

UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Exam: **ECON4415 – International Trade**

Date of exam: Monday, November 27, 2017

Grades are given: December 19, 2017

Time for exam: 14.30 – 17.30

The problem set covers 2 pages (incl. cover sheet)

Resources allowed:

- Candidates who have submitted the non-compulsory term paper, will have their answer delivered before the exam as an aid. Otherwise no written or printed resources – or calculator - is allowed (except if you have been granted use of a dictionary from the Faculty of Social Sciences)

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

Problem 1: (35 points)

In June 2016 a majority of the British population voted to leave the EU. Discuss the potential consequences for UK production, international trade, welfare, and income distribution if the UK exit drawing on international trade theory based on two scenarios:

- a. A deal between the UK and the EU is reached which allows for free flow of goods, services and capital but restricts migration
- b. No deal between the UK and the EU. UK leaves the EU and trades with the EU under WTO rules.

Problem 2: (30 points)

A key result in the trade literature is that there are positive gains from trade.

- a. Explain and illustrate graphically why there are gains from trade and how they arise. You may base your discussion on production being characterised by constant returns to scale and perfect competition.
- b. Discuss what are necessary conditions for there to be gains from trade not only for a country as a whole but also for all individual households in the country.
- c. There are different sources of gains from trade. They rely on different assumptions on production technology and market structure. List the different possible sources of gains from trade, explain each of them and use graphical illustration where relevant.

Problem 3: (35 points)

- a. What do we mean with optimal trade policy? Why does optimal trade policy vary across sectors and countries? Explain using graphical illustration.
- b. Who gains and who lose from the introduction of an import tariff?
- c. Discuss the general equilibrium effects of an import tariff in one out of two sectors in an economy. Outline and illustrate graphically the effect on resource allocation, production and welfare. Compare the situation with an import tariff with i) a situation with free trade and ii) a situation with autarky.