STOCKHOLM UNIVERSITY
Department of Economics

Course name:	**International Economics**
Course code:	**EC2301**
Examiner:	**Anders Åkerman**
Number of credits:	**7,5 credits**
Date of exam:	**Tuesday, January 10, 2012**
Examination time:	**3 hours**

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

Do not write answers to more than one question in the same cover sheet. 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 English or Swedish.

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

Results will be posted on the notice board, House A, floor 3, on January 31, 2012, 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) Carbon tariff.
b) Trade diversion.
c) Comparative advantage.
d) Binding tariffs.
e) Labour market pooling.
f) Factor Price Equalisation.
g) Median voter.
h) Leontief paradox.

2. Suppose that the United States considers imposing a tariff on imports of oranges. We assume that the United States is a net importer of oranges under free trade.

a) Describe the effect on the price of oranges in the United States as well as the effect on the quantity of oranges imported. Use a graph to explain your answer. (6 points)

b) Describe the effect on consumer and producer surplus as well as the size of government revenue using the graph. (7 points)

c) What is the net effect on US welfare? Explain using the graph. (6 points)

d) What do we know about the level of the import tariff that maximises US welfare (the "optimal tariff")? Is it zero or is it positive? (6 points)

THE EXAM CONTINUES ON THE FOLLOWING PAGE.

3. Suppose that Norway initially does not permit trade with other countries. For simplicity, assume also that the only goods produced are butter and cars. There are three production factors: land, capital and labour. Capital is only used in car production, land only in butter production while labour is used in both sectors. Finally, suppose that the relative price of butter (in terms of cars) in autarky is higher in Norway than in world markets.

Use the specific-factors model to answer the following questions.

a) Assume that Norway moves from autarky to free trade. What will happen to the relative price of butter in Norway? And what are the effects on the returns to land and capital, respectively? Explain your answer using graphs. (9 points)

b) How will nominal wages change due to free trade? And what can we say about the change in the real wage? Explain. (9 points)

c) Now, suppose that Norway discovers a large and previously unknown island outside its coast. The government gives it the name “Butter Island” since the land on this island turns out to be perfect for butter production. Assuming that free trade continues and that prices are fixed, how will this rise in the stock of land affect real wages in Norway? (7 points)

4. After the Second World War, several developing countries implemented trade policies based on the principle of import substitution and infant industry protection.

a) Describe the central components of these policies. (7 points)

b) What are the two main theoretical justifications of these policies? Explain your answer. (6 points)

c) What are the main problems involved when pursuing these policies? Mention and explain the two most important. (6 points)

d) Some smaller East Asian countries such as South Korea and Taiwan, instead chose very different policies and these countries turned out to be very successful in terms of economic growth. What trade policy did these countries pursue? Also, name one alternative explanation (not based on international trade) for the economic success of these countries. (6 points)