

Econ 4415 International Trade – Fall 2020

Final Exam

Problem 1 (35points)

The US-China Trade war: Winners and Losers.

- a. What is the impact of a tariff? Describe the role of country size and the determinants of the degree of "pass-through". Use graphical illustrations to support your arguments.
- b. Discuss the ongoing US-China trade war, and analyse the consequences of the trade war for different groups in the US, in China and in the rest of the world. Your analysis should draw on international trade theory and should consider both partial equilibrium effects and general equilibrium effects.

Problem 2 (25 points)

Gains from trade

- a. Give an account of, and describe, the different sources of gains from trade in a world where firms within each industry in a country are homogeneous. Describe the mechanisms that produces the gains and use graphical illustrations where appropriate.
- b. Give an account of, and describe, the different sources of gains from trade in a world where firms within each industry in a country are heterogeneous. Describe the mechanisms that produces the gains and use graphical illustrations to support your arguments.

Problem 3 (25 points)

Growth in country size

- a. Does country size matters? Discuss the question in light of international trade theory.

Imagine that a trading partner has experienced a sudden and substantial growth in its labor force and thus in its market size.

- b. What trade theories would you use to address the consequences for welfare in our country and in the country of our trading partner? What do these theories tell us? Use graphical illustrations and mathematical expressions to support your arguments. Pay attention to total welfare and welfare for different groups, and to short and long term.

Problem 4 (15 points)

State whether the following claims are false or true. Explain your answer with a couple of sentences.

- a. "Our terms of trade have deteriorated over the last years. To tackle this challenge we should raise our import tariffs."
- b. "We have decided to not enter into a Free trade agreement with Big-Land since they share the same technology and factor endowment as we do and there will therefor not be any gains from trade."