

# **UNIVERSITY COLLEGE LONDON**

## **EXAMINATION FOR INTERNAL STUDENTS**

**MODULE CODE : ECON3004**

**ASSESSMENT : ECON3004A**  
**PATTERN**

**MODULE NAME : International Trade**

**DATE : 19 May 2016**

**TIME : 10:00 am**

**TIME ALLOWED : 2 hours**

This paper is suitable for candidates who attended classes for this module in the following academic year(s):

**2014/15 and 2015/16**

**SUMMER TERM 2016**  
**ECON3004: INTERNATIONAL TRADE**

**TIME ALLOWANCE: 2 HOURS**

*Answer **ALL** questions from Part A, **TWO** questions from Section B and **TWO** questions from Section C.*

*Questions in Part A carry 4 marks each, questions in Part B carry 20 marks each, and questions in Part C carry 14 marks each.*

*In cases where a student answers more questions than requested by the examination rubric, the policy of the Economics Department is that the student's first set of answers up to the required number will be the ones that count (not the best answers). All remaining answers will be ignored.*

## PART B

Answer **TWO** questions from this section.

B1. a) How do the effects of a tariff and a quota depend on the level of competition in the market protected? **[12 marks]**

b) How might a tariff increase welfare in a situation where there is market failure? **[8 marks]**

B2. Consider two countries, Italy and England, which use only capital and labour for production. Italy has 1025 units of capital and 458 units of labour while England has 408 units of capital and 135 units of labour. Both countries produce two goods, cars and wine. In England, there are 183 units of capital and 68 units of labour employed in the wine industry. In Italy, there are 463 units of capital and 309 units of labour employed in the wine industry.

a) Now, suppose the two countries start trading with each other. What is the effect of free trade on labour and on capital owners in Italy? **[6 marks]**

b) What are the effects of free trade on wages and rental on capital in England? **[6 marks]**

c) Suppose now that capital is immobile between industries in the short run (e.g. because of prohibitive adjustment costs), both in Italy and England. Use a relevant diagram to show how workers in each country would be affected by free trade in this case. **[8 marks]**

B3. Suppose that sales for each firm in a monopolistically competitive market are given by:

$$Q = (S/n)/(P/P_A)^2$$

where  $Q$  is the firm's sales,  $S$  is the industry sales,  $n$  is the number of firms,  $P$  is the firm's price and  $P_A$  is the average price in the industry. How is the equilibrium number of firms and the equilibrium price determined in this market? Show this equilibrium in a relevant graph, and be sure to state any assumptions you need to make and to write down all your steps. Interpret your results. **[20 marks]**

B4. Suppose that each worker in Home can produce six cars or three televisions, whereas each worker in Foreign can produce two cars or three televisions. Assume that both countries have four workers each.

- What is the autarky relative price of cars in each country? **[3 marks]**
- When these two countries start trading, the world relative price of cars equal  $3/4$ . What good will each country specialize in? Explain why. **[3 marks]**
- In the trade equilibrium, what is the real wage in Home in terms of cars and in terms of televisions? How do these values compare with the real wage in terms of either good in the autarky equilibrium? **[7 marks]**
- What are the real wages in Foreign in autarky and with trade? Briefly explain any differences. **[7 marks]**

TURN OVER

## PART C

Answer **TWO** questions from this section. Each question is worth 14 marks.

C1. Using the Heckscher-Ohlin framework, explain why (i) globalization and (ii) migration may be responsible for the observed rise in inequality in recent years. Does the data support this analysis? Explain.

C2. Developing countries often have higher trade barriers than developed countries. Using both theory and data, explain (i) why this might occur and (ii) whether lowering these barriers might be in the interest of developing countries.

C3. "The recent Transatlantic Trade and Investment Partnership (TTIP) and TransPacific Partnership (TPP) deals show that regional agreements, rather than multilateral negotiations, are the best way to freer trade in today's world." Discuss.

C4. "The superiority of free trade is one of the profession's most cherished beliefs, yet in reality trade is rarely free and a policy of selected protectionism is more effective". Discuss.

END OF PAPER