**Don’t print all pages – there are about 90 pages.**

**Econ 448 International Economics Exam #1 Fall, 2013** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Please answer on these sheets, using the back sides if you need more space. Please ask for clarification if a question is unclear. The weight of each question is indicated. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two (20 points):
2. Consumer Surplus
3. Leontieff paradox
4. (What does this mean?) “Trade is a positive sum activity”
5. Gravity model of international trade
6. Community indifference curve
7. You are given the following input cost shares in the corn and vehicle industries in the country of Michigandia (10 points):

|  |  |
| --- | --- |
|  | Each Dollar of: |
|  | Corn output | Vehicle Output | Overall National Income |
| Total labor input | 0.60 | 0.59 | 0.60 |
| Total land input | 0.15 | 0.06 | 0.10 |
| Total capital input | 0.25 | 0.35 | 0.30 |
|  | $1.00 | $1.00 | $1.00  |

Suppose changes in demand conditions in the rest of the world raise the price of corn relative to vehicles, so producers in Michigandia try to expand production of corn, in order to export more.

1. if all factors are immobile between the corn and vehicle sectors, who gains from this change? Who loses?
2. If all factors are mobile between the corn and vehicle sectors, who gains from this change? Who loses?
3. (15 points) Consider a Ricardian world of two countries Nowhere (N) and Somewhere (S), where two goods are produced, Honey (H) and Yogurt (Y), according to the (constant) labor input/output coefficients in the table. Population is also included.

|  |  |  |
| --- | --- | --- |
| Labor input/ unit output | Nowhere | Somewhere |
|  Honey | 40 | 30 |
|  Yogurt | 50 | 60 |
| Population | 200 | 300 |

If these two countries engage in trade, which country will export which good?

Draw a rough pair of production possibility curves for the countries, indicating for

each one pre-trade and post trade positions.

What are the numerical limits of the free-trade relative price PH/PY?

1. “Once we recognize that product differentiation is the basis for much international trade, there are likely to be more winners and fewer losers in a country when the country shifts from no trade to free trade.” Identify and explain two distinct reasons why this statement might be true. (10 points)
2. The country of OhlinBurg has an endowment (total supply) of 20 units of labor and 3 units of land, whereas the rest of the world has 80 units of labor and 7 units of land. Is OhlinBurg labor-abundant? Is Ohlinburg capital-abundant?

 If wheat is land-intensive and cloth is labor-intensive, what is the Heckscher-Ohlin prediction of the pattern of trade between OhlinBurg and the rest of the world? (10 points)

1. (15 points) Consider the single industry steel in Brazil and the rest of the world; suppose Brazil exports steel. Draw the graph illustrating the relationship between Brazil’s domestic supply and demand for steel, the corresponding graph for the rest of the world, and the entire world market’s supply and demand for trade in steel.

The median on this exam was 63; the high was 92.

**Econ 448 Exam #2 Fall, 2013** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification if a question is unclear. Weights of each question are indicated. Good luck!

1. Identify the following with a sentence or at most two: (20 points)

1. Dutch disease
2. MFN
3. Specificity rule
4. Countervailing duty
5. (Give three distinct examples of: ) non-tariff barriers

2. (10 points) Consider the motor-bike industry. Suppose that the world market price of motor bikes is $400. Initially, our country has free trade in these items. However, the production is quite disperse, and the assembly companies purchase several inputs (tires, mirrors, iron and other raw materials) with a total cost of $200, and import the motors at a cost of $100. Now, suppose a nationalist comes to power and imposes several tariffs: on imported motor bikes, a tariff of 10%, on imported motors a tariff of 30%, but no tariff on other inputs. What is the effective rate of protection on motor bike assembly? Does the new tariff system help or hurt motor bike assembly industry? Explain real briefly.

3. (15 points) Let’s do a question without graphs. We have studied several models that are quite different from the standard Heckscher Ohlin model – both in their assumptions and especially in their conclusions; two examples are product cycle and strategic trade. For each of these two models, discuss how its assumptions differ from the standard Heckscher Ohlin model, what its important conclusion(s) is/are, and how those conclusions differ from ‘normal’ Heckscher Ohlin story about free trade.

