

# EC3355 International Trade

## Problem Set 1: Basic concepts and trade patterns

Consider a random economics student at Royal Holloway buying a computer for £400 at some generic computer store. The table below gives the costs associated with each step in the supply chain.

Part/process	Cost	Origin country
Hard drive	£75	Japan
Display and sound module	£50	Korea
Video chip	£20	UK
Controller chip	£10	UK
Processor	£40	Germany
Aluminium casing	£15	Germany
Assembly	£30	China
Wholesale distribution	£100	UK
Retail distribution	£60	UK

1. By how much did this purchase change the UK's trade balance with China?
2. Discuss whether the UK's negative balance versus China is a good measure of economic performance vis-a-vis.
3. HM Revenue and Customs reported that in October 2014 the value of UK exports to non-EU countries had increased from 13.9 to 14.8 billion. Imports from non-EU countries were almost stable at 17.3 billion. Calculate the terms of trade for September and October 2014.
4. How did the UK's general welfare change from September to October?
5. In general, small countries have large trade to GDP ratio in comparison to larger countries. What would be an explanation for this?
6. For each of the following regions describe some of the main factors that drives trade in this region and what their main exports are: Europe, Asia, and Africa

7. Over time the world has seen an increase in trade of manufactured goods as opposed to the decline in the value of trade in other goods such as agricultural produce. What could explain this trend?
8. Describe the two different types of foreign direct investment and find out which type is more common. Why is one type of FDI more common than the other?
9. What are the main patterns in migration?
10. What are the main differences between the flows of capital and labour across the world and what explains these differences?