Written exam for the B.Sc. or M. Sc. in Economics summer 2016

International Economics

Final Exam

August 16, 2016

3-hour closed book exam

All problems must be answered.

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

This exam question consists of two pages in total including this page.

PROBLEM 1

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

1.1 A country gains from trade even if it has higher productivity than its trading partner in all industries.

1.2 The Rybczynski theorem states that an increase in the supply of labor will, holding prices constant, lead to a fall in the output of the land intensive good.

1.3 The increased skill premium, which is observed in many advanced countries, can almost entirely be attributed to trade in final goods.

1.4 In a model of reciprocal dumping the foreign and domestic markets may be analysed separately, if they are segmented and marginal costs are increasing in output.

1.5 Trade policy formation is better explained by models relying on electoral competition compared to models relying on collective action.

1.6 The formation of a customs union is always improving welfare of the member countries.

1.7 Horizontal foreign direct investments are more likely between similar countries.

PROBLEM 2

The Monopolistic Competition Model.

2.1 List the assumptions in the Monopolistic Competition model and discuss the type of trade it aims to explain.

2.2 Explain the main results derived in the Monopolistic Competition model and discuss empirical evidence for the model.

2.3 An extended version of the model allows for firm heterogeneity, such that firms respond differently to trade. What are the main conclusions from this extended version of the model?