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Department of Economics

Examination paper for SØK 2006 International Trade

Examination date: 14.05.2024

Examination time (from-to): 15:00-19:00

Permitted examination support material: C (only calculator and official formulary, no hand-written sheets or notes)

Academic contact during examination: Inga Heiland
Phone: 46590973

Academic contact present at the exam location: NO

OTHER INFORMATION

Get an overview of the question set before you start answering the questions.

Instructions

- you can answer in Norwegian or in English
- when using graphs, make sure you label all the curves and all the axes
- keep your verbal answers as short as possible, but answer in complete sentences
- if you use notation that corresponds to the lecture or the book, you don't need to define the variables in your graphs or explanations.

Read the questions carefully and make your own assumptions. If a question is unclear/vague, make your own assumptions and specify them in your answer. The academic person is only contacted in case of errors or insufficiencies in the question set. Address an invigilator if you suspect errors or insufficiencies. Write down the question in advance.

Hand drawings: To answer tasks **[1,3,4]** you may want to use the drawing tablet for calculations/drawings. Instead of the drawing tablet you can also draw on paper. Please note that you must stick to one of drawing modes (either tablet or paper) throughout the exam.

File upload: 15 minutes are added for file upload. The time is included in the time shown at the top left of the test, and the time is reserved for file upload.

Weighting: The number of points you can earn per question is given in brackets. The total number of points is 80.

Notifications: If there is a need to send a message to the candidates during the exam (e.g. if there is an error in the question set), this will be done by sending a notification in Inspera. A dialogue box will appear. You can re-read the notification by clicking the bell icon in the top right-hand corner of the screen.

Withdrawing from the exam: If you become ill or wish to submit a blank test/withdraw from the exam for another reason, go to the menu in the top right-hand corner and click “Submit blank”. This cannot be undone, even if the test is still open.

Access to your answers: After the exam, you can find your answers in the archive in Inspera. Be aware that it may take a working day until any hand-written material is available in the archive.

1 The gains from trade in the Standard Trade Model [20]

Use the Standard Trade Model

a) to show graphically that there are gains from trade whenever relative prices under trade are different from relative prices in autarky. (Hint: use a graph with the PPF, relative price lines, and indifference curves).

b) to show graphically that changes in the terms of trade (the relative price of exports to imports) lead to changes in welfare. Does a country gain from an increase or from a decrease in the terms of trade?

Explain all important elements of your graphs.

Fill in your answer here

Format

Words: 0

Maximum marks: 20

2 Comparative advantage in the Ricardian model [20]

Suppose Norway and Sweden produce two goods, fish and energy. Norway has the better technology for both goods, but its productivity advantage is particularly strong in fishing.

a) Can Norway gain at all from trading with Sweden ? Explain your answer.

b) If the two countries trade, which good(s) will Norway produce?

Now suppose that Sweden develops a new technology for energy production which is better than the Norwegian one.

c) Is this good news or bad news for Norway ?

d) Is it possible that this is bad news for Sweden ?

Explain your answers.

Fill in your answer here

Format

Words: 0

Maximum marks: 20

3 Gains from market size [20]

Consider the firm-level model with internal increasing returns to scale, differentiated products, monopolistic competition, and free entry. All firms are identical. The industry equilibrium is described by the average cost curve

