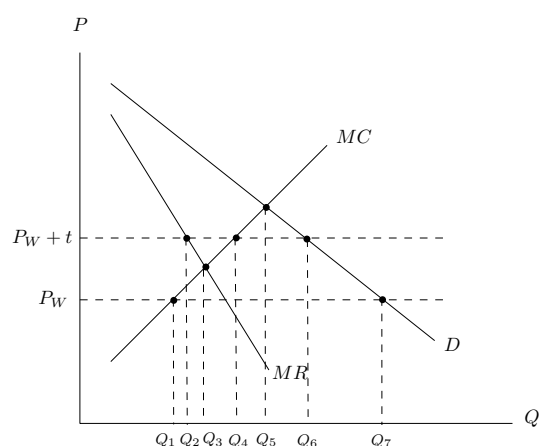


MAJOR ASSIGNMENT
INTERNATIONAL TRADE

Please answer all questions. Each question carries equal mark.

- Suppose that a small domestic economy has only a single firm producing a good that can be imported, under free trade, for the fixed price, P_W , shown in the figure. The firm's marginal cost, MC , is the upward sloping line. Domestic demand is the downward sloping line, D , and the firm could earn the marginal revenue, MR , if there were no trade at all.



- Suppose that there is free trade. What will be the quantities of the good produced by the firm, demanded by the domestic market and imported?
 - Now suppose that the country levies a tariff, t . What will be the quantities produced, demanded, and imported?
- Assume that, in the Specific Factors Model, a small open economy initially exports cloth, C . Analyse the effects of a fall in the price of F , holding the price of C constant on (i) C and food, F , (ii) the real wage of labour, (iii) the real rental price of capital in the C industry, and (iv) the quantity of C exported.
 - Consider two Ricardian economies whose endowments and technologies are given in the table below. Each has fixed endowment of labour, only factor of production, and can produce two goods, cloth C and food F , using the constant amounts of labour per unit of output.

	Labour Endowment	Per Unit Labour Requirement	
		C	F
Country A	60	1	2
Country B	120	2	3

- Draw the production possibility frontiers (PPF) for each of these countries.
- Calculate their pre-trade (autarky) relative prices of good C , i.e., P_C/P_F .
- Which country has an absolute advantage (AA) in C ? Which country has an AA in F ? Which country has a comparative advantage (CA) in C ? Which country has a CA in F ?
- What are the autarky wages in A, in units of good C and in units of good F per unit of labour? What are the autarky wages in B, also in units of good C and in units of good F ? Can you tell which country's workers are better off in autarky?
- Suppose now that free trade between the two countries leads to a world equilibrium price of $P_C/P_F = 0.60$. Calculate the new wages of labour in each country in units of both C and F . Are these workers better off?

Preparation

The slides and textbook readings will give you the basic framework of the ideas, theories and concepts you will need to complete the assignment. These notes may not be sufficient on their own. You will need to make use of additional reading and extra references in preparing your assignment. When you are taking notes for your assignment, try and 'translate' what the author is saying into your own words. Don't just copy out huge chunks from other people's work, otherwise they will probably end up in your assignment with very little of the wording changed (which is plagiarism).

Writing

Please answer all questions.

Make sure you have understood what the assignment is getting at and that you know how to complete it. You should provide evidence for all the assertions that you make during your assignment; that is, make reference to ideas, theories and concepts. Remember to cite the sources of ALL the ideas and quotations that you have used in-text. Also, don't forget to provide a full bibliography and don't try and pad it out. Only list sources you have actually looked at. Refer to the referencing guidelines provided for this topic. Develop your points to make it clear what you are getting at and don't leave arguments 'hanging in mid-air'.

Referencing

All sources, whether academic books, journal articles, newspaper articles, material from the internet etc., must be cited in the main text of your assignment itself.

Marking Criteria

- (50 pt) Relevance of your answer to the question;
- (30 pt) Using correct figures, tables, and relevant mathematical expressions;
- (10 pt) Clarity of expressions;
- (10 pt) Proper acknowledgement of documentation and the use of a bibliographic convention;

Please ensure that you are aware of the University's Academic integrity policy.