Department of Economics

Course name:	**International Economics**
Course code:	**EC2301**
Type of exam:	**Regular**
Examiner:	**Anders Åkerman**
Number of credits:	**7,5 credits**
Date of exam:	**Saturday 12 January 2013**
Examination time:	**3 hours [09:00-12:00]**

Write your identification number on each paper and cover sheet (the number stated in the upper right hand corner on your exam cover).

Use one cover sheet per question. Explain notions/concepts and symbols. If you think that a question is vaguely formulated, specify the conditions used for solving it. Only legible exams will be marked. **No aids are allowed.**

Answer in Swedish or English.

The maximum number of credits is 99 (for answers on the exam) + 16 (for assignments). Credits correspond to grades as follows:

90 – 115	A
80 – 89	B
70 – 79	C
60 – 69	D
50 – 59	E
0 – 49	F

Your results will be made available on your "My Studies" account (www.mitt.su.se) on February 1 at the latest.

Good luck!

1. Explain the following concepts in 50 words maximum for each concept. (3 points per concept, i.e. maximum 24 points).

a) Skill biased technological change
b) Vertical foreign direct investment
c) Leontief Paradox
d) Stolper Samuelsson effect
e) Voluntary export restraint (VER)
f) Absolute advantage
g) External economies of scale
h) Environmental Kuznets curve

2. In May 2012, the United States imposed an import tariff on solar panels from China.

a) Supposing that the US is a net importer of solar panels under free trade, use a graph to analyse the effect on US producer surplus, consumer surplus and the government revenue. Explain your answer. (7 points)

b) What is the net effect on US welfare? And, what happens to the price that Chinese producers charge for solar panels? Explain your answer. (6 points)

c) Assume instead that China would voluntarily restrict their export volumes of solar panels to the US to the same amount of imports that an import tariff would generate. What is the net effect on US welfare in this case? Explain your answer. (6 points)

d) Assume that US consumption of solar panels also has an externality for both the US and China in the sense that it reduces the emissions of carbon dioxide. What is additional welfare effect of the US import tariff from this externality? Explain your answer. (6 points)

THE EXAM CONTINUES ON THE FOLLOWING PAGE.

3. Consider a small country which is in autarky, i.e. it is not trading with any other country. Assume that there are two consumption goods, kiwis and cars. This country needs 2 workers to produce one ton of kiwis per year and 8 workers to produce one car per year. Use the Ricardian model to answer the following questions:

a) Draw the country's production possibility frontier under autarky. (4 points)

b) Assuming that both goods are produced and consumed, what is the autarky relative price of a car in terms of kiwis in this country? Explain. (4 points)

c) Assume, instead, that the country has the opportunity to trade with foreign countries. The world relative price of a car in terms of tons of kiwis is 2. Will the country trade at this price? What will be the pattern of trade? Assume that the country is too small to be able to affect the world price. Explain your answer. (5 points)

d) Compare the real wage in the country under autarky with the real wage under free trade. Explain. (6 points)

e) Now, assume that the outer world imposes an import tariff towards the small country equal to 50% of the value of the goods that are traded. Will the small country still trade? (6 points)

4. Assume that 90% of Japanese voters (rice consumers) prefer to have no tariffs on imports of rice while 10% of Japanese voters (rice producers) prefer to ban imports of rice completely.

a) What tariff rate would the median voter theorem predict? Explain. (7 points)

b) Name and explain two reasons mentioned in the course for why politicians in a democracy might not set tariffs according to what the median voter theorem predicts. (6 points)

c) Explain how large countries can use tariffs to affect their terms of trade, and how this affects a country's welfare. (6 points)

d) Give two examples of when it might be welfare improving for a country to impose import tariffs. Explain. (6 points)