Assignment 2

Part A True/False/Uncertain Questions

Explain why the following statement is True, False, or Uncertain according to economic principles. Use diagrams and/or numerical examples where appropriate. Unsupported answers will receive no marks. It is the explanation that is important.

A1. The welfare of a large country decreases with the imposition of a FCR barrier.

True

See Section 4.4.2 and Figure 4-9 of Baldwin’s textbook for a graphical explanation.

A2. The welfare of a large country increases with the imposition of a MFN tariff.

Uncertain

See Sections 4.3.1 and 4.3.2, and Figures 4.6 and 4.7 of Baldwin’s textbook for a graphical explanation.

A3. A unilateral, discriminatory tariff liberalization by a large country (Home) increases exports from the partner country while it decreases exports from the rest of the world.

True

See Section 5.1.2 and Figure 5.2 of Baldwin’s textbook for a graphical explanation.

A4. A unilateral, discriminatory tariff liberalization by a large country (Home) leads to an increase in Home’s welfare as well as the partner country’s welfare.

Uncertain

See Sections 5.1.2 and 5.1.3, and Figures 5.4 and 5.5 of the Baldwin’s textbook for a graphical explanation.
A5. A formation of custom union between two large and symmetric countries - Home and Foreign - raises the welfare level of both countries.

Uncertain

See Sections 5.2.1 and 5.2.2, and Figures 5.7 and 5.8 of Baldwin’s textbook for a graphical explanation.

A6. A unilateral, discriminatory tariff liberalization by a small country (Home) with its low cost trading partner leads to an increase in Home’s welfare.

True

See Annex A (A.1 and A.2) and Figures A5.1 and A5.2 of the Baldwin’s textbook for a graphical explanation.