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□ Part 1: Which of the following statements are true? [correct the wrong answers]

No.		Questions
1		According to the theory of comparative advantage, exports give a country a political advantage over other countries that export less.
1	F	The theory of comparative advantage didn't demonstrate political factors.
2		According to the theory of comparative advantage, trade occurs if costs are higher in one country than in another.
2	T	
3		The theory of comparative advantage assumes that the productivity of labor differs across countries and industries.
3	T	
4		A mercantilist believes that imports are desirable.
4	F	A mercantilist believes that imports are not desirable.
5		According to the mercantilism's view, trade is a zero-sum activity.
5	T	
6		According to the mercantilism's view, the purpose of trade is to amass revenues from exports.
6	T	
7		A mercantilist believes that policies should promote imports and discourage exports.
7	F	A mercantilist believes that policies should promote exports and discourage imports.
8		According to the theory of comparative advantage, a country will export a good only if its cost of producing the good, relative to other goods, is at least as low as in other countries.
8	T	
9		According to the theory of comparative advantage, a country will export a good only if it can produce it using less labor than other countries.
9	F	lower cost compared with other countries doesn't guarantee comparative advantage
10		According to the theory of comparative advantage, a country will export a good only if Its productivity is higher in producing the good than the productivity of other countries in producing it.
10	F	higher productivity compared with other countries doesn't guarantee comparative advantage
11		Suppose that Austria has the following unit labor requirements for producing steel and brooms (3, 2) and Belgium has the following unit labor requirements for producing steel and brooms (8,1), then Belgium has a comparative advantage in brooms.
11	T	
12		Suppose that Austria has the following unit labor requirements for producing steel and brooms (3, 2) and Belgium has the following unit labor requirements for producing steel and brooms (8,1), then Austria has a comparative advantage in steel.
12	T	
13		Suppose that Austria has the following unit labor requirements for producing steel and brooms (3, 2) and Belgium has the following unit labor requirements for producing steel and brooms (8,1), then Austria has an absolute advantage in steel.
13	T	

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14		Suppose that Austria has the following unit labor requirements for producing steel and brooms (3, 2) and Belgium has the following unit labor requirements for producing steel and brooms (8,1), then Belgium has an absolute advantage in brooms.
14	T	
15		Suppose that Australia has the following outputs per worker in producing silk and tea (300, 2) and Brazil has the following outputs per worker in producing silk and tea (200, 1), then Brazil has a comparative advantage in silk.
15	T	
16		Suppose that Australia has the following outputs per worker in producing silk and tea (300, 2) and Brazil has the following outputs per worker in producing silk and tea (200, 1), then Brazil has a comparative advantage in tea.
16	F	Brazil has no comparative advantage in tea.
17		Suppose that Australia has the following outputs per worker in producing silk and tea (300, 2) and Brazil has the following outputs per worker in producing silk and tea (200, 1), then Brazil has an absolute advantage in silk.
17	F	Brazil has no absolute advantage in silk.
18		Suppose that Australia has the following outputs per worker in producing silk and tea (300, 2) and Brazil has the following outputs per worker in producing silk and tea (200, 1), then Brazil has an absolute advantage in tea.
18	F	Brazil has no an absolute advantage in tea.
19		According to the theory of comparative advantage, countries gain from trade because world output can rise when each country specializes in what its does relatively best.
19	T	
20		According to the theory of comparative advantage, countries gain from trade because output per worker in each firm increases.
20	F	because world output can rise when each country specializes in what its does relatively best.
21		According to the theory of comparative advantage, countries gain from trade because all firms can take advantage of cheap labor.
21	F	because each country specializes in what it does relatively best.
22		If international trade takes place as a result of comparative advantage, it will cause inequality among households will be reduced.
22	F	The theory of comparative advantage didn't demonstrate the impact on inequality among households.
23		If international trade takes place as a result of comparative advantage, all individuals in each country will be better off.
23	F	The theory of comparative advantage didn't demonstrate the impact on each individuals' welfare.
24		If international trade takes place as a result of comparative advantage, the average well-being of people in both countries will increase.
24	T	
25		If international trade takes place as a result of comparative advantage, countries will grow faster over time.
25	F	only trade will grow faster over time. The impact on GDP growth isn't guaranteed.
26		Limits on imports may be beneficial to producers, but not beneficial for consumers.
26	T	

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27		According to the mercantilism's view, trade surplus isn't an economic target for a country.
27	F	According to the mercantilism's view, a country's best interest to maintain a trade surplus
28		The mercantilism advocates government intervention to achieve a surplus in the balance of trade.
28	T	
29		According to the theory of comparative advantage, if each country specializes in the production of the good in which it has a comparative advantage and trades for the other, both countries will gain.
29	T	
30		According to the theories of absolute and comparative advantage, trade is a positive sum game.
30	T	
31		A specific tariff is a tax on imports defined as an amount of currency per unit of the good.
31	T	
32		A specific tariff is any tax on a particular imported good, as opposed to one on all imports.
32	F	See No. 31
33		A specific tariff is the revenue that the government earns by auctioning off import quotas.
33	F	See No. 31
34		A tariff on imports benefits domestic consumers.
34	F	A tariff on imports benefits domestic producers and harm domestic consumers
35		A tariff on imports benefits domestic producers of the imported good because It raises the price for which they can sell their product on the domestic market.
35	T	
36		A tariff on imports reduces producer surplus, while increases consumer surplus.
36	F	It increases producer surplus, while reduces consumer surplus.
38		When a large country levies a tariff on imports, demanders of the good on the domestic market are better off.
38	F	demanders of the good on the domestic market are hurt
39		When a large country levies a tariff on imports, foreigners (demanders in the exporter country) are hurt.
39	F	are better off
40		When a large country levies a tariff on imports, the domestic price rises by less than the tariff.
40	T	
41		While many nations are nominally committed to free trade, they tend to intervene in international trade to protect the interests of politically important groups.
41	T	
42		A small country is a country that can affect its terms of trade.
42	F	A large country
43		The increase in the domestic Home price, in small country case, is less than the tariff, because part of the tariff is reflected in a decline in Foreign's export price.
43	T	

