FOREIGN DIRECT INVESTMENT

1. Foreign outsourcing is
   a) the transfer of operations to foreign contractors
   b) an example of internalization
   c) an example of foreign direct investment
   d) considered illegal in the United States
   e) the substitution of immigration for foreign direct investment

2. In 2002, only ___ of U.S. manufacturing firms reported any sales abroad.
   a) 8%
   b) 18%
   c) 38%
   d) 58%
   e) 78%

3. Which type of FDI tends to occur in surges?
   a) merger & acquisitions
   b) blackfield FDI
   c) greenfield FDI
   d) joint venture
   e) licensing

4. The large increase in FDI inflows to developing countries is composed mainly of
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) export platform FDI
TRADE POLICIES

5-12 Suppose the United States removes a binding quota on imports of textiles.

5. The quantity demanded of textiles and consumer surplus in the United States
   a) rises due to the US price of textiles rising
   b) rises due to the US price of textiles falling
   c) remains the same
   d) falls due to the US price of textiles rising
   e) falls due to the US price of textiles falling

6. The quantity supplied of textiles and producer surplus in the United States
   a) rises due to the US price of textiles rising
   b) rises due to the US price of textiles falling
   c) remains the same
   d) falls due to the US price of textiles rising
   e) falls due to the US price of textiles falling

7. Removing the US quota on textiles improves US welfare through eliminating the
   a) US consumption distortion
   b) US production distortion
   c) quota rents transferred to foreign textiles producers
   d) a, b and c
   e) a and b

8. Removing the US quota on textiles improves world welfare through eliminating the
   a) US consumption and production distortions
   b) foreign consumption and production distortions
   c) quota rents transferred to foreign textiles producers
   d) a, b and c
   e) a and b
9-12 Suppose China removes an export subsidy on toys. China is large enough for its policies to affect the world price for toys.

9. Removing the export subsidy causes the price of toys in China to
   a) rise by the full amount of the subsidy
   b) rise by less than the full amount of the subsidy
   c) fall by the full amount of the subsidy
   d) fall by less than the full amount of the subsidy
   e) remain unchanged

10. Removing the export subsidy causes the price of toys in the rest of the world to
    a) rise by the full amount of the subsidy
    b) rise by less than the full amount of the subsidy
    c) fall by the full amount of the subsidy
    d) fall by less than the full amount of the subsidy
    e) remain unchanged

11. Removing the Chinese export subsidy benefits Chinese welfare through eliminating
    a) Chinese consumption and production distortions
    b) foreign consumption and production distortions
    c) terms of trade losses in China
    d) foreign terms of trade gains
    e) a and c

12. Removing the Chinese export subsidy benefits world welfare through eliminating
    a) Chinese consumption and production distortions
    b) foreign consumption and production distortions
    c) terms of trade losses in China
    d) foreign terms of trade gains
    e) a and b
POLITICAL ECONOMY OF TRADE POLICY

13. 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

14. If tariffs were chosen to appeal to the median voter, they would be
   a) highest for capital-intensive goods
   b) highest for agricultural goods
   c) highest for textiles
   d) highest for financial services
   e) zero or near zero for nearly all goods and services

15. While the potential for terms of trade gains mean that a small tariff might lead to higher welfare than free trade, an important counter argument is that the
   a) usual economic efficiency loss calculations assume that markets function well
   b) trading partners may retaliate by enacting their own trade restrictions
   c) maximum national welfare may call for an export tax
   d) optimal tariff is less than the prohibitive tariff rate
   e) benefit to domestic society will increase due to a market failure

16. Countries need a bilateral or multilateral agreement that prevents a trade war or eliminates the protection from one because
   a) each large country has an incentive to adopt protection to achieve terms of trade gains at the expense of its trading partners
   b) neither country has an incentive to remove its protection unless receives some concession in exchange
   c) trading partners are typically stuck in a prisoner’s dilemma
   d) most countries would be better off under universal free trade
   e) all of the above
TRADE POLICY PROBLEMS

In the United States (US), inverse demand is $P = 62 - 2Q_D$, while inverse supply is $P = 6 + 2Q_S$. In the rest of the world (ROW), inverse demand is $P^* = 24 - 2Q_D^*$, while inverse supply is $P^* = 4 + 2Q_S^*$.

