



“INTRODUCTION TO INTERNATIONAL ECONOMICS” (11038)

Summer Term 2012

Tue, July 17, 2012, 8.00-10.00 a.m., HS 5

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Name: _____

Matr.-No.: _____

Preliminary Remarks:

- **Time:** 2 hours
- **Aids:** one bilingual dictionary and one non-programmable pocket calculator.
- **Language:** English. Answers in German are possible for students who are registered in German-speaking programs of the University.
- **Structure:** The exam consists of two parts (I, II). Part I consists of 20 multiple choice questions (1-20) worth 60 points in total (3 points each in case of correctly answered question and 0 points in case of wrongly answered question). For each multiple choice type question, several possible answer choices are listed. Note that **there may be several true statements for each question**. The correct answer is the choice that contains **all** true statements in response to the question. Please choose the true statement(s) among the four provided and mark your answers on the answer sheet below. Part II consists of two open questions worth 60 points in total (30 points each). Both questions are to be answered using standard tools of economic reasoning. The exam is worth 120 points in total.

Part I (60 points):

Please mark your answers on the answer sheet below:

	A	B	C	D
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

	A	B	C	D
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

1. Given the information in Table 1, in a two-country and two-product Ricardian model, which of the following statements is (are) true?

Table 1	Unit Labour Requirements	
	Monitor	T-shirt
Austria	8 hours	1 hour
China	6 hours	0.5 hour

- A) The China's pretrade price ratio is 1 monitor = 12 T-shirts.
 B) The China's pretrade price ratio is 1 T-shirt = 12 monitors.
 C) Austrian pretrade price ratio is 1 monitor = 1/8 T-shirt.
 D) Austria has a comparative advantage in monitors.
2. Given the information in Table 1, if the world equilibrium price of 1 T-shirt were 1/10 monitor, then

- A) both countries will benefit equally from trade with each other.
 B) Austria but not China will gain from trade.
 C) China but not Austria will gain from trade.
 D) neither China nor Austria will gain from trade.

3. Given the information in Table 2, according to the Ricardian model, if the country A is assumed to be much smaller compared to the country B, then, other things equal, once trade occurs, the world terms of trade would be equal to a value of _____, and only _____ would enjoy gains from trade.

Table 2	Unit Labour Requirements	
	Wine	Cloth
Country A	25 hours	5 hours
Country B	20 hours	5 hours

- A) 1 wine = 5 cloth; country A.
 B) 1 wine = 4 cloth; country A.
 C) 1 wine = 5 cloth; country B.
 D) 1 wine = 4 cloth; country B.

4. In the Ricardian model, comparative advantage is not due to

- A) scale economies.
 B) home product taste bias.
 C) greater capital availability per worker.
 D) All of the above.

5. One way in which the Heckscher-Ohlin model differs from the Ricardo model of comparative advantage is by assuming that _____ is (are) identical in all countries.

- A) factor of production endowments
- B) technology
- C) factor intensities of production
- D) opportunity costs

6. Refer to Table 3. If good S is capital intensive, then following the Heckscher-Ohlin Theory, if trade were to open up between these two countries,

Table 3	Factor Endowments	
	Labour Force	Capital Stock
Country A	30	50
Country B	20	40

- A) country A will export good S.
- B) country B will export good S.
- C) the world price of good S would be higher than it had been in country A.
- D) the world price of good S would be lower than it had been in country A.

7. Given the information in Table 3, following the Heckscher-Ohlin Theory, if trade were to open up between these two countries,

- A) the real income of labour in the country A would rise.
- B) the real income of labour in the country B would rise.
- C) the real income of capital owners in the country A would rise.
- D) the real income of capital owners in both countries would fall.

8. According to the Heckscher-Ohlin model, if the stock of the relatively abundant factor of production in the “large” country increases, then, other things equal, the output of the good using that factor of production intensively will _____ and the country will tend to experience _____ terms of trade.

- A) decrease; improving.
- B) increase; improving.
- C) decrease; deteriorating.
- D) increase; deteriorating.

9. If a country began importing product A and exporting product B, then, as compared to the autarky situation,

- A) the marginal cost of product A will decrease.
- B) the marginal cost of product A will increase.
- C) the marginal cost of product B will decrease.
- D) the marginal cost of product B will increase.

