PART III: TRADE POLICY

This part of the course analyzes the principal tools that governments use to influence trade. We analyzed the effects of the policies and try to understand the reasons that governments choose the policies they do.

1. Tariffs
   MMKM, Chapter 15.
   Skip section 5, 7.

2. Quotas
   MMKM, Chapter 16.
   Skip section 3, 4, 5 but add class notes.

3. Imperfect Competition, Increasing Returns, and Strategic Trade Policy.
   MMKM, Chapter 17.
   Skip section 4, 7.

5. The Political Economy of Trade Policy
   MMKM, Chapter 19.

PART IV: FACTOR TRADE AND DIRECT FOREIGN INVESTMENT

The final section of the course looks at trade in factors of production and direct foreign investment be multinational firms.

1. Trade in Factors of Production
   MMKM, Chapter 21.
   Section 1 only.

2. Direct Foreign Investment
   MMKM, Chapter 22.
   Skip sections 1, 2 only.

Review questions:

1. Under what circumstance is the effect of an import quota the same as the effects of an import tariff?

2. What is "quota rent" and how is it distributed in a quota that is auctioned off versus a voluntary export restraint?

3. Analyze the effect of an export subsidy (assume perfect competition, no distortions).

4. Discuss briefly the intuition behind the argument that a country's welfare may be improved by a production or export subsidy for an industry producing with increasing returns and imperfect competition.

5. Present alternative assumptions to those in question 3 such that we arrive at the conclusion that a subsidy is welfare worsening.

6. What is the argument underlying "import protection as export promotion"? What is assumed about production?

7. State the "theory of the second best". In what way does it underlay the concept of strategic trade policy?

8. What does the median voter model predict about requests for protection from small groups? Discuss in detail one reason why this prediction often fails in practice.

9. Define “staus quo bias”, and show why it can lead to inertia (resistence to change) in trade policy.

9. Discuss in what sense trading goods and trading factors are equivalent.

11. Outline the OLI view of multinational firms. What are the principal sources of ownership advantages for multinational firms?

12. Discuss the reasons why multinational firms are closely associated with knowledge capital or knowledge based assets.