4. (15 points) Consider a number of Latin American countries that export coffee and import other goods. A long-term drought now reduces coffee production in these countries. Assuming they still remain exporters, explain why this drought might lead to an increase in their well-being (welfare). Identify two different economic conditions might make this gain in well-being more likely.

5. (10 points) Which of the following foreign shirt exporters is dumping in our market? Explain your answer briefly.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Cult Cloth | Bad Boy | Darling Daisy |
| Average Cost | 50 | 50 | 50 |
| Factory price: domestic sales | 45 | 55 | 50 |
| Factory price: foreign sales | 45 | 53 | 52 |
| Delivery price in the US  | 50 | 56 | 54 |

6. (20 points) Draw the standard graph and explain the effects of a tariff (compared to initial free trade) levied on an individual product in a competitive industry in a small country. In terms of producer and consumer surplus, who gains and who loses, and what is the net cost to the country?

Explain briefly how that analysis is modified if: (separate graphs not needed)

The product is produced by one domestic firm – a monopolist

The importing country is a large country

A quota is used instead of a tariff.

7. (10 points) Elected representatives are considering enacting a quota on imports of baseball gloves, a product which we also produce. The rights to import the quota-determined amount of gloves are to be given for free to the three companies that currently distribute those gloves. Identify the groups in the country that have a direct interest in whether or not the quota is enacted. Discuss briefly how effective each group might be in lobbying their representatives.

The median on this exam was 74; the high was 87.

**Economics 448 International Trade Exam #3** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification if the questions are unclear. The weights of the questions are as indicated. Time: unlimited, as long as it’s under two hours. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
2. Montreal Protocol
3. Maastricht
4. CIS countries
5. Raul Prebisch
6. Mercosur
7. (15 points) Which of the following probably violate the rules of the WTO? Explain each answer briefly
8. A country’s government places a tax on domestic production to reduce pollution caused by this production
9. A country’s government prohibits imports of foreign goods produced using production methods that would violate this importing country’s environmental protection laws
10. A country’s government places a tax on domestic consumption of goods (both imported and domestically produced) to reduce pollution caused by this consumption
11. A country’s government restricts imports of a good to reduce pollution caused by consumption of this good
12. (15 points) What is meant by import substitution industrialization? What are its goals?

Some third world countries have tried it. Did it work?

Identify and explain two (separate) arguments about why it might work.

Identify and explain two separate arguments about why ISI might not work.

Export promotion has often been recommended in its place. Identify three third world countries – and, roughly the time periods – where it has been successful.

1. 10 points) Identify and distinguish between the causes of economic and of political failures of trade embargoes.
2. (15 points) With regard to international immigration:
3. Identify two distinct *potentially valid* reasons why a country might restrict outward migration
4. Identify two different *potentially valid* reasons why a country might restrict inward migration.

6) (15 points) Consider John Dunning’s model of the factors determining foreign direct investment, as discussed in the textbook, and referred to in class as the OLI theory. Identify and explain briefly those factors.

Consider two stereotypical countries, Japan and Mexico; one with high technology, resource scarce, etc., and the other the opposite. For each of those two countries, either inward or outward FDI, give an example of one industry (real or fictitious) that illustrates each motive for FDI flows.

The median on this exam was 75; the high was 86.

***(course was renumbered to Econ 448/548 during 2013)***

**Econ 348 Fall, 2012 Exam #1** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification of any unclear question. The weight of each question is indicated. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. One dollar one vote metric
3. Mercantilism
4. Internal scale economies
5. Gravity model
6. Producer surplus
7. (10 points) Consider a world in which there are only two countries, Home (H) and Foreign (F). Let us look at the international market for widgets, which H exports and F imports. On three parallel graphs, draw the domestic supply and demand for widgets, and in the middle draw the supply and demand for widgets as determined by those domestic curves.

b). In a situation initially characterized by free trade, what happens to the world price if Foreign’s supply of widgets grows, due to technological change in that country? Explain and illustrate on your graphs.

