

International trade: problem set 7

University College Dublin

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Consider three countries: Serbia, Ireland, and Argentina. Without trade beef costs 10€ in Serbia. Serbia could import beef from Ireland for 8€ or Argentina for 6€. To protect local producers, Serbia has a beef-import tariff of 6€.

1. Consider a scenario where Serbia becomes a member of the European Union (EU). How will this affect trade? Is there trade creation or diversion?
2. Let's say that the Serbian tariff was 3€. Under this scenario when Serbia joins the EU, will there be trade creation or diversion?
3. Consider Japan, importing 30 tonnes of steel a year from Russia, subject to a 100% tariff. After lengthy negotiations Japan reaches a trade agreement with the EU, and as a result it imports 70 tonnes of steel per year from EU member states and none from Russia. Did Japan gain as a result of this trade deal?
4. The Angolan government imposed a number of tariffs on various consumer goods in a bid to help diversify the economy, making it less reliant on its oil sector. Can the implementation of this policy be explained by median voter theorem?
5. The U.S. sugar quota has led to discrepancies between domestic and world sugar prices. In general consumers are worse off due to these import quotas which keep the price artificially high. How would you explain the existence, as well as persistence, of these seemingly wasteful policies?
6. Over the past 20 years there has been a sharp increase in trade regionalism. Is this a positive development from an economic perspective?
7. The Ukraine crisis has led to tensions between Russia on the one hand and a number of Western countries on the other; imposing various economic sanctions on each other. What are these sanctions? And discuss whether you think these measures will be effective in achieving their aims?
8. Suppose that as a result of WTO negotiations countries have agreed to reduce some tariffs over a period of six years. Tariff reductions have been determined using the Swiss formula with a

coefficient of 25. If the end of period tariff is 20%, what was the starting tariff? And what is the starting tariff for an end tariff of 12.5%?