SØK 2006 International Trade
EXAM Spring term 2017

SENSORVEILEDNING (GUIDANCE TO THOSE WHO GRADE EXAM)

The exam given was the following:
ENGLISH
The exam consists of two questions that shall both be answered. In the grading question 1 will count 2/3 of the grade, while question 2 will count 1/3.

QUESTION 1
Suppose we have two countries and that in each country there are external economies of scale so that the average cost is lower the more a country produces of a good (as in chapter 7 «External economies of scale and the international location of production» in the textbook). Discuss the effects of trade, and in particular effects on prices, welfare and the location of production.

QUESTION 2
Suppose we have two potential producers in two different countries of a good, for instance that Boeing and Airbus can both produce «superjumbo aircraft». If both end up producing (and none of them receive subsidies) they both incur losses. If only one of them produces, then this producer will earn a positive profit. Discuss who will produce «superjumbo aircraft», and discuss also how this may depend on policy.

GUIDANCE FOR GRADING
Question 1 asks for material in Chapter 7. The most important element is that the models on pages 184-189 in the textbook are presented and discussed. Both the insight from the model from the example of US and China, and the one of China and Vietnam, should be discussed. (Note that these examples do not have to be discussed in relation to these, or other specific, countries. The important feature is that the mechanisms that these models and examples clarify are included). Also, it is a plus if Dynamic Increasing Returns (starting on page 189) is discussed. Finally, the part on Economic Geography towards the end of the chapter is also relevant.

The model in Chapter 8 with internal economies of scale is not the right model to use. However, some of the effects can be discussed in that model, so although it is the incorrect model, students who present this one are given some credit if they are able to discuss some of the similar effects that the model in Chapter 7 gives rise to.

Question 2 is based on a direct example from the book (that was also discussed in class), and is contained under Imperfect Competition and Strategic Trade Policy from page 325 and onwards in the textbook. Here the case where there is no subsidies, and the first to produce remain a producer where the other does not enter should be discussed, as well as how this equilibrium may be changed as a consequence of policy. Also, the potential problems with such policy should be discussed (The material from page 327 and onwards in the textbook).