

EC5/440: INTERNATIONAL TRADE THEORY AND POLICY

MIDTERM EXAM: ANSWER ALL FOUR QUESTIONS

(Exams will be collected at class time on Thursday, February 19th; or turned in to the Economics Department office no later than 5pm on that same day. Late submissions will require a documented excuse)

1. Explain the so-called “Ricardian” model of international trade, including its assumptions, and use this model to explain why and how both of the two countries considered countries gain from free trade between them. What determines the relative extent of these gains?
2. Explain the so-called “Heckscher-Ohlin” (H-O) model of trade, including its assumptions, and use this model to explain: a) what determines the pattern of trade – i.e. which country exports which good?; b) how, in this model, wage and profit rates will tend to equalize; and c) what conditions could falsify either or both of these conclusions?
3. Explain how a tariff imposed by a “small” country on its imported good causes a loss of real income, in the sense of: a) less efficient resource allocation; and b) lower utility, or “well-being” on the part of consumers. Go on to compare this to the alternatives of: 1) a quota, and 2): a subsidy.
4. Based on class discussions and your reading, discuss as many of the arguments against free trade as you can, and assess their “validity”: i.e., the extent to which they make sense from a national point of view.