Bush 689-606: International Trade
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Sample Final Exam Essay Questions

I. Precisely define and explain the following terms. Where possible, substantiate your answer using graphs, equations, or numerical examples.

1. Gains from trade in the Ricardian model
2. World relative supply and relative demand in the Ricardian model
3. Biased expansion of production possibilities
4. Stolper-Samuelson effect
5. Leontief paradox
6. Internal and External economies of scale
7. Effect of economies of scale on location decisions
8. Economics of Dumping

II. Analysis of Trade Data: This is based on the Figure on the last page (which prints out less clearly than I would like, but it’s the best I could do):

i. Consider the two pies depicting the geographical distribution of U.S.-Canada and the European Union exports. Which of the trade theories do you think might explain their patterns and why?

ii. Can you suggest a new model of trade that may explain some part of these pies that the theories we have learnt may not explain very well?

iii. Consider the Asia pie. I am surprised by the large part occupied by intra-Asia trade. What do you think is the reason? Based on your answer, do you think that part of the pie will diminish in importance or will become even more significant.

iv. What theory is probably most applicable to the Middle East pie?

III. Explain in detail how the Heckscher-Ohlin 2×2×2 model comes to the following conclusions:

i. Countries will export goods whose production is intensive in their relatively abundant factor.

ii. Owners of a country's abundant factors gain from trade, but owners of the scarce factors lose.
IV: Case Study of Canadian Lumber
(Although I didn’t cover export subsidies in class, it uses techniques that are similar to the tariff analysis)
Canada exports considerable quantities of lumber to the U.S. This seems consistent with relative factor endowments of the two countries and so should not be surprising. Much of this lumber is cut on lands owned by the Canadian government, which charges lumber firms a stumpage fee to cut lumber there. In the 1980s U.S. lumber firms complained that the stumpage fee was too low and this gave Canadian firms an unfair advantage in the U.S. market. Actions were brought and the International Trade Commission and the Commerce Department commenced investigations. The ITC failed to find injury to U.S. lumber firms and the Commerce department concluded that Canadian lumber was not being dumped in the U.S. market and that the allegedly low stumpage fees were not an export subsidy. By 1984 the case was closed. But then the U.S. administration became more aggressive in its attitude towards trade issues, and enforcement of existing statutes became stricter. The lumber industry continued its complaints and the case was reopened. This time injury was found and the Commerce Department ruled that the stumpage fees were too low and in effect constituted an export subsidy. In 1986 the administration announced that a countervailing duty of 15% would be imposed. To avoid this, the Canadian government levied its own 15% export tax.

The U.S. action angered Canadians. They charged that reopening a closed case constituted harassment since Canadian stumpage fees had not changed in the interim. They also denied that the policy constituted an export subsidy. In retaliation, Canada imposed a countervailing duty on imports of U.S. corn, declaring that agricultural support payments were export subsidies, one of the first instances of countervailing duties on U.S. farm exports.

i. Analytically explain how an export subsidy may lead to efficiency losses.
ii. Is the lower stumpage fee an actual export subsidy? How would you proceed to establish whether it is or is not.
iii. In your opinion was the U.S. countervailing duty on Canadian lumber exports justified? Why or why not.
iv. If you were the Canadian government would you react similarly? Why or why not.

V.
1. Using a model, analytically explain the justification for trade based on economies of scale in production. In your answer include a discussion of the gains from trade in this context.
2. Which trade theory or theories do you believe are important in causing the following. Be analytic and use economic logic while answering.
   i. The growth of Silicon Valley.
   ii. The predominance of Taiwan and Korea in shipbuilding
   iii. The concentration of high-end watches in Switzerland
FIGURE 1.2  Geographic pattern of merchandise trade, continued.

1992
World exports: $3.687 billion

U.S. & Canada exports: $581 billion
- to ROW ($233)
  - to Latin America ($78.3)
  - to Middle East ($20.6)
  - to Africa ($2.2)
- to Europe ($194.1)
  - to Latin America ($143.1)
- to Asia ($145.1)

European Union exports: $1.417 billion
- to ROW ($197.3)
  - to Latin America ($30.2)
  - to Middle East ($39.1)
  - to Africa ($40.4)
- to U.S. & Canada ($112.2)
- to Asia ($15.6)

Asia exports: $958 billion
- to ROW ($377.6)
  - to Latin America ($24.1)
- to U.S. & Canada ($189.8)
- to Middle East ($43.3)
- to Africa ($12.1)
- to Europe ($141.5)

Middle East exports: $139 billion
- to Latin America ($16.8)
- to Middle East ($12.8)
- to Africa ($34.5)
- to U.S. & Canada ($53.2)
- to Europe ($59.5)

Africa exports: $81.4 billion
- to Latin America ($9.1)
  - to ROW ($5.3)
  - to U.S. & Canada ($2.5)
- to Middle East ($4.4)
  - to Africa ($9.1)
  - to Europe ($12.6)

Latin America exports: $176 billion
- to ROW ($26.7)
  - to Latin America ($27.3)
- to U.S. & Canada ($78.2)
- to Middle East ($5.3)
- to Africa ($7.9)
- to Asia ($26.7)