Note: given the fact that you’re ‘obliged’ to answer the weekly questions, try to profit the most from the task:

- Start by reading the lecture notes.

- Looking at them as little as possible, answer the questions.

The answers of the questions of **week 3** should be handed to me at the beginning of **Wednesday’s lecture of Oct 5th.** They should be **manuscript (not typewritten)**, concise and preferably based on schemes (as I do in the whiteboard). Keep a copy for yourself.

Please write **WEEK 3 in bold** at the beginning of your answers.

**L5: HO (conclusion)**

**1.a)** Why does Bg export T to Jp?

b) “ If firms established in Bg use **the same technology** in the production of cars as those established in Jp, because of the lower Bg’s wages they’ll have lower UPC than Jp’s car firms. “ Do you agree? Explain.

**2.** “Because the interest rate was near zero in the US in 1933-55, the US exported mainly K-intensive goods and imported mainly L-intensive goods.” Do you agree? Explain.

**3.** Why has the US exported less K-intensive goods than the goods it has imported?

**4.** a) Which type of goods has Ch exported to the US? Why?

b) And which type of goods and services has Ch imported from the US? Why?

**5. a)** Explain the logic used by MNs in the way they fragment the production of their products across the world.

b) Present some evidence of that.

**6.** Why the HO explanation for trade is only valid if there are obstacles to L and K mobility across countries?

**Ch. 3: Intra-industry trade**

**1.Dumping: causes and consequences**

**6.** a) What is dumping?

b) Can VW dump its cars in the US? And in France? Explain.

**7.** a) A price cut by a firm has one positive effect on its profits. Which one?

b) A price cut by a firm has one negative effect on its profits. Which one?

**8.** Key question. Why do firms have often the incentive to make dumping?

**9.** a) What is reciprocal dumping?

b) What is the effect of that dumping on consumers’ welfare? Explain.

**c)** Which type of trade can be partly explained by reciprocal dumping? Explain.

**10.** Consumers benefit from reciprocal dumping also in an indirect way. Why?

**L6: Ch. 3: Intra-industry trade**

**2. Consumers’ love for variety**

**1st part: imperfect competition**

**11.** a) Why can we say that there is competition in the world auto market?

**b)** Why can an auto company raise its price above that of the others?

c) What does the expression “above normal profits” mean?

d) What does the expression “entry barriers” mean?

e) Established auto companies enjoy above normal profits. Explain the two reasons why does that not lead to the entry of new companies in the auto industry.

**12.** a) Explain the two assumptions we made in order to tell how VW sets the price of its cars.

b) What are the gains and losses of VW if it lowers the price below that mentioned in a).

c) What are the gains and losses of VW if it raises the price above that mentioned in a).

**2nd part: The effects of trade**

In the following questions 13-19, assume that the world demand for autos is constant and that all firms have the same costs.

**13.** Trade makes flatter the demand curve directed to a firm below the pre-trade price. Why?

**14.** Why does trade lead each firm to lower its price – because each firm faces more competitors or because it faces a greater number of potential consumers? Key question.

**15.** If the world demand is fixed, what happens to the demand directed to one firm: a) When it lowers its price below that of the others? b) When all firms lower the price by the same extent? Explain.

**16.** If the world demand is fixed, what happens to the profits of each firm as a result of trade? Explain.

**17.** Using a graph, show the movement of the equilibrium points each firm believes it will have and the movement that actually takes place.

**18.** If the price cut decided by one firm following the opening up to trade ends up lowering its profits, why doesn’t it keep the price unchanged? Key question.

**19.** According to the model presented in this lecture:

a) In one sentence, what does lead to intra-industry trade?

b) What are the two benefits of trade to consumers?

c) One of those benefits occurs at the expense of whom? What about the other? Explain

Assume now that the world demand for cars rises when their prices fall and that the production costs of the various firms are different.

**20.** What happens to the demand directed to each firm when all firms lower their prices by the same extent? Explain.

**21.** a) What is the possible consequence of that on the UPCs? Explain.

b) And what is the possible effect on the profit on each car sold? Explain.