

Professor Robert Staiger

Economics 165

Problem Set 2

1. True/False Explain: According to the Basic Trade Model, a country in which the autarky production level of a good is relatively high as compared to the rest of the world will export that good if trade is allowed.

2. True/False Explain: According to the Basic Trade Model, if a country could only trade with one trading partner and had several to choose from, it would choose the partner that induced the greatest reallocation of its productive activities.

3. True/False Explain: According to the Basic Trade Model, bigger countries stand to gain the most from (free) trade, while smaller countries stand to gain the least.

4. True/False Explain: According to the Basic Trade Model, if we were to think of the WTO as a big free-trade club, where member-countries trade freely with each other and do not trade at all with non-members, then a country like India (already a WTO member at the time that China joined the WTO in 2001) should have opposed the WTO membership application of China.