

**Course name:** International Economics  
**Course code:** EC2301  
**Examiner:** Anders Åkerman  
**Number of credits:** 7,5 credits  
**Date of exam:** Saturday, January 19, 2011, 9.00 – 12.00  
**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.

**Explain your answers.**

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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

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Results will be posted on the notice board, House A, floor 3, on March 11 the latest.

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**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) import quota
- c) Stolper-Samuelson theorem
- d) comparative advantage
- e) World Trade Organisation
- f) gravity model of trade
- g) optimal tariff
- h) factor intensity

2. Assume that the world consists of the European Union (EU) and China and that consumers only consume cauliflowers and turnips. The EU's labour requirement for producing a cauliflower is 4 hours and for a turnip it is 2 hours. China needs 5 hours of labour to produce a cauliflower and 15 hours to produce a turnip. For simplicity, also assume that the EU and China are equally large.

a) Draw the Production Possibility Frontiers (PPFs) for both countries. What will the relative price of cauliflower be in the two countries under autarky? What are the real wages in the two countries? (10 points)

b) Assume that the two countries start trading with each other and abolish all tariffs. Within what interval must the free trade relative price of cauliflowers lie? Describe the international pattern of trade. (5 points)

c) Assume that the international relative price of cauliflowers is 1. What are the real wages under free trade in this case? (5 points)

d) Assume now that international trade is not entirely free and that there are transport costs equivalent to 50% of the value of the good being transported internationally. Will there still be any international trade? (5 points)

3. Much of world trade today is conducted between developed countries. These countries often have no specific differences in comparative advantage or factor endowments. Moreover, much of trade between developed countries is “intra-industry” trade, i.e. that one country both imports and exports goods in the same sector. This stands in contrast to the more traditional view of trade as mostly “inter-industry” trade, i.e. that countries export goods in one sector (in which they have some advantage) in exchange for goods from another sector.

a) Mention one theory of trade which explains inter-industry trade. What are the key assumptions that generate trade between countries in this theory (you do not have to explain the whole model)? Give an example of a sector and an example of a country pair for which international trade can be explained by this theory. Explain why you chose these examples. (12.5 points)

b) Mention one theory of trade which explains intra-industry trade. What are the key assumptions that generate trade between countries in this theory (you do not have to explain the whole model)? Give an example of a sector and an example of a country pair for which international trade can be explained by this theory. Explain why you chose these examples. (12.5 points)

*NEXT QUESTION ON THE FOLLOWING PAGE*

4. One important development policy for poorer countries is to attract foreign direct investment (FDI) and thereby attaining a more rapid growth of the capital stock than by just using domestic savings. This has been a key strategy by, for example, East Asian countries such as South Korea, Malaysia and Singapore in recent decades.

a) Use the specific-factors model to analyse the short run effects of an increase in the capital stock of a small country which engages in free trade. Assume that the economy consists of two sectors: steel and wheat. Also assume that there are three production factors: land, labour and capital. Land is only used in wheat production, capital is only used in steel production while labour is used in both sectors and can move freely between them. Describe what happens to wages to labour as well as land and capital rents when the capital stock increases in the country. How does the allocation of labour between the two sectors change? Explain your answer! (25 points)