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44		Assume that two large countries trade with each other. After imposing a tariff, fewer exports are supplied by foreign country.
44	T	
45		A tariff raises the price of a good in the importing country and lowers it in the exporting country.
45	T	
46		As a result of tariff, consumers gain in the importing country.
46	F	lose
47		As a result of tariff, consumers gain in the exporting country.
47	T	
48		As a result of tariff, producers gain in the exporting country.
48	F	lose
49		As a result of tariff, producers gain in the importing country.
49	T	
50		the government receives more revenue in case of quota compared to tariffs.
50	F	governments receive no revenue in case of quota
51		A VER produces again for the importing country.
51	F	loss
52		Firms are allowed to satisfy their local content requirement by exporting instead of using parts domestically.
52	T	
53		In the large country case, a tariff is fully reflected in domestic prices.
53	F	small country case
54		An export subsidy causes efficiency losses similar to a tariff but compounds these losses by causing a deterioration of the terms of trade.
54	T	
55		According to Heckscher-Ohlin model, trade liberalization could contribute to income inequality.
55	T	
56		The Heckscher-Ohlin theory argues that trade occurs due to differences in the availability of factors of production.
56	T	
57		compared with the international trade, in domestic trade a country has relatively no incentives to increase the competition of its market.
57	T	
58		compared with the international trade, in domestic trade there is a similarity in preferences of goods and services among citizens.
58	T	
59		Compared with the international trade, in domestic trade there is a dichotomy among markets within the geographical boarder of a country.
59	F	No dichotomy

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60		compared with the domestic trade, in the international trade the preferences of goods and services among countries of different citizens are so diverse.
60	T	
62		Compared with the domestic trade, in the international trade there are same prudential regulations for the financial sector within a country, such as the regulations related to credit and deposits.
62	F	trade is processed within various regulations of financial systems.
63		Compared with the domestic trade, in the international trade the ability for the factors of productions to move is a relatively elastic.
63	F	inelastic
64		The establishment of the European Coal and Steel Community was a result of the treaty of Paris that was signed in 1951.
64	T	
65		The creation of the European Atomic Energy Community and the European Economic Community was a result of the Treaty of Rome that was signed in 1957.
65	T	
66		The European Economic Community represents a formation of a customs union.
66	T	
67		The Merger Treaty that was signed in 1965 resulted in the creation of first joint institution for the ESCS, EEC and the European Atomic Energy Community. Accordingly, the three entities were merged into one and called it the European Communities (EC).
67	T	
68		Natural barriers such as transport costs, language and cultural factors influence trade flows. They are considered non-tariff barriers.
68	F	NTBs are artificial not natural conditions
69		Non-tariff barriers cause a reduction in consumption and thus consumers are worse off.
69	T	
70		Non-tariff barriers are cost-increasing rather than revenue generating.
70	T	
71		Non-tariff barriers protect the market by imposing additional costs on importers.
71	T	
72		Most EU countries had of one form or another of capital controls and labor movement faced considerable constraints.
72	T	
73		A major concern of the orthodox theory of free trade areas (FTAs) and customs unions (CUs) is the impact of integration on growth.
73	F	the impact of integration on trade

□ Part 2: Define the Following Terms

1. X-inefficiency

It describes a country's inability to get the maximum output for its inputs due to a lack of real competitive pressure.

2. The Country of Origin Principle

The principle states that, where an action or service is performed in one country but received in another, the applicable law is the law of the country where the action or service is performed. For example, if a sale of goods is made over the Internet from a website in France to a purchaser in Italy, the country of origin principle would be said to apply if French law applied to the transaction, and the country of reception principle if Italian law prevailed.

3. An Excise Tax

It is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. Typical examples of excise duties are taxes on gasoline and other fuels, and taxes on tobacco and alcohol.

4. Opportunity Cost

The value of the best foregone alternative that is given up when something is chosen.

5. Absolute advantage

The ability of a country to produce a good at a lower cost, in terms of labor, than another country.

6. Free Trade

A situation where a government does not attempt to influence through quotas or duties What its citizens can buy from another country or what they can produce and sell to another country.

7. Trade as a zero-sum game

It is the case in which a gain by one country from trade results in a loss by another.

8. Import demand curve

It shows the maximum quantity of imports the Home country would like to consume at each price of the imported good, or the excess of what Home consumers demand over what Home producers supply.

9. Export supply curve

It shows the maximum quantity of exports foreign would like to provide the rest of the world at each price, or the excess of what foreign producers supply over what foreign consumers demand.

10. Export Subsidies

A payment by the government to a firm or individual that ships a good abroad. It can be either specific or ad valorem. An export subsidy raises prices in the exporting country while lowering them in the importing country. In addition, and in contrast to a tariff, the export subsidy worsens the terms of trade. An export subsidy leads to costs that exceed its benefits.

11. Import Quotas

An import quota is a direct restriction on the quantity of a good that is imported. It is usually enforced by issuing licenses to some group of individuals or firms or governments. It always raises the domestic price of the imported good. License holders are able to buy imports and resell them at a higher price in the domestic market.

12. Quota rents

They represent the profits received by the holders of import licenses in case of import quotas.

13. Voluntary Export Restraints

It is an export quota administered by the exporting country. They are imposed at the request of the importer and are agreed to by the exporter to forestall other trade restrictions. They are always more costly to the importing country than a tariff that limits imports by the same amount, as the tariff equivalent revenue becomes rents earned by foreigners under the VER.

