STOCKHOLM UNIVERSITY
Department of Economics

Course name:	**Economic Integration**
Course code:	**EC7311**
Examiner:	**Rikard Forslid**
Number of credits:	**7,5 credits**
Date of exam:	**13 February 2016**
Examination time:	**3 hours (9.00-12.00)**

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

Do not write answers to more than one question in the same cover sheet. Answer in a concise fashion. 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.

The exam consists of 4 questions, 100 points in total. For the grade E 45 points are required, for D 50 points, C 60 points, B 75 points and A 90 points.

Results will be posted on mitt.su.se three weeks after the exam, at the latest

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Good luck!

Question 1 (25p)

The European integration has lead to lower trade costs between its members. At the same time this implies that countries outside EU are disfavoured in the European market. Analyse the effects of this type of preferential tariff liberalisation. What are the welfare consequences? How are the welfare effects affected by a very elastic export supply?

Question 2 (25p)

Analyse the effects of economic integration in a model with two sectors: X and Y. The X-sector is characterized by increasing returns to scale, free entry, and Cournot competition. The Y-sector has constant returns to scale and perfect competition. Utility of the representative consumer is given by
$$U=(nX)^{\alpha}Y^{1-\alpha}$$
,and the cost function of X-sector firms is
$$C=f+cX,$$
where all notation has its usual meaning.

Question 3 (25p)

What are the effects of economic integration if it is assumed that firms are heterogeneous in productivity, and that there are fixed entry costs in the domestic and the foreign market? Write down and explain the Melitz model.

Question 4 (25p)

Globalization has led firms to outsource many tasks, which creates global value chains. Explain this process, and the causes of this development. Write down a small model if you can.