Postponed exam ECON 4415
Autumn 2020

Problem 1: (30 points)

From 2000 to 2010 the terms of trade deteriorated in Sweden. At the same time, they 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 Sweden and 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 (Ricardo-Viner) 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: (45 points)

Mountainland does presently not trade with any other country, but has the opportunity of trading with country A or B. Compared to both A and B, Mountainland is relatively abundantly endowed with labor, while A and B are relatively abundantly endowed with capital. However, country A is more similar to Mountainland in terms of relative factor endowments than country B. In each of these economies, there are two sectors of production, Cars and Food. Car production is capital intensive and Food production is labor intensive.

a. Consider the following statement: Mountainland should trade with A instead of B because this will destroy fewer jobs in import-competing industries. Is the statement true or false? Explain your answer.

b. Which groups in the economy will be in favor of trading with A and which groups will be in favor of trading with B? Explain your answer graphically.

Assume that the capital as well as labor employed in the Car and Food production are sector specific. Assume also the Mountainland has two regions, North and South, and that the capital owners are regionally immobile. Production in the two industries is located where the capital owners in the respective industry live. The owners of capital in the Car production live in the North and the owners of the capital employed in Food production lives in the South. Assume moreover that Mountainland has made a Free Trade agreement with Country B.

c. Who will gain and who will lose from a Free trade agreement with Country B? What will be the impact on regional income inequalities?

Assume that workers' skills changes and become general, and as a consequence, all workers become mobile across sectors. Capital is still sector specific and owners are still immobile across sectors and regions.

d. Who will gain and who will lose from a Free trade agreement with B? Will there be any regional migration in response to the Free Trade agreement? What will happen to regional income inequalities?