**CHAPTER 5 TARIFFS**

MULTIPLE-CHOICE QUESTIONS

1. The imposition of tariffs on imports results in deadweight welfare losses for the home economy. These losses consist of the:

a. Protective effect plus consumption effect

b. Redistribution effect plus revenue effect

c. Revenue effect plus protective effect

d. Consumption effect plus redistribution effect

2. Suppose that the United States *eliminates* its tariff on steel imports, permitting foreign-produced steel to enter the U.S. market. Steel prices to U.S. consumers would be expected to:

a. Increase, and the foreign demand for U.S. exports would increase

b. Decrease, and the foreign demand for U.S. exports would increase

c. Increase, and the foreign demand for U.S. exports would decrease

d. Decrease, and the foreign demand for U.S. exports would decrease

3. A $100 specific tariff provides home producers *more* protection from foreign competition when:

a. The home market buys cheaper products rather than expensive products

b. It is applied to a commodity with many grade variations

c. The home demand for a good is elastic with respect to price changes

d. It is levied on manufactured goods rather than primary products

4. A *lower* tariff on imported aluminum would most likely benefit:

a. Foreign producers at the expense of domestic consumers

b. Domestic manufacturers of aluminum

c. Domestic consumers of aluminum

d. Workers in the domestic aluminum industry

5. When a government allows raw materials and other intermediate products to enter a country *duty free*, its tariff policy generally results in a (an):

a. Effective tariff rate less than the nominal tariff rate

b. Nominal tariff rate less than the effective tariff rate

c. Rise in both nominal and effective tariff rates

d. Fall in both nominal and effective tariff rates

6. Of the many arguments in favor of tariffs, the one that has enjoyed the *most* significant economic justification has been the:

a. Infant industry argument

b. Cheap foreign labor argument

c. Balance of payments argument

d. Domestic living standard argument

7. The redistribution effect of an import tariff is the transfer of income from the domestic:

a. Producers to domestic buyers of the good

b. Buyers to domestic producers of the good

c. Buyers to the domestic government

d. Government to the domestic buyers

8. Which of the following is *true* concerning a specific tariff?

a. It is exclusively used by the U.S. in its tariff schedules

b. It refers to a flat percentage duty applied to a good’s market value

c. It is plagued by problems associated with assessing import product values

d. It affords less protection to home producers during eras of rising prices

9. The principal benefit of tariff protection goes to:

a. Domestic consumers of the good produced

b. Domestic producers of the good produced

c. Foreign producers of the good produced

d. Foreign consumers of the good produced

10. Which of the following policies permits a specified quantity of goods to be imported at one tariff rate and applies a higher tariff rate to imports above this quantity?

a. Tariff quota

b. Import tariff

c. Specific tariff

d. Ad valorem tariff

11. Assume the United States adopts a tariff quota on steel in which the quota is set at 2 million tons, the within-quota tariff rate equals 5 percent, and the over-quota tariff rate equals 10 percent. Suppose the U.S. imports 1 million tons of steel. The resulting revenue effect of the tariff quota would accrue to:

a. The U.S. government only

b. U.S. importing companies only

c. Foreign exporting companies only

d. The U.S. government and either U.S. importers or foreign exporters

12. When the production of a commodity does *not* utilize imported inputs, the effective tariff rate on the commodity:

a. Exceeds the nominal tariff rate on the commodity

b. Equals the nominal tariff rate on the commodity

c. Is less than the nominal tariff rate on the commodity

d. None of the above

13. Developing nations often maintain that industrial countries permit raw materials to be imported at very low tariff rates while maintaining high tariff rates on manufactured imports. Which of the following refers to the above statement?