17. The US autarky price is $P^a =$
   a) 34  
   b) 28  
   c) 24  
   d) 20  
   e) 14

18. US quantity demanded is $Q_D =$
   a) $31 - \left(\frac{1}{2}\right) P$
   b) $-31 + \left(\frac{1}{2}\right) P$
   c) $31 + \left(\frac{1}{2}\right) P$
   d) $-31 - \left(\frac{1}{2}\right) P$
   e) none of the above

19. US quantity supplied is $Q_S =$
   a) $3 - \left(\frac{1}{2}\right) P$
   b) $-3 + \left(\frac{1}{2}\right) P$
   c) $3 + \left(\frac{1}{2}\right) P$
   d) $-3 - \left(\frac{1}{2}\right) P$
   e) none of the above

20. US import demand is $M =$
   a) $34 - P$
   b) $-34 + P$
   c) $34 + P$
   d) $-34 - P$
   e) none of the above

21. US import demand has price intercept ___ and slope ____.
   a) 34, -1
   b) 34, 1
   c) 14, -1
   d) 14, 1
   e) none of the above
22. The ROW autarky price is $P^* =$
   a) 34  
   b) 28  
   c) 24  
   d) 20  
   e) 14

23. ROW quantity demanded is $Q_D^* =$
   a) $12 - (\frac{1}{2}) P^*$  
   b) $-12 + (\frac{1}{2}) P^*$  
   c) $12 + (\frac{1}{2}) P^*$  
   d) $-12 - (\frac{1}{2}) P^*$  
   e) none of the above

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

25. ROW export supply is $X^* =$
   a) $14 - P^*$  
   b) $-14 + P^*$  
   c) $14 + P^*$  
   d) $-14 - P^*$  
   e) none of the above

26. ROW export supply has price intercept ___ and slope ____.
   a) 34, -1  
   b) 34, 1  
   c) 14, -1  
   d) 14, 1  
   e) none of thee above
27. The free trade price is \( P = \)
   a) 34
   b) 28
   c) 24
   d) 20
   e) 14

28. US imports under free trade are \( M = \)
   a) 20
   b) 14
   c) 10
   d) 6
   e) none of the above

29. US quantity demanded under free trade is \( D_t = \)
   a) 29
   b) 17
   c) 11
   d) 9
   e) none of the above

30. US quantity supplied under free trade is \( S_t = \)
   a) 29
   b) 17
   c) 11
   d) 9
   e) none of the above

31. The US tariff-ridden import demand for a specific tariff \( t = 8 \) is \( M_T = \)
   a) \( 22 - P^* \)
   b) \( -22 + P^* \)
   c) \( 26 - P^* \)
   d) \( -26 + P^* \)
   e) none of the above
32. It has price intercept ___ and slope ____.
   a) 22, -1
   b) 22, 1
   c) 26, -1
   d) 26, 1
   e) none of thee above

33. The ROW price with the tariff is
   a) 34
   b) 28
   c) 24
   d) 20
   e) 14

34. The US price with the tariff is
   a) 34
   b) 28
   c) 24
   d) 20
   e) 14

35. US imports with the tariff are
   a) 20
   b) 14
   c) 10
   d) 6
   e) none of the above

36. US quantity demanded with the tariff is $D_2 =$
   a) 29
   b) 17
   c) 11
   d) 9
   e) none of the above
37. US quantity supplied with the tariff is $S_2 =$  
   a) 29  
   b) 17  
   c) 11  
   d) 9  
   e) none of the above

38. How large of a tariff would the United States need to impose to prohibit all imports?  
   a) 30  
   b) 25  
   c) 20  
   d) 15  
   e) none of the above

39. The change in US consumer surplus due to the tariff is  
   a) 48  
   b) 40  
   c) 0  
   d) -72  
   e) none of the above

40. The change in US producer surplus due to the tariff is  
   a) 48  
   b) 40  
   c) 0  
   d) -72  
   e) none of the above

