

UNIVERSITY OF WARWICK

May Examinations 2020/21

**International Trade**

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Time Allowed: 2 Hours

Read all instructions carefully - and read through the entire paper at least once before you start entering your answers.

There are **FIVE QUESTIONS** in this paper. Answer **TWO** questions only (50 marks each).

Approved pocket calculators are allowed.

You should not submit answers to more than the required number of questions. If you do, we will mark the questions in the order that they appear, up to the required number of questions in each section.

**Assignment Project Exam Help**

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**<https://powcoder.com>**

- (16 marks)** **Add WeChat powcoder**
1. (a) With reference to a neoclassical trade model, if preferences are homothetic and identical across countries, what can cause autarky prices to diverge across countries? Explain. **(16 marks)**  
(b) Can trade patterns under free trade be predicted on the basis of autarky price differentials? Explain. **(16 marks)**  
(c) Under what conditions can trade between identical countries arise, and how can it benefit the countries involved? Explain. **(18 marks)**

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  2. (a) Compare and contrast the main types of trade policy instruments in common use. **(14 marks)**  
(b) Under what conditions is an import quota equivalent to an import tariff? Explain. **(12 marks)**  
(c) Can a large economy gain from restricting trade? Explain. **(18 marks)**  
(d) Can two large economies both gain from restricting trade with one another? Explain. **(6 marks)**
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(Continued overleaf)

3. With reference to the trade models that you have studied, describe and discuss the following possible effects of trade liberalisation:

- (a) pro-competitive effects; **(12 marks)**
  - (b) rationalisation effects; **(12 marks)**
  - (c) variety effects; **(12 marks)**
  - (d) profit-shifting effects. **(14 marks)**
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4. (a) What are the main differences between a Customs Union and a Free Trade Arrangement? Explain. **(12 marks)**
- (b) Should we expect a country to always gain from entering into a Customs Union with a trading partner? Explain. **(15 marks)**
- (c) How can the formation of a Customs Union affect member countries' optimal choice of a common external tariff? What are the potential consequences for multilateral trade cooperation? Explain. **(15 marks)**
- (d) Do the same conclusions (as for (b)) apply to the case of Free Trade Areas? Explain. **(8 marks)**
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5. (a) In the presence of constant-returns to scale production and perfect competition, can the adoption of export subsidies be rationalised on the basis of domestic welfare maximisation? Explain. **(8 marks)**
- (b) In a Cournot duopoly, with a domestic and a foreign firm competing in the market of a third country, show how the domestic country can benefit from an export subsidy. **(24 marks)**
- (c) With reference to (b), if both the domestic government and the foreign government adopt export subsidies, can both countries benefit from the subsidies? Explain. **(8 marks)**
- (d) Would your answer to (a) change if the two firms compete in prices rather than quantities? Explain. **(10 marks)**
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(End)