14. Local Content Requirements

It is a regulation that requires that some specified fraction of a final good be produced domestically. This fraction can be specified in physical units or in value terms. They do not produce either government revenue or quota rents.

15. Export credit subsidies

A form of a subsidized loan to the buyer of exports. They have the same effect as regular export subsidies.

16. National procurement

Purchases by the government (or public firms) can be directed towards domestic goods, even if they are more expensive than imports.

17. Red-tape barriers

They occur when governments place substantial barriers based on health, safety and customs procedures.

18. Anti-Dumping Duty

It is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.

19. Developing countries

The term “developing countries” does not have a precise definition, but it is a name given to many low- and middle-income countries.

20. Import-Substituting Industrialization

The policy aimed to encourage domestic industries by limiting competing imports. The justification of this policy is the infant industry argument.

21. Effective Rate of Protection

The percentage change in value added following a tariff.

22. Economic Integration

It is one aspect of international economics which can be defined as a process which involves the amalgamation of separate economies into larger free trading regions. It involves the state of increasing economic interdependence between nations. The economic integration results from the motivation of a country to expand its trade and vary its sources of income. The economic integration is concerned with the discriminatory removal of all trade impediments between at least two participating nations and with the establishment of certain elements of cooperation and coordination between them.

23. Schengen Agreement

This agreement was signed in 1985 and resulted in abolition of the border checks between the members of the EU.

24. The Single European Market (SEM)

The SEM is defined in the Single European Act (SEA) (1986), which is defined as: an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This means that borders should disappear within the EU, which implies: goods, services, capital and people should be able to move between countries as they move between regions within a country.

□ Part 3: Answer the Following Questions

1. Starting from free trade, what will be the impact on imports of a small country when a tariff is applied?

- Domestic output (increases)
- Domestic demand (decreases)
- Domestic price (increases)
- Tariff revenue (increases)
- Quantity of imports (decreases)

2. What are main properties of the import demand curve?

- It intersects the vertical axis at the closed economy price of the importing country.
- It is downward sloping.

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- It is flatter than the domestic demand curve in the importing country.

3. What are main properties of the export supply curve?

- It intersects the vertical axis at the closed economy price of the exporting country.
- It is upward sloping.
- It is flatter than the domestic supply curve in the exporting country.

4. What will be the impact of tariff on the following items?

“Assume that two large countries trade with each other. Suppose Home country imposes a tax of T on every bushel of wheat imported” what will be the impact of tariff on the following items:

- The price of wheat (It rises at Home and falls at Foreign)
- Producers in Home (supply more (due to the higher price))
- Producers in Foreign (supply less (due to the lower price))
- Consumers in Home (demand less (due to the higher price))
- Consumers in Foreign (demand more (due to the lower price))
- The volume of wheat internationally traded (declines)
- The government of Home gains revenue from tariff

5. What will be the impact of tariff on the surplus of the following economic agents?

- Producers (producer surplus increases)
- Consumers (consumer surplus falls)

6. What will be the impact of export subsidy on the surplus of the following economic agents?

- Producers (producer surplus increases)
- Consumers (consumer surplus falls)

7. What will be the impact of import quota on the surplus of the following economic agents?

- Producers (producer surplus increases)
- Consumers (consumer surplus falls)

8. What will be the impact of VER on the surplus of the following economic agents?

- Producers (producer surplus increases)
- Consumers (consumer surplus falls)

9. What will be the impact of the following trade instruments on the revenue of the government?

- Tariff (government revenues increases)
- export subsidy (government revenues falls)
- import quota (no change in government revenues)
- VER (no change in government revenues)

10. What is the main justification of Import-Substituting Industrialization?

The main justification of this policy is the infant industry argument. According to this argument, countries may have a potential comparative advantage in some industries, but these industries cannot initially compete with well-established industries in other countries. In order to allow these industries to establish themselves, governments should support them until they grow strong enough to compete internationally.

11. Demonstrate the opponent view of Infant Industry Argument?

- It may be wasteful to support industries now that will have a comparative advantage in the future.
- With protection, infant industries may never “grow up” or become competitive.
- There is no justification for government intervention unless there is a market failure that prevents the private sector from investing in the infant industry.

12. How do market failures prevent infant industries from becoming competitive?

This can be explained through two Arguments: Imperfect financial asset markets and the problem of appropriability. 1) Imperfect financial asset markets arise because of ineffective financial laws and markets. Accordingly, firms cannot save and borrow to invest sufficiently in their production processes. If creating better functioning markets and enforcing laws is not feasible, then high tariffs would be a second-best policy to increase profits in new industries, leading to more rapid

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growth. 2) The problem of appropriability arise because firms may not be able to privately appropriate the benefits of their investment in new industries because those benefits are public goods. As, the knowledge created when starting an industry may not be appropriable because of a lack of property rights. Accordingly, if establishing a system of property rights is not feasible, then high tariffs would be a second-best policy to encourage growth in new industries.

13. Did import-substituting industrialization promote economic development?

Import-substituting industrialization in Latin American countries worked to encourage manufacturing industries in the 1950s and 1960s. But economic development, not encouraging manufacturing, was the ultimate goal of the policy. Countries adopting these policies grew more slowly than others. the infant industry argument was not as valid as some had initially believed. New industries did not become competitive despite or because of trade restrictions.

14. According to the Heckscher-Ohlin Model, answer the following questions.

“Assuming both Egypt and France produce cloth and cars. Egypt is relatively abundant in labor and France is relatively abundant in capital. The production of cloth is labor intensive, while the production of cars is relatively capital intensive.” According to the Heckscher-Ohlin Model, answer the following questions.

- **What will be the possibility of inter-trade between the two country?**

According to the Heckscher-Ohlin Model, Egypt could specialize in the production of cloth and then export it to France, while import cars. France could specialize in the production of cars and then export it to Egypt, while import food.

