



Stockholm
University

Department of Economics

Course name: International Economics
Course code: EC2301
Examiner: Anders Åkerman
Number of credits: 7,5 credits
Date of exam: Saturday 14 February 2015
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 March 9 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) external economies of scale
- b) corporate social responsibility
- c) a labor abundant country
- d) pollution haven
- e) voluntary export restraint
- f) binding tariff
- g) effective rate of protection
- h) inter-industry trade

2. This question will ask you to use the Heckscher-Ohlin model to analyze the effect of trade liberalization between two countries. Assume that there are two production factors (capital and labor) and two goods (cars and clothes). Assume furthermore that the car industry is capital intensive and that the clothing industry is labor intensive. The two countries differ in their relative endowments of capital to labor.

a) Explain how real factor prices (the real return to capital and labor) are determined in autarky in the two countries. How do the relative factor prices differ between the two countries depending on their relative endowments of capital and labor? Explain your answer. (7 points)

b) Now, explain how and why trade liberalization affects real factor prices in the two countries. Explain your answer. (7 points)

c) Which country will export what good and why? Explain your answer. (6 points)

d) Owners of different factors of production can differ in attitudes to trade liberalization depending on how much they benefit in real terms. In the two countries that you have analyzed, who will benefit and who will lose from trade liberalization? (5 points)

THE EXAM CONTINUES ON THE NEXT PAGE

3. Assume that, in ancient times, two islands in a large ocean did not know about each other before but now discover each other. To simplify, assume that bread and butter are the only products that people consume. Island A is technically quite advanced so an individual there needs to work only 1 hour to produce a loaf of bread and 1 hour to produce a kilogram of butter. Island B needs more time to produce these goods, more specifically 2 hours for a loaf of bread and 4 hours to produce a kilogram of butter. Use the Ricardian model to answer the following questions.

a) What is the relative price of bread (in terms of butter) on each island in autarky? What is the real wage? Explain your answer. (11 points)

b) Assume then that trade between the islands becomes possible. Will the two islands trade with each other? And, if so, who will produce what good? Explain your answer. (8 points)

c) What will the real wage be if trade is possible? Explain your answer. (6 points)

4. Compare the welfare effects of the following trade policies (in each case, use graphs to describe and explain the effect on consumer surplus, producer surplus, government revenues as well as the net effect on the country's welfare):

a) an export subsidy in a small country. (6 points)

b) an export subsidy in a large country. (6 points)

c) an import tariff in a small country. (6 points)

d) an import tariff in a large country. (7 points)