Original

Examination: ~~international~~ trade **Semester:** wi[redacted]

Examinar:
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The following aids can be used: dictionary

Examination questions:

Colombia is a Latin American country. It has a population of 38.8 million people. GDP per capita is 2 300 US-$. You are asked to investigate some of the economic problems that the Colombian economy faces. Base your analysis on the theoretical background you have learned in the lecture on international trade.

1. In the 1950s, policy makers in Latin America pursued a strategy of import substitution.

   a. What economic arguments may be made in favor of this strategy? Consider terms of trade effects and learning-by-doing effects.
   b. What kind of static inefficiencies arise if a country stops trading? Base your explanations on the Heckscher-Ohlin model.
   c. Describe verbally the dynamic inefficiencies that made Latin America's import-substituting strategy eventually fail! Comment on the likelihood of learning-by-doing effects!

2. Colombia exports flowers to Europe. President Andrés Pastrano Arango considers an export-subsidy to flowers. Base your analysis on a partial equilibrium model, assuming that Colombia is a large country in the world flower market!

   a. What happens to the world price of flowers? How is the domestic price of flowers affected?
   b. Do producers of flowers benefit? What happens to the consumer surplus in the domestic flower market?
   c. What is the overall effect to the Colombian economy?

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3. Colombia's most important export good is oil. In the subsequent analysis, we divide the Colombian economy into two sectors: first, an oil-producing sector (exporting sector, relatively capital intensive); second, a sector that produces non-oil products (import-competing sector, relatively labor intensive). In 1999, the oil price has dramatically increased.

   a. Theoretically, what effect has a rising oil price on the consumption possibilities of the representative Colombian individual?
   b. How is the rental/wage-ratio affected, assuming that there are no capital imports?
   c. How is the rental/wage ratio affected, assuming that there are capital imports?

4. You are asked to investigate the growth perspectives of the Colombian economy. Assume that due to political instability, the country has no access to foreign savings.

   a. Consider a Ramsey model with a neoclassical production technology. Describe the process of physical capital accumulation in terms of capital per effective worker! Why does the growth process eventually grind to a halt?
   b. Consider the expanding product variety model of Grossman/Helpman without intertemporal R&D spillovers. Describe the R&D-driven growth process! What makes R&D investment peter out? What kind of assumption has to be drawn to turn this "exogenous" model into an endogenous growth model?
   c. President Andrés Pastrano Arango considers to merge the Colombian economy with the Venezuelan economy. What would be the effects on growth? Consider in your analysis both the Ramsey model and the expanding product variety model of Grossman/Helpman without intertemporal R&D spillovers.