

Written exam for the B.Sc. or M. Sc. in Economics
International Economics
Final Exam / Elective course / 3rd year course
August 16, 2011
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.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students’ self-service system.

PROBLEM 1

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

- 1.1** Dumping may occur if the following conditions are met: i) a firm has monopoly power in the home market, ii) the firm faces a fixed price in the world market, and iii) the markets are segmented.
- 1.2** A potential benefit of joining a common currency union is increased international trade.
- 1.3** A quota is better at limiting monopoly power than a tariff.
- 1.4** Pollution havens should be the subject of international negotiations.
- 1.5** International labor mobility raises total world output.
- 1.6** Part of the internalization motives for multinational firms are: i) to ease technology transfer, and ii) to facilitate vertical integration.
- 1.7** The observed increase in wage inequality in many countries is due to increased trade in final goods.

PROBLEM 2

The Hecksher-Ohlin Model. Consider a closed economy, North, which has two sectors of production, Milk and Shoes. Both goods are produced using two production factors, labor and land, that are fixed in supplies. The production of Milk is relatively land-intensive, and the production of Shoes is relatively labor-intensive. Both sectors use constant returns to scale production technologies, and perfect competition prevails in all markets.

- 2.1** Characterize the relationship between factor prices and factor intensities.
- 2.2** Characterize the relationship between factor prices and goods prices.

Another economy, South, also produces Milk and Shoes using the same production technologies. The only difference between North and South is in their factor endowments. North is relatively labor-abundant and South is relatively land-abundant. Assume now that North and South trade.

2.3 Explain how goods prices adjust. What good is exported by North and what good is exported by South?

2.4 How are workers and landowners in North affected by trade?