

## **Homework #2**

problem #1 from Ch. 3, p. 61 of Krugman/Obstfeld (4th ed.)  
and a couple of problems that I stole from somebody else's website

1. In 1986, the price of oil on world markets dropped sharply. Since the United States is an oil-importing country, this was widely regarded as a good year for the US economy. Yet in Texas and Louisiana (two states which produce oil) 1986 was a year of economic decline. Why?

### **Do this too !**

- The Specific Factors model clearly illustrates how the expansion of trade can have significant distributional effects on the relative incomes of different factors of production. Why do economists object to using trade protectionist policy to mitigate or reverse these effects? If mitigating such effects were considered to be a reasonable goal, would economists then favor do this via the use of trade policy? Why or why not?
- It is claimed that the persistence of protectionism is often the result of the fact that those who lose from trade are usually a much more informed, cohesive and motivated a group than those who gain. Discuss.