

**INTERNATIONAL ECONOMICS**  
**HOMEWORK 5**  
**06/12/2013**

**Question 1**

- a. Suppose two countries form a PTA and a third country stays out. Explain the two welfare effects stemming from the formation of this PTA. What do they imply about the total effect of the PTA?
- b. "PTAs: a step forward or a hurdle on the way to global free trade?" Discuss possible answers.

**Question 2**

- a. Explain the "Neary bucket" diagram and use it to graphically analyze the welfare effects of allowing labor mobility on the different groups in each country and on the migrants.
- b. Use the same diagram to establish that allowing factor mobility increases overall economic efficiency.
- c. Discuss how the result from b) will change if there are (fixed) costs of migration.