

ECON7530 ONLINE QUIZ

INTERNATIONAL TRADE & INVESTMENT

Deadline: Friday 28/10/2022 – 16:00 (Brisbane time)

Instruction:

- Use the Blackboard submission link provided.
- Please submit using only Word, .pdf, or image (.jpg, .png) formats.
- You can either type or write and scan your answer.

PART A: MULTIPLE CHOICE QUESTIONS

Each Question is worth 1 mark (25 Marks Total)

Use the information from the table below to answer Questions 1-3:

Unit Labour Requirements		
	Smartphones	Cars
China	15	10
South Korea	12	6

- Given the information in the table above,
 - South Korea has a comparative advantage in smartphones; its opportunity cost of smartphones for cars is 2.
 - China has a comparative advantage in smartphones; its opportunity cost of smartphones for cars is 1.5.
 - South Korea has a comparative advantage in cars; its opportunity cost of cars for smartphones is $\frac{1}{2}$ of China's opportunity cost.
 - China has a comparative advantage in cars; its opportunity cost of cars for smartphones is $\frac{3}{4}$ of South Korea's opportunity cost.
 - China has an absolute advantage in smartphones and cars.
- Given the information in the table above, if the Chinese economy enjoyed technological improvement, and the Unit Labour Requirements reduced to 8 for smartphones and 5 for cars then China should
 - export smartphones.
 - export cars.
 - export both and import nothing.
 - export and import nothing.
 - import both and export nothing.

3. Given the information in the table above, suppose a research strike in South Korea increases its unit labour requirements for cars to 9. Everything else held constant, which of the following statements is/are true?

- I. The export and import behaviours of both South Korea and China do not change.
- II. China has absolute advantages in smartphones and cars.
- III. South Korea now exports the product that it used to import before the strike.

- A. I
- B. I, II
- C. II
- D. II, III
- E. III

4. The most vocal political pressure for tariffs is generally made by

- A. producers lobbying for export tariffs.
- B. producers lobbying for import tariffs.
- C. consumers lobbying for export tariffs.
- D. consumers lobbying for import tariffs.
- E. consumers lobbying for lower import tariffs.

5. Asian success stories demonstrated that

- A. development can only be achieved through export-oriented growth.
- B. it is possible to achieve development through export-oriented growth.
- C. it is impossible to achieve development through export-oriented growth.
- D. it is possible to achieve development through import-substitution growth.
- E. it is impossible to achieve development through trade liberalization.

6. According to the gravity model, which of the following countries would have the largest trade volume with the United States?

- A. Vietnam
- B. Ireland
- C. Canada
- D. The Netherlands
- E. Brazil

7. Suppose that there are 90 firms in a monopolistically competitive industry in France and 80 firms in the same monopolistically competitive industry in Germany. If France and Germany engage in free trade, we expect that the total number of firms in this industry will be _____.

- A. less than 80.
- B. between 80 and 90.
- C. higher than 90 but not higher than 170.
- D. higher than 170.
- E. Not enough information to answer.

Use the Table below to answer Question 8:

	Imports	Exports
Capital per million dollars	\$2,132,000	\$1,876,000
Labor (person-years) per million dollars	119	131
Capital-labor ratio (dollars per worker)	\$17,916	\$14,321
Average years of education per worker	9.9	10.1
Proportion of engineers and scientists in work force	0.0189	0.0255

Source: Robert Baldwin, "Determinants of the Commodity Structure of U.S. Trade," *American Economic Review* 61 (March 1971), pp. 126–145.

8. The above table illustrates factor content of U.S. exports and imports for 1962. Which of the following statement is true according to the above table?

- A. There is evidence supporting the Heckscher-Ohlin model.
- B. It shows that U.S. exports were more capital intensive than its imports.
- C. It shows that U.S. is a capital abundant country.
- D. It shows that the U.S. produces outside its PPF.
- E. None of the above is true.

9. A large nation's export subsidy _____ a small trading partner nation's terms of trade.

- A. improves
- B. worsens
- C. does not affect
- D. strengthens its bargaining power for improving
- E. can either improve or worsen

10. If output is increased in the long run, average costs will _____ in the presence of internal economies of scale, and will _____ in the presence of external economies of scale.