- **What will be the impact of the inter-trade on the rental rate of factors of production and the distribution of income?**

As long as Egypt specializes in the production of cloth, the real wage of labor increases, while the real rental rate of capital decreases. As long as France specializes in the production of cars, the real rental rate of capital increases, while the real wage of labor decreases. This could alter the distribution of income in both countries.

15. What were the main requirements to achieve the Single European Market among European countries?

To make the SEM for the EU like a national market, the following procedures were required:

- The removal of customs “all internal tariffs and quotas”.
- The removal of all other measures having equivalent effect of tariffs (non-tariff barriers).
- The removal of customs and passport controls at borders.
- The elimination of any national barriers to the sale of other EU countries’ goods and services.
- The ending of any national controls on the movement of capital.

16. Discuss the progress of SEM in the Services Market.

The EU has achieved fair progress in the context of the services market. Two particular measures were considered: A General Services Directive (in non-financial services) and the Financial Services Action Plan. A general services directive proposed various measures to eliminate such barriers. That was represented in freedom of establishment (easing of administrative requirements) and Freedom of movement: Country of origin principle as opposed to the country of reception principle and Rights of recipients to use services in other countries. The Financial Services Action Plan Proposed Improvements in the ‘x-inefficiency’ of financial intermediaries as competitive pressures oblige them to: adopt new technologies, minimize operating costs, and restructure to more optimal sizes. This will encourage innovative provision of financial services (such as electronic trading), which may lead to increases in retail demand for financial services and facilitate pooling of liquidity that deepens the supply of finance.

17. What are the four broad aims of SEM?

- Completing a single wholesale market.
- Developing open and secure markets for retail financial services.
- Ensuring the continued stability of EU financial markets.
- Eliminating tax obstacles to financial market integration.

18. Discuss the progress of the Free Factor Mobility in EU since the SEA's initiative

- The 1986 Single European Act (SEA) emphasized the importance of breaking through restrictions of the movement of factors and move to a much more open market.
- The 1997 Growth and Stability Pact and the 1992 Maastricht Treaty had advanced progress further in this context and capital markets have become even more open with the introduction of the euro in 1999.
- Starting from 2000s more attention turned to the various problems in the capital markets, including rigidities in capital movements across EU borders.
- Consequently, the European Commission undertook an important political initiative aimed at enhancing the development of the risk capital markets, and, more generally, dealing with related problems in the financial markets. In particular, the fragmentation of the regulation of the securities market.

19. How do you explain the EU freedom of movement of factors in the context of the neo-classical theory?

The logic behind the freedom of movement of capital and labor, and in general the four basic 'freedoms', is largely built on the neo-classical assumption of perfect competition and its advantages. According to the neo-classical theory, the economy allocates resources most efficiently through markets, assuming economic agents are rational and have perfect knowledge. Accordingly, an equilibrium in a market will occur which maximizes the benefits to economic agents given freedom to enter and leave the market. The basic message of neo-classical economics is that economic efficiency and economic progress are maximized by ensuring that markets work freely and competitively. However, this theory considers only the optimal allocation of given factors of production.

20. How do you explain the EU freedom of movement of factors in the context of the new growth theory?

Another theory that had explained the role of freedom of movement of factors is the new growth theory. According to the theory, growth is endogenous in the sense that it depends on the amount of allocated resources based on the accumulation and progress of factors of production, such as human capital. According to the theory, a country or region's factor endowments, are allowed to change over time. And the factor endowments are affected by innovation and new

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technologies. Consequently, factor mobility could have an important influence on growth and convergence of growth rates between the countries.

21. “Economic integration has a number of different effects on the member countries and on the rest of the world” list of those effects.

These effects are represented in the following:

- Trade effects
- Income effects
- The balance of payments effect
- Economic growth effect

22. What are your suggestions for reforming the service sector in Arab region?

- Private sectors initiatives for participation in the service sector,
- Reduction of barriers to investors
- A bureaucratic system that ensure nondiscriminatory treatment for local and global entrants.

□ Part 4: Compare between the Following Terms

1. An Excise Tax and Customs Duties

An excise tax is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. Excises are distinguished from customs duties, which are taxes on importation. Excises are inland taxes, whereas customs duties are border taxes.

2. The Effects of a Tariff of Given Size in A Small Country and a Large Country

- Domestic price rises in the large country by less than in the small country
- Domestic quantity supplied rises in the large country by less than in the small country.
- Quantity imported falls in the large country by less than in the small country.
- Tariff revenue rises in the large country by more than in the small country.
- Consumer surplus falls in the large country by less than in the small country.

3. Specific Tariffs, Ad Valorem Tariffs, and a Compound Duty

- Specific tariffs: Taxes that are levied as a fixed charge for each unit of goods imported.
- Ad valorem tariffs: Taxes that are levied as a fraction of the value of the imported goods.
- A compound duty (tariff): a combination of a specific and an ad valorem tariff.

4. Free Trade Areas and Customs Unions

- Free Trade Areas: FTAs is one aspect of economic integration (first stage) in which the member nations remove all trade impediments among themselves, but retain their freedom to determine their own policies towards the outside world (the non-participants). Examples of FTAs: The Latin American Free Trade Area (LAFTA), The North American Free Trade Agreement (NAFTA), and The Greater Arab Free Trade Area or the Pan-Arab Free Trade Area (GAFTA).
- Customs Unions: CUs is one aspect of economic integration (the second stage). in addition to the removal of all trade impediments among themselves, member countries must conduct and pursue common external commercial relations. for instance, member countries must adopt common external tariffs on imports from the non-participants. Examples of CUs: East African Community and Gulf Cooperation Council.