1. (20 points) Consider a Ricardian world consisting of only two countries, Aardvarkville (A) and Zumbatanzerin (Z), which produce two products – horses (h) and turnups (t), with the following levels of labor inputs per unit of output:

|  |  |  |
| --- | --- | --- |
|  | Aard | Zumb |
| Horses | 9 | 20 |
|  Turn | 7 | 15 |

1. Which country has absolute advantage in which good?
2. Which country has comparative advantage in which good?
3. What are the limits of the world relative prices if there is free trade?
4. Assume Zumbatanzerin has 60 workers. Draw its production possibility curve, and illustrate on it pre-trade and post trade situations of production and consumption, using indifference curves.
5. (10 points) “According to the Heckscher-Ohlin theory, countries should engage in a lot of intra-industry trade.” Should one agree with this, or disagree? Explain your answer briefly.
6. ( 10 points) “Opening up the economy to free trade does hurt people in import-competing industries in the short run. But in the long run, when people and resources can move between industries, everybody ends up gaining from free trade.” Should one agree with this, or disagree? Explain your answer briefly.
7. (20 points) Consider a Heckscher Ohlin world involving countries (US and Them), two factors of production (capital and labor), and two products, (bicycles and radios). Bicycles are labor intensive, and country Them has relatively more capital. Initially there is not trade, and then the countries adopt free trade.
8. Besides being a ‘2 x 2 x 2’ model, identify three other assumptions for Heckscher Ohlin.
9. Which country has comparative advantage in which good?
10. Draw the production possibility curves of both countries, indicating pre-trade and free trade situations.
11. What does the decision to open to free trade do to wages in country US? Explain briefly
12. (10 points) Suppose a monopolistically competitive industry exists in both country Home and country Away, but that initially there is not trade in this product, called frumps. Then the decision is made to open to trade.
13. Explain how opening to trade affects domestic consumers of frumps in Home.
14. Explain how opening to trade affects domestic producers of frumps in Home.

The median on this exam was 71: the high was 95.

**Econ 348 Exam #2 Fall, 2012**  Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification if a question is unclear. Weights of each question are indicated. Good luck!
1. Identify the following with a sentence or at most two: (20 points)

1. Free rider problem
2. Domestic content requirement
3. Section 301
4. Rybczynski theorem
5. Ad valorem
6. (15 points) Let’s do a question without graphs. We have two models that are quite different from the others – from conventional wisdom, as they say - in their assumptions and especially in their conclusions: optimal tariff and immiserizing growth. For each model, discuss how their assumptions differ from, say, the standard Hechscher Ohlin model, and what their important conclusion(s) is/are, and how that differs from ‘normal’.
7. (15 points) Consider protection for the domestic cloth-making industry. With free trade, each dollar of price is divided as follows: 40 cents value added to the firm, 42 cents for cotton yarn, and 18 cents for other fibers. Now, suppose that a 25% tariff is placed on imports of cloth, and a 16.7% (1/6) tariff is placed on cotton yarn, while other fibers are imported without tariffs. What is the effective rate of protection for the cloth industry?

(The prof has a couple of calculators, if you don’t want to leave the answer in the form of 6\*2/9)

1. (20 points) The Ricardian and Heckscher Ohlin models provide the standard intellectual constructs for international trade theory. In this course we have discussed several alternative models, and this question focuses on two: product cycle and strategic export subsidy (Boeing/Airbus). For each of these two alternatives, identify and explain briefly three assumptions that they utilize, and that are important reasons for the proponents of these models reaching different policy conclusions than the free trade position associated with the Ricardian/Heckscher-Ohlin models.
2. (15 points) Draw the standard graph of the effects of a tariff (compared to free trade) levied on an individual product in a competitive industry in a small country. In terms of producer and consumer surplus, who gains and who loses, and what is the net cost to the country?

Explain briefly how that analysis is modified if: (separate graphs not needed)

The product is produced by one firm – a monopolist

The importing country is a large country

A quota is used instead of a tariff.

1. (15 points) Suppose the US imports bulldozers, especially from a company called Komatsu. Now, suppose the newly elected government decides to cut US imports of bulldozers by 60 percent. Officials are considering two options: a) using a large enough tariff that will lead to that reduction, or b) persuading Komatsu and other foreign bulldozer makers to set up a VER arrangement that will provide the same reduction of US imports. Which of these two policies would be less damaging to the US? Which would be less damaging to the world as a whole?

The median on this exam was 66: the high was 88.

