

**Exam SØK2006 – Winter 2021**

Professor: Gonzalo Dona

*For each of the questions in this exam you should keep in mind always:*

- *Models, graphs, and theory are ALWAYS necessary and good. Even better when explicit.*
- *Short and clear answers are encouraged.*
- *Keep your mind open to ideas from every side.*
- *Note: I can only give points to non-blank answers*

1. Explain why it is said that free trade is always beneficial. Choose the best model for the purpose seen in class to fundament your answer. (25pt)
  
2. Given that trade is always beneficial for the countries involved (as you just showed) What is the most common reason there are groups opposing free trade? Use a model learned in class to fundament your answer. (15pt)
  
3. Explain terms of trade, use a graph. Show in the graph what happens when the ToT worsen for a country. (10pt)
  
4. Suppose there are very important economies of scale involved in producing goods that are intensive in low skill labor. Show why a tariff might end up being ineffective in increasing home production in this case. (20pt)
  
5. A lot of debate was raised by the decision of the US Government (Trump administration) of introducing **retaliatory** tariffs against countries that they perceived behaved unfairly, most notably China. You should use what we have discussed in class, but not limit yourself to it. Remember both China and the US are real countries that will be with us for a very long time. Argue FOR the Trump tariffs. (30pt)