

**Course:** International Trade and Policy

**Week 5:** Trade Policy Instruments – Tariffs and Non-Tariff Barriers

**Instructions:** Please select the best answer for each of the following ten questions. Each question has only one correct answer.

**Question 1**

Which type of tariff is defined as a fixed monetary amount per unit of import (e.g., \$10 per ton of steel)?

- A) Ad valorem tariff
- B) Compound tariff
- C) Specific tariff
- D) Variable levy

**Question 2**

In the partial equilibrium analysis of a *small country* imposing a tariff, what is the net welfare effect?

- A) National welfare always increases due to higher government revenue.
- B) National welfare always decreases due to deadweight loss from production and consumption distortions.
- C) National welfare remains unchanged because the loss to consumers is exactly offset by gains to producers and government.
- D) National welfare increases if the tariff is set at the optimal level.

**Question 3**

According to the lecture, why might a *large country* improve its national welfare by imposing a tariff?

- A) Because the tariff eliminates all deadweight loss.
- B) Because the tariff lowers the world price of imports, creating a terms of trade gain that may exceed the deadweight loss.
- C) Because the tariff always increases domestic consumer surplus.
- D) Because the tariff makes the country's currency appreciate permanently.

**Question 4**

What is the primary difference between an import quota and a voluntary export restraint (VER) from the *importing country's* perspective?

- A) Under a VER, the quota rent goes to foreign exporters, while under an import quota (with auctioned licenses), the rent stays domestic.
- B) Under a VER, the importing country collects tariff revenue, while under a quota it does not.
- C) VERs are more transparent than quotas.
- D) Quotas always create smaller deadweight loss than VERs.

### Question 5

Which of the following statements best describes a *tariff rate quota (TRQ)*?

- A) A single high tariff applied to all imports regardless of quantity.
- B) A two-tier system where imports within a specified quantity face a low tariff, and imports above that quantity face a higher tariff.
- C) A quota that is set by the exporting country without the importing country's consent.
- D) A tariff that applies only to agricultural products with no quantity limit.

### Question 6

According to the lecture, why are *voluntary export restraints (VERs)* now illegal under WTO rules?

- A) Because they generate too much government revenue.
- B) Because they are less restrictive than tariffs.
- C) Because they force the importing country to pay subsidies to foreign firms.
- D) Because they transfer quota rents to foreign exporters and create deadweight loss without any offsetting benefit to the importing country.

### Question 7

In the Specific-Factors model (from Week 4, but relevant for policy), who are the unambiguous winners when a country opens to trade and the price of the exported manufactured good rises?

- A) Workers, because their nominal wage always rises more than the price increase.
- B) Landowners (specific to agriculture), because labor leaves the land.
- C) Owners of capital (specific to manufacturing), because the higher output price increases their real return.
- D) All factors of production benefit equally in the short run.

### Question 8

What does the Grubel-Lloyd (GL) Index measure?

- A) The level of inter-industry trade
- B) The level of intra-industry trade
- C) The impact of distance on trade flows
- D) The degree of factor price equalization

### Question 9

Which of the following is a key policy implication derived from the Specific-Factors model (as noted in the lecture notes from Week 4)?

- A) Free trade agreements need no complementary policies because all factors gain.
- B) Governments should use strategic subsidies to shift profits from foreign firms.
- C) Trade hurts some workers in the short run, so policy should include adjustment assistance (e.g., retraining and wage insurance).
- D) Regional trade agreements always increase welfare for all member countries.

### Question 10

According to the lecture on trade policy instruments, what happens to the domestic price and import volume when a *small country* imposes a specific tariff?

- A) Domestic price rises by less than the tariff; import volume increases.
- B) Domestic price rises by the full amount of the tariff; import volume falls.
- C) Domestic price remains unchanged; import volume falls due to lower world prices.
- D) Domestic price falls; import volume increases due to higher government spending.

### Answer Key

- 1. C
- 2. B
- 3. B
- 4. A
- 5. B
- 6. D
- 7. C
- 8. B
- 9. C
- 10. B