Written Exam at the Department of Economics summer 2017

International Economics

Final Exam

August 16, 2007

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language for which you registered during exam registration.

This exam question consists of 3 pages in total (including this front page).

NB: If you fall ill during the actual examination at Peter Bangsvej, you must contact an invigilator in order to be registered as having fallen ill. Then you submit a blank exam paper and leave the examination. When you arrive home, you must contact your GP and submit a medical report to the Faculty of Social Sciences no later than seven (7) days from the date of the exam.

PROBLEM 1

Determine if the following statements are true or false. Provide a short explanation.

1.1.

As long as both goods are produced in the two-good, two-factor model (i.e, the one-country version of the Heckscher-Ohlin model), and factor intensity reversals do not occur, then each price vector corresponds to unique factor prices. This implies that the model has a recursive structure.

1.2.

In the two-good, two-factor model (i.e, the one-country version of the Heckscher-Ohlin model), any change in the product prices has a magnified effect on the factor prices.

1.3.

In the specific factors model, any change in the product prices has a magnified effect on the factor prices.

1.4.

The standard Heckscher-Ohlin model provides a good explanation for the increase in the ratio between the wages of skilled and unskilled labour, which has occurred in both the U.S. and Mexico during the 1980s.

1.5.

The occurrence of an incentive compatibility problem implies that Pareto gains from trade cannot be expected.

1.6.

In the monopolistic competition model, consumers always gain from trade liberalisation because of falling markups and increased product variety.

1.7.

An export tax is detrimental to social welfare.

1.8.

Import tariffs and import quotas are equivalent, in the sense that these instruments have similar effects on the market equilibrium and welfare, when these instruments have comparable effects on the level of imports.

PROBLEM 2

2.1.
Illustrate and explain the effects of an export subsidy on social welfare under perfect competition. What happens to the terms of trade, and how does this terms of trade effect compare to the effects of an import tariff under perfect competition?

2.2.
Illustrate and explain the effects of an export subsidy on social welfare under imperfect competition. What does the optimal subsidy look like? How likely is it that the government implements the optimal subsidy? What assumptions are particularly problematic in the models used to answer this question?