Trade Module Exam, 1999

Answer EITHER (BUT NOT BOTH) questions 1 and 2.
Answer BOTH questions 3 and 4.
Each of the three questions you answer has equal weight.
Be concise. (You loose points and time for irrelevant information.)

1) (i) Illustrate graphically (using isoquants) a situation where there is a "factor intensity reversal".

(ii) Describe and explain the effect of this "reversal" on both the Factor Price Equalization Theorem and on the Stopler Samuelson Theorem.

2) Suppose that a small country's price of imports falls. Compare the effect of this change on the real wage in the Ricardian, HOS, and Specific Factors (Ricardo-Viner) models.

3) An international transfer may result in a secondary burden or a secondary blessing for the donor.

(i) Define "secondary burden" and "secondary blessing".

(ii) What determines whether the donor has a secondary burden or a secondary blessing? Explain your answer.

(iii)What is the "stability condition" and what is its role in reaching the conclusion from part (ii)? (You can answer the second half of this question by explaining how the conclusion in part (ii) would have changed if the stability condition had been violated.)

4) Use a partial equilibrium (linear) model to answer this question. Each unit of food produced in a small country causes γ dollars of environmental damage to society; food producers do not internalize this damage. Under free trade the country is a food importer.

(i)What is the optimal (first best) policy. Name it (i.e. tell me what kind of a policy it is) and illustrate it graphically (i.e. show how to find its level).

(ii) Now suppose that the country uses a trade policy to remedy the externality. Describe (name) the optimal trade policy and show how to find its level graphically.

(iii) Do producers prefer the first best policy or the second best trade policy? Explain.