- A. increase; remain constant
- B. decrease; remain constant
- C. increase; decrease
- D. remain constant; decrease
- E. decrease; decrease

11. Suppose there is an outflow of labour in a country, shifting its production possibility frontier inward. Everything else held constant, this shift will cause _____.

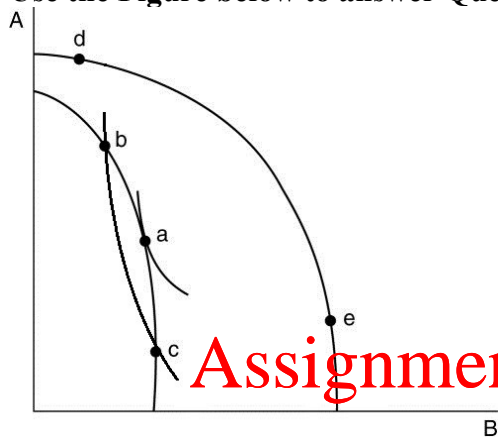
- A. increases in outputs of both capital-intensive and labour-intensive goods.
- B. decreases in outputs of both capital-intensive and labour-intensive goods.
- C. a decrease in output of the capital-intensive good, and an increase in output of the labour-intensive good
- D. an increase in output of the capital-intensive good, and a decrease in output of the labour-intensive good
- E. an initial decrease, and then an increase in output of the labour-intensive good

12. Which of the following statements is NOT true?
- A. Policy should seek to subsidize the generation of knowledge that firms cannot appropriate.
 - B. Substantial environmental damage has been done to provide goods to advanced-country markets.
 - C. Environmental standards in developing-country export industries are much lower than in advanced country industries.
 - D. It is always easy to identify the knowledge generation and let the government subsidize.
 - E. Trade and industrial policy should be targeted specifically on the activity in which the market failure occurs.
13. Suppose that the world price of a smartphone is \$1,000 each. Now suppose that the United States, a large country, imposes a 10% tariff on imported smartphones. What is the U.S. domestic price of smartphones after the 10% tariff is imposed?
- A. Less than \$900
 - B. Between \$900 and \$1000
 - C. Between \$1000 and \$1100
 - D. Higher than \$1100
 - E. There is not enough information to answer the question.
14. Assume that two countries (Home and Foreign) each produce two goods (wheat and rice) under constant cost production. Home produces 3 tons of rice or 1 ton of wheat with a day of labour. Foreign produces 2 tons of rice or 4 tons of wheat each day of labour. Without trade (in a autarky), Home's daily production is 60 tons of rice and 20 tons of wheat. At which international price will Home's gains from trade be largest?
- A. 3 tons of rice per ton of wheat
 - B. 2.5 tons of rice per ton of wheat
 - C. 2 tons of rice per ton of wheat
 - D. 1.5 ton of rice per ton of wheat
 - E. 1 ton of rice per ton of wheat
15. The World Trade Organization provides for all of the following EXCEPT
- A. bilateral tariff reductions.
 - B. multilateral tariff reductions.
 - C. the usage of the most favored nation clause.
 - D. assistance in the settlement of trade disagreements.
 - E. the prevention of nontariff interventions in trade.
16. Suppose that the European Union decides to reduce its agricultural export subsidy (The Common Agricultural Policy). Overall, will the EU gain or lose in welfare?
- A. The EU will gain if its terms-of-trade gains exceed the reduction in its deadweight losses.
 - B. The EU will lose if its terms-of-trade losses exceed the reduction in its deadweight losses.
 - C. The EU will always gain by reducing its subsidies.
 - D. The EU will always lose by reducing its subsidies.
 - E. The EU will gain if the reduction in its deadweight losses exceeds its terms-of-trade gains.

17. Consider two countries, Sweden and Germany, in a Heckscher-Ohlin model. Both countries produce two goods, furniture and cars. There are two factors of production used: labour and capital. In free trade, Sweden exports furniture to Germany. The workers in Germany protest against free trade between Sweden and Germany. From the information given above you would infer that _____.

