

## 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.