UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Postponed exam: **ECON4415 – International Trade**

Date of exam: Tuesday, January 7, 2014

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: (30 points)

Over the last decade terms of trade (i.e. export prices relative to import prices) have deteriorated in most European countries while they have improved in Norway.

a) Discuss and explain, illustrating your answer graphically, what effects the change in terms of trade have for exports, imports, production, industrial structures and welfare in a European country with inferior terms of trade as well as in Norway.
b) What would we expect to be the impact on factor prices and resource allocation from the developments of terms of trade in the short run and in the long run? Explain and illustrate the process of adjustment.

Problem 2: (25 points)

Discuss and show graphically:

a) What distinguishes the Specific Factor model from the Heckscher-Ohlin model?
b) What do the two models tell us about the impact of international labor migration on production and factor prices?
c) Who gains and who loses because of migration?

Problem 3: (25 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) Assume that there are two sectors of production in a country. A tariff is introduced in one of the sectors. Show how the introduction of a tariff affects the allocation of resources, industrial structure and welfare in the country.
c) Explain the optimal tariff argument.

Problem 4: (20 points)

a) What are the forces driving the development of agglomerations?
b) What factors affect the sustainability of a Core-Periphery pattern? When is a symmetric equilibrium broken? Explain and illustrate graphically.
c) In a world with imperfect competition and agglomeration forces, what are the possible effects of trade liberalization on industrial structures and welfare? Do they differ from the effects of trade liberalization that we observe in a world with perfect competition and constant returns to scale?