a. Tariff-quota effect

b. Nominal tariff effect

c. Tariff escalation effect

d. Protective tariff effect

14. Should the home country be “large” relative to the world, its imposition of a tariff on imports would lead to an increase in domestic welfare if the terms-of-trade effect *exceeds* the sum of the:

a. Revenue effect plus redistribution effect

b. Protective effect plus revenue effect

c. Consumption effect plus redistribution effect

d. Protective effect plus consumption effect

15. Should Canada impose a tariff on imports, one would expect Canada’s:

a. Terms of trade to improve and volume of trade to decrease

b. Terms of trade to worsen and volume of trade to decrease

c. Terms of trade to improve and volume of trade to increase

d. Terms of trade to worsen and volume of trade to increase

16. A beggar-thy-neighbor policy is the imposition of:

a. Free trade to increase domestic productivity

b. Trade barriers to increase domestic demand and employment

c. Import tariffs to curb domestic inflation

d. Revenue tariffs to make products cheaper for domestic consumers

17. A problem encountered when implementing an “infant industry” tariff is that:

a. Domestic consumers will purchase the foreign good regardless of the tariff

b. Political pressure may prevent the tariff’s removal when the industry matures

c. Most industries require tariff protection when they are mature

d. Labor unions will capture the protective effect in higher wages

18. Tariffs are *not* defended on the ground that they:

a. Improve the terms of trade of foreign nations

b. Protect jobs and reduce unemployment

c. Promote growth and development of young industries

d. Prevent overdependence of a country on only a few industries

19. The deadweight loss of a tariff:

a. Is a social loss since it promotes inefficient production

b. Is a social loss since it reduces the revenue for the government

c. Is not a social loss because society as a whole doesn’t pay for the loss

d. Is not a social loss since only business firms suffer revenue losses

20. Which of the following is a fixed percentage of the value of an imported product as it enters the country?

a. Specific tariff

b. Ad valorem tariff

c. Nominal tariff

d. Effective tariff

21. A tax of 20 cents per unit of imported cheese would be an example of:

a. Compound tariff

b. Effective tariff

c. Ad valorem tariff

d. Specific tariff

22. A tax of 15 percent per imported item would be an example of:

a. Ad valorem tariff

b. Specific tariff

c. Effective tariff

d. Compound tariff

23. Which type of tariff is not used by the American government?

a. Import tariff

b. Export tariff

c. Specific tariff

d. Ad valorem tariff

24. Which trade policy results in the government levying a “two-tier” tariff on imported goods?

a. Tariff quota

b. Nominal tariff

c. Effective tariff

d. Revenue tariff

25. If we consider the impact on both consumers and producers, then protection of the steel industry is:

a. In the interest of the United States as a whole, but not in the interest of the state of Pennsylvania

b. In the interest of the United States as a whole and in the interest of the state of Pennsylvania

c. Not in the interest of the United States as a whole, but it might be in the interest of the state of Pennsylvania

d. Not in the interest of the United States as a whole, nor in the interest of the state of Pennsylvania

26. If I purchase a stereo from South Korea, I obtain the stereo and South Korea obtains the dollars. But if I purchase a stereo produced in the United States, I obtain the stereo and the dollars remain in America. This line of reasoning is:

a. Valid for stereos, but not for most products imported by the United States

b. Valid for most products imported by the United States, but not for stereos

c. Deceptive since Koreans eventually spend the dollars on U.S. goods

d. Deceptive since the dollars spent on a stereo built in the United States eventually wind up overseas

27. The most vocal political pressure for tariffs is generally made by:

a. Consumers lobbying for export tariffs

b. Consumers lobbying for import tariffs

c. Producers lobbying for export tariffs

d. Producers lobbying for import tariffs

28. If we consider the interests of both consumers and producers, then a policy of tariff *reduction* in the U.S. auto industry is:

a. In the interest of the United States as a whole, but not in the interest of auto-producing states

b. In the interest of the United States as a whole, and in the interest of auto-producing states

c. Not in the interest of the United States as a whole, nor in the interest of auto-producing states

d. Not in the interest of the United States as a whole, but is in the interest of auto-producing states

29. Free traders point out that:

a. There is usually an efficiency gain from having tariffs

b. There is usually an efficiency loss from having tariffs

c. Producers lose from tariffs at the expense of consumers

d. Producers lose from tariffs at the expense of the government

30. A *decrease* in the import tariff will result in:

a. An increase in imports but a decrease in domestic production

b. A decrease in imports but an increase in domestic production

c. An increase in price but a decrease in quantity purchased

d. A decrease in price and a decrease in quantity purchased

Figure 5.1 illustrates the demand and supply schedules for pocket calculators in Mexico, a “small” nation that is unable to affect the world price. Answer the next *11* questions on the basis of this figure.