- A. Germany is relatively labour abundant
- B. Sweden is relatively labour abundant
- C. wages in Germany fall as a result of free trade
- D. Not enough information is given to infer about the factor abundance.
- E. None of above is correct.

Use the Figure below to answer Question 18:



18. The figure above shows a country's possible production possibility frontiers and indifference curves. If the country is producing at _____, then moving to _____ will cause utility to _____.

- A. point b; point a; increase
- B. point b; point c; decrease
- C. point c; point b; increase
- D. point c; point b; decrease
- E. point a; point b; remain unchanged

19. Suppose that two countries begin to trade a product that is subject to external economies of scale. Then, the country with the _____ rate of production will _____ production until it controls _____ of the market.

- A. lower; decrease; 0%
- B. lower; increase; 100%
- C. lower; increase; 50%
- D. higher; increase; 50%
- E. higher; decrease; 0%

20. If a car manufacturer's output increases from 10 to 18 cars when all inputs are doubled, production is said to occur under conditions of

- A. increasing returns to scale.
- B. decreasing returns to scale.
- C. constant returns to scale.
- D. dynamic returns to scale.
- E. moving returns to scale

21. Which of the following statements is NOT true?
- A. Export-biased growth in China improves Australia's terms of trade.
 - B. Import-biased growth in China worsens Australia's terms of trade.
 - C. Export-biased growth in Australia improves the Australia's terms of trade.
 - D. Import-biased growth in Australia improves Australia's terms of trade.
 - E. Export-biased growth in China has no effect on Australia's terms of trade.
22. Suppose that in a monopolistically competitive market, a firm faces a demand curve of $Q = 200 - 5P$. If $Q = 80$, what is its marginal revenue?
- A. 48
 - B. 24
 - C. 16
 - D. 8
 - E. -16
23. When a nation is in autarky and maximises its welfare, its consumption and production points are _____ (, respectively).
- A. both below the production possibility frontier.
 - B. both above the production possibility frontier.
 - C. along the production possibility frontier, and below the production possibility frontier.
 - D. above the production possibility frontier, and along the production possibility frontier.
 - E. both along the production possibility frontier.
24. In the Heckscher-Ohlin model, the marginal product of labour:
- A. first rises, then falls, as more labour is employed to produce a good.
 - B. first falls, then rises, as more labour is employed to produce a good.
 - C. continuously falls, as more labour is employed to produce a good.
 - D. continuously rises, as more labour is employed to produce a good.
 - E. does not change, as more labour is employed to produce a good.
25. Consider the following cost information for a monopolist: its $MR = \$20$, its $MC = \$21$, and it is currently producing 30 units of output. Which of the following statements is TRUE?
- A. The monopolist should keep the current production of 30 units of output.
 - B. The monopolist should leave the industry.
 - C. The monopolist should increase production of output.
 - D. The monopolist should reduce production of output.
 - E. There is not enough information to answer the question.

PART B: SHORT-ANSWER QUESTION (75 MARKS)

- Show all workings.
- Round your answers to two decimal places.
- Fully label your graphs, if you are required to draw one.

B1. (24 marks)

Suppose that fixed costs for a firm in the truck manufacturing industry (start-up costs of factories, automation chain, etc.) are \$1.25 billion, and that variable costs are \$1,000 per finished truck. Suppose that the truck market is monopolistically competitive, and firms are identical. Suppose the market price is determined by the equation $P = 1,000 + \frac{100}{n}$, where n represents the number of firms in the market. Assume that there are three countries in the world: England, Scotland, and Wales, with the market size being 300 million, 250 million, and 100 million, respectively.

