

UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Postponed exam: **ECON4415 – International trade**

Date of exam: Wednesday, December 15, 2010 **Grades are given: 22. December 2010**

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

The problem set covers 2 pages

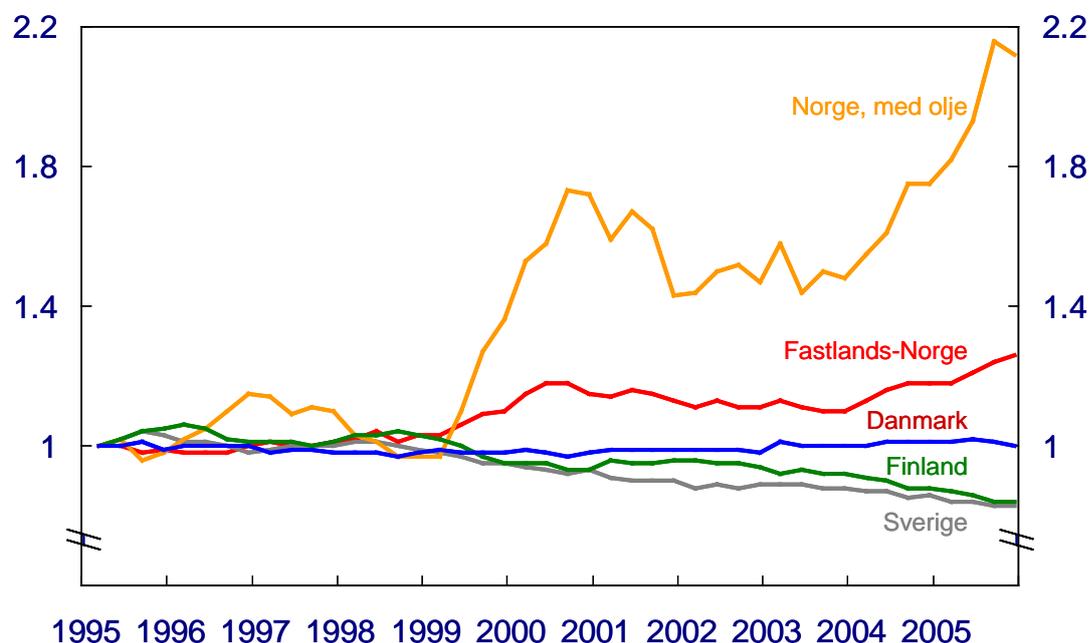
Resources allowed:

- No resources allowed

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

Problem 1: (45 points)

The Figure below illustrates terms of trade (price of exports relative to price of imports) for a set of countries up until 2006.



(Translation: Norge, med olje = Norway, with oil; Fastlands-Norge= Mainland Norway; Sverige = Sweden; Danmark = Denmark)

Chinas access into WTO and rising energy prices are regarded as important determinants of the observed development in terms of trade.

- a) In what ways does Sweden's industrial structure differ from that of Norway? Discuss and explain briefly why we observe such a different impact on the terms of trade of the Nordic countries.
- b) Discuss and explain illustrating your answer graphically, what effects the change in export prices relative to import prices (terms of trade) have for exports, imports, production, industrial structures and welfare in Sweden.
- c) What would we expect to be the impact on factor prices in Sweden from the development of terms of trade? What does the Stolper-Samuelson theorem tell us about this relationship? Explain how changes in relative prices affect resource allocation in the short and long run.
- d) China has a huge rural population. How will the inclusion of its rural population in its manufacturing labor force affect China's industrial structure? Illustrate your answer graphically.

Problem 2: (35 points)

A well known result from international trade theory is that import tariffs incur welfare loss.

- a) Explain and illustrate the impact of a tariff on consumers and producers in a given sector.
- b) Show how the introduction of a tariff affects the allocation of resources, industrial structure and welfare in a country.
- c) Explain the optimal tariff argument

Problem 3: (25 points)

- a) What are the forces driving the development of agglomerations?
- b) In a world with imperfect competition and agglomeration forces, what are the possible effects of trade liberalization? Illustrate your answer graphically.