Figure 5.1. *Import Tariff Levied by a “Small” Country*

Fig05_01

31. Consider Figure 5.1. In the absence of trade, Mexico produces and consumes:

a. 10 calculators

b. 40 calculators

c. 60 calculators

d. 80 calculators

32. Consider Figure 5.1. In the absence of trade, Mexico’s producer surplus and consumer surplus respectively equal:

a. $120, $240

b. $180, $180

c. $180, $320

d. $240, $240

33. Consider Figure 5.1. With free trade, Mexico imports:

a. 40 calculators

b. 60 calculators

c. 80 calculators

d. 100 calculators

34. Consider Figure 5.1. With free trade, the total value of Mexico’s imports equal:

a. $220

b. $260

c. $290

d. $300

35. Consider Figure 5.1. With free trade, Mexico’s producer surplus and consumer surplus respectively equal:

a. $5, $605

b. $25, $380

c. $45, $250

d. $85, $195

36. Consider Figure 5.1. With a per-unit tariff of $3, the quantity of imports decreases to:

a. 20 calculators

b. 40 calculators

c. 50 calculators

d. 70 calculators

37. According to Figure 5.1, the loss in Mexican consumer surplus due to the tariff equals:

a. $225

b. $265

c. $285

d. $325

38. According to Figure 5.1, the tariff results in the Mexican government collecting:

a. $100

b. $120

c. $140

d. $160

39. According to Figure 5.1, Mexican manufacturers gain \_\_\_\_\_\_\_\_\_\_ because of the tariff.

a. $75

b. $85

c. $95

d. $105

40. According to Figure 5.1, the deadweight cost of the tariff totals:

a. $60

b. $70

c. $80

d. $90

41. Consider Figure 5.1. The tariff would be prohibitive (i.e., eliminate imports) if it equaled:

a. $2

b. $3

c. $4

d. $5

Assume the United States is a large consumer of steel that is able to influence the world price. Its demand and supply schedules are respectively denoted by DU.S. and SU.S. in Figure 5.2. The overall (United States plus world) supply schedule of steel is denoted by SU.S.+W. Answer the next *six* questions on the basis of this information.

Figure 5.2. *Import Tariff Levied by a “Large” Country*

Fig05_02

42. Consider Figure 5.2. With free trade, the United States achieves market equilibrium at a price of $\_\_\_\_\_\_\_. At this price, \_\_\_\_\_\_\_\_\_\_ tons of steel are produced by U.S. firms, \_\_\_\_\_\_\_\_\_\_ tons are bought by U.S. buyers, and \_\_\_\_\_\_\_\_\_\_ tons are imported.

a. $450, 5 tons, 60 tons, 55 tons

b. $475, 10 tons, 50 tons, 40 tons

c. $525, 5 tons, 60 tons, 55 tons

d. $630, 30 tons, 30 tons, 0 tons

43. Consider Figure 5.2. Suppose the United States imposes a tariff of $100 on each ton of steel imported. With the tariff, the price of steel rises to $\_\_\_\_\_\_\_ and imports fall to \_\_\_\_\_\_\_\_\_\_ tons.

a. $550, 20 tons

b. $550, 30 tons

c. $575, 20 tons

d. $575, 30 tons

44. Consider Figure 5.2. Of the $100 tariff, $\_\_\_\_\_\_\_ is passed on to the U.S. consumer via a higher price, while $\_\_\_\_\_\_\_ is borne by the foreign exporter; the U.S. terms of trade \_\_\_\_\_\_\_\_\_\_.

