BACHELOR of ECONOMICS
International Program

EE451 INTERNATIONAL TRADE THEORY AND POLICY

EXERCISE I

DUE ON 18 SEPTEMBER 2019, BY 3PM, AT BE OFFICE

1) Suppose that, from an initial equilibrium position in the offer curve, country I imposes a tariff on country II's export good at the same time that consumers in country II change their tastes toward wanting more of their own export good. Illustrate and explain the impact of these two simultaneous events on country I's volume and terms of trade. (Assume that both countries' offer curves are elastic throughout.)

2) "If countries are behaving rationally, they should always be willing to export more at a higher export price. Thus, one would not expect to see 'backward-bending' offer curves". Discuss.

3) In a two country Classical model of trade with many commodities, briefly explain what would happen to the structure of trade in each of the following cases:

    a) An increase in wage in one country;
    b) A change in the exchange rate;
    c) An improvement in productivity in one country;
    d) An increase in transport costs.