Econ 348 International Trade Theory **Exam #3 Fall, 2012** Professor Twomey

Please PRINT your name on the back of the LAST SHEET. You will LOSE POINTS if your name is visible anywhere else. Please answer on these sheets, using the backsides if you need more space. The weight of each question is indicated. Please ask for clarification if the question is not clear. Time: 90 minutes, or whatever you need. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
2. CAP
3. CUSFTA
4. Maastricht
5. Transfer price
6. Round tripping
7. (15 points) When our textbook discusses the lack of success of trade embargoes, the first step is distinguishing between economic failure and political failure. Explain this distinction using non-technical language without graphs, but being more specific than saying that a political failure is when the politics doesn’t work.

b. There are two rather different reasons for economic failure. Explain them briefly.

1. (10 points) Suppose the United States, China, Brazil and Turkey (controlling 60% of world production) decide to form an international cartel, known as Tobacco Altruistic Raisers (TAR). We know that the price elasticity of world demand for tobacco is rather low in the short run, and higher in the long run, and common sense suggests that it would take other producers a few years to significantly increase their production. As an international economics expert, what do you predict will be the outlook for TAR’s success? Explain briefly.
2. (20 points) a. In terms of international migration: should the sending country restrict emigration? (assume that the country has the power to enforce this). If it does so, reversing an initial situation of free emigration, how should that affect the economy of the sending country?

b. Abstracting from age and gender, should a labor importing country like the US allow in high-skilled workers, or low skilled workers? Identify the different impacts that these two alternatives would provide on the US.

1. (20 points) a. What are the primary definitional distinctions between a free trade area a customs union , and a common market?

 There are immediate differences between the arrangement of NAFTA and that of the European Union, that clearly exemplify the factors described in (a) above. Beyond them, identify two other economic arrangements (variables, laws) that distinguish NAFTA from the EU.

1. (15 points) a. According to our textbook’s model of foreign investment, should foreign direct investment (FDI) replace foreign trade, or increase that trade? Give at least one argument for each position.

b. Does permitting FDI increase a country’s welfare, or reduce it? Identify and explain briefly two reasons why it might increase welfare, and two reasons why it might decrease it.

The median on this exam was 92: the high was 95.

Econ 348 International Trade Theory **Exam #1, Fall, 2011** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flipsides if necessary. Questions are equally weighted. Please ask for clarification if any question is unclear. Time: the entire class. Good luck.

1. Identify with a sentence or at most two:
2. One dollar one vote metric
3. Intra-industry trade
4. External scale economies
5. Mercantilism
6. Stolper-Samuelson theory
7. In a Ricardian world of one factor of production and constant productivity, consider the case of two countries Alpha(a) and Zeta (z), and two products, rice (r ) and corn (c). The units of labor needed for one unit of output are as given in the following table.

 Alpha Zeta i) Which country has absolute advantage in each good?

 rice 6 4

 corn 9 12 ii) Which country has comparative advantage in each good?

iii) If from an initial situation of no trade the countries adopt free trade, what will happen to the relative price of rice in Alpha?

iv) Suppose Alpha has 1800 workers. Draw

the production possibility curve for Alpha,

and on it indicate clearly the pre- and post-

trade positions of production and consumption,

and the movement in relative prices.

1. International trade theory is dominated by the Heckscher-Ohlin (HO) theory. List four assumptions for that theory.

Two alternatives for the H-O theory, discussed in our textbook, are the gravity model and the monopolistic competition model (a.k.a. oligopolistic or imperfect competition model).

For each of these models, discuss briefly how their assumptions – and their conclusions (predictions) – differ from that of the HO model.

1. Consider world trade in a single product, wood. Draw a graph illustrating the free trade equilibrium in wood. Suppose now that the housebuyers in the US (a big counry) experience a change in preferences, and decide to purchase more homes made of wood, and fewer of brick. Show on a parallel graph how that change of taste would affect US supply and demand for wood. How does the change in the US internal market affect the international price of wood? Does the answer to this last question depend on whether the US is a net exporter or importer of wood? Explain.
2. Consider in the Heckscher Ohlin model trade between two countries, Dungeonville (D) and Whereisit (W), with two products food (f) and clothing (c ), where the production of food is labor intensive, and that of clothing is capital intensive. D has more capital than W, and so W has relatively more labor than D.