- a. (5 marks) Calculate the equilibrium number of firms in the truck market in England in autarky.
- b. (3 marks) What is the equilibrium price and the average cost of trucks in England if there is no international trade?
- c. (5 marks) Now suppose that the three countries join to form a free trade area named LUKMOFTA (literally-the-UK-minus-one-FTA), and assume no transportation costs. How many firms will there be in the combined market? What will be the new equilibrium price, and average cost for each truck?
- d. (5 marks) Suppose instead that after a referendum, Scotland leaves the free trade area, so that the free trade area now only consists of England and Wales. At the same time, there is a breakthrough in trucking technology, reducing a firm's fixed cost to \$800 million. Calculate the new number of firms, the equilibrium price, and average cost for each truck in this combined market.
- e. (6 marks) Compare the number of firms and the price that English consumers pay for each truck between the scenarios in (b), (c) and (d). In which scenario would English consumers benefit the most? Explain why.

B2. (15 marks)

Assume two countries, Home and Foreign, with two factors of production, capital and labour, used to produce two goods, rice and cloth. Technology is the same in two countries. Cloth production is labour intensive; Foreign is capital abundant. Suppose that Home is large, while Foreign is small.

a. (5 marks) Suppose Home imposes a tariff on its imports, following an optimal tariff schedule, and Foreign counters by applying an export subsidy, so that in the end, relative prices in Foreign are unchanged. What happens to the terms of trade and the overall welfare of the two countries? Explain your answer, using a relative demand-relative supply curve graph to support your answer.

b. (6 marks) Explain out of each country's producers, consumers, and the government, who win/lose from both the tariff and the subsidy from both countries.

c. (2 marks) Given your answer in part (b), why does Foreign impose the export subsidy?

d. (2 marks) Instead of an export subsidy, what can Foreign do to counter Home's action and keep its overall welfare as close to the level before Home imposes the tariff as possible?

B3. (10 marks)

a. (5 marks) Suppose there are three countries: Australia, Britain, and Canada. Suppose that trade between Australia and its two trading partners follow the gravity equation between Australia and its trading partner i , where i can be either Britain or Canada:

$$T_{Ai} = \frac{5 \times Y_A^3 \times Y_i^2}{d_{Ai}^{2.5}}$$

Suppose that Britain's GDP is 1.5 times as high as Canada's GDP, but the distance between Britain and Australia is twice as high as the distance between Australia and Canada. Which would be larger: the trade volume between Australia and Britain, or the trade volume between Australia and Canada, and by how many times?

b. (5 marks) Why can a country consume outside its production possibilities frontier when it engages in international trade? Draw a graph and refer to it in your explanation.

B4. (18 marks)

Consider a model with three countries: Austria, Bavaria, and Czechia. The demand and supply equations for beer in Austria follows

$$D^A = 120 - 1.4P^A,$$
$$S^A = 2 + 0.6P^A,$$

where D^A, S^A refer to quantities demanded and supplied in Austria at the price P^A , respectively. The unit cost of beer production is \$45 in Bavaria, and \$28 in Czechia. Currently, there is a 100% tariff on beer imports into Austria. Assume that there are no transportation costs.

a. (3 marks) What is the price of beer in Austria? How many units of beer (pints) will Austria import, and how much tariff revenue will the Austrian government collect?

Suppose now that Austria signs a free trade agreement (FTA) with Bavaria. Use this information to answer parts (b) to (e).

b. (3 marks) How many units of beer (pints) will Austria import, and from which country?

c. (3 marks) Is this the case of trade creation or trade diversion as a result of Austria forming an FTA with Bavaria? Explain why.

d. (7 marks) Plot the demand-supply curve of the beer market in Austria. Calculate the total welfare gain/loss to Austria as a result of the Austria-Bavaria FTA.

e. (2 marks) Can Czechia complain about the removal of a tariff between Austria and Bavaria to the WTO? Why or why not?

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B5. (8 marks)

Assume Australia, a large country, exports wine and imports cars. Recently climate change has resulted in very wet weather, reducing wine production in Australia, and increasing the world price of wine relative to cars.

a. (4 marks) Explain how this can reduce the welfare of Australia, using the production possibility frontier and indifference curve graph to support your answer.

b. (4 marks) While the normal conclusion is that Australia loses out from the severe weather, that is not always the case. In fact, Australia can instead experience a gain in welfare from this event. Explain how, using the production possibility frontier and indifference curve graph to support your answer.