

UNIVERSITY OF ESSEX

DEPARTMENT OF ECONOMICS

Session 2005-06

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EC246-2-AU: INTERNATIONAL TRADE INSTITUTIONS AND POLICY

EXAMPLE QUESTIONS 2005-06

Students are invited to submit answers on any of the following questions to the course supervisor no later than the deadline specified below. Your answers will be evaluated and comments will be made for your guidance about how well you understand the course material. They are not part of the formal assessment of the course. It is suggested that the length of each answer should be as much as you could write in about 50 minutes.

Submission deadline: noon on Monday 8th May 2006.

1. What is meant by the Prebisch-Singer thesis? Discuss briefly the principal reasons why import substitution policies did not achieve the intended results.
 2. Why do preferential arrangements coexist with multilateralism in trade policy? Sketch theoretically and illustrate graphically the main effects of a customs union on trade and welfare. To simplify your analysis, make use of a model with three countries (A , B and C , where A and B form a customs union while C remains outside it) and two goods (x and y).
 3. Economic theory sometimes employs a game-theoretic approach to characterise and motivate the existence of the multilateral trading system and, in particular, the World Trade Organisation (WTO). By applying the Prisoners' Dilemma game to trade policy, explain the essential features of this approach.
 4. Answer all parts (a), (b) and (c).
 - (a) For a given industry, define the nominal rate of protection (NRP) and the effective rate of protection (ERP), and explain the difference between the two concepts.
 - (b) Calculate the NRP and ERP for the steel industry if you have been given the following (simplified data): 1.2 units of iron ore are required for the production of 1 unit of steel; the world price of steel is 1000 US dollars per ton and that of iron ore 600 US dollars per ton; there is a tariff on steel imports of 20% but no tariff on iron ore imports.
 - (c) Why is ERP usually higher than NRP for most industries in real-world economies?
 5. Outline the major tensions between non-governmental organisations (NGOs) and the World Trade Organisation (WTO). How has the NGOs' critique been addressed by the WTO?
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