International Economics (2645)

Final Exam 21.10.2016

Examiner: Robert Gillanders   Duration: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 determinants 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 interest parity condition
b) Purchasing power parity
c) The Fisher Effect

Question 3: Trade Model Manipulation (20 points)

Demand and supply for a good in Home and Foreign are given by:

Home   Foreign

$D = 200 - 40P$ $\qquad$ $D^* = 160 - 40P$

$S = 40 + 40P$ $\qquad$ $S^* = 80 + 40P$

a) What are the prices in each market if there is no trade?
b) What are the world price and the volume of trade if the two countries can trade costlessly and freely?
c) What effect does a specific tariff of 0.5 per unit have on the price in each country and on the volume of trade?
d) How does your answer change if the tariff is instead an ad valorem tax of 50%?

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 **decrease** 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)

"Trade is always good for everyone in a country" Discuss.