FOREIGN DIRECT INVESTMENT

1. Historically, the ____________ countries have been the biggest recipients of inward FDI. Those inflows are much _____ volatile than the FDI going into the remaining countries.
   a) non-OECD, more
   b) non-OECD, less
   c) richest OECD, more
   d) richest OECD, less
   e) none of the above

2. That Toyota replicates the production process for its most popular car model, the Corolla, in assembly plants in many countries is best described as:
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) export platform FDI

3. That Intel locates wafer production in countries where skilled labor is relatively abundant while locating chip assembly in other countries is best described as:
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) export platform FDI

4. Which country has more outward FDI than France, Japan and Germany combined (based on yearly average 2009-2011)?
   a) Canada
   b) China, including Hong Kong
   c) United States
   d) United Kingdom
   e) none of the above
TRADE POLICIES

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

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 
   __________ the US consumption and production distortions, and 
   __________ the quota rents transferred to foreign textiles producers.
   a) increasing, increasing
   b) reducing, reducing
   c) eliminating, eliminating
   d) increasing, reducing
   e) reducing, increasing

8. Removing the US quota on textiles 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 Suppose China reduces an export subsidy on electronics. China is large enough for its policies to affect the world price for electronics.

9. China reducing the export subsidy causes the quantity demanded of electronics and consumer surplus in China to
   a) rise due to the Chinese price of electronics rising
   b) rise due to the Chinese price of electronics falling
   c) remains the same
   d) fall due to the Chinese price of electronics rising
   e) fall due to the Chinese price of electronics falling

10. China reducing the export subsidy causes the quantity supplied of electronics and producer surplus in China to
    a) rise due to the Chinese price of electronics rising
    b) rise due to the Chinese price of electronics falling
    c) remains the same
    d) fall due to the Chinese price of electronics rising
    e) fall due to the Chinese price of electronics falling

11. China reducing the export subsidy causes the quantity demanded of electronics and consumer surplus in the ROW to
    a) rise due to the ROW price of electronics rising
    b) rise due to the ROW price of electronics falling
    c) remains the same
    d) fall due to the ROW price of electronics rising
    e) fall due to the ROW price of electronics falling

12. China reducing the export subsidy causes the quantity supplied of electronics and producer surplus in the ROW to
    a) rise due to the ROW price of electronics rising
    b) rise due to the ROW price of electronics falling
    c) remains the same
    d) fall due to the ROW price of electronics rising
    e) fall due to the ROW price of electronics falling
13. If a domestic market, such as the labor market, fails to function properly, deviating from free trade
   a) is always a good idea
   b) can sometimes help correct the existing distortion if a more targeted policy is not feasible
   c) should be used in addition to more targeted policies as manipulating two different policies ensures a better outcome
   d) is never a good idea as free trade is ALWAYS best
   e) none of the above

14. Although a country could improve their terms of trade (buy imports cheaper) by adopting an import tariff, the country would
   a) run the risk of provoking retaliation by trading partners
   b) likely not generate much of a terms of trade improvement unless they are a large country
   c) generate efficiency losses through consumption and production distortions due to the price rising
   d) expose their government to protectionist pressure from industry lobbies even when the policy does not improve national welfare
   e) all of the above

15. 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

16. Free trade areas and customs unions could be harmful due to trade diversion, the replacement of low cost imports from __________ with higher cost goods from __________.
   a) outside the zone; member countries
   b) member countries; outside the zone
   c) member countries; domestic production
   d) outside the zone; domestic production
   e) none of the above
TRADE POLICY PROBLEMS

In the United States (US), inverse demand is \( P = 46 - 2Q_D \), while inverse supply is \( P = 18 + 2Q_S \). In the rest of the world (ROW), inverse demand is \( P^* = 30 - 2Q_D^* \), while inverse supply is \( P^* = 2 + 2Q_S^* \).

17. The US autarky price is \( P^a = \)
   a) 32
   b) 24
   c) 16
   d) 8
   e) none of the above

18. US quantity demanded is \( Q_D = \)
   a) \(-23 - \frac{1}{2} P\)
   b) \(-23 + \frac{1}{2} P\)
   c) \(23 + \frac{1}{2} P\)
   d) \(23 - \frac{1}{2} P\)
   e) none of the above

19. US quantity supplied is \( Q_S = \)
   a) \(-9 - \frac{1}{2} P\)
   b) \(-9 + \frac{1}{2} P\)
   c) \(9 + \frac{1}{2} P\)
   d) \(9 - \frac{1}{2} P\)
   e) none of the above

20. US import demand is \( M = \)
   a) \(-32 - P\)
   b) \(-32 + P\)
   c) \(32 + P\)
   d) \(32 - P\)
   e) none of the above

21. US import demand has price intercept ___ and slope ____.
   a) 32, -1
   b) 32, 1
   c) -32, 1
   d) -32, -1
   e) none of the above
22. The ROW autarky price is $P^*=\phantom{a)\ b)\ c)\ d)\ e)\ none\ of\ the\ above}$
   a) 32
   b) 24
   c) 16
   d) 8
   e) none of the above

23. ROW quantity demanded is $Q_D^*=\phantom{a)\ b)\ c)\ d)\ e)\ none\ of\ the\ above}$
   a) $15 + (\frac{1}{2}) P^*$
   b) $15 - (\frac{1}{2}) P^*$
   c) $-15 + (\frac{1}{2}) P^*$
   d) $-15 - (\frac{1}{2}) P^*$
   e) none of the above

24. ROW quantity supplied is $Q_S^*=\phantom{a)\ b)\ c)\ d)\ e)\ none\ of\ the\ above}$
   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 $X^*=\phantom{a)\ b)\ c)\ d)\ e)\ none\ of\ the\ above}$
   a) $16 - P^*$
   b) $-16 + P^*$
   c) $16 + P^*$
   d) $-16 - P^*$
   e) none of the above

