International trade: problem set 1

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Autumn 2017

1. Let's assume that in a given year France exports 300 million euros worth of wine to Germany, while it imports 450 million euros worth of cars from Germany. These cars were produced in Germany using 200 million euros worth of various parts imported from the Netherlands. What is the French trade balance with regard to Germany?

2. What are some of the shortcomings associated with the trade balance as a measure for international trade?

3. In general small countries, in terms of GDP, have relatively large trade to GDP ratios compared to larger countries. What could be an explanation for this?

4. Consider a country that trades in two commodities, i) oil, which it exports, and ii) wheat, which it imports. For a given period oil exports increased from 480 million euros to 528, while wheat imports increased from 200 million euro to 240. How did the country's welfare change?

5. Explain why Africa is responsible for a relative small share of world trade.

6. In the past century there has been an increase in the trade of manufactured goods, while the share of other goods such as agricultural produce has declined. What are some possible explanations for this trend?

7. One of Indonesia's main export products is palm oil, for Malaysia it is electronics, and clothing for Cambodia. Discuss possible factors driving these differences.

8. What is the difference between horizontal and vertical foreign direct investment (FDI)? Which type of FDI is more common?

9. Could FDI help alter migration flows?