Exam
International Economics (SØK 3525), June 2014
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1. Dutch disease

The model of Dutch disease based on Corden and Neary (1982) assumes a small open economy with two sectors: non-traded goods *N* with domestically determined price p_N, and traded goods *C* with price set internationally. Each sector uses a specific factor (K^N and K^C, respectively) and the ubiquitous factor labor *L* for production. Sector *C* includes the manufactured good *B* and the natural resource commodity *A*: the relative prices of these two goods remain constant as the quantity of goods varies. Answer the following questions.

(a) Assume a resource boom due to the discovery of a large oil deposit. Describe the resource movement and spending effects.

(b) Assume that the non-traded sector *N* responds relatively weakly to price changes and production of *N* falls after the resource boom. In a graph depicting wages and total amount of labor, show what happens following the resource boom. Discuss the effects on output of the three goods, employment in each sector, and the real rewards to the factors.

(c) Summarize the general empirical evidence for the Dutch disease. Did Larsen (2006, "Escaping the Resource Curse and the Dutch Disease?") find evidence for the Dutch disease in Norway? Do you think that Norwegian policymakers today should be concerned about Dutch disease and its possible consequences? Motivate your answer.

2. Intensive and Extensive Margins

The World Trade Report (WTO, 2013) shows that 25% of the expansion in world trade in the last decade is represented by expansion along the extensive margin.

(a) Define the concepts of intensive and extensive margins.

(b) Which type of theoretical framework do you need to explain trade expansion along the extensive margin?

(c) How can trade expansion along the extensive margin provide benefits to an economy?

3. Quotas and Tariffs

The WTO assessment of trade barriers recommended replacing quotas with tariffs as the main instrument of trade policy among member countries. The argument is that quotas tend to generate higher welfare losses than tariffs.

(a) Is this argument supported by the standard model with perfect competition? Is this argument supported by alternative models? Briefly explain the economic intuition behind your answer.

(b) Can this argument be extended to other policy instruments like Voluntary Export Restraints (VERs)? Briefly discuss the concept of “quota rents”.

4. Global Value Chains

(a) Define "global value chains".

(b) How are global value chains affecting the allocation of labor in developed and developing countries? Interpret this process in terms of relative factor abundance and mention the possible future developments in fast-growing Asian economies.

(c) Do global value chains affect the way in which we should measure international trade? Briefly explain why traditional measures of exports do not capture the actual contribution of trade to an economy’s income.