International Trade
November 2, 2005

1. (1 point) According to official trade figures, in the year 2003 the United States imported $3.348 billion worth of aircraft from the European Union, and exported $5.816 billion worth of aircraft to the EU. Please compute the index of intra-industry trade for US/EU trade in aircraft. Round your answer to two decimal places. 0.73

\[ IIT = 1 - \frac{(5.816 - 3.348)}{(5.816 + 3.348)} = 0.73068529026625942557835006547 \]

2. (4 points) The graph below shows the autarky and free-trade equilibria for the Canadian automobile industry, in the presence of internal economies of scale. For parts A – C, indicate whether the item mentioned can be seen in the graph. If it can, then label it very clearly on the graph. If not, please write “not there” in the space provided.

A. The aggregate output of vehicles in the world automobile industry when there is free trade. not there
B. The equilibrium world price per variety when Canada opens up to trade. see graph
C. The number of varieties Canada produces after trade begins. not there
D. How many varieties are available to consumers in Canada after trade begins. see graph
3. (4 total points) In the graph below, the country that got the head start in producing flat-panel computer displays does not have the lower average cost curve. The low-cost country does not produce flat-panel displays, but if it did, its AC curve would be as shown below.

A. (1 point) Which of the following is true in this situation, as shown in the graph (please select the best answer)?

i. the low-cost country could capture the world market by temporarily banning all trade in flat-panel displays, to give its domestic industry a chance to catch up.

ii. the low-cost country could capture the world market by temporarily engaging in cost-based dumping of flat-panel displays.

iii. If the two countries are equally productive in all other industries, then the pattern of trade shown here would be consistent with comparative advantage.

iv. all of the above

B. (3 points) Based on the graph, please indicate whether the item mentioned can be seen in the graph. If it can, then label it very clearly on the graph. If not, please write “not there” in the space provided.

i. The quantity of flat-panel displays exported by the high-cost country. see graph

ii. The quantity of flat-panel displays that would be produced by the low-cost country if it prohibited imports. see graph

iii. The quantity of flat-panel displays that would have been purchased by the high-cost country, if the low-cost country had gotten the head start in the industry. see graph

4. (1 point) A medium-to-long-range widebody airliner costs its US manufacturer $2,000,000 to produce. A European aircraft manufacturer sells an identical aircraft in the US for $1,750,000. The European producer

i. is definitely engaged in price-based dumping in the American market.

ii. is definitely engaged in cost-based dumping in the American market.

iii. is engaged in both price-based and cost-based dumping in the American market.

iv. could be engaged in either type of dumping, but there is not enough information to tell.