Which country has comparative advantage in which good?

Draw the production possibility curve of D, indicating pre- and post-trade equilibrium levels of production, consumption, and relative prices.

According to the factor price equalization theorem, with the move from no-trade to free trade, what happens to the relative price of capital in D?

State what is meant by the Leontieff paradox.

Suppose that the Leontieff paradox were true of D for this example of trade between D and W, what would the movement from no trade to free trade imply for the relative price of capital in D?

The median on this exam was 71; the high was 87.

Econ 348 International Trade **Exam #2 Fall, 2011** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification of any unclear question. Time: the entire class. Good luck.

1. (20 points) Identify the following with a sentence or at most two:
2. Free rider problem
3. Immiserizing growth
4. Tariff escalation
5. Safeguard Policy
6. Section 301
7. (15 points) The textbook presents four classifications of dumping, in terms of why it occurs. Identify and explain briefly each one. For each one, discuss briefly whether standard trade theory and free market principles would argue whether this type is good or bad for the importing country.
8. (20 points) The Ricardian and Heckscher Ohlin models provide the standard intellectual constructs for international trade theory. We have discussed several alternatives, and this question focuses on two: product cycle and strategic export subsidy (Boeing/Airbus). For each of these, identify and explain briefly three assumptions that are important reasons for their proponents reaching different policy conclusions than in the Ricardian/Heckscher-Ohlin models.
9. (15 points) A free trade equilibrium exists in which the US exports machinery and imports clothing from the rest of the world. We are in a Heckscher-Ohlin world with two factors (K and L), machines are labor intensive, and the abundant factor for the US is capital. Suppose now that that there is an increase in K in the US.
10. What is the effect of this growth on the

 US production possibility curve (graph optional)

1. If the world product price ratio is unchanged, what happens to actual production of machinery and cloth in the US?
2. What is the effect on the US willingness to trade?
3. Assuming now that the US growth can affect the international product price ratio, in what direction will Pmach./Pcloth move, and why?
4. 5. (15 points) Under what plausible conditions might a country benefit from subsidizing imports of a good? Explain your answer briefly, perhaps giving an example.
5. (15 points) Suppose that Brazil has only one firm that makes supercomputers, and because the country follows free trade, that firm has a low level of production, due to less expensive imports. Which of the following policies would be most costly for Brazil as a country, and which would be least costly? Explain briefly.

Policy A. Paying the Brazilian firm a production subsidy, with no tariffs on imported supercomputers.

Policy B. The Brazilian government imposes a tariff with the same impact on imports as Policy A

Policy C. Brazil imposes an import quota with the same impact on imports.

7.(15 points) Which of the following foreign shirt exporters is dumping in the US market? Explain briefly.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Bad Boy | Cult Cloth | Darling Daisy |
| Average Cost | 50 | 50 | 50 |
| Factory price: domestic sales | 55 | 45 | 50 |
| Factory price: foreign sales | 53 | 45 | 52 |
| Delivery price in the US  | 56 | 50 | 54 |

The median on this exam was 71; the high was 89.

Econ 348 International Trade **Exam #3 Fall, 2011** Professor Twomey

Please PRINT your name on the BACK of the Last Sheet. You will lose credit if your name appears anywhere else. Use the backs of these sheets if you need more room. The weights of the questions are indicated separately. Please ask for clarification if any question is unclear. Time: 2 hours.

1. (24 points) Identify the following with a sentence or at most two:
2. Transfer pricing
3. Rules of origin
4. ISI
5. NICs
6. Political failure of an embargo
7. Maastricht
8. (15 points) Mercosur is the name of a Common Market in south America, including Argentina, Brazil, Paraguay and Uruguay. Standard trade theory says that the formation of a common market may bring either – or both – trade creation and trade diversion.
9. Identify what is meant by trade creation and trade diversion.

b. Make up examples of products (textiles, cars, etc. in some country) and use them to illustrate one example of trade creation, and one example of trade diversion.

