

EC3355 International Trade

Problem Set 7: The political economy of trade

Consider three countries: Norway, France, and Brazil. In autarky, Norway would pay \$10 for beef, while under free trade it can import beef for \$6 from Brazil and \$8 from France. Norway however has a beef tariff of \$6.

1. Let's say that Norway joins the EU. How will this affect trade? Is there trade creation or trade diversion?
2. Consider the case where the Norwegian beef tariff is \$3. If Norway joins the EU, will there be trade creation or trade diversion?
3. Suppose that Montenegro imports 30 tons of steel per year from Russia, subject to a 100% tariff. After a trade agreement with the EU Montenegro imports 70 tons of steel per year from other E.U. member states and none from Russia. Did Montenegro gain by becoming an EU member?
4. Recently the Angolan government imposed a number of tariffs on different products ranging from ice cream to cars. Can we explain the existence of these tariffs using median voter theorem?
5. The sugar quota in the U.S. leads to sometimes large discrepancies between domestic and world prices for sugar. In general, consumers are worse off because of these import quotas. How could we explain the existence of this and other similar seemingly hurtful policies?
6. We can analyse trade policies by looking at economic self interests or examining social concerns. Explain the difference between these two approaches.
7. Over the past 20 years there has been a sharp global increase in trade regionalism. From an economic perspective, do you think that this a good thing or not?
8. Sometimes countries use trade as a foreign policy tool. Explain why and how countries can do this.

9. The Ukraine crisis has lead to what many experts call a new Cold War between Western countries and Russia. In the earlier stages of the crisis both Russia, and the U.S. and E.U. imposed a number of economic sanctions on each others exports. Discuss the effects of these sanctions and whether or not they are or will be effective in achieving their aims.
10. Suppose that you find yourself in a conversation about trade with someone who happened to have studied economic in Chicago. The person in question argues that free trade is a good thing, amongst others because it leads to a reduction in international conflict. Would you agree with this statement or not, and explain why.