I have neither given nor received unauthorized aid on this examination, nor have I concealed any similar misconduct by others.

Signature

Part 1 (2 points each – circle your answer for multiple choice)

1. Empirically, exporting is
   a. Rare
   b. Common
   c. Always profitable
   d. At the expense of foreigners

2. Empirically, exporters are more
   a. Skill intensive
   b. Labor intensive
   c. ‘a’ and ‘b’
   d. None of the above

3. Which group makes up the largest share of exporters?
   a. Firms selling 1 product to 1 export market
   b. Firms selling 5 or more products to 1 export market
   c. Firms selling 1 product to 5 or more export markets
   d. Firms selling 5 or more products to 5 or more export markets

4. Which group makes up the largest share of export sales?
   a. Firms selling 1 product to 1 export market
   b. Firms selling 5 or more products to 1 export market
   c. Firms selling 1 product to 5 or more export markets
   d. Firms selling 5 or more products to 5 or more export markets

5. In the Krugman model of trade, the gains from trade come from
   a. Specialization based on endowments
   b. Specialization based on technologies
   c. Lower prices for varieties though increasing returns to scale
   d. Consumption of a wider array of varieties

6. Who was Ben and Jerry’s primary foreign competitor in Japan? Haagen-Dazs

7. Who did Ben and Jerry’s choose as its partner in Japan? 7-11
Part 2: (4 points each)

1. What were the positives and negatives of the Canada-US Free Trade agreement for Canada?

   Positive: More productive firms
   lower prices for consumers

   Negative: Job losses

2. What was the effect of containerization on the cost of shipping?

   Containerization decreased the cost of shipping
   Estimates between 3 and 13% reduction

3. What is the main difference between “Tramp” shipping and “Liner” shipping?

   Tramp: defined routes No defined routes / ports of call
   - prices set in spot markets

   Liner: -defined routes
   - contract based pricing
   - containerization

4. List four different costs that can be considered part of the costs of trade:

   Distance / transport
   Distribution / handling
   Tariffs / duty
   Insurance
Part 3 – 10 points

1. You are responsible for trade policy in the sovereign republic of Scruziland. For unknown reasons, you are allowed to levy a tariff of level 't' per unit on imports in only one of two industries—slug feed and sea salt. The import demand curves are identical in each industry. The export supply conditions in each industry are illustrated below:

Slu...
Consider the “Melitz” exporting model we discussed in class. A firm must decide to exit the market or operate, and if the latter, whether to be purely domestic or an exporting domestic firms. The returns from exiting are zero. If the firm decides to operate in some manner, it must pay $F_0$ in overhead costs. If the firm also decides to export, it must pay $F_X$ in exporting fixed costs. The firm can earn $\Pi_d(\alpha)$ in the domestic market. If the firm exports, it earns $\Pi_e(\alpha)$ in the foreign market. The term $\alpha$ is firm level productivity, where each profit function is increasing in $\alpha$.

1. Please graphically detail how firms sort into the three outcomes. Please comment on the relative productivity of each group of firms.

```
Exit

Domestic

Export

-\xi

\xi

-\xi\xi

\xi\xi

F_0

F_X

Avg Productivity

Export > Domestic > Exit
```
2. Suppose that the foreign market reduces their tariffs. Please detail graphically the effects of this tariff cut. Please also discuss the effect of the tariff cut on the share of active firms and exporting firms, and the average productivity of each group of firms.

Direct effect
- Easier for home to export to foreign
  \[ T_f(x) \uparrow \]

Indirect
- Demand for more inputs at home
  \[ T_h(x) \downarrow \]

\[ \frac{T_f(x) - F_x}{T_h(x) - F_0} \uparrow \]

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3. Trade financing is quite important, and up to this point, we have not discussed how financing issues play into export decisions at the firm level. Suppose that fixed costs in question 4-1 are specified as:

\[ F_0 = (1+r)D \]
\[ F_X = (1+r)X \]

Here, 'D' is the capital required for overhead costs, and 'r' is the real rate of interest that must be paid when borrowing 'D'. Further, 'X' is the capital required for exporting, and again, 'r' is the real rate of interest associated with borrowing 'X'. What is the direct effect on the equilibrium in 4-1 when the real interest rate, 'r', rises? Please detail this effect graphically, and comment on the prevalence of active firms and exporting firms, and the average productivity of each group of firms.