ITR 301 International Trade

Problem Set #4

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1. Presumably, since the United States is a *large country* in many of its international markets, a positive optimum tariff exists for this country. It follows therefore that when any legislator or government official who promotes zero-tariff free trade policies, is by definition not acting in the public's best interest. Discuss.

2. Of the many arguments in favor of tariffs, the one that has enjoyed significant economic justification has been the ( )

(a) cheap foreign labor argument.

(b) infant industry argument.

(c) even playing field argument.

(d) balance of payments argument

(e) domestic living standard argument.

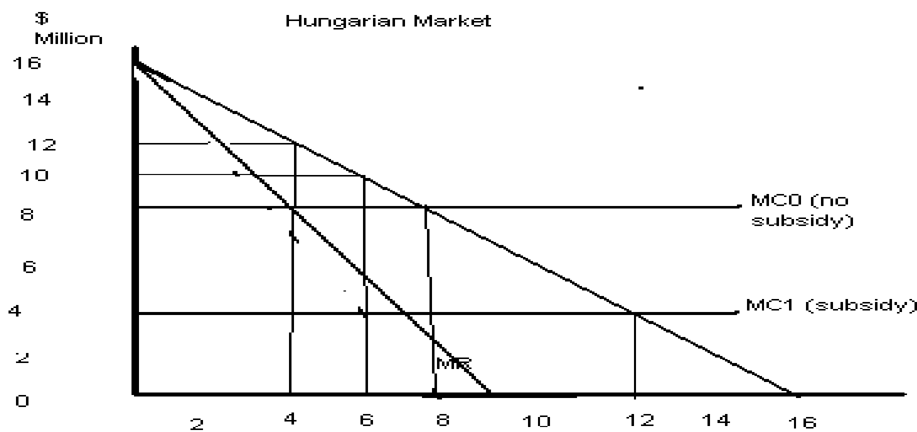
3. The principle benefit of tariff protection goes to ( )

(a) domestic consumers of the good produced.

(b) foreign consumers of the good produced.

(c) domestic producers of the good produced.

(d) foreign producers of the good produced.



4. Assume that Boeing (U.S.) and Airbus (European Union) both wish to enter the Hungarian market with the next new generation airliner. They both have identical cost and demand conditions (as indicated in the graph above).

a. Assume that Boeing is the first to enter the Hungarian market. Without a government subsidy what price would they demand, and what would be their total profits?

b. What is the consumer surplus enjoyed by Hungarian consumers of Boeing aircraft in the above situation?

c. Suppose the European government provides Airbus with a subsidy of $4 for each airplane sold, and that the subsidy convinces Boeing to exit the Hungarian market. Now Airbus would be the monopolist in this market. What price would they charge, and what would be their total profits?