EE 451 Mock Exam

1. What is the difference between an export tax and an export subsidy? Which instrument would domestic consumers be likely to prefer? Why?

2. If a tariff raises the real return to the scarce factor of production in a country, what happens to the relative return to the abundant factor? Explain.

3. A country produces tractors (output) whose international price is 100 thousand dollars. In order to make tractors, the country uses components (input), whose international price is 80,000 dollars. If the country establishes a tariff of 20 percent for tractors and 40 percent for their components:
   a) Compute the effective protection rate for the tractors.
   b) What should be the tariff on the components if we want that effective rate of protection for tractors equals the nominal protection rate?

4. Explain the terms 'trade creation' and 'trade diversion'. Show how they imply for the welfare changes.

5. Rank the following policies from best to worst from the perspective of domestic consumers: (i) a tariff imposed on the imported good; (ii) a subsidy to the domestic production of the imported good; and (iii) an export tax.

6. In which situation would allow member countries to attain higher benefits from forming a customs union. Why?
   a) The tariffs currently applied to trade among the potential members are high.
   b) The would-be members now produce many of the same goods, but their actual comparative advantages lie in different areas.

7. Do you think that AFTA (ASEAN Free Trade Area) is a 'good thing' or not? Explain.

8. Conceptually, what would happen to relative factor prices in labour-abundant country A and capital-abundant country B if the two countries joined together into a customs union? Why?