

Course: International Trade and Policy

Week 9: Strategic Trade Policy and Global Oligopolies

Instructions: Please select the best answer for each of the following ten questions. Each question has only one correct answer.

Question 1

What is the primary objective of strategic trade policy as defined in the lecture?

- A) To maximize government revenue from import tariffs
- B) To shift economic rents from foreign firms to domestic firms in imperfectly competitive global markets
- C) To achieve comparative advantage in all industries
- D) To eliminate all barriers to trade between nations

Question 2

According to the Brander-Spencer model (1985), how does an export subsidy raise national welfare in a third-country market?

- A) By increasing domestic consumer surplus
- B) By shifting profits from the foreign firm to the domestic firm, making the domestic firm more aggressive in output
- C) By reducing the domestic firm's production costs through learning-by-doing
- D) By lowering the world price of the exported good

Question 3

In the Boeing-Airbus case study, what form of subsidy did European governments primarily provide to Airbus?

- A) Direct cash grants with no repayment obligation
- B) Launch aid – repayable loans with below-market interest rates and long maturities
- C) Tariff exemptions on imported aircraft components
- D) Direct government procurement of all Airbus aircraft

Question 4

Which of the following was a key finding of the WTO litigation (DS316 and DS353) in the Boeing-Airbus dispute?

- A) Only the European Union provided illegal subsidies
- B) Only the United States provided illegal subsidies
- C) Both the European Union and the United States provided illegal subsidies
- D) Neither side violated WTO rules

Question 5

According to the lecture, what complication arises when R&D spills over to foreign rivals (knowledge leakage)?

- A) The domestic subsidy becomes more effective at shifting rents
- B) The domestic subsidy benefits the foreign firm as well, weakening the strategic motive
- C) The domestic government loses all ability to tax foreign profits
- D) The foreign government automatically retaliates with higher tariffs

Question 6

Which of the following is a key limitation of the simple Brander-Spencer strategic trade policy model?

- A) It assumes governments cannot commit before firms choose output
- B) It assumes perfect information about demand and costs
- C) It assumes multiple domestic firms compete in the same market
- D) It assumes the foreign government always retaliates with an equal subsidy

Question 7

In the context of strategic trade policy, what is meant by a "beggar-thy-neighbour" outcome?

- A) One country's gain comes at the expense of another country's loss
- B) Both countries gain equally from trade liberalization
- C) Subsidies improve global welfare by lowering prices for consumers worldwide
- D) Trade wars benefit all participating nations

Question 8

What was the outcome of the 1992 US-EU bilateral agreement on aircraft subsidies?

- A) All subsidies for aircraft manufacturing were completely banned
- B) Launch aid was capped at 33% of development cost and required to be repayable with interest
- C) The United States agreed to provide launch aid to Boeing
- D) The European Union agreed to dissolve the Airbus consortium

Question 9

According to the lecture, under what conditions might strategic trade policy be justified?

- A) Low industry concentration and many competing firms
- B) High concentration (duopoly/oligopoly), significant scale economies, and large initial rents
- C) Perfect competition and constant returns to scale
- D) Low barriers to entry and no R&D intensity

Question 10

In the solar panels case study (China vs. EU/US), what was the global consequence of China's massive production subsidies?

- A) Global prices rose due to reduced competition
- B) Global oversupply and price collapse, leading to global welfare loss
- C) Chinese manufacturers lost market share to European competitors
- D) The WTO immediately prohibited all solar panel subsidies worldwide

Answer Key

- 1. B
- 2. B
- 3. B
- 4. C
- 5. B
- 6. B
- 7. A
- 8. B
- 9. B
- 10. B