

**“INTRODUCTION TO INTERNATIONAL ECONOMICS” (11038)**

Winter Term 2011/12

Tue, Feb 7, 2012, 8.00-10.00 a.m., HS1

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Name: \_\_\_\_\_

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Preliminary Remarks:

- **Time:** 2 hours
- **Aids:** no aids are allowed, except 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	
	Chair	Cell phone
Australia	3 hours	9 hours
Belgium	4 hours	8 hours

- A) The Australian pretrade price ratio is 1 cell phone = 3 chairs.  
 B) The Australian pretrade price ratio is 1 chair = 3 cell phones.  
 C) Belgium's pretrade price ratio is 1 cell phone = 2 chairs.  
 D) Belgium has a comparative advantage in cell phones.
2. Given the information in Table 1, if the world equilibrium price of 1 chair were 1/3 cell phone, then

- A) both countries will benefit equally from trade with each other.  
 B) Australia but not Belgium will gain from trade.  
 C) Belgium but not Australia will gain from trade.  
 D) neither Belgium nor Australia 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 larger 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	
	Cloth	Wine
Country A	10 hours	5 hours
Country B	12 hours	4 hours

- A) 1 wine = 1/3 cloth; country A.  
 B) 1 wine = 1/3 cloth; country B.  
 C) 1 wine = 1/2 cloth; country A.  
 D) 1 wine = 1/2 cloth; country B.
4. A country engaging in trade according to the principles of comparative advantage gains from trade because it
- A) is producing imports indirectly using fewer labour units.  
 B) is producing imports indirectly more efficiently than it could domestically.  
 C) is producing exports indirectly more efficiently than it could alternatively.  
 D) is producing exports using fewer labour units.

5. Which of the following statements characterize(s) the Heckscher-Ohlin model?

- A) Constant returns to scale.
- B) Monopolistic competition.
- C) Perfect mobility of factors across countries.
- D) Perfect mobility of factors across industries.

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	15	45
Country B	10	20

- 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 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 exporting product A and importing 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 small 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 worsen 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 has (compared to country B) 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 worsen the terms-of-trade of country B.
- D) will tend to improve the terms-of-trade of country B.

12. In the exporting country, an export subsidy will

- A) help consumers and raise the overall economic welfare of the exporting country.
- B) hurt consumers and lower the overall economic welfare of the exporting country.
- C) hurt consumers but raise the overall economic welfare of the exporting country.
- D) help exporters but lower the overall economic welfare of the exporting country.

13. What is the expected dollar rate of return on euro deposits with today's exchange rate at \$1.149 per euro, next year's expected exchange rate at \$1.09, the euro interest rate at 6%?

- A) 11%
- B) -1%
- C) 1%
- D) 0%

14. 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)  $S_p < I + (G - T)$

15. According to the IS-LM Model,

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

**16. 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.

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

**18. 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 right (or below) the LM-curve, there is \_\_\_\_\_ pressure in the real sector of the economy as well as an excess \_\_\_\_\_ money.**

- A) expansionary; demand for.
- B) contractionary; supply of.
- C) no; demand for.
- D) no; supply of.

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

- A) Binding.
- B) Preferential trading agreements with zero tariffs.
- C) Presence of MFN.
- D) Discriminatory reduction in tariff rates.

**20. Which of the following statements characterize(s) Reaganomics?**

- A) Rise of money supply.
- B) Reduction of government regulation of economy.
- C) Reduction of government spending.
- D) Rise of taxes.

**Part II (60 points):**

**Question 1 (30 points):**

Suppose a **large** country imposes an import tariff on good  $X$ .

- A) Show graphically and explain verbally in a partial equilibrium analysis for the case of a tariff  $t$  on any unit of imports of  $X$  how the tariff affects prices, production and consumption as well as the welfare of the country. Use the concepts of consumer and producer surplus. Determine and graph the effects of the tariff on the volume of trade and world prices (13 points).
- B) Is the size of the country relevant for the effects of the tariff, and if so, why? (7 points)
- C) Compare the effects of an import tariff and import quota (10 points).

**Question 2 (30 points):**

National money markets and foreign exchange markets are interlinked.

- A) Show this link graphically. Explain this link economically for a model setting with two countries (Home and Foreign) (10 points).
- B) Assume that the money supply decreases in Home. Show graphically and explain verbally how this affects the equilibrium combination of rates of return and the exchange rate, and why? (10 points)
- C) 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!**