from free trade.
   a) terms of trade gain, efficiency loss
   b) efficiency loss, terms of trade gain
   c) production distortion, consumption distortion
   d) consumption distortion, production distortion
   e) none of the above
FOREIGN DIRECT INVESTMENT

1b Ford building new engine plants in Mexico to lower production costs is an example of: vertical FDI
2a Ford building plants for small sedans and SUVs in China, with most of the output sold in China, is an example of: horizontal FDI
3d In 2015, FDI flows into the United States almost quadrupled from unusually low levels in 2014.
4d In 2015, global FDI flows increased by 38% to their highest level since the global economic crisis of 2008–2009, with a surge in cross-border mergers and acquisitions as the main reason for the rebound

TRADE POLICIES

5b US consumer surplus would rise due to the US price of sugar falling.
6e US producer surplus would fall due to the US price of sugar falling.
7b Relaxing the US quota on sugar improves US welfare through reducing the US consumption and production distortions, and reducing the quota rents transferred to foreign sugar producers.
8b Relaxing the US quota on sugar improves world welfare through reducing the US consumption and production distortions, and reducing the foreign consumption and production distortions.

9b The quantity demanded of fruits & vegetables and consumer surplus in China risea due to the Chinese price of fruits & vegetables falling.
10e The quantity supplied of fruits & vegetables and producer surplus in China falls due to the Chinese price of fruits & vegetables falling.
11d The quantity demanded of fruits & vegetables and consumer surplus in the ROW falls due to the ROW price of fruits & vegetables rising.
12a The quantity supplied of fruits & vegetables and producer surplus in the ROW rises due to the ROW price of fruits & vegetables rising.
POLITICAL ECONOMY OF TRADE POLICY

13d Which policies could generate a terms of trade gain for a large country able to affect prices on world markets? import tariff or export tax

14d As a percentage of GDP, who stands to gain the most from a move to free trade? developing countries

15b That trade policies distorting market incentives could increase national welfare by offsetting the consequences of market failures elsewhere in the economy is an example of the theory of the second best.

16c The tariff level that maximizes national welfare is called the optimum tariff.

TRADE POLICY PROBLEMS

In the United States (US), inverse demand is \( P = 28 - 2Q_D \), while inverse supply is \( P = 10 + 2Q_S \). In the rest of the world (ROW), inverse demand is \( P^* = 22 - 2Q_D^* \), while inverse supply is \( P^* = 2Q_S^* \).

17a The US autarky price is \( P^A = 19 \)

18d US quantity demanded is \( Q_D = 14 - (\frac{1}{2})P \)

19b US quantity supplied is \( Q_S = -5 + (\frac{1}{2})P \)

20d US import demand is \( M = 19 - P \)

21a US import demand has price intercept 19 and slope -1.

22d The ROW autarky price is \( P^A = 11 \)

23b ROW quantity demanded is \( Q_D^* = 11 - (\frac{1}{2})P^* \)

24b ROW quantity supplied is is \( Q_S^* = (\frac{1}{2})P^* \)

25b ROW export supply is \( X^* = -11 + P^* \)

26b ROW export supply has price intercept 11 and slope 1.

27e The free trade price is \( P = 15 \) (none of the above)

28b US imports under free trade are \( M = 4 \)

29a US quantity demanded under free trade is \( D = 13/2 = 6.5 \)

30c US quantity supplied under free trade is \( S = 5/2 = 2.5 \)
The US tariff-ridden import demand for a specific tariff $t = 4$ is $M_t = 15 - P^*$.

It has price intercept 15 and slope -1.

The ROW price with the tariff is 13.

The US price with the tariff is 17.

US imports with the tariff are 2.

US quantity demanded with the tariff is $D_2 = 11/2 = 5.5$.

US quantity supplied with the tariff is $S_2 = 7/2 = 3.5$.

How large of a tariff would the United States need to impose to prohibit all imports? 8

The change in US consumer surplus due to the tariff is -12.

The change in US producer surplus due to the tariff is 6.

The government revenue collected in the United States due to the tariff is 8.

The US consumption distortion created by the tariff is 1.

The US production distortion created by the tariff is 1.

The US efficiency loss is 2.

The US efficiency loss occurs because the United States produces too much and consumes too little due to the tariff.

The US terms of trade gain is 4.

The US terms of trade gain occurs because the United States buys imports cheaper due to the tariff.

The change in welfare in the United States due to the tariff is 2.

Compared to free trade, is the United States better or worse off with this tariff? better with this tariff

Why? Because the terms of trade gain outweighs the efficiency loss for a large country (able to affect world prices) adopting a small tariff starting from free trade.