26. ROW export supply has price intercept ___ and slope ____.
   a) 16, -1
   b) 16, 1
   c) -16, -1
   d) -16, 1
   e) none of the above
27. The free trade price is \( P = \)
   a) 32
   b) 24
   c) 16
   d) 8
   e) none of the above

28. US imports under free trade are \( M = \)
   a) 8
   b) 6
   c) 4
   d) 2
   e) none of the above

29. US quantity demanded under free trade is \( D = \)
   a) 12
   b) 11
   c) 10
   d) 9
   e) none of the above

30. US quantity supplied under free trade is \( S = \)
   a) 5
   b) 4
   c) 3
   d) 2
   e) none of the above

31. The US tariff-ridden import demand for a specific tariff \( t = 8 \) is \( M_T = \)
   a) 24 - P*
   b) -24 + P*
   c) -24 - P*
   d) 24 + P*
   e) none of the above
32. It has price intercept ____ and slope ____.
   a) 24, -1
   b) 24, 1
   c) -24, -1
   d) -24, 1
   e) none of the above

33. The ROW price with the tariff is
   a) 32
   b) 24
   c) 16
   d) 8
   e) none of the above

34. The US price with the tariff is
   a) 32
   b) 24
   c) 16
   d) 8
   e) none of the above

35. US imports with the tariff are
   a) 8
   b) 6
   c) 4
   d) 2
   e) none of the above

36. US quantity demanded with the tariff is \( D_2 = \)
   a) 11
   b) 10
   c) 9
   d) 8
   e) none of the above
37. US quantity supplied with the tariff is $S_2 =$
   a) 6
   b) 5
   c) 4
   d) 3
   e) none of the above

38. How large of a tariff would the United States need to impose to prohibit all imports?
   a) 24
   b) 20
   c) 16
   d) 12
   e) none of the above

39. The change in US consumer surplus due to the tariff is
   a) 32
   b) 20
   c) 16
   d) 8
   e) none of the above

40. The change in US producer surplus due to the tariff is
   a) -32
   b) -20
   c) -16
   d) -8
   e) none of the above

41. The government revenue collected in the United States due to the tariff is
   a) 32
   b) 20
   c) 16
   d) 8
   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) 32
   b) 16
   c) 8
   d) 4
   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) 20  
b) 12  
c) 0  
d) -20  
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
Historically, the richest OECD countries have been the biggest recipients of inward FDI. Those inflows are much more volatile than the FDI going into the remaining countries.

That Toyota replicates the production process for its most popular car model, the Corolla, in assembly plants in many countries is best described as horizontal FDI.

That Intel locates wafer production in countries where skilled labor is relatively abundant while locating chip assembly in other countries is best described as vertical FDI.

The United States has more outward FDI than France, Japan and Germany combined (based on yearly average 2009-2011).

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 and production distortions, and eliminating the 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 eliminating the foreign consumption and production distortions.

China reducing the export subsidy causes the quantity demanded of electronics and consumer surplus in China to rise due to the Chinese price of electronics falling.

China reducing the export subsidy causes the quantity supplied of electronics and producer surplus in China to fall due to the Chinese price of electronics falling.

China reducing the export subsidy causes the quantity demanded of electronics and consumer surplus in the ROW to fall due to the ROW price of electronics rising.

China reducing the export subsidy causes the quantity supplied of electronics and producer surplus in the ROW to rise due to the ROW price of electronics rising.
13b If a domestic market, such as the labor market, fails to function properly, deviating from free trade can sometimes help correct the existing distortion if a more targeted policy is not feasible.

14a Although a country could improve their terms of trade (buy imports cheaper) by adopting an import tariff, the country would: all of the above.

15d As a percentage of GDP, developing countries stand to gain the most from a move to free trade.

16a Free trade areas and customs unions could be harmful due to trade diversion, the replacement of low cost imports from outside the zone with higher cost goods from member countries.

17a The US autarky price is $P^A = 32$.

18d US quantity demanded is $Q_D = 23 - (\frac{1}{2}) P$.

19b US quantity supplied is $Q_S = -9 + (\frac{1}{2}) P$.

20d US import demand is $M = 32 - P$.

21a US import demand has price intercept 32 and slope -1.

22c The ROW autarky price is $P^A^* = 16$.

23b ROW quantity demanded is $Q_D^* = 15 - (\frac{1}{2}) P^*$.

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

25b ROW export supply is $X^* = -16 + P^*$.

26b ROW export supply has price intercept 16 and slope 1.

27b The free trade price is $P = 24$.

28a US imports under free trade are $M = 8$.

29b US quantity demanded under free trade is $D_f = 11$.

30c US quantity supplied under free trade is $S_f = 3$.

31a The US tariff-ridden import demand for a specific tariff $t = 8$ is $M_t = 24 - P^*$.

32a It has price intercept 24 and slope -1.

33e The ROW price with the tariff is 20 (none of the above).

34e The US price with the tariff is 28 (none of the above).

35c US imports with the tariff are 4.

36c US quantity demanded with the tariff is $D_2 = 9$.

37b US quantity supplied with the tariff is $S_2 = 5$.

38c The United States needs to impose a tariff of 16 to prohibit all imports.
The change in US consumer surplus due to the tariff is -40 (none of the above).
The change in US producer surplus due to the tariff is 16 (none of the above).
The government revenue collected in the United States due to the tariff is 32.
The US consumption distortion created by the tariff is 4.
The US production distortion created by the tariff is 4.
The US efficiency loss is 8.
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 16.
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 8 (none of the above).
Compared to free trade, the United States is better off 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.