Questions for PubPol/Econ 541
Oct 25, 30

The Standard Trade Model

KOM, Ch 6:

- At the micro level trade arises because of differences in prices in autarky. But in the general-equilibrium, standard model, these autarky price differences arise because of more basic differences in the countries. What is the basic difference that plays that role?
- What is meant by a country's "terms of trade"?
- The equation of an isovalue line, with Q_C on the horizontal axis and Q_F on the vertical axis, is $Q_F = V/P_F - (P_C/P_F)Q_C$, from which it is clear that the slope of the isovalue line is (minus) P_C/P_F, and therefore that if the relative price of C goes up, the line gets steeper. Is there a way to see this without deriving or remembering the equation?
- The text says, in the section "Relative Prices and Demand," that "the value of an economy's consumption equals the value of its production." What does this mean that the text is assuming about the balance of trade?
- Does the standard model, which is a general equilibrium model, display upward sloping supply and downward sloping demand? How does it differ, in this respect, from the partial equilibrium model we have seen before?
- Suppose that you knew that events in other countries were going to worsen your country's terms of trade. Would your country therefore be better off if it did not trade at all?
- An earlier edition of the textbook, in the section on "Determining Relative Prices," said "Home's terms of trade are measured by P_C/P_F while Foreign's are measured by P_C/P_F." Was that right?
- Suppose that a country's government could choose between two policies that would increase its GDP (at unchanged prices) by the same amount, one causing growth that is import-biased and one that is export-biased. Which would be better for the country if the country were small? Which would be better if it were large?
- Suppose that the foreign country were to grow in a manner that is neither export-biased nor import-biased, and that therefore leaves its relative supply curve unchanged. What would happen, if anything, to world prices and to the welfare of the home country?
- An import tariff raises the domestic price above the world price, while an export subsidy also raises the domestic price above the world price. Why, then, does the model say that the effects of these two policies are opposite?
- The textbook examines cases of an import tariff and of an export subsidy. What would be the effects of an import subsidy, or an export tax?

Bernhofen & Brown, "Gains from trade: evidence from nineteenth century Japan," 2017.:

- Why is it usually hard to observe the effects of trade?
- Why did the case of Japan provide a natural experiment for observing the effects of trade?
- What did the researchers observe about trade in Japan that confirmed theory of comparative advantage?
- How large were the gains from trade?