UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Postponed exam: **ECON4415 – International trade**

Date of exam: Thursday, January 8, 2009

Time for exam: 09:00 a.m. – 12:00 noon

The problem set covers 3 pages (incl. cover sheet)

Resources allowed:

- No resources allowed

The grades given: A-F, with A as the best and E as the weakest passing grade. F is fail.

International Trade-ECON4415
Final Exam, Fall 2008

The exam consists of 100 points. Please allocate your time to each question accordingly.

Question 1. (20 points)
Explain the following

a. Gains from trade

b. Why autarky prices may differ across countries.

c. Specific factor model of trade.

Question 2. (20 points)

a. In Krugman's core-periphery model, explain and illustrate why firms may only locate in one region.

b. Suppose that there are two regions, North and South, and that North initially has all manufacturing production. Explain why a higher share of manufacturing firms makes a core-periphery pattern more likely.

Question 3 (30 points)
Suppose two countries Home and Foreign have the same preferences, and technologies. However, suppose that Home has a higher capital/labor ratio than
Foreign. Suppose than both countries can produced two goods good 1 and good 2. Suppose that the production of good 2 is labor intensive.

a. Draw the production possibilities frontiers (PPFs) for these two countries.

b. Show that the relatice price of good 1 is lower in the Home country under autarky.

c. Determine the effect of trade opening on relative prices, the term of trade and the pattern of specialization. Please show export and imports on the PPFs.

d. Determine the distributional effect of free trade. In other words, in each country show who gains and who loses from free trade.

Question 4 (30 points)

Suppose that two countries H and F produce cars and textiles with the following worker requirements:

	Cars (per unit)	Textiles (per tonn)	Total labor force
Home	$a_H^C = 1/2$	$a_H^T = 1$	$L_H = 100$
Foreign	$a_F^C = 4$	$a_F^T = 2$	$L_F = 400$

Preferences are Cobb Douglas with cars having a share 1/2.

a. Draw the production possibility frontier (PPF) for each country

b. Solve for the equilibrium prices and quantities when countries are not allowed to trade. Where is the relative price of cars greater? Why?

c. Now suppose that countries are allowed to trade. Compute the world relative price of cars and relative wages.

d. Explain the pattern of trade using the PPFs for both countries.

e. Show that both countries benefit from trade.