(2645)International Economics

December 12th, 2015

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Help aid: Calculator, Time limitation 4h

Answer all questions. The exam is graded out of 100 and the points for each question are indicated in parentheses.

Question 1: Trade Concepts and Results (15 points)

Write a short note on each of the following:

a) The proximity-concentration trade-off in a firm's foreign direct investment decision

b) The Heckscher-Ohlin theorem

c) Trade and the welfare of workers in low and middle income countries

Question 2: Macro Concepts and Results (15 points)

Write a short note on each of the following:

a) Purchasing power parity

b) The practical problems one faces in forming policies to maintain full employment

c) The Fisher Effect

Question 3: Trade Model Manipulation (20 points)

Average cost in an industry is given by AC = n(F/S) + c and price is given by P = c + 1/(bn). n is the number of firms in a market, F is fixed costs, S is the size of the market, c is the constant marginal cost of production and b is a constant. All firms are identical. F = 5,000,000,000, c = 17,000, 1/b = 150. There are two markets. The US has a market size of 300,000,000. The EU has a market size of 533,000,000.

a) What is the equilibrium number of firms in each market if there is no possibility of trade and what are the equilibrium prices? (Round the number of firms up or down to the nearest whole number as appropriate)
b) What is the equilibrium number of firms in an integrated world market and what will the world price be? (Round the number of firms up or down to the nearest whole number as appropriate)
c) Why are the prices different in part a) and part b)? Be reasonably detailed in your answer.
d) Who are the "winners" from trade and in what ways do they gain?

Question 4: Macro Model Manipulation (20 points)

Note: there is no need to derive the DD and AA curves for this question. You may simply use the DD-AA framework.

a) Illustrate and explain the short run effects of a ***temporary*** increase in the money supply in an economy with floating exchange rates.
b) Is the short run effect different if the increase in the money supply is ***permanent***? Explain your answer.
c) How will the economy adjust in the long run to a permanent increase in the money supply?

d) How can monetary policy be used to maintain full employment after a temporary fall in world demand for domestic products?

Question 5: Discussion Question (30 points)

"International trade will without a doubt make everyone in a country better off." Discuss.

[illegible]

Incentive to innovate [illegible] to compete [illegible]

~~[illegible]~~ Balance [illegible]

Negatives

Large part of [illegible]

- Terms of trade argument for [illegible] (large countries) small tariff [illegible]
  - tax on exports ([illegible])

Theory of second best

- Domestic market failures: unemployment/underemployment [illegible]