1. (15 points) In the textbook’s discussion of the European Union, the author notes that standard theoretical models do not predict a big impact on the wellbeing of the EU’s member countries, as a result of their joining the EU. Yet the author clearly believes that the EU has made people (potentially) better off. He discusses several considerations that might suggest that the standard models underestimate these benefits, basically calling them ‘omitted factors’. Identify and discuss two.
2. (16 points) The textbook’s theoretical explanation of foreign direct investment, or Multinational Corporations, starts out by saying that a firm considering investing abroad would inevitably be at a disadvantage (because of language, culture, etc.). The author then goes on to discuss four other considerations that might make overseas investment attractive. One of these is Oligopolistic Rivalry. What are the other three considerations or advantages that might lead to foreign investment? For each of these three, give two examples.
3. 15 points) International migration is of growing importance in today’s world. Explain – and illustrate with a graph – the effects of migration on wages and output in the source country and on the receiving (or host) country.

b. The standard model can be modified, by including other aspects of migration (some of which we might call externalities). For both the source country and the receiving country, identify two extra factors that would make migration more attractive, and two that would make it less attractive.

1. (15 points) The Argentine economist Raul Prebisch had a famous hypothesis that relates to the debate about trade policies of Latin America (and by extension other developing countries).

What is that hypothesis?

What policy prescription did many economists and politicians, especially in Latin America, draw from this hypothesis?

Give two reasons why the Prebisch hypothesis might be correct, and two reasons why it might be wrong.

The median on this exam was 73; the high was 96.

Economics 348 International Trade Theory **Exam #1 Fall, 2010** Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the backsides if needed. Questions are equally weighted. Please ask for clarification if any question is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two:
2. Wealth of Nations
3. Internal economies of scale
4. Gravity model
5. Terms of trade
6. The distinction between a ‘large’ country and a ‘small’ country

2a. Define producer and consumer surplus.

Suppose France is an importer of petroleum. Illustrate on a graph its producer and consumer surplus with free trade, compared to no trade.

Suppose now that the world price of petroleum falls due to a new discovery in Saudi Arabia. How will that affect consumer surplus in France? Illustrate on another graph.

2b. The textbook comments that the mercantilists viewed trade as a zero sum activity – that one country’s gains come at the cost of some other country’s loss. This is not the view of Adam Smith, Ricardo, and the rest of us. What explains that difference?

3a. What are some of the major assumptions for the Heckscher-Ohlin (-Samuelson) model?

b. Consider a world composed of two countries, Australia (A) and Belgium (B), with two factors capital and labor, and two products, cloth (c) and desks (d). Cloth is always labor intensive. Belgium has relatively more capital than Austria.

Now, consider the before and after situations of no trade/ free trade. In terms of the Heckscher-Ohlin model, how will the opening of trade affect relative wages in Australia?

c. Draw a pair of production possibility curves for Australia and Belgium, illustrating pre-trade and post-trade equilibria in both countries.

4a. What is meant by the Leontieff paradox? Why might it have been important?

b. Identify two explanations that have been offered to explain the Leontief paradox.

c. What is meant by intra-industry trade, why is it important?

5. Consider now a Ricardian world composed of two countries, (Input/Q) Spain Chile

 Spain (S) and Chile (C ), and two goods, food (f) and games (g).

Suppose the labor input per unit of output for these Food 20 25

activities is as indicated in the accompanying table. Games 50 75

Which country has absolute advantage in which

good? Why?

Which country has comparative advantage in which good? Why?

What are the limits to the free trade relative price of Food?

What will happen to the relative price of food in Spain, if both countries agree to free trade?

Assume that Chile has 150 workers. Draw a production possibility curve for Chile, indicating the intercepts on the two axis, and showing a (hypothetical) free trade line.

The median on this exam was 71; the high was 99.

Econ 348 International Trade **Fall, 200 Exam #2** Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the back sides if you need space. The weight of each question is indicated. Please ask for clarification if any question is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two (20 points):
2. Free rider