10. Suppose that country A is a large country and its production possibility frontier shifts out relatively more toward its export, cloth,

- A) this will tend to worsen terms of trade of the country A.
- B) this will tend to improve terms of trade of the country A.
- C) this will have no effect on terms of trade of the country B.
- D) this will tend to improve terms of trade of the country B.

11. Suppose that country A produces two goods, beer and wine. If it specializes in the production of beer, and country B (compared to country A) has a strong preference for consuming beer, then a transfer of income by country A to country B

- A) will increase the equilibrium relative price of beer.
- B) will reduce the equilibrium relative price of beer.
- C) will tend to improve the terms-of-trade of country A.
- D) will tend to improve the terms-of-trade of country B.

12. Suppose that a large country A imposes a tariff on its imported good, this will tend to

- A) improve terms of trade of all countries.
- B) improve terms of trade of the country A.
- C) raise the revenue of the government of the country A.
- D) lower the world price of the imported good.

13. In an inflationary environment, over time

- A) a specific tariff will tend to raise more revenue than an ad valorem tariff.
- B) an ad valorem tariff will tend to raise more revenue than a specific tariff
- C) an optimum tariff will tend to raise more revenue than an escalating tariff
- D) a tariff quota will tend to raise more revenue than a specific tariff.

14. What is the expected dollar rate of return on euro deposits with today's exchange rate at \$1.10 per euro, next year's expected exchange rate at \$1.165, the euro interest rate at 6%?

- A) 12%
- B) -1%
- C) 1%
- D) 0%

15. If a country has a current account surplus, which of the following statements is (are) true?

- A) $Y - (C + I + G) > 0$
- B) $C - Y > 0$
- C) $S_p - I > G - T$
- D) $S_p < I + (G - T)$

16. According to the IS-LM Model,

- A) contractionary fiscal policy leads to a rightward shift of the IS-curve.
- B) expansionary monetary policy leads to a rightward shift of the LM-curve.
- C) contractionary fiscal and contractionary monetary policy undertaken at the same time will lead to an increase in the level of the equilibrium income.
- D) expansionary fiscal and expansionary monetary policy undertaken at the same time will lead to an increase in the level of the equilibrium income.

17. Suppose that a country A with flexible exchange rates undertakes a contractionary monetary policy. As a result of this policy, A's currency will tend to _____, and compared to the case of fixed exchange rates, A's monetary policy under flexible exchange rates will be _____ effective in influencing national income.

- A) appreciate; less.
- B) appreciate; more.
- C) depreciate; less.
- D) depreciate; less.

18. According to the IS-LM Model, which of the following statements is (are) true?

- A) Fiscal policy is unambiguously more effective in influencing national income under flexible exchange rates rather than under fixed exchange rates.
- B) Fiscal policy is unambiguously more effective in influencing national income under fixed exchange rates rather than under flexible exchange rates.
- C) Monetary policy is unambiguously more effective in influencing national income under flexible exchange rates rather than under fixed exchange rates.
- D) Monetary policy is unambiguously more effective in influencing national income under fixed exchange rates rather than under flexible exchange rates.

19. According to the IS-LM Model, if the economy is located at a point that is to the left (or below) the IS-curve and also to the left (or above) the LM-curve, there is _____ pressure in the real sector of the economy as well as an excess _____ money.

- A) contractionary; supply of.
- B) expansionary; demand for.
- C) contractionary; demand for.
- D) expansionary; supply of.

20. Which of the following principles characterize(s) the GATT-WTO system?

- A) Bindingness of tariff rates.
- B) Establishment of preferential trading agreements.
- C) Most-favoured-nation (MFN) treatment.
- D) Discrimination in tariff rates.

Part II (60 points):

Question 1 (30 points):

Suppose a country introduces an export subsidy for good X .

- A) Show graphically and explain verbally in a partial equilibrium analysis for the case of a subsidy s on any unit of exports of X how the subsidy affects prices, production and consumption, government revenues as well as the welfare of the country. Use the concepts of consumer and producer surplus (24 points).
- B) Is the size of the country relevant for the effects of the subsidy, and if so, why? (6 points)

Question 2 (30 points):

Assume an open economy in the short run under flexible exchange rates.

- A) Show graphically and explain economically how an expansionary monetary policy affects the interest rate, the exchange rate, investments and net exports (20 points).
- B) Consider the case of fixed exchange rates. Show graphically and explain verbally how the results of the above described policy change (10 points).

End of the exam. Good luck!