5. Common Markets and Economic Unions

- Common markets: CMs is one aspect of economic integration (the third stage). It is considered is the first stage towards a single market. in addition to the removal of all trade impediments among themselves and the adoption of common external commercial relations with the non- participants, member nations allow for free factor mobility across national members' frontiers, i.e. capital, labor, technology and enterprises should move unhindered between the participating countries. Examples of CMs: The European Economic Community (EEC)
- Economic Unions: EcUs is one aspect of economic integration (the fourth stage). in addition to all the elements included in the CMs, it includes a complete unification of monetary and fiscal policies, i.e., the participants must introduce a central authority to exercise control over these matters so that member nations effectively become regions of the same nation. Examples of EcUs the thirteen EU nations which have adopted the single currency, the euro (called the eurozone).

6. Partial Integration and Across-the Board Integration

- Partial or sectoral integration: It refers to the establishment of an integration in particular areas of the economy i.e., in a given product or products. Sectoral integration may occur within any of the mentioned schemes of economic integration. An example: The EU's Common Agricultural Policy.
- Across-the board integration: It implies different degrees of economic cooperation between two or more countries in most areas of international trade. Examples: Benelux, EU, and GAFTA.

7. The Short-Term Trade Contract and the Long-Term Trade Contract

- The short-term Trade Contract: It is a type of bilateral arrangement, either in a single product or many products of trade between any two nations. Its duration is usually less than one year.
- The Long-term Trade Contract: It is a type of bilateral arrangement, either in a single product or many products of trade between any two nations. Its duration is usually more than one year.

8. Negative Integration and Positive Integration

- Negative integration: It refers to the simple act of the removal of impediments on trade between the participating nations or to the elimination of any restrictions on the process of trade liberalization.
- Positive integration: the modification of existing instruments and institutions and, more importantly, to the creation of new ones so as to enable the market of the integrated area to function properly and effectively and also to promote other broader policy aims of the scheme of economic integration.

9. Physical Barriers, Fiscal Barriers, and Technical Barriers

- Physical Barriers include:
 - Checks at borders for the control of the movement of persons for immigration purposes;
 - Customs borders, which were required due to differences in indirect taxes
 - Animal and plant health was protected by inspections at borders;
 - Checks on lorries and drivers were imposed ostensibly for safety reasons and to enforce national restrictions on foreign haulers.
- Fiscal Barriers include Checks on goods crossing borders because differences in different types of indirect taxes, which include: Sales tax, VAT, and Excise

duties on alcohol, tobacco, etc. These barriers were dealt with by remitting these taxes on exports and imposing them on imports.

- Technical Barriers include an enormous range of measures that affect trade. The most pervasive of these are technical regulations & standards and National Procurement. The existence of such different regulations and standards imposed additional costs on EU producers who had to make alterations to their products before they could sell them in another member states.

10. Trade Regulations and Trade Standards

- Trade Regulations: They are legal requirements which products must satisfy before they can be sold in a particular country. Examples: Health requirements, Safety requirements, and Environmental requirements.
- Trade Standards: They are technical requirements set by private standardization bodies like BSI (British Standards Institution) in the UK. They are responsible for: producing standards-related services to businesses and auditing and providing certification to companies worldwide who implement management systems standards.

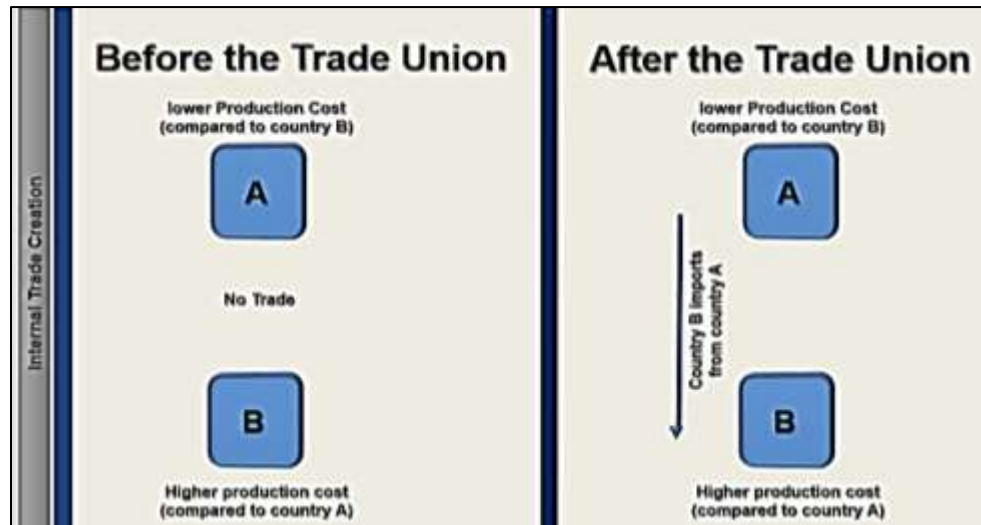
11. Tariff and Non-Tariff Barriers

Tariff are taxes that are levied for each unit of goods imported. It intentionally alters the amount or the direction of trade. Non-tariff barriers are any non-monetary government policy measure that intentionally or unintentionally alters the amount or the direction of trade. With tariffs the Government receives the revenue whereas no revenue is received by the Government by applying non-tariff measures. It is difficult to measure NTBs and thus Levels of NTB protection can be very high. On the contrary, tariffs are relatively transparent: tariff rates are published and are subject to international negotiation.