b) Section 301

c) Rybczynski theorem

d) Persistent dumping

e) Sudden damage effect

1. (15 points) Suppose Australia has only one firm that makes aircraft. Without assistance from the government, that firm has lost most of its business to imports from the United States and Europe. Which of the following policies would be most costly for the Australian nation as a whole, and which would be least costly? Explain.
2. Paying the lone Australian firm a production subsidy per plane, without protecting it against imports.
3. Imposing a tariff equal to the production subsidy in the above option a.
4. Imposing an import quota that cuts imports just as much as the option b.
5. (15 points) Suppose you are a benevolent dictator who has just come to power in your country (which is a large, underdeveloped country), and you want to use economic policies to help your people. You can channel subsidies and loans to create growth. In principle, should you direct those policies towards the exporting industries or towards the import competing industries? Explain briefly.
6. (10 points) Consider a situation in which with completely free trade, a jacket that costs $100 uses $30 worth of domestic cotton and $30 worth of synthetic fabrics. Now suppose that a 25% tariff is place on imported jackets, that a 1/6 (16.7%) tariff is placed on cotton, and synthetics are still imported without tariffs. What is the effective rate of protection on the jacket industry?
7. (10 points) Why does the Heckscher-Ohlin theory predict that most research and development (R&D) activity is done in the industrialized countries?
8. (15 points) Recently, an important American political figure, Mayor Michael Bloomberg, criticized the Obama administration’s decision to investigate Chinese subsidies on exports of solar panels and other clean energy products, saying “There is a country on the other side of the world that subsidize(s) things so we (US) can buy them cheaper and have better product, and we’re going to criticize that?” The textbook describes predatory dumping as temporarily charging a low price in the export market, with the purpose of driving foreign competitors out of business, so that later the firm can raise its prices. The textbook also states that WTO rules allow countries to retaliate against dumping if the dumping injures domestic import competing industries. Are these three positions identical? Contradictory? Or what?
9. (15 points) Let’s assume that we understand the product cycle hypothesis, as applied to international trade. (Please don’t try to draw the graph).
10. In terms of its assumptions, how does the product cycle story differ from standard Heckscher-Ohlin trade model? Identify and explain briefly three differences.
11. The Heckscher-Ohlin model, along with standard Ricardian trade models, is usually interpreted to advise free trade and no government intervention. Identify and explain briefly two government policies that might be justified by supporters of the product cycle model.

The median on this exam was 68: the high was 95.

 Econ 348 **Final Exam Fall, 2010** Professor Twomey

Please PRINT your name on the BACK of the LAST Sheet. The questions have different weights. Ask for clarification if a question is not clear. Use the backsides of these sheets if you need more room. Note that there is a separate handout of a newspaper article. Time: 90 minutes. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. Round tripping
3. Common Agricultural Policy
4. CIS
5. Rules of Origin
6. The difference between a Free Trade Area and a Customs Union
7. (10 points) Explain the difference between trade creation and trade diversion.

Suggest (make up?) examples of both trade creation and trade diversion, for both the European Union and Mercosur (Southern Latin America). (one example for each option).

1. (15 points) Perhaps not surprisingly, our textbook Is not in favor of trade embargoes. Identify and discuss briefly the author’s distinction between political and economic failures of an embargo.

When Pugel discusses the economic failure of byocotts, he suggests two main reasons. Identify them and discuss them briefly.

1. (20 points) a. According to the textbook’s analysis, what are the standard effects of international outmigration (from the low wage country) on that country’s output, wages, and return to capital.

b. When analyzing the effects of migration, many people look to effects beyond the standard ones. One set of these effects can be called externalities, and one can identify some externalities as they impact the government. Identify and discuss one positive externality, and one negative externality, of immigration on the host country’s (high wage country) government.

1. (15 points) Identify what is meant by the argument of declining terms of trade of primary product exporting countries.

Give two reasons that were originally put forth to argue that this would happen.

Give two reasons for saying that this was not going to occur.

If the people who originally proposed this declining terms of trade argument were to be put via a time capsule into our world of 2010, identify two considerations that they might feel obliged to insert into their argument.

1. (20 points) The attached article, from last week’s *New York Times*, discusses a Chinese-owned firm in the US that is producing and selling wind turbines in the United States. In terms of our textbook’s analysis of capital flows, it suggests several questions. Answer and discuss them briefly.
2. Does the article suggest factors exemplifying the textbook’s explanation of FDI, described as OLI (enterprise/organization, location, and internalization)? Which are, or are not, included?
3. Given that income levels in China are low, should we expect that the pay of the American employees, such as Mr. Rowland and Mr. Rosenzweig, would be higher or lower than what they receive in American owned firms?
4. Should be we surprised that this foreign owned company imports a lot of its inputs?
5. Is the comparison to FDI into the US by Japanese car producers during the 1980s valid?
6. Is this FDI good for the US? Second Best, first best/second worst, absolute worst?

