

Economics 548 International Economic Relations
Summer 2007
Homework 2

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Due date: Wed., June 27, 2007

General instructions: These are short essays. A few sentences for each part or a couple of paragraphs per question will suffice.

1. Basic economic theory tells us that negative externalities (e.g. pollution) lead to negative outcomes. Specifically, the market equilibrium has too much output (and therefore too much of the negative externality) relative to what is socially optimal. The reason is that the producer of the externality (the polluter) does not take into account the social cost of the externality on the larger public.
 - (a) Suppose that a country uses trade negotiations as leverage to try to get its trading partner to adopt less polluting methods of production. What are the problems associated with this?
 - (b) What would be the “first best” solution to this problem? Why might the “first best” solution be difficult to implement?
 - (c) Could the imposition of trade barriers (or more realistically a reluctance to remove existing barriers) be a “2nd best” solution? What are some important considerations affecting your answer?
2. Intellectual property rights essentially confer monopoly power on the holder for a limited time. From the perspective of developing countries, what are the advantages and disadvantages of stricter enforcement of intellectual property rights? (Consider discussion question #12 on page 124.)
3. Do sweatshops exploit the poor? (This is discussion question #7 on page 123.)
4. Consider this statement: Immigration policy in the U.S. does not have a well-defined purpose. Agree or disagree? If you agree, what do you think its purpose should be? What should it not be? What role to economic considerations play? What other considerations are important?