STOCKHOLM UNIVERSITY
Department of Economics

Course name:	**Economic Integration**
Course code:	**EC7311**
Examiner:	**Rikard Forslid**
Number of credits:	**7,5 credits**
Date of exam:	**January 9th 2017**
Examination time:	**3 hours (16.00-19.00)**

Write your identification number on each paper (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 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 15 working days after the exam, at the latest

----

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 in-elastic import demand?

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)

Analyse formally a simple new economic geography model and discuss the no-black-hole condition.

Question 4 (25p)

a) Under which conditions would a foreign fiscal stimulus have a negative effect on the domestic economy? Explain.

b) What is the "Stability and Growth Pact", and how would you evaluate it?