Written Exam at the Department of Economics summer 2017

International Economics

Final Exam

June 15, 2017

(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.

Within the Ricardian trade model, an absolute advantage in the production of a given good is neither necessary nor sufficient for a country to have a comparative advantage in producing the same good.

1.2.

To obtain a theoretical model explaining "intra-industry trade" it is crucial to resort to assumptions of monopolistic competition, love of variety, and increasing returns.

1.3.

The monopolistic competition model with the addition of CES utility has implications that fit the empirical evidence on the Canada-U.S. Free Trade Agreement rather well.

1.4.

When two countries engage in international trade, the larger market will produce a larger number of products and be a net importer of the differentiated good.

1.5.

The gains always exceed the losses when a country goes from autarky to free trade.

1.6.

The most favored nation (MFN) principle states that all countries should be treated equally with respect to tariffs.

1.7.

The European Economic Community (EEC) is one example of a free trade area.

1.8.

As the optimal percentage tariff equals the inverse of the elasticity of foreign export supply, the optimal tariff under perfect competition is zero. The optimal tariff under imperfect competition is also zero.

PROBLEM 2

This problem deals with the Feenstra and Hanson (1996,1997) model of trade in intermediate inputs, i.e., the offshoring model presented in class and presented in chapter four of Feenstra's textbook *"Advanced International Trade: Theory and Evidence"*.

2.1.
List and discuss the assumptions of the model and discuss the type of trade the model aims to explain.

2.2.
Illustrate and explain the main results derived in the model.

2.3.
Discuss the empirical evidence for the model.