a. $25, $75, improve

b. $25, $75, worsen

c. $75, $25, improve

d. $75, $25, worsen

45. Refer to Figure 5.2. The tariff’s deadweight welfare loss to the United States totals:

a. $450

b. $550

c. $650

d. $750

46. According to Figure 5.2, the tariff’s terms-of-trade effect equals:

a. $300

b. $400

c. $500

d. $600

47. According to Figure 5.2, the tariff leads to the overall welfare of the United States:

a. Rising by $250

b. Rising by $500

c. Falling by $250

d. Falling by $500

48. Suppose that the production of $500,000 worth of steel in the United States requires $100,000 worth of iron ore. The U.S. nominal tariff rates for importing these goods are 15 percent for steel and 5 percent for iron ore. Given this information, the effective rate of protection for the U.S. steel industry is approximately:

a. 6 percent

b. 12 percent

c. 18 percent

d. 24 percent

49. Suppose that the production of a $30,000 automobile in Canada requires $10,000 worth of steel. The Canadian nominal tariff rates for importing these goods are 25 percent for automobiles and 10 percent for steel. Given this information, the effective rate of protection for the Canadian automobile industry is approximately:

a. 15 percent

b. 32 percent

c. 48 percent

d. 67 percent

Answer the next *two* questions on the basis of the following information. Assume that the United States imports automobiles from South Korea at a price of $20,000 per vehicle and that these vehicles are subject to an import tariff of 20 percent. Also assume that U.S. components are used in the vehicles assembled by South Korea and that these components have a value of $10,000.

50. In the absence of the Offshore Assembly Provision of U.S. tariff policy, the price of an imported vehicle to the U.S. consumer after the tariff has been levied is:

a. $22,000

b. $23,000

c. $24,000

d. $25,000

51. Under the Offshore Assembly Provision of U.S. tariff policy, the price of an imported vehicle to the U.S. consumer after the tariff has been levied is:

a. $22,000

b. $23,000

c. $24,000

d. $25,000

52. Suppose an importer of steel is required to pay a tariff of $20 per ton plus 5 percent of the value of steel. This is an example of a (an):

a. Specific tariff

b. Ad valorem tariff

c. Compound tariff

d. Tariff quota

53. A compound tariff is a combination of a (an):

a. Tariff quota and a two-tier tariff

b. Revenue tariff and a protective tariff

c. Import tariff and an export tariff

d. Specific tariff and an ad valorem tariff

Using the data of Table 5.1, answer Questions 54 through 59.

Table 5.1. *Production Costs and Prices of Imported and Domestic VCRs*

Imported VCRs Domestic VCRs

Component parts $150 Imported component parts $150

Assembly cost/profit 50 Assembly cost 50

Nominal tariff   25 Profit   25

Import price after tariff $225 Domestic price after tariff $225

54. Consider Table 5.1. Prior to the tariff, the total price of domestically-produced VCRs is:

a. $150

b. $200

c. $225

d. $250

55. Consider Table 5.1. Prior to the tariff, the total price of imported VCRs is:

a. $150

b. $200

c. $225

d. $235

56. Consider Table 5.1. The nominal tariff rate on imported VCRs equals:

a. 11.1 percent

b. 12.5 percent

c. 16.7 percent

d. 50.0 percent

57. Consider Table 5.1. Prior to the tariff, domestic value added equals:

a. $25

b. $50

c. $75

d. $100

58. Consider Table 5.1. After the tariff, domestic value added equals:

a. $25

b. $50

c. $75

d. $100

59. Consider Table 5.1. The effective tariff rate equals:

a. 11.1 percent

b. 16.7 percent

c. 50.0 percent

d. 100.0 percent

60. If the domestic value added before an import tariff for a product is $500 and the domestic value added after the tariff is $550, the effective rate of protection is:

a. 5 percent

b. 8 percent

c. 10 percent

d. 15 percent

TRUE-FALSE QUESTIONS

T F 1. To protect domestic producers from foreign competition, the U.S. government levies both import tariffs and export tariffs.

T F 2. With a compound tariff, a domestic importer of an automobile might be required to pay a duty of $200 plus 4 percent of the value of the automobile.

T F 3. With a specific tariff, the degree of protection afforded domestic producers varies directly with changes in import prices.

T F 4. During a business recession, when cheaper products are purchased, a specific tariff provides domestic producers a greater amount of protection against import-competing goods.

T F 5. A ad valorem tariff provides domestic producers a declining degree of protection against import-competing goods during periods of changing prices.

