

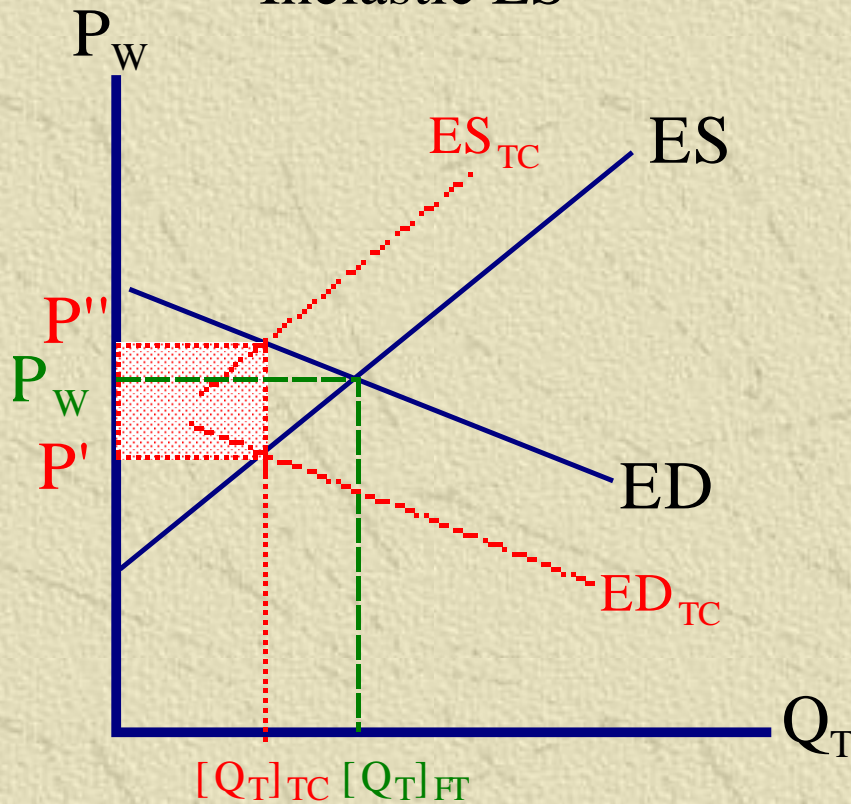
# Exercise 1. Partial Equilibrium Trade Model

## 2.2 Trade concepts: Price convergence and LOOP

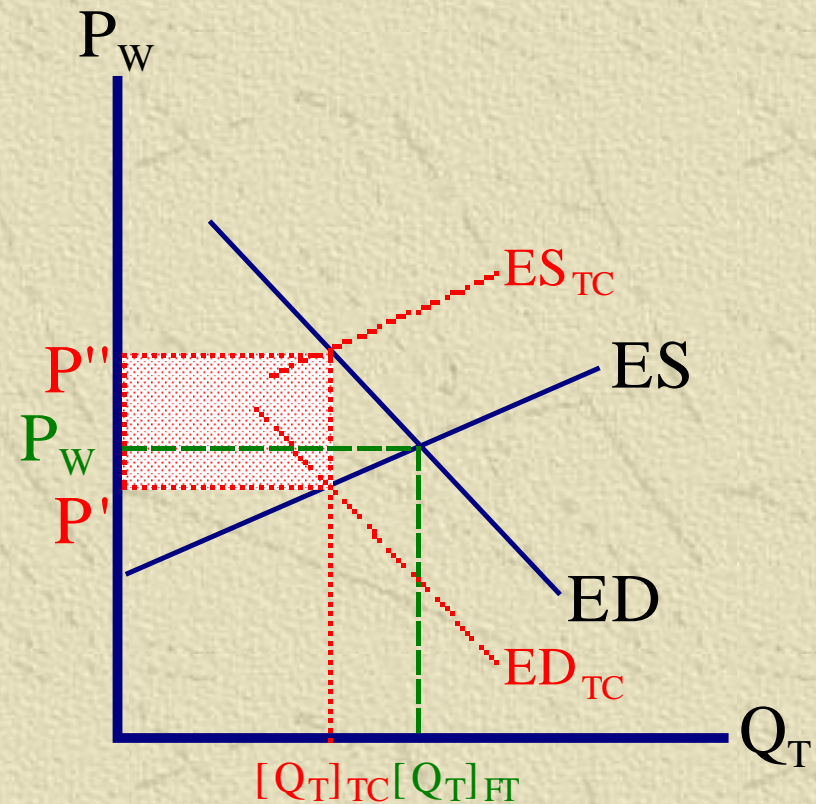
✦ Conditions

✦ Extension of the model: transportation costs

◆ Inelastic ES



◆ Inelastic ED



# Exercise 1. Partial Equilibrium Trade Model

SRP, *Financial Times*, “... Distance Has Not Died”, 2019  
Relevance

- ✦ In a world where transport and communications cost ↓ distance no longer matters –
- ✦ Trade in goods
  - ◆ US exports to Canada about same as with EU
  - ◆ EU exports to UK about as much as with US
  - ◆ 10% ↑ in distance → ↓ bilateral trade by 9%
- ✦ Trade in services
- ✦ Distance matters
  - ◆ Regionalism
  - ◆ Supply chains
  - ◆ Different dimensions: economic, cultural, legal