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

1. High tariffs tend to be levied on imported products
   a. sold at high prices
   b. with high export supply elasticities
   c. from small countries
   d. None of the above

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

3. For Canadian firms, the US Canada Free trade agreement
   a. Increased employment
   b. Increased productivity
   c. ‘a’ and ‘b’
   d. None of the above

4. For the US, the ratio of Exports to Imports _____ over the past 50 years.
   a. rose
   b. fell
   c. stayed constant
   d. fell to zero

5. In the standard model of trade, international trade allows countries to
   a. Use more resources
   b. Consume outside their production possibilities frontier
   c. Consume more varieties
   d. All of the above
1. Ben and Jerry’s had three options in deciding if and how to serve the Japanese market. Please list each option, and a pro and con for each.

- **7-11**
  - **Pro**: Automatic distribution
  - **Con**: Could be viewed as store prized

- **Domino’s**
  - **Pro**: Established American brand
  - **Con**: Give up brand rights

- **Don’t serve**
  - **Pro**: Already stretched thin
  - **Con**: Excess capacity goes unused

2. How did Ben and Jerry’s enter the Japanese market? Name three adjustments they had to make for the Japanese consumer.

With 7-11

- Change size of serving
- Change size of chunks
- Make less sweet
- Remove “strange” Ben and Jerry
3. Please list two pros and two cons for air shipping.

Pros: Relatively cheap for high value/weight goods
      Fast
      +2.5

Cons: Infeasible for some products
       Expensive per/unit weight
      +2.5

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

Marketing
Distribution
Insurance
"Red-tape"
A "revenue" for shipping costs

4 total costs pull units
Part 3 – 10 Points each

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 a domestic firm that also exports. 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, such as up-front export financing. The firm can earn $\Pi_d(\alpha)$ in the domestic market. If the firm exports, it earns $\Pi_t(\alpha)$ in the foreign market, but loses ‘$t$’ percent of these profits through a foreign tariff. 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.
2. Suppose that fixed exporting costs increase. Please detail graphically the *direct* effects of this change. Please also discuss, if any, the effect of the increase in fixed export costs on the share of active firms and exporting firms, and the average productivity of each group of firms.

\[ F_x \uparrow \] shifts down the exporting line unambiguously.

- Share of active firms
- Share of exporting firms
- Average productivity

No change

\[ +2 \]
3. For the change in costs described in part 2, detail graphically the indirect effects of the increase in fixed exporting costs. You may start your analysis from the point after the direct effects. Please discuss, if any, the effect on the share of active firms and exporting firms, and the average productivity of each group of firms.

Fewer exporting firms $\Rightarrow$ lower labor demand $\Rightarrow$ lower wages

Indirect $\pi_H(t) \uparrow$ and $\pi_E(t) \uparrow$

$\Rightarrow$ begin

$\Rightarrow$

$\Rightarrow$

$\Rightarrow$

$\Rightarrow$

$\Rightarrow$

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+1
4. Now suppose that there is an additional foreign market to which firms may export. Similar to the foreign market described in part (1), if the firm exports to this market, it earns \( \Pi_\text{f}(\alpha) \), but loses \( 't' \) percent of these profits through a foreign tariff. However, suppose that the fixed costs in reaching this market, \( F_{xx} \), are larger than the fixed costs to reach the foreign market in the previous questions, \( F_x \). Hence, the firm must not only choose whether to serve a foreign market, but must now decide whether to serve one or both markets. Please graphically detail how firms sort into all outcomes. Please comment on any differences with the graph in part (1).

The only difference is that the group of exporting firms is split into two groups, the most productive of which