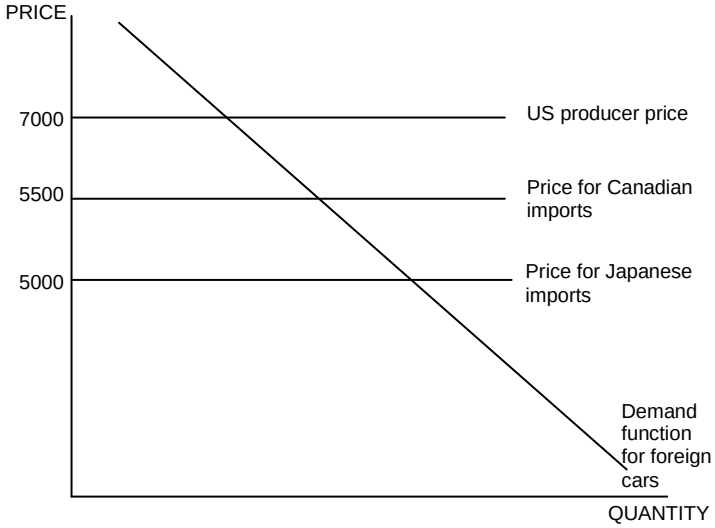
1. Consider the following situation where the United States can import cars from Canada and Japan. Assume that there are no quality differences, NAFTA still does not exist, and consumers prefer either Canadian or Japanese cars equally at the same price. Assume further that there is a uniform $1000 tariff on all imported cars to the U.S.



   a. If there were no free trade agreements with either Japan or Canada, which country would export cars to the U.S.? In the adjoining figure show revenue collected by the U.S. government on imported cars. *(2 points)*
   b. Now suppose that NAFTA was signed with Canada. Which country would export cars to the U.S? In the adjoining figure, show what happens to government revenue and consumer surplus. *(3 points)*
   c. Finally, in the adjoining figure, show the areas that represent trade creation and the areas that represent trade diversion. In general, discuss under what conditions will trade creation be greater than trade diversion? *(4 points)*

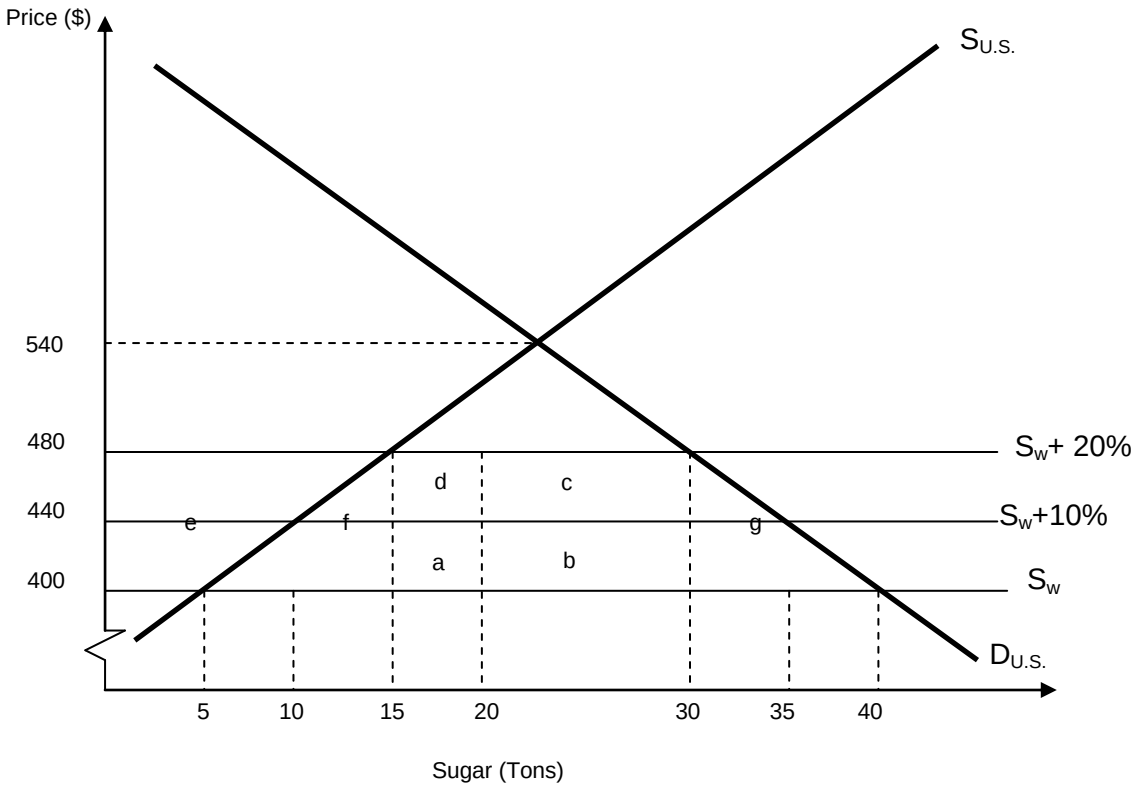
2. Suppose that the free trade price of a product is $10,000. The product contains 25% imported components. Suppose tariff on the final product is 10%, while that on imported components is 5%.
   a. What is the product's price after imposition of the tariff? *(1 point)*
   b. What is the domestic value added before the tariff? *(1 point)*
   c. What is the domestic value added after the tariff? *(2 point)*
   d. What is the effective rate of protection? *(2 points)*
   e. In general, explain under what conditions a tariff understates and overstates the effective rate of protection. *(3 points)*

3. Suppose that when trade begins, country A imports textiles, a labor intensive good.
   a. What does this imply about country A's factor endowments and why? *(2 point)*
   b. What is likely to be the effect of trade on wages? Explain why in detail? *(2 points)*
   c. Which group of citizens in country A would you expect to support free trade and why? Why would oppose free trade and why? *(3 points)*

4. The following shows the cost in local currencies of five commodities in the US and UK.
   a. If £1=$2, determine which commodities will be exported by which country. *(2 points)*
   b. What are the limits to exchange rates for trade to take place between these two countries? *(3 points)*

Commodity	Price in the U.S.	Price in U.K.
A	$2	£6
B	4	4
C	6	3
D	8	2
E	10	1

5. Figure 1 below describes the hypothetical demand (D) and supply curve (S) for sugar in the U.S. Assume that autarky equilibrium price for sugar in the U.S. is $540. Under free trade, the U.S. faces a constant world price of sugar equal to $400 per ton. At the free trade price, U.S. consumption is 40 tons, while production is 5 tons.
   To protect its domestic producers, the U.S. imposes a tariff rate import quota of 5 tons; imports within this quota face a tariff of 10%, while a 20% tariff applies to imports beyond this quota. The figure shows the impact of this structure on domestic price, consumption and production. (Please follow the question carefully and THINK LOGICALLY)



   Using the key provided in the figure, answer the following questions.
   4a.What area represents the increase/decrease in profit of U.S. sugar producers? *(2 points)*
   4b.What area represents the dead weight loss to consumers. *(2 points)*
   4c.What does area 'd' in this figure represent? *(3 points)*
   4d.What portion of this figure represents the revenue generated by the government? *(3 points)*

6. Given all the readings that you have done for the course so far, write a brief essay of about one page on the impact of labor migration on (a) the country of immigration (b) the country of emigration and (c) the world as a whole. Particularly, given the current circumstances, consider the impact of U.S. immigration policy on domestic workers. Please write and ORIGINAL essay, rather than merely quoting someone else verbatim. I expect the answer to be sophisticated, demonstrate intellectual analysis and incisive. *(10 points)*