UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Exam: **ECON4415 – International trade**

Date of exam: December 7, 2006 **Grades will be given: January 4, 2007**

Time for exam: 02:30 p.m. – 05:30 p.m.

The problem set covers 2 pages

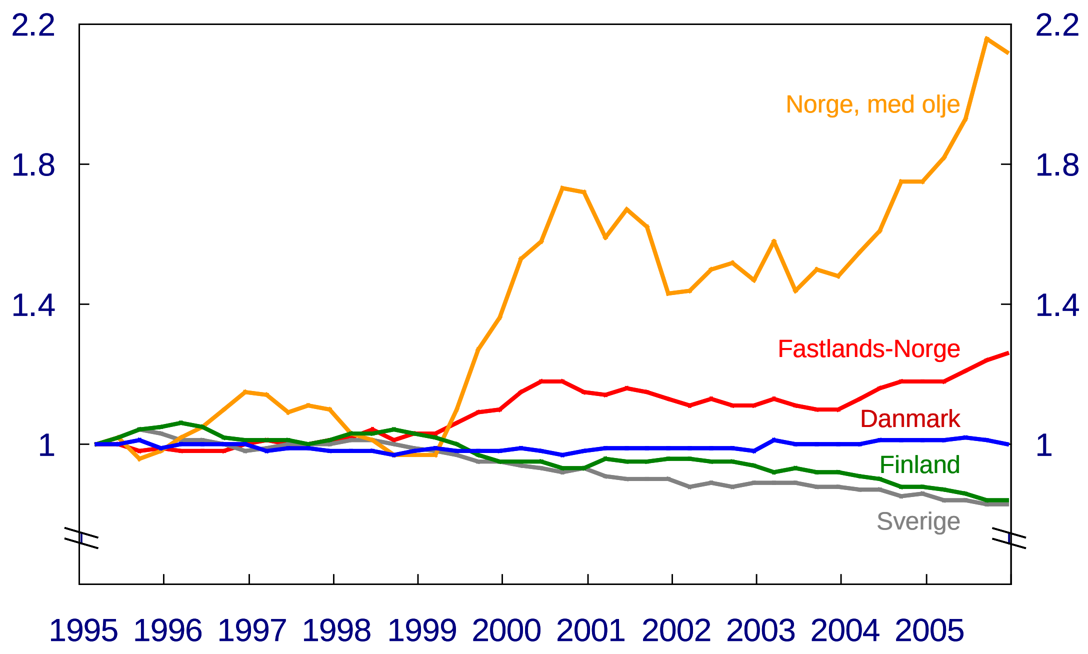
Resources allowed:
- No resources allowed

Both problems are to be solved. In the evaluation problem 1 will be given weight 2/3, and problem 2 will be given weight 1/3.

The grades given: A-F, with A as the best and E as the weakest passing grade. F is fail.

Problem 1

The Figure below illustrates terms of trade (price of exports relative to price of imports) for a set of countries.



(Translation: Norge, med olje = Norway, with oil; Fastlands-Norge= Mainland Norway; Sverige = Sweden; Danmark = Denmark)

Chinas access into WTO and rising energy prices are regarded as important determinants of the observed development in terms of trade.

a) Discuss and explain briefly why we observe such a different impact on the terms of trade of the Nordic countries.
b) Discuss and explain what effects the change in export prices relative to import prices (terms of trade) have for exports, imports, production, industrial structures and welfare in Norway.
c) What would we expect to be the impact on factor prices in Norway from the development of terms of trade? What do the Stolper-Samuelson theorem tells us about this relationship? Explain how changes in relative prices affect resource allocation in the short and long run.

Problem 2

The major part of world trade – typically North-North trade (trade among rich, industrialized countries) – cannot be explained using traditional trade theories such as Hecksher-Ohlin and Ricardo.

a) Why cannot North-North trade be explained using traditional trade theories? Are there other trade theories that contribute to our understanding of this part of the world trade?
b) Do North-North trade give rise to welfare gains, and if so, what are the sources of these gains?