International Economics Final Exam (2645)

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Examinator:Robert Gillanders

Help id: 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) Absolute versus comparative advantage
b) The benefits of foreign direct investment
c) The benefits of concentrating an industry in one or a few locations

**Question 2: Macro Concepts and Results** (15 points)

Write a short note on each of the following:

a) The reasons that a country might want a fixed exchange rate
b) The interest parity condition
c) The real exchange rate

$\frac{E_1 - E_0}{E_0} =$

**Question 3: Trade Model Manipulation** (20 points)

Two countries, Home and Foreign, produce two goods. Good 1 requires inputs of labour and capital. Good 2 requires inputs of labour and land. Both countries have the same technology. Initially both countries have the same endowments of all factors.

a) If Home gets extra capital, how will this change its production possibilities frontier?

b) On the same graph, draw the relative supply curves for Home and for Foreign.

c) If the two countries open up to trade, what will the pattern of trade be? (i.e. which country will export each good?)

d) How does opening up to trade affect the owners of each of the three factors in each economy?

**Question 4: Macro Model Manipulation** (20 points)

a) Illustrate and explain the short run effects of a temporary decrease in the money supply in an economy with floating exchange rates.

b) Illustrate and explain the short run effects of a temporary increase in taxes in an economy with floating exchange rates.

c) What can a country with a floating exchange rate do to restore full employment in response to a temporary fall in world demand?

d) What practical problems interfere with the deployment of the perfect macroeconomic policy when an economy faces a shock that takes it away from full employment?

**Question 5: Discussion Question** (30 points)

"Governments can use sound economic logic and theories to justify intervening in international trade." Discuss