

ECON 331 Fall 2017/8

Assignment III

Your answers must be detailed, typed and submitted by email to me by 5:30pm on 20 December 2017 (sharp!). Late submissions will not be graded.

1. (50pts) *“Intraindustry trade (IIT) is ubiquitous, particularly among the advanced countries (US, EU, Japan, etc).”*
 - (a) How is IIT measured?
 - (b) Explain why IIT is not predicted by standard comparative advantage models
 - (c) Give a theoretical explanation for the existence of IIT.

2. (50pts) Canada and Australia are (mainly) English-speaking countries with populations that are not too different in size (Canada’s is 60 percent larger). But Canadian trade is twice as large, relative to GDP, as Australia’s. Why should this be the case?