This will be our “capstone” assignment for the course. Thus, you will have to use all the knowledge that you (hopefully) acquired (despite my unreadable writings on the board and attempts to confuse you).

In an example of bipartisan lack of common sense, Sens. Charles Schumer (D., N.Y.) and Lindsey Graham (R., S.C.) have been threatening to put forward a bill that would impose 27.5% import tariffs on Chinese goods in retaliation for its currency policies. As a justification for their threat, here is a quote from WSJ: “It's hard to argue that China doesn't manipulate its currency. It maintains an exchange rate far below what would be a market-determined level -- and thus gets unfair trade advantages. It even appears to meet the IMF’s definition of manipulation as ‘protracted large-scale intervention in one direction in the exchange market.’ ”

The senators agreed this month to delay action on their bill until as late as March. After Nov 28th, currency report was released Mr. Schumer's spokesman said the bill might be revived as early as next month.

Mr. Graham said in a statement: "It is obvious Chinese currency practices violate international monetary policy and are creating havoc for American manufacturers. To say congressional patience is running out on the currency issue is a tremendous understatement."

Suppose Sens. Graham and Schumer introduce such a bill (which, by the way, has a good deal of support in both chambers of Congress) and it passes the congress and becomes the law (although it might be vetoed by Pres. Bush). You have to analyze economic consequences if this bill becomes the law. Do your best. Be concise. Explain why Chinese manipulate their currency. Describe how such manipulation can be countered with a tariff. Describe how such tariff would affect consumers, American producers, Chinese Producers, Yuan/Dollar exchange rate. Explain how it will affect current accounts, GDP, prices in both countries. Explain how such a tariff might affect other economies in the world.

Your grade will be assigned according following criteria:
1. Completeness of your answer (you have to address all issues above).
2. Use of economic theory.
3. Clarity and accuracy of explanation.
4. Overall quality of writing and any other arguments you choose to include.

This should be roughly a two-page assignment but if you choose to write more, knock yourself out.

If you choose to use any sources besides yourself, you are required to reference them.

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1 Actually, the President might not have the veto power on the trade issues - congress typically has the final say on trade related legislation. It would be interesting to find out…