

**Questions for PubPol/Econ 541**  
**Nov 8**

## **Preferential Trading Arrangements**

**KOM, Ch 10, selected pages:**

- Why does the text say that the GATT permission for countries to form FTAs is a “rather strange exception”?
- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country?
- Why do members of a customs union “cede part of their national sovereignty to a supranational entity”?
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union?

**WTO, “Causes and Effects of PTAs: Is it all about preferences?” 2011, pp. 94-109.**

- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country?
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union?
- The WTO examples (in the text, not the appendix) show only trade creation if the PTA is with the low-cost country. Should countries therefore only form PTAs with low-cost countries?
- What is the main difference between the effects of a PTA in goods and one in services?
- What is diagonal cumulation?

**Posen, “The Errors of Conservatives Obscure the Case for Trade,” 2014.**

- How does Posen counter the argument against new trade agreements that they will have the same harmful effects as the NAFTA?
- Posen seems to accept the critics’ claim that the NAFTA caused 45,000 job losses in the US per year, but he seems not to care. Why?
- What were some of the other claims by critics of the NAFTA, and how does Posen respond to them?

**Deardorff and Sharma, “The Simple Analytics of Trade Creation and Diversion,” 2019.**

- Why is trade diversion harmful if both exporters initially charge the same price?
- Why is adding a second FTA not harmful for the world in the graphs, but may be harmful for the world in the equations?
- Under what circumstances will adding a second FTA be harmful for the world?

**Russ, “Yes, US trade agreements led to economic gains, especially in services, new report says,” 2021.**

- Can you tell from this what TPA was?
- How many US trade agreements were covered in this study?
- Does the study cover all agreements that were done under TPA, and all aspects of the ones that it does cover?
- How large were the effects of the FTAs according to the reported study?
- Was there trade diversion? From whom?

**Optional to Read:**

**WTO, “Causes and Effects of PTAs: Is it all about preferences?” 2011, pp. 109-120.**

- What is deep integration?
- Why does the welfare analysis in the Appendix to the WTO reading not mention gain or loss of tariff revenue?