

Questions for Chapter 5

(1) Use the standard trade model to carefully illustrate and explain the impact of export-biased growth on the country's terms of trade and welfare. Assume the country has a comparative advantage with the good on the Y-axis.

(2) Assume that the Home country is an importer of textiles and an exporter of computers. The domestic government imposes a 25% tariff on textile imports.

(a) How does the tariff affect Home's relative price of textiles vis-a-vis the relative price of textiles on world markets?

(b) How does the tariff affect the world relative demand and supply for textiles?

(c) What is the impact of the tariff on Home's terms of trade?

(d) Discuss the assumptions that are critical for your answers to parts c and d.