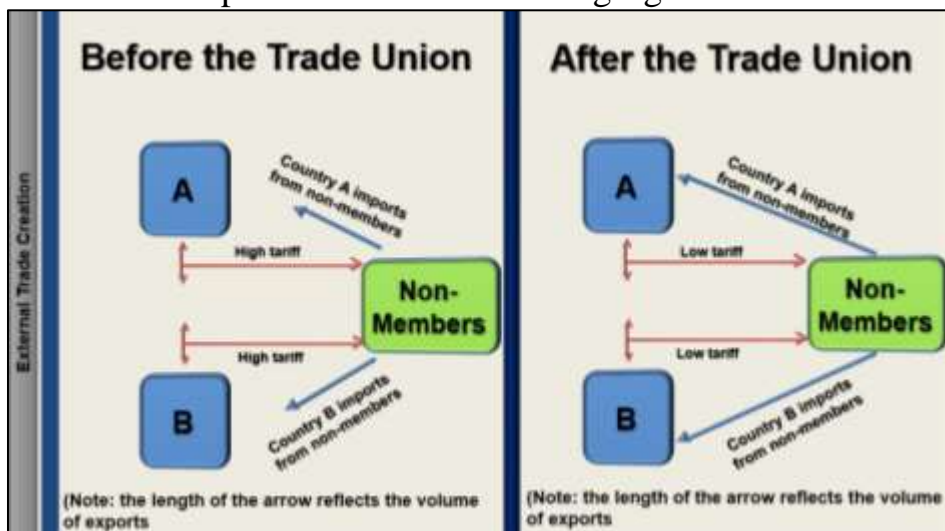
12. Internal Trade Creation and External Trade Creation

- Internal Trade Creation: It is defined as the displacement of high-cost domestic production of a product in one member state by lower-cost imports from another member state. This improves the global allocation of resources and It represents a step in the direction of free trade. Internal trade creation can be represented in the following figure:

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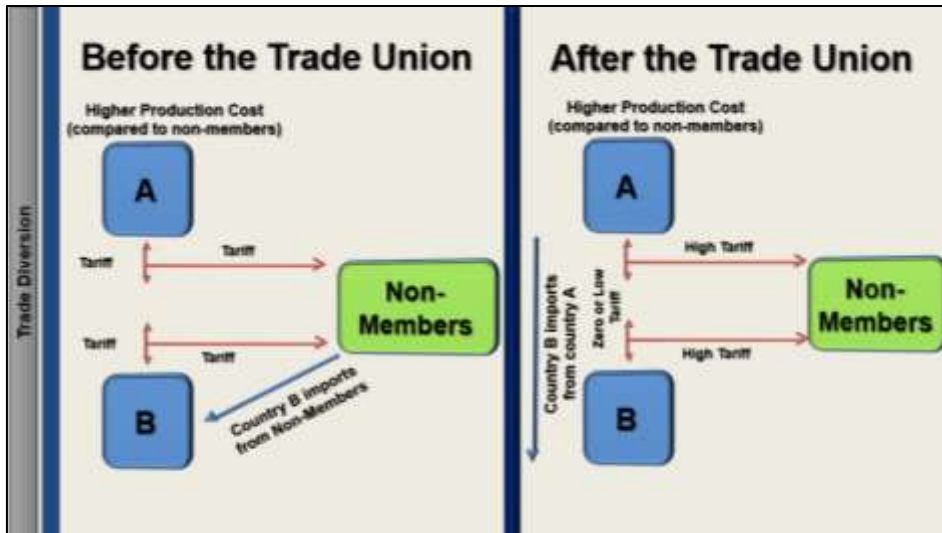
- External Trade Creation: As CU results in a lower level of external tariffs or other restrictions compared with the situation before integration, the result will be expanding trade with non-member states. External trade creation can be also resulted from the fact that faster economic growth inside the trade union leads the member states to import more from the rest of the world. External trade creation can be represented in the following figure:



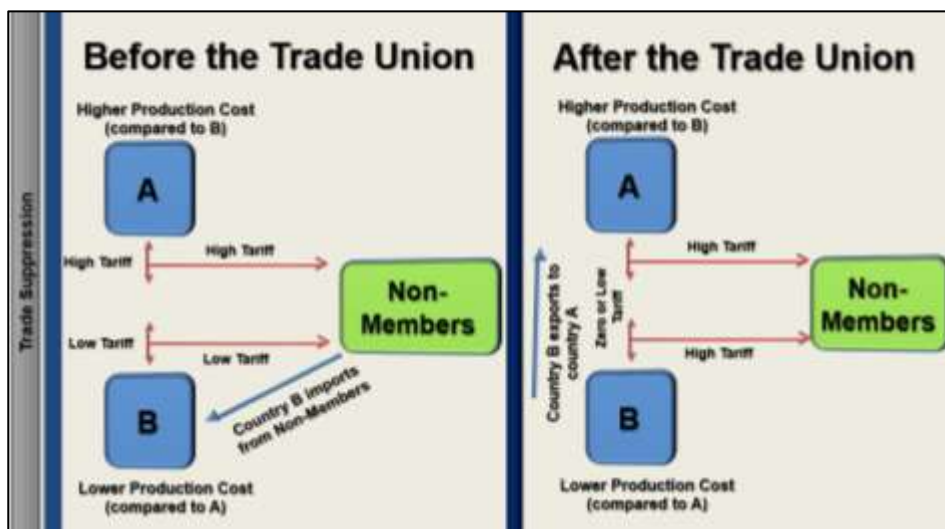
13. Trade Diversion and Trade Suppression

- Trade Diversion: It is defined as the displacement of lower-cost imports of a product from a non-member state by higher-cost imports from a member state. This results from the discriminatory nature of the tariff. This worsens the global allocation of resources and it represents a step towards protectionism. Trade diversion can be represented in the following figure:

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- **Trade Suppression:** It is regarded as a special form of trade diversion. In this case, the production of a particular good in one of the member states disappears following the formation of the union. As, the production shifts to another member state where costs are lower. However, prior to the formation of the union, the latter country imported the product from the rest of the world. The reason for this situation is that: a high tariff in the former country before the formation of the union made it profitable to produce the good, but import nothing at all. In the latter country, however, the tariff was low, discouraging domestic production and resulting in the good being imported. Trade suppression can be represented in the following figure:



□ Part 5: Analyze the Following Statements

1. “International trade could have significant implications on the Egyptian economy”

This is because international trade allows:

- The country to specialize in the manufacture and export of products and services that it can produce efficiently.
- The country to import products and services that can be produced more efficiently in other countries.