T F 6. With a compound duty, its “specific” portion neutralizes the cost disadvantage of domestic manufacturers that results from tariff protection granted to domestic suppliers of raw materials, and the “ad valorem” portion of the duty grants protection to the finished-goods industry.

T F 7. The nominal tariff rate signifies the total increase in domestic productive activities compared to what would occur under free-trade conditions.

T F 8. When material inputs enter a country at a very low duty while the final imported product is protected by a high duty, the result tends to be a high rate of protection for domestic producers of the final product.

T F 9. According to the tariff escalation effect, industrial countries apply low tariffs to imports of finished goods and high tariffs to imports of raw materials.

T F 10. Under the Offshore Assembly Provision of U.S. tariff policy, U.S. import duties apply only to the value added in the foreign assembly process, provided that U.S.-made components are used by overseas companies in their assembly operations.

T F 11. Bonded warehouses and foreign trade zones have the effect of allowing domestic importers to postpone and prorate over time their import duty obligations.

T F 12. A nation whose imports constitute a very small portion of the world market supply is a price taker, facing a constant world price for its import commodity.

T F 13. Graphically, consumer surplus is represented by the area above the demand curve and below the product’s market price.

T F 14. Producer surplus is the revenue producers receive over and above the minimum necessary for production.

T F 15. For a “small” country, a tariff raises the domestic price of an imported product by the full amount of the duty.

T F 16. Although an import tariff provides the domestic government additional tax revenue, it benefits domestic consumers at the expense of domestic producers.

T F 17. An import tariff reduces the welfare of a “small” country by an amount equal to the redistribution effect plus the revenue effect.

T F 18. The deadweight losses of an import tariff consist of the protection effect plus the consumption effect.

T F 19. The redistribution effect is the transfer of producer surplus to domestic consumers of the import-competing product.

T F 20. As long as it is assumed that a nation accounts for a negligible portion of international trade, its levying an import tariff necessarily increases its overall welfare.

T F 21. Changes in a “large” country’s economic conditions or trade policies can affect the terms at which it trades with other countries.

T F 22. A “large” country, that levies a tariff on imports, *cannot* improve the terms at which it trades with other countries.

T F 23. For a “large” country, a tariff on an imported product may be partially absorbed by the domestic consumer via a higher purchase price and partially absorbed by the foreign producer via a lower export price.

T F 24. If a “large” country levies a tariff on an imported good, its overall welfare increases if the monetary value of the tariff’s consumption effect plus protective effect exceeds the monetary value of the terms-of-trade effect.

T F 25. If a “small” country levies a tariff on an imported good, its overall welfare increases if the monetary value of the tariff’s consumption effect plus protective effect is less than the monetary value of the terms-of-trade effect.

T F 26. A tariff on steel imports tends to improve the competitiveness of domestic automobile companies.

T F 27. If a tariff reduces the quantity of Japanese autos imported by the United States, over time it reduces the ability of Japan to import goods from the United States.

T F 28. A compound tariff permits a specified amount of goods to be imported at one tariff rate while any imports above this amount are subjected to a higher tariff rate.

T F 29. A tariff can be thought of as a tax on imported goods.

T F 30. Although tariffs on imported steel may lead to job gains for domestic steel workers, they can lead to job losses for domestic auto workers.

T F 31. Relatively low wages in Mexico make it impossible for U.S. manufacturers of labor-intensive goods to compete against Mexican manufacturers.

T F 32. According to the infant-industry argument, temporary tariff protection granted to an infant industry will help it become competitive in the world market; when international competitiveness is achieved, the tariff should be removed.

In the absence of international trade, assume that the equilibrium price and quantity of motorcycles in Canada is $14,000 and 10 units respectively. Assuming that Canada is a small country that is unable to affect the world price of motorcycles, suppose its market is opened to international trade. As a result, the price of motorcycles falls to $12,000 and the total quantity demanded rises to 14 units; out of this total, 6 units are produced in Canada while 8 units are imported. Now assume that the Canadian government levies an import tariff of $1,000 on motorcycles. Answer the next *six* questions on the basis of this information.

T F 33. As a result of the tariff, the price of imported motorcycles equals $13,000 and imports total 4 cycles.

