

SØK 2006 International Trade
EXAM Spring term 2016

The exam question is:

Suppose we have an economy with two production sectors and three factors of production. The three factors of production are labor, land and capital. Of these only labor is mobile between the sectors. One of the sectors uses labor and land in production, while the other uses labor and capital. Discuss how international trade affects this economy, and put special emphasis on how the distribution of income is affected.

“Sensorveiledning”

The question is best addressed with the model laid out in chapter 4 in the book (International Economics, Krugman, Obstfeld and Melitz, tenth edition). Production functions and marginal products of labor should be explained, and the production possibility frontier established. It is important that the slope of this is discussed, and that the intuition for the slope provided. Then how production and factor prices are determined should be discussed, as well as how this is affected by changes in relative prices. Here it is important that the effects on income distribution are traced out. The model can then be opened to trade, and the answers to the question discussed. It is important that the students show the calculations and not just draw the figures, and moreover that they in a convincing way are able to explain the intuition for the results and mechanisms.