2. “Schools of economic thoughts have different view regarding the role of government in Trade”

- The mercantilist philosophy adopts the idea of government involvement in promoting exports and limiting imports.
- Classical economists (Smith, Ricardo, and Heckscher-Ohlin) promote unrestricted free trade.
- New trade theories justify limited and selective government intervention to support the development of certain export-oriented industries.

3. “The economic cooperation among countries almost covers all aspects of economic activities”

It should be noted that the international economic cooperation is not limited to the production and the exchange of the consumption goods, it is extended to include other aspects of economic activities such as the flows of capital goods, financial instruments, and know-how. It covers all economic activities include construction, water supply, waste management, information and communication, financial and insurance activities, and the assembly lines in manufacturing such as in automobiles, transportation equipment, and electric goods.

4. “Since the end of the Second World War, The EU has been considered the most significant and influential form of economic integration”

- The EU is set to include practically the whole of Europe.
- It is the oldest case of economic integration.
- The EU is the only case seeking the most involved and demanding type of economic integration. As, the EU is almost a complete economic union, since:
 - 19 EU Member States have the same currency (the euro).

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- 19 EU Member States have a common central bank (the European Central Bank) in charge of the euro and inflation control.
- EU has a number of common policies, elements of common foreign, security and defense policies.
- The influence is also due to the relative global weight of the EU in terms of population and GNP (compare with NAFTA).

5. “The Treaty of Amsterdam that was signed in 1997 represents a crucial step towards the Economic Union among European countries”

The treaty emphasized that the EEC shall develop common market and an economic and monetary union by implementing common policies to promote the following:

- Balanced and sustainable development of economic activities
- A high level of employment and of social protection
- Equality between men and women
- Sustainable and non-inflationary growth
- A high degree of competitiveness and convergence of economic performance
- A high level of protection and improvement of the quality of the environment
- Raising of the standard of living and quality of life

6. “The Treaty of Amsterdam that was signed in 1997 draw special attention to a number of activities of the European Economic Community”

The activities of the European Economic Community (EEC), according to the Treaty of Amsterdam shall include:

- The prohibition of customs duties and of quantitative restrictions on the import and export of goods
- A common commercial policy
- An internal market characterized by the abolition of obstacles to the freedom of movement for goods, persons, services and capital
- A common policy in agriculture, fisheries, transport, and environment
- A system ensuring that competition in the internal market is not distorted
- The promotion of coordination between employment policies
- A European Social Fund
- The strengthening of economic and social cohesion
- The strengthening of the competitiveness of industry
- The promotion of research and technological development
- The promotion of a high level of education and health protection

- A policy for development cooperation
- A policy for strengthening of consumer protection

7. “Import-substitution industrialization implemented during the 1950s and 1960s involved costs and promoted wasteful use of resources”

Import-substitution industrialization is characterized by the following:

- It involved complex, time-consuming regulations.
- It set high tariff rates for consumers and firms that needed to buy imported inputs for their products.
- It promoted inefficiently small industries.

8. “By the mid-1980s many governments had lost faith in import substitution and began to liberalize trade”.

This was due to the fact that some low- and middle-income countries that had relatively free trade had higher average economic growth than those that followed import substitution. A number of developing countries had achieved extraordinary growth while becoming more open to trade. The economic success stories of several countries in East Asia, adopted trade policies that promoted exports, encouraged a number of developing countries to avoid import substitution strategy. These East Asian countries include Japan, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Thailand, Indonesia, and China. These countries adopted export-oriented growth strategy. All the above-mentioned countries have experienced rapid growth in various export sectors and rapid economic growth in general. These high-performance Asian economies generated a high volume of exports and imports relative to total production.

9. “The impact of trade liberalization on economic growth is mixed. Thus, it’s unclear if the high volume of exports and imports caused rapid economic growth or was merely correlated with rapid economic growth”.

Growth rates in a number of countries, e.g., Latin American countries, have been slower since trade liberalization than they were during import-substituting industrialization. On the opposite, other countries, e.g., India, have grown rapidly since liberalizing trade. Therefore, the evidence of the impact of trade liberalization on economic growth is mixed. Other factors may play a crucial role in fostering economic growth. These factors include:

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- High saving and investment rates: That could lead to both rapid economic growth in general and rapid economic growth in export sectors.
- Rapid growth in education: that could lead to high literacy rates important for a productive labor force.
- Economic reforms: that could reform the macroeconomic imbalances.

10. “Technical barriers were the main impediment to trade in financial services among European countries.”

In financial services, trade among European countries was limited by government regulatory measures, and capital movements were controlled by several member states. For example, in banking sector, there were particular problems with establishing capital adequacy. Regarding Insurance, it could not be sold in most member states unless the insurer had a local permanent establishment.

11. “Governments frequently discriminated against bids from firms in other member states for a variety of reasons”

These reasons include are: 1) strategic reasons (e.g. weapons); 2) to support of employment; 3) for the purpose of encouragement of emerging high-tech industries.

12. “Most EU countries had of one form or another of factor control. The slow progress of factor mobility stemmed from two main obstacles regarding labor and capital”

In the case of capital: Member states were worried that having free factor movement would result in destabilizing flows of capital that would disturb the performance of the domestic economy. The main fear was a capital outflow that would depreciate the currency, drive up the rate of inflation and require monetary and fiscal contraction to offset it.

