SØK 2006 International Trade
EXAM Spring term 2018

Comments on the exam of candidate 10002

The question asked at the exam was:

Assume that we have internal economies of scale in production so that we get monopolistic competition. Discuss how international trade affects prices and costs in such a situation. Discuss also how international trade affects the number of firms in the country we are looking at, as well as which firms that will become winners and losers with international trade. Discuss briefly at the end how international trade affects welfare when we have monopolistic competition.

The grade given to candidate 10002 was: A

Comments:

This is a very nice exam answer. It is not overly long – but it is complete in terms of containing the most important analysis and a strength is that the candidate explains very well what is done, and the intuition behind the derivations and the results.

Initially the candidate discusses external and internal economies of scale, and defines what is to be meant with internal economies of scale in production. The figure on page 2 is illustrative. Then the next important thing to discuss is monopolistic competition, which is also done in a nice way on page 3, before turning to the model of this on page 4.

The intuition behind the slopes of the CC and PP curves is nice, but could have been a bit more detailed in particular for the PP curve.

It is then shown how trade affects the CC curve, and the effect on producers and consumers are detailed. Here, it would have been nice with somewhat more discussion on how the advantages from trade in this model differs from the advantages of trade in other models in the course.

A key extension to the basic model follows from page 11, where winners and losers of trade are discussed by extending the model to allow for different costs in different firms. This analysis is very nice.

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