

Study Guide for New Material on Final Exam

1. What is the profit-maximizing conditions for a monopoly under no-trade?
2. Be able to understand in detail the profit maximizing conditions for a monopoly under a free-trade situation.
3. What does the demand curve look like for the home monopolist under free trade?
4. Be able to fully understand the output, exports, etc for a situation like that shown in Figure 9.2.
5. Be able to show effects of opening trade with a home monopolist such as that shown in Problem Set 7.
6. If the monopolist has limited control over its price, it behaves in the same way as a competitive industry would when facing the tariff. What does this mean? Show diagrammatically and label the gains and losses.
7. Consider the statement “The quota on a monopolist results in a higher price for Home consumers because it creates a “sheltered” market for the Home firm, allowing it to exercise its monopoly power, which leads to higher prices than under a tariff.” Explain what this means (you do not need to draw the diagram).
8. What are the effects of an anti-dumping duty or tariff imposed on a foreign monopolist? What factor affects the losses and gains?
9. What is the definition of dumping and what kinds of dumping can exist?
10. What must be kept separate if price discrimination is to occur?
11. What do we mean by $MR=MR^*=MC$?
12. Be able to fully understand the model (graphs) of a price discriminating monopolist (Figure 9.8). Be able to show the different prices and quantities in each market.
13. Under price discrimination what is the relationship between the price charged and elasticity in the market?
14. Explain this statement: “A charge of dumping can sometimes lead foreign firms to increase their prices, even without an antidumping duty being applied.”
15. Who benefits from dumping?
16. Explain what is meant by the infant industry argument. Give a graphical example (see Figure 9.10).
17. What type of methods of protectionism are justified, and which are generally not?
18. What do we mean by an export subsidy?
19. Be able to explain and show diagrammatically the impact of an Export Subsidy for a small country (Figure 10.1, for example).
20. Be able to explain and show diagrammatically the impact of an Export Subsidy for a large country (Figure 10.2, for example).
21. How does a production subsidy differ from an export subsidy? Give an example.
22. What do we mean by an export quota? Give an example.
23. What is a payoff matrix?
24. What do we mean a Nash Equilibrium?
25. What do we mean by a dominant strategy?

26. Be sure to understand the examples of game theory discussed in the notes.
 27. Be able to do an example like that below.

Trade Warfare

		United States of America	
		Tariff	No Tariff
China	Tariff	-25 / -25	50 / -50
	No Tariff	-50 / 50	75 / 75

- a. Does China have a dominant strategy? Yes or No (Circle) If so, what?

- b. Does the US have a dominant strategy? Yes or No (Circle) If so, what?

- c. In the payoff matrix above, circle the Nash Equilibrium(s)
28. What do we mean by multilateral trade agreements?
 29. What do we mean by the most favored nation principle of the WTO?
 30. What do we mean by managed trade?
 31. Give some examples of regional trading agreements.
 32. What do we mean by trade creation and trade diversion?
 33. How does international trade effect the environment?
 34. In a game such as that below, why does the world become more polluted? Explain.

		Foreign	
		Regulate	Don't regulate
Home	Regulate	Gain for Home consumers, loss for producers / Gain for Foreign consumers, loss for producers	Loss for Home producers and consumers / Gain for Foreign producers, loss for consumers
	Don't regulate	Gain for Home producers, loss for consumers / Loss for Foreign producers and consumers	Small gain for Home producers, large loss for consumers / Small gain for Foreign producers, large loss for consumers