In the case of Labor: Labor controls were more concerned with inflows. Employees in the domestic economy feared that an inflow of labor from other countries would lose them their jobs, i.e. countries would export their unemployment. Much of this was dressed up as a need to have certain skills, standards and local knowledge for the protection of domestic employee.

13. “The long-term growth prospects of the EU countries importantly depend upon the flexibility and efficiency of the EU’s own internal factor markets”

Factor mobility could have an important influence on growth and convergence of growth rates between the countries. This can be explained by the new growth theory. According to the theory, growth is endogenous in the sense that it depends on the amount of allocated resources based on the accumulation and progress of factors of production, such as human capital. The following factors are considered in explaining the forces underlying economic growth and determining the competitive position of individual countries:

- The accumulation of knowledge,
- The generation of ideas,
- The development of human capital,
- The capacity to absorb new technologies.

Ongoing reallocation of production factors should help in:

- Transferring resources to those industries and sectors with comparative advantage,
- Achieving increasing returns to scale in the generation and application of new technology.

14. “the benefits of free factor mobility in EU are associated with shortcomings”

This is true since globalization has turned physical capital into a much more mobile factor of production due to foreign investment. Thus, a number of firms may own the export sector of another nation, and these foreign owners may repatriate most of their profits. Therefore, growth may be achieved, but only at the cost of international inequalities.

15. “It is not surprising to see EU member states have been cautious regarding free movement of capital and labor”.

This is due to the shortcomings of free factor mobility, which may result in international inequalities among EU countries. This may apply to the eastern enlargement of the EU, if increasing flows of profit repatriation eventually outweigh the inward flows of foreign direct investment (FDI) to new member countries.

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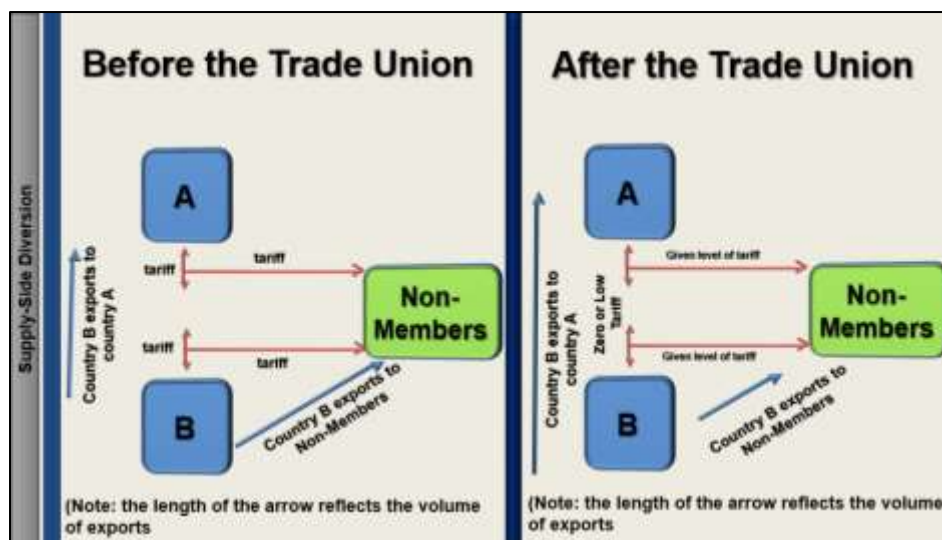
16. “EU member states have been setting barriers to the factor mobility”,

These barriers are represented in the following actions:

- Increasing the protection of labor through the social chapter in the Maastricht Treaty,
- Insisting on a transition period for the new member states,
- Seeking to limit the powers of company takeover.

17. “A supply-side constraint could be a hamper of EU trade with non-member states”

This could be explained by the impact of supply-side diversion on trade. Supply-side diversion will take place when, due to a supply-side constraint (e.g. shortage of capacity), increased exports of a product to a member state following integration result in reduced exports of the product to a non-member state. However, such an effect is likely to be of a short-term nature only, as, over time, producers will expand their capacity to meet the greater demand for their product. Supply-side diversion can be explained in the following figure:



18. “Changes in trade patterns have potential influence on economic welfare of member states of EU”

This can be explained by the income effect on trade. For members of the trade union, trade diversion will raise the real incomes (welfare-enhancing) of the exporting countries, while lowering the real incomes (lowering welfare) of

importing countries. However, Tariff liberalization in differentiated goods industries tends to result in more intra industry trade (IIT), i.e., two-way trade in different varieties of the same product. This makes possible further gains to consumers from having a wider variety of goods to choose from. In addition, intra-industry trade may have positive long-run effects on output in the trade union. As, output may be increased as a result of firms investing more in order to take advantage of the wider market and cope with increased competition, which may also spur firms to engage in more technological innovation.

19. “The adverse balance of payment effect due to economic integration might be difficult to be expected” from the EU case” prove the previous statement.

At the time when the EC was set up, there was a concern that Italy would experience an adverse balance of payments effect because of a lower degree of industrial competitiveness. However, It is clear that these concerns proved unwarranted, as the Italian economy thrived after the formation of the EC.

Likewise, there was a concern when the UK joined the EC in 1973 that the effect on the balance of payments would be adverse. Since UK tariffs on industrial goods imported from the EC were slightly higher than on such goods when exported to the EC, so after joining the EC, British imports from the EC could be expected to rise by more than British exports to the EC. However, such concerns proved not to be true.

20. “Many factors have been presented to explain the reasons behind the poor trade performance of the Arab countries”

These factors include:

- Market Distortions
- Insufficient Institutional Development
- Inward-Oriented Policies and Protectionism
- The Delay of Entering into the WTO (high tariff barriers still in power)
- Security and Political Issues.
- The Arab market is segmented by physical barriers.
- Differences in Per Capita Income

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21. Draw a diagram that describes the main classification of commercial policy instruments.

