

INTERNATIONAL TRADE

21ECC031

Semester 1 2021/22

(1b) Exam paper

This is a (1b) online examination, meaning you have a total of **3 hours plus an additional 30 minutes** to complete and submit this paper. The additional 30 minutes are for downloading the paper and uploading your answers when you have finished. If you have extra time or rest breaks as part of a Reasonable Adjustment, you will have further additional time as indicated on your exam timetable.

It is your responsibility to submit your work by the deadline for this examination. You must make sure you leave yourself enough time to do so.

It is also your responsibility to check that you have submitted the correct file.

Exam Help

If you are experiencing difficulties in accessing or uploading files during the exam period you should contact the exam helpdesk. For urgent queries please call **01509 222900**.

For other queries email examhelp@lboro.ac.uk

You may handwrite and/or word process your answers, as you see fit. It is preferred that you type your answers.

This is an **open book exam** and you may refer to module materials, notes or textbooks when answering. However, you **must produce your own responses** to the exam questions and you **should not copy or reproduce content** from a source without quotation marks and a citation. Students who do this will be marked down for poor scholarship or the work will be considered for Academic Misconduct in line with regulation XVIII.

You must clearly identify the question and part, as required, in your answer, either through the numbering system or by including the relevant exam question and/or part as a heading.

You may include headings, bullet points etc to help with clarity as required. Graphs and images may also be included and should be appropriately referenced.

In text citations should use the Harvard style in accordance with the School of Business and Economics guidelines. You do not need to include a reference list.

Answer any THREE questions. The word limit is 1,000 words per question.

ALL QUESTIONS CARRY EQUAL MARKS.

1. Use the Ricardian Model to evaluate the following claims:

Claim A: “International trade hurts high-wage countries because their firms are undercut on world markets.”

Claim B: “Because it doesn’t affect productivity, trade liberalisation leaves real wages unchanged.”

(100 marks)

2. Use the Lerner Diagram to evaluate the following claims in the context of a world where small open economies produce two goods using skilled and unskilled workers.

Claim 1: “Immigration of unskilled workers into developed countries boosts production in all industries within those countries.”

Claim 2: “Unskilled immigration tends to increase the skill premium, the relative wage of skilled workers, in the country concerned.”

(100 marks)

3. Richland and Poorland produce two goods, engines and footballs, using two factors of production, labour and capital. Production technologies for both goods are the same internationally, as are consumer preferences. Factor supplies (in millions) are as follows:

	Richland	Poorland
Workers	20	80
Units of capital	80	20

A free trade agreement (FTA) is proposed between Richland and Poorland.

(a) Provide diagrammatic and intuitive explanations of the likely trade pattern if the proposed FTA is implemented. Ensure you identify any further information that is required to make your predictions. (70 marks)

(b) Only 25% of Richland’s households own any capital; the remaining 75% rely solely on wage income. How will the likely gains from trade be distributed across Richland’s households, and is the proposed FTA likely to receive widespread support?

(30 marks)

4. "A key contribution of imperfectly competitive trade models is their clarification of important new sources of gains from trade." Evaluate this claim using appropriate examples. (100 marks)
5. (a) Using an appropriate diagram, describe the welfare effects of, and the distortions created by, an import tariff in a small country. (50 marks)
- (b) How does your analysis in part (a) change if the country concerned is large in world markets? (50 marks)
6. Lufbra hosts Megacorp, one of two firms in the global widget industry. An economic adviser to Lufbra's government argues: "We should use tax revenues to subsidise Megacorp's exports. By strengthening Megacorp's competitive position, that intervention would more than pay for itself." Evaluate the adviser's argument. (100 marks)

B E FERRETT