

EC3355 International Trade

Problem Set 9: Trade issues

1. Some economists argue that developing countries should be able to protect their own industries from foreign competition based on the terms-of-trade argument. What is the terms-of-trade argument and explain whether or not it is a good reason for protectionism?
2. Is domestic market failure a good argument for protectionist measures such as import tariffs?
3. Etkes and Zimring (2015) try to estimate the effect of trade on welfare and find that in their case study that the absence of trade leads to a reduction in welfare. What was their research design and which two mechanisms did they find that lead to the reduction in welfare?
4. You find yourself talking to someone who is very much anti-globalisation. This person argues that trade exploits workers and that the gains from trade are unequally distributed. Does globalisation indeed lead to more income inequality?
5. One way in which trade negatively affects the environment is due to the emissions from transport. In order to reduce its carbon footprint the UK government therefore decides to ban the import of coffee and instead produce it locally. Is this a good idea?
6. Sweden produces a lot of paper due to its abundance of trees. The Netherlands also happen to produce paper. Due to environmental concerns the Dutch government decides that paper sold in the Netherlands must contain at least 30% recycled paper. What are the economic implications of this policy?
7. The incident with the Probo Koala in 2006 has been blamed for the deaths of 17 and injury of more than 30,000 Ivoirians. What role did comparative advantage play in this incident?
8. The study by Lin et al. (2014) showed that Chinese trade growth has been an important source of air pollution in the past decade with a strong increase in various pollutants such as sulphate and black carbon.

Do you think that on the mid-term (10-20 years) Chinese economic development will continue to increase air pollution? Explain why or why not?

9. The tragedy of the commons deals with the eventual depletion of a resource due to over-use. This theory is linked to the demise of Easter Island as well as collapse of fish stock. It has also been linked to the current economical dependence on oil. Explain from an economic perspective whether oil is a finite resource or not.
10. Whether the tragedy of the commons is true or not is a hotly debated topic. What is your take on this?