41. The government revenue collected in the United States due to the tariff is  
   a) 48  
   b) 40  
   c) 0  
   d) -72  
   e) none of the above
42. The US consumption distortion created by the tariff is
   a) 2
   b) 4
   c) 8
   d) 24
   e) none of the above

43. The US production distortion created by the tariff is
   a) 2
   b) 4
   c) 8
   d) 24
   e) none of the above

44. The US efficiency loss is
   a) 2
   b) 4
   c) 8
   d) 24
   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) 2
   b) 4
   c) 8
   d) 24
   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) 6
   b) 16
   c) 20
   d) -6
   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 outsourcing is transfer of operations to foreign contractors.
In 2002, 18% of U.S. manufacturing firms reported any sales abroad.
Merger & acquisitions (brownfield FDI) tends to occur in surges.
The large increase in FDI inflows to developing countries is mainly vertical FDI.

The quantity demanded of textiles and consumer surplus in the United States rises due to the US price of textiles falling.
The quantity supplied of textiles and producer surplus in the United States falls due to the US price of textiles falling.
Removing the US quota on textiles improves US welfare through eliminating the US consumption distortion, US production distortion, and quota rents transferred to foreign textiles producers.
Removing the US quota on textiles improves world welfare through eliminating the US consumption and production distortions and the foreign consumption and production distortions.
Removing the export subsidy causes the price of toys in China to fall by less than the full amount of the subsidy.
Removing the export subsidy causes the price of toys in the rest of the world to rise by less than the full amount of the subsidy.
Removing the Chinese export subsidy benefits Chinese welfare through eliminating Chinese consumption and production distortions, and terms of trade losses in China.
Removing the Chinese export subsidy benefits world welfare through eliminating Chinese consumption and production distortions and foreign consumption and production distortions.

As a percentage of GDP, developing countries stand to gain the most from a move to free trade.
Tariffs chosen to appeal to the median voter would be zero or near zero for nearly all goods and services.
While the potential for terms of trade gains mean that a small tariff might lead to higher welfare than free trade, an important counter argument is that the trading partners may retaliate by enacting their own trade restrictions.
Countries need a bilateral or multilateral agreement that prevents a trade war or eliminates protection from one because all of the above.
17a US autarky price is \( P^a = 34 \).
18a US quantity demanded is \( Q_D = 31 - (\frac{1}{2})P \)
19b US quantity supplied is \( Q_S = -3 + (\frac{1}{2})P \)
20a US import demand is \( M = 34 - P \)
21a US import demand has price intercept 34 and slope -1.

22e ROW autarky price is \( P^a* = 14 \).
23a ROW quantity demanded is \( Q^{D*} = 12 - (\frac{1}{2})P^* \)
24b ROW quantity supplied is \( Q^{S*} = -2 + (\frac{1}{2})P^* \).
25b ROW export supply is \( X^* = -14 + P^* \)
26d ROW export supply has price intercept 14 and slope 1.

27c Free trade price is \( P = 24 \).
28c US imports under free trade are \( M = 10 \).
29e US quantity demanded under free trade is \( D_f = 19 \) (none of the above).
30d US quantity supplied under free trade is \( S_f = 9 \).

31c US tariff-ridden import demand is \( M_T = 26 - P^* \).
32c It has price intercept 26 and slope -1.
33d ROW price with the tariff is 20.
34b US price with the tariff is 28.
35d US imports with the tariff are 6.
36b US quantity demanded with the tariff is \( D^t = 17 \).
37c US quantity supplied with the tariff is \( S^t = 11 \).
38c A tariff of 20 would prohibit all imports.

39d The change in US consumer surplus due to the tariff is -72.
40b The change in US producer surplus due to the tariff is 40.
41a The US government revenue collected due to the tariff is 48.
42b The US consumption distortion created by the tariff is 4.
43b The US production distortion created by the tariff is 4.
44c The US efficiency loss is 8,
45b The US efficiency loss occurs because the United States produces too much and consumes too little due to the tariff.
46d The US terms of trade gain is 24.
47a The US terms of trade gain occurs because the United States buys imports cheaper due to the tariff.
48b The change in welfare in the United States due to the tariff is 16.
49a Compared to free trade, the United States is better off with this tariff.
50a The terms of trade gain outweighs the efficiency loss.