

Economia i comerç internacional
(International Economics)

Code: 101086
Academic Year: 2015-2016

Grup 1
Spring Term
Working language: English

Problem Set 1

(due on March 03rd 2016)

1. Determine in which case the comparative or/and competitive advantages are the causes of the following statements:

- A huge quantity of iron is melted in Germany.
- Half of the aircraft are manufactured in France.
- French wines are among the best ones all around the world.
- A great quantity of top-class cars are produced in Italy.

2. France can produce a bottle of wine in 7 working hours, while Spain does the same job in 10 working hours. Instead, Spain can produce one bottle of olive oil in 5 working hours, while France does it in 13 working hours.

- a. Determine the country that displays a comparative advantage in the production of the olive oil, and the country with an absolute advantage in the production of olive oil.
- b. Solve the same questions in the case of the production of wine.
- c. Who is the wine exporter?

3. In the Excel file posted on the website of the course, you can find data about the size, the GDP (at current prices), the exports and the imports of four European countries (Spain, France, Italy, United Kingdom) from 1990 to 2004 (source EUROSTAT):

Calculate and draw the following indicators for Italy and France:

- Exports as a percentage of GDP,
- Trade balance (i.e. Exports-Imports),
- Exports/(Exports+Imports),

Discuss:

- The economic meaning of each of the previous indicators,
- Their trend,
- Suggest a possible intuition about the trade pattern of the countries during this period. Do they display a similar pattern?

4. According to its own trade pattern, Italy exports manufacturing products and imports oil (and other agricultural products and raw material). Analyze and discuss the impact on the Italian terms of trade of the following events:

- The war in Irak reduces the international oil supply,
- Important floodings destroy the corn crops in the US
- France adopts a new technology for increasing the production of cars to be sold on the international markets,
- Spain applies extraordinary and temporary tariffs on all imports.

5. The demand and supply of wheat in country A are:

$$D=100-2P \quad S=20+20P$$

and those in country B are:

$$D^*=800-200P \quad S^*=400+200P$$

- Compute the price and quantity of equilibrium in each country when both country A and country B are closed economies.
 - Compute the price, the quantity produced by each country and the traded quantity when both the countries open to the free trade and country A imports wheat from country B.
 - Let us consider that country A applies a tariff of 1 € on its imports of wheat. Compute the price paid for imports in country A (country A is a small country), the quantity produced, demanded and imported in the same country. Finally, show graphically the change in welfare of country A when passing from a closed economy to an open economy with a tariff.
6. a. It is argued that if a rich high wage country such as the United States were to expand trade with a relatively poor and low wage country such as Mexico, then U.S. industry would migrate south, and U.S. wages would fall to the level of Mexico's. What do you think about this argument?
- b. International trade tends to prove that international trade is beneficial to all trading countries. However, casual observation notes that official obstruction of international trade flows is widespread. How might you reconcile these two facts?