
UNIVERSITI SAINS MALAYSIA

Master of Business Administration

Second Semester Examination
Academic Session 2007/2008

April 2008

AKU617 - International Trade

Duration: 3 hours

Please check that this examination paper consists of **FIVE** pages of printed material before you begin the examination.

Answer **FIVE** questions.

Question 1

- (a) Consider the following data on some of US's exports and imports in 2004, measured in billions of US dollars:

Product	Exports	Imports
Aircraft	38.52	16.48
Automobiles	22.82	122.77
Clothing & accessories	5.06	75.73
Coal	2.34	1.02
Coffee	0.40	2.27
Corn	5.64	0.13
Crude petroleum	8.86	136.00
Electronic microcircuits	38.59	22.38
Medical instruments	9.10	9.77
Primary plastic materials	18.51	9.07
Pharmaceuticals	23.98	35.37
Perfumes and cosmetics	3.83	3.76
Shoes and other footwear	0.65	17.40
Soybeans	5.74	0.05
Wheat	4.81	0.16

- (i) For which of these products do US's exports and imports appear to be consistent with the predictions of the Hecksher-Ohlin theory? Explain.
(ii) Which appear to be inconsistent? Explain.

[12 marks]

- (b) Consider the following data on some of China's exports and imports in 2003, measured in billions of US dollars.

Product	Exports	Imports
Audio equipment	10.5	0.8
Computers	41.0	11.4
Corn	1.8	0.0
Electronic microcircuits	6.4	41.1
Soybeans	0.1	5.4
Vegetables	3.4	0.3

Which of these products appear to be inconsistent with Hecksher-Ohlin theory? Explain.

[8 marks]

Question 2

- (a) You are given the information (in US dollars) shown in the following table.

	Banzai (Japan)	Tipper (UK)	Bigg (Italy)
Average unit cost	10	10	10
Price charged at the brewery for domestic sales	10	12	9
Price charged at the brewery for export sales	11	11	9
Price when delivered to the US port	12	13	10

Which of the above three beverage exporters is dumping in the US market? Which is not? Explain.

[8 marks]

- (b) Suppose that the US currently imports 1.0 million pairs of shoes from China at US\$20 each. With a 50 % tariff, the consumer price in the US is US\$30. The price of shoes in Mexico is US\$25. Suppose that as a result of NAFTA, the US imports 1.2 million pairs of shoes from Mexico and none from China. what are the gains and losses to:
- the US consumers?
 - the US producers?
 - the US government?
 - the world as a whole?

[12 marks]

Question 3

- (a) What is the specificity rule?

[6 marks]

- (b) The United States demand and supply for grain are:

$$DD = 150 - 0.6P$$

$$SS = -40 + 0.5P$$

Where DD and SS are in millions of tons and P is US\$ per ton. The world price of grain is US\$200 per ton.

- In a situation of free trade, how much grain would be produced, consumed, and traded in the United States?
- As a result of foreign grain subsidies, US farmers successfully lobby for a 20% subsidy on US grain production. Assume that the United States is a "small country" in world grain markets. Illustrate the US grain subsidy and calculate the impact on US prices, consumption, production, and exports of grain. Also calculate the welfare effects on producers, consumers, the cost of the subsidy to the government, and the overall welfare effect on the US.

[14 marks]

Question 4

- (a) A small country's protection can be summarized as follows:

The typical tariff rate is 50 percent
The absolute value of the price elasticity of demand for imports is 1
Imports would be 20 percent of the country's GDP with free trade
The protected industries represent 15 percent of GDP

Using triangle analysis, what is the approximate magnitude of the economic costs of the tariff protection:

- (i) as a percentage of the country's GDP?
(ii) as a percentage of the gain of producer surplus in the protected sectors?

[8 marks]

- (b) What are voluntary export restraint (VER) agreements? Why do some governments force foreign exporters into VER agreements instead of just using quotas or tariffs to restrict imports by the same amount?

[8 marks]

- (c) US is considered as a skilled-labor abundant country. However, why does US emerge as one of the world exporter of socks? Explain.

[4 marks]

Question 5

- (a) You are given the following information on labor productivity.

	Wine (W)	Cheese (C)	Hour available
US	0.7	1.0	100
UK	1.0	2.0	100

- (i) Which country has an absolute advantage in wine and cheese?
(ii) Which country has a comparative advantage in wine and cheese?
(iii) Graph each country's production possibility curve. By assuming that with no trade, US consumes 63 unit of wine and UK consumes 150 unit of cheese, show the no-trade production point for each country.
(iv) When trade is opened, which country exports which good? If the equilibrium international price ratio is $0.5W/C$, what happens to production in each country?
(v) Does each country gain from trade? Explain.

[20 marks]

Question 6

- (a) Explain why constant costs of production result in complete specialization and why increasing costs of production result in partial specialization. [8 marks]
- (b) A country whose trade has almost no impact on world prices is at great risk of immiserizing growth? Do you agree or disagree? Explain. [6 marks]
- (c) According to the Rybczynski theorem, an increase in the country's labor force will result in an increase in the quantity produced of the labor-intensive good, with no change in the quantity produced of the other good. Do you agree or disagree? Explain. [6 marks]