

# Exam Econ 4415 International Trade - Fall 2023

November 2023

This exam tells the story of a family dinner you had a couple of days ago, and your answers in the exam are your interventions during the dinner. The last question is when you got back home and got to do some math. The dinner was very enthusiastic and full of conversation about Economics. Your family knows you are studying Economics and asked you for your opinion. You feel lucky because the content you studied for your exam of International Trade fitted excellently in the conversation.

## 1 A trip to France - 40 points

- *Your aunt just came back to Norway from a trip to France. She tells how much she liked cheese there, and that she was amazed by the amount of varieties available at supermarkets in France. She says she wishes she would have such amount of varieties in her local supermarket in Oslo.*

At this moment you intervene, what do you say?

- *The conversation continues and your aunt says that she noticed also that French people eat cheese all the time. They even have cheese-based dishes as raclette and fondue. Given this, she is surprised that France is a net exporter of cheese.*

At this moment you intervene, what do you say?

- *Another cousin comes into the conversation and wonders why it is France that produces cheese and exports it, and not for example Norway. He notices that Norway is very good at*

*producing and exporting salmon, even if Norwegians do not really eat much more salmon per capita than in other countries like France.*

Your cousin is young, and you are not really sure about his statement that Norwegians do not consume more salmon per capita. Irrespective of that statement, you realize you can think of other theories that explain which industries are exporters and which are importers, and you intervene talking about that. [Help: this is about inter-industry trade, not about monopolistic competition nor economic geography]

- *Your cousin seems doubtful about this theory and pushes a bit.*

You give an example in which there was a shift from no trade to open to trade, and then what was imported and exported to help convince your cousin. [Help: if you don't remember an example, mention what you would need to know from the data in order to test the theory.]

- *Now your uncle, who went with his sister to France, mentions that he really liked touring France. He really liked all the little medieval villages that he found spread around the country. He compares that experience with when they drove coast-to-coast the Route 66 in the US where they could spend hours in the highway without passing by any single village or city. He says that in France every now and then he would see a little village. He wonders why there is such a big difference with the US.*

At this moment you intervene, what do you say? You recall in class you heard something about reduction in transport cost over time.

## **2 Why are we doing international trade? - 25 points**

- *Later on another cousin of yours, who is a member of the trade union of salt workers of Norway, says that trade is not good for Norway, that as consequence of trade many jobs in the salt industry are disappearing.*

You disagree with your cousin. You remember from class that there could be changes in allocation of production when a country opens to trade, but that trade benefits

consumers. You think you can talk about the subject as if you were in a neoclassical world with 2 goods. You take a napkin (piece of paper) and a pen, draw a plot and explain it to your cousin. [Help: the plot shows utility function, consumption and production point before/after opening to trade, relative prices]

- *Another uncle of yours, who is retired and was previously member of the same trade union, says that he is not convinced and he argues that the government should put import tariffs in order to increase domestic production.*

While you respect your older uncle, you do not agree with him and you think you have a point. You know Norway is a small country and the world wide market of salt is perfectly competitive. You think you can explain this thinking of a world with 1 good. You turn around the napkin and make another plot showing the welfare effects of a tariff on imports of salt and explain it to your uncle.

### **3 Migration - 15 points**

- *At some point during dinner they start talking about the large immigration of people that happened during the 2000s and 2010s. They ask you whether you would know about the short term and long term effects of immigration, and why they would be different.*

You take another napkin, draw some plots and explain.

- *Your mum remembers that there were some groups that argued in favor of a restriction of immigration, while other groups argued in favor of a liberal immigration policy.*

You explain which groups you would expect to be in favor of each policy and why.

### **4 A bit of math - 20 points**

- *The dinner is over and you go back home. You kept thinking about what you answered to your aunt on why there are so many varieties of cheese in France. You are a bit anxious about it so you decide to get to your desk and do the math.*

Set up the maximization problem in a closed economy with monopolistic competition and homogeneous firms, derive consumer's demand, optimal price of the firm and the equilibrium number of varieties. Explain how and why the elasticity of substitution affects the number of varieties in equilibrium.