T F 34. The tariff leads to an increase in Canadian consumer surplus totaling $11,000.

T F 35. The tariff’s redistribution effect equals $7,000.

T F 36. The tariff’s revenue effect equals $6,000.

T F 37. All of the import tariff is shifted to the Canadian consumer via a higher price of motorcycles.

T F 38. The tariff leads to a deadweight welfare loss for Canada totaling $1,000.

T F 39. Unlike a specific tariff, an ad valorem tariff differentiates between commodities with different values.

T F 40. A limitation of a specific tariff is that it provides a constant level of protection for domestic commodities regardless of fluctuations in their prices over time.

T F 41. A tariff quota is a combination of a specific tariff and an ad valorem tariff.

T F 42. A specific tariff is expressed as a fixed percentage of the total value of an imported product.

T F 43. The protective effect of a tariff occurs to the extent that less efficient domestic production is substituted for more efficient foreign production.

T F 44. A tariff can increase the welfare of a “large” levying country if the favorable terms-of-trade effect more than offsets the unfavorable protective effect and consumption effect.

T F 45. If the world price of steel is $600 per ton, a specific tariff of $120 per ton is equivalent to an ad valorem tariff of 25 percent.

T F 46. An import tariff will worsen the terms of trade for a “small” country but improve the terms of trade for a “large” country.

T F 47. Suppose that the tariff on imported steel is 40 percent, the tariff on imported iron ore is 20 percent, and 30 percent of the cost of producing a ton of steel consists of the iron ore it contains. The effective rate of protection of steel is approximately 49 percent.

T F 48. There is widespread agreement among economists that import tariffs increase overall employment in the levying country.

T F 49. Assume that the United States imports VCRs from South Korea at a price of $200 per unit and that these VCRs are subject to an import tariff of 20 percent. Also assume that U.S. components are used in the VCRs assembled by South Korea and that these components have a value of $100. Under the Offshore Assembly Provision of U.S. tariff policy, the price of an imported VCR to the U.S. consumer after the tariff has been levied is $220.

T F 50. Assume that the United States imports televisions from Taiwan at a price of $300 per unit and that these televisions are subject to an import tariff of 25 percent. Also assume that U.S. components are used in the televisions assembled by Taiwan and that these components have a value of $100. Under the Offshore Assembly Provision of U.S. tariff policy, the price of an imported television to the U.S. consumer after the tariff has been levied is $375.

ANSWERS

Answers to Multiple-Choice Questions

1. **a**

2. **b**

3. **a**

4. **c**

5. **b**

6. **a**

7. **b**

8. **d**

9. **b**

10. **a**

11. **a**

12. **b**

13. **c**

14. **d**

15. **a**

16. **b**

17. **b**

18. **a**

19. **a**

20. **b**

21. **d**

22. **a**

23. **b**

24. **a**

25. **c**

26. **c**

27. **d**

28. **a**

29. **b**

30. **a**

31. **c**

32. **b**

33. **d**

34. **d**

35. **a**

36. **b**

37. **c**

38. **b**

39. **a**

40. **d**

41. **d**

42. **b**

43. **a**

44. **c**

45. **d**

46. **c**

47. **c**

48. **c**

49. **b**

50. **c**

51. **a**

52. **c**

53. **d**

54. **b**

55. **b**

56. **b**

57. **b**

58. **c**

59. **c**

60. **c**

Answers to True-False Questions

1. **F**

2. **T**

3. **F**

4. **T**

5. **F**

6. **T**

7. **F**

8. **T**

9. **F**

10. **T**

11. **T**

12. **T**

13. **F**

14. **T**

15. **T**

16. **F**

17. **F**

18. **T**

19. **F**

20. **F**

21. **T**

22. **F**

23. **T**

24. **F**

25. **F**

26. **F**

27. **T**

28. **F**

29. **T**

30. **T**

31. **F**

32. **T**

33. **T**

34. **F**

35. **T**

36. **F**

37. **T**

38. **F**

39. **T**

40. **F**

41. **F**

42. **F**

43. **T**

44. **T**

45. **F**

46. **F**

47. **T**

48. **F**

49. **T**

50. **F**