



Department of Economics

Course name: International Economics
Course code: EC2301
Examiner: Anders Åkerman
Number of credits: 7,5 credits
Date of exam: Sunday 12 February 2017
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).

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) + 15 (for assignments).
Credits correspond to grades as follows:

90 – 114	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 6 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) Capital intensive industry
- b) Labor pooling
- c) Monopolistic competition
- d) Trade creation
- e) Trade diversion
- f) Stolper-Samuelson theorem
- g) Customs union
- h) Internal economies of scale

2.

Consider Japan in the early 19th century before opening up to trade with the rest of the world. Japan uses labor to produce two goods, silk and cannons, with the following technologies: one worker can produce either 10 units of silk or 2 cannons. Use the **Ricardian model** to answer the following questions.

- a) Describe the relative price of silk in terms of cannons under autarky. (6 points)
- b) Assume now that Japan opens up to trade with a world that is trading silk and cannons at a relative price of 2 units of silk for each cannon. How will Japan trade in this economy? Will it trade at all? Assume that Japan is a small economy. Explain your answer. (7 points)
- c) Describe how the real wage in Japan changes. Explain your answer. (6 points)
- d) Assume now instead that Japan is such a large country that it can affect world prices. How will this affect your answer to c)? Explain your answer. (6 points)

THE EXAM CONTINUES ON THE FOLLOWING PAGE

3. Trade policy

Describe and compare the effects on a country's consumer surplus, producer surplus and government revenues of the following three trade policies (explain your answers with graphs):

- a) import tariff (6.5 points)
- b) import quota (6.5 points)
- c) export subsidy (6.5 points)

A production subsidy is often considered to be a better policy than an export subsidy. Explain why. (5.5 points)

4.

In the years 2007-2008, the price of food increased substantially and is sometimes referred to as a food price crisis. This question will ask you to use the **Specific Factors Model** to analyze the short-term effects on welfare of a rise in food prices.

Consider a small open economy that has three production factors: land, workers and capital. There are two industries where one produces food and the other cars. The car industry requires capital and workers for production and the food industry requires land and workers. Workers can therefore move between the two industries but land and capital cannot. The economy is trading with the rest of the world under free trade.

- a) Describe using a graph what determines the allocation of workers between the two industries. (6 points)
- b) Assume now that there is an increase in the price of food. How is the allocation of workers affected? Explain using a graph. (6 points)
- c) Describe the effects of the price increase on real returns to the three production factors. Explain your answer. (7 points)
- d) Assume instead that workers cannot move between the two sectors. How would this change your answer to c)? (6 points)