Econ 188 – Exam 1
Winter 2015
Professor Spearot

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 one unless otherwise noted)

1. An specific trade cost is ____
   a. assessed per-unit
   b. assessed as a percentage of production value
   c. a fixed cost
   d. None of the above

2. On their second attempt, via what route did Ben and Jerry’s enter the Japanese market?
   a. Domino’s Pizza
   b. 7-11
   c. Scoop Shops
   d. Pizza My Heart

3. In the Krugman model, doubling country size _____
   a. does not affect product variety
   b. halves the number of varieties
   c. doubles the number of varieties.
   d. Has an ambiguous effect on product variety.

4. Which characteristics are most associated with the Steel Industry over the last 50 years?
   a. Employment fell
   b. Production rose
   c. ‘a’ and ‘b’
   d. None of the above

5. A section 201 complaint, like the most recent protection measure used by the steel industry, is assessed against _____ in that particular product.
   a. a specific firm
   b. a specific country
   c. all countries
   d. None of the above
1. In trade theory, we generally view firms as “small” when making decisions on international markets. Please discuss how Bernard, Jensen, Redding, and Schott changed this with their empirical work?

2. Please discuss two ways in which ‘tramp’ shipping and ‘liner’ shipping differ.
3. In the Krugman model, we used a constant elasticity demand function, which is represented by the inverse demand function $P(q)$. Firms may produce each unit at a constant marginal cost ‘c’. Assuming that firms maximize profits, please solve for the profit-maximizing price as a function of the marginal cost and the elasticity of demand ‘e’ (defined positively). Show your work!
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 $\Pi_H(\alpha)$ in the domestic market. If the firm exports, it earns $\Pi_F(\alpha)$ 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.
2. Suppose that the foreign government violates their international agreements and increases their tariff ‘t’. Please detail graphically the *direct* effects of the change in tariffs.
3. What do you think the domestic government will do in response? From the end point of part ‘2’, please detail the direct effects of your answer graphically.