

UNIVERSITÄT OSNABRÜCK

FACHBEREICH WIRTSCHAFTSWISSENSCHAFTEN

Cover page (Klausurdeckblatt)

Exam in subject (Prüfung im Fach)	International Trade: Theory and Policy
Examiner (Prüfer)	Prof. Frank Westermann, Ph.D.
Date (Datum)	18.02.2025

Participant (Klausurteilnehmer/in)

Course of studies (Studiengang)	
Last name, first name (Name, Vorname)	
Matriculation number (Matrikel-Nr.)	

Points obtained Erreichte Punkte

* Please answer all questions *
(Es sind alle Aufgaben zu bearbeiten)

Points (Punkte)			
A1	A2	A3	A4

Grading (Benotung)

Total score (Gesamtpunktzahl)	
Grade (Modulnote)	
Examiner signature (Prüferunterschrift)	



Exam in “International Trade: Theory and Policy”

Winter semester 2024/2025

Total points: 60 points

For all questions: Please label all graphics thoroughly and completely describe the notation of all formulas and variables!

Question 1: Classical Trade Theory (18 points)

(a) (4 points) Explain the difference between the concepts of absolute and comparative advantage of a country.

(b) (2 points) Assume that two (previously) autarkies decide to engage in international trade. Name a precondition for international trade.

(c) (4 points) Explain the source of comparative advantage in

1. the Ricardo model,
2. the Heckscher–Ohlin model.

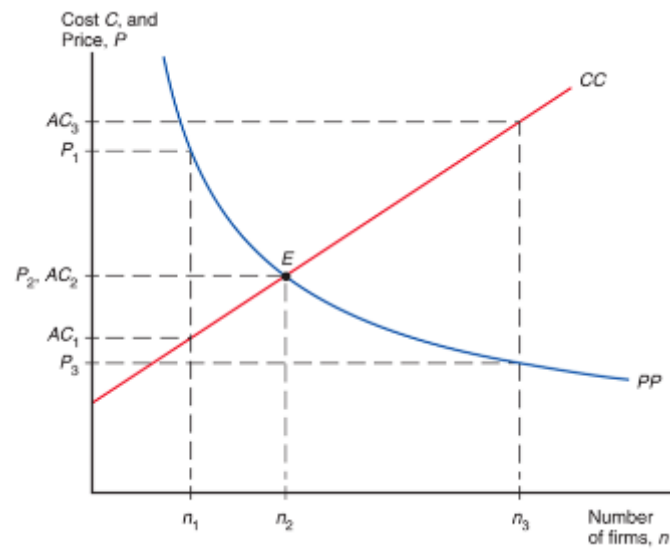
(d) (6 points) State the Heckscher-Ohlin theorem. Which pattern of trade should we expect for a capital-abundant home country, and why? Owners of which factor of production should win from trade in the home economy, and why?

(e) (2 points) Criticize the Heckscher-Ohlin model through the lens of the Leontief paradox

Question 2: New Trade Theory, Heterogeneous Firms and Multinationals (18 points)

(a) (2 points) Which patterns in data could not be explained by the classical trade theory, but are captured by the new trade theory?

(b) (4 points) How do prices and average costs depend on the number of firms in the model of monopolistic competition below, and why? What is the long-run equilibrium of the model?



(c) (6 points) Assume trade integration between two countries with markets of equal size. Using the chart in (b), show the effects for a domestic economy graphically, and explain the changes for a the price, number of firms, number of varieties, and an average size of a firm.

(d) (4 points) Which observations about the firm-level trade fails to explain the new trade theory? Which assumption should be relaxed for fitting the data better?

(e) (2 points) When would a firm prefer a horizontal foreign direct investment instead of exporting to a country?

Question 3: Instruments of Trade Policy (14 points)

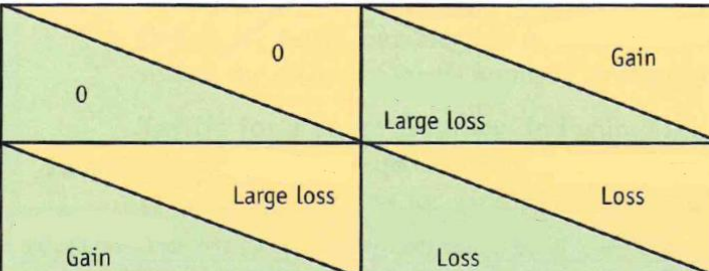
(a) (4 points) Explain the difference between the ad valorem and the specific tariff. In addition to a verbal explanation, write a simple formula that shows a wedge between domestic and import prices in each case.

(b) (6 points) Assume that a large economy introduces an import tariff. Show the effects graphically and explain them. Explain costs and benefits for each interest group. Clearly show and explain the terms-of-trade effect and the efficiency loss.

(c) (4 points) Assume a country wants to introduce an import tariff to protect a new sector with positive externalities. Explain the argument in favor of this protection and criticize the choice of this policy given the presence of externalities.

Question 4: National Accounting in the Open Economy and Balance of Payments (10 points)

(a) (6 points) The optimal tariff argument often neglects strategic interaction between the trading partners. Explain the nature of this interaction and rationale for free trade negotiations using the following simple game:

		Foreign	
		No tariff	Tariff
Home	No Tariff		
	Tariff		

(b) (4 points) Preferential trade agreements increase trade between members through trade creation and trade diversion. Explain verbally each effect and how they influence country's welfare.

The Chair of International Economic Policy wishes you good luck!

Please sign the exam on the last page before handing it in.