$CC = c + F/S*n$

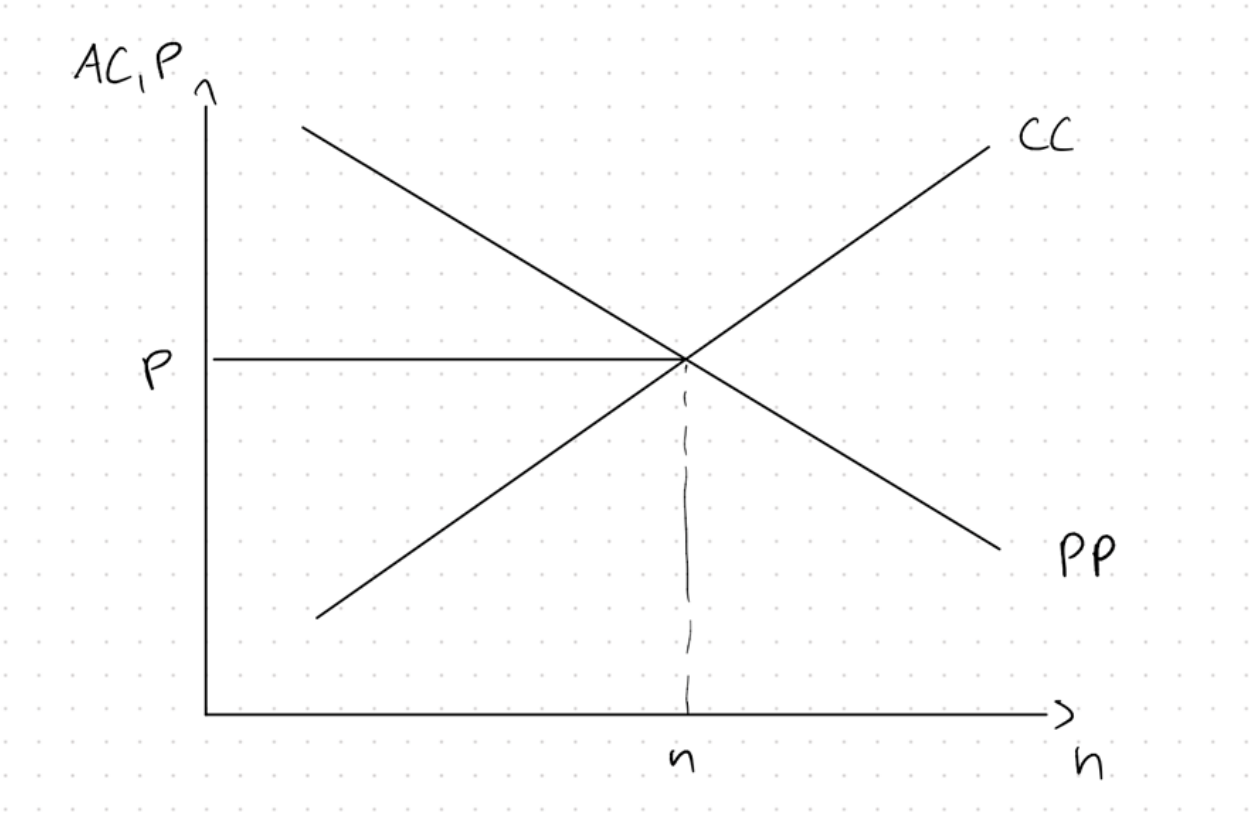
and the optimal price curve

$PP = c + 1/(bn)$

of a representative firm, where

- c is the constant marginal cost of the firm
- F is the fixed cost of the firm
- S is the total industry output
- n is the number of firms
- b measures how quickly consumer switch to other products when the firm increases its price.

The graphical solution (with linear curves for simplicity) to the equilibrium where firms can freely enter and exit is



a) Explain why the CC curve is upward sloping in the number of firms. (Hint: remember that because firms are identical, S/n is the output per firm.)

b) Explain why the PP curve is downward sloping in the number of firms. (Hint: remember 1/(bn) is the price markup)

c) Why is the equilibrium number of firms and the equilibrium price determined by the intersection of the CC curve and the PP curve ?

d) Now suppose that total industry output S ("market size") increases. What happens to prices and to the number of firms and what is the intuition behind these adjustments ?

Fill in your answer here

Format

Words: 0

Maximum marks: 20

4 The instruments of trade policy [20]

Consider the trade policy of a small country which has a tariff on imports in place.

a) Would the country be better off by abolishing the tariff? Would consumers or producers be in favour of this policy change?

b) As an alternative policy, it is suggested to replace the tariff with a quota in order to keep consumer prices low without hurting domestic producers. Do you think this is a good idea?

Explain your answers. You may but don't have to use graphs for illustration.

Fill in your answer here

Format

Words: 0

Maximum marks: 20

5 File Upload

Upload your file here if you have used the tablet to draw

Upload your file here. Maximum one file.

All file types are allowed. Maximum file size is **50 GB**

Select file to upload

Maximum marks: 0