The median on this exam was 78; the high was 100.

Econ 348 International Trade **Exam #1 Fall 2009** Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the backs if you need space. Please ask for clarification if any question is unclear. Questions are equally weighted. Time: the entire class.

1. Identify the following with a sentence or at most two:
2. Terms of trade
3. External scale economies
4. Community indifference curves
5. Arbitrage
6. Specialized factor patterns
7. Consider a theoretical of world in which there are two countries, Chile (Ch) and Brazil (Br), there are two factors, land (T) and workers (W), and two products, Fruit (F) and Videomachines (V). Fruit is land intensive, and Chile has relatively more workers. There are increasing opportunity costs in both industries in both countries.
* In the context of the Heckscher Ohlin Theorem, if there is free trade, which country exports which good? Draw a graph of the production possibility curve of Chile, indicating the pre-and post-trade positions of production and consumption.
* What happens to the relative price PF/PV in Brazil, as a result of the adoption of free trade? Explain briefly.

Are workers in Chile helped or hurt by free trade? Explain briefly.

1. The textbook has a brief discussion of “What’s behind the bowed out production possibility curve?” Basically, what’s the answer – what economic reason implies it is generally correct to draw this curve this way?

b. Draw a graph illustrating – in a simple (Chapter 2) model of a single product - the three graphs of the derivation of the supply of exports of rice, in terms of two specific countries’ domestic supply and demand of rice. On this graph, illustrate the effect on the exporting country’s producers and consumers, of growth of the national economy of the rice importing country.

1. Explain real briefly what is meant by the Heckscher Ohlin Theorem, and by the term “gains from trade.”

Do the following support or go against Heckscher Ohlin? Also, do they deny gains from trade? Explain each answer briefly.

1. Leontieff paradox
2. The widespread existence of monopolistic competition.
3. The fact that unemployment in the U.S. is currently almost 10 percent.
4. The fact that Japan exports steel, while not having any iron ore to mine
5. The fact that China is a net importer of food
6. The fact that intra-industry trade is widespread, and growing.
7. Consider the following matrix of pre-trade labor productivities (output/unit of labor input), in a Ricardian world in which labor is the only factor of production

|  |  |  |
| --- | --- | --- |
|  | Denmark (D) | Korea (K) |
| Aardvarks (A) | 6 | 10 |
| Zebras (Z) | 9 | 20 |

 Which country has absolute advantage in which good?

Which country has comparative advantage in which good?

If there were to be free trade, what are the limits of the world’s relative prices PA/PZ?

If Denmark has 18 workers, draw Denmark’s Production Possibility Curve, and illustrate on it Denmark’s pre-trade and post-trade positions of production and consumption.

The median on this exam was 67; the high was 92.

Econ 348 International Economics **Exam #2 Fall, 2009** Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. You will lose credit if it appears anywhere else. Answer on these sheets, using the backs if you need more space. Please ask for clarification if any question is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two (20 points):
2. Gravity model

b. Domestic content requirement

1. Rybczynski theorem
2. Trade adjustment assistance
3. Doha round
4. (15 points) a. Why does a domestic monopoly prefer quotas to tariffs (even when they produce the same quantity of imports)?
5. Why do economists prefer subsidies to tariffs?
6. Consider the following three manufacturers and exporters of laptops to the US (10 points).

|  |  |  |  |
| --- | --- | --- | --- |
|  | Aggressive A | Bully B | Cowardly C |
| Average Cost | 20 | 20 | 20 |
| Price charged at their local factory for domestic sales | 22 | 19 | 20 |
| Price charged at their local factory for export sales | 21 | 19 | 21 |
| Price delivered to the US port | 23 | 20 | 22 |

1. Which company (or companies) is/are dumping? Explain your reasons.
2. (10 points) Distinguish between predatory and persistent dumping.
3. (15 points) A number of Latin American countries export coffee and important other goods. Suppose a long-term drought reduced coffee production in those countries, although they remain exporters of coffee. Explain why the drought might lead to an increase in the region’s well-being. What economic factors would make this gain in well-being more likely?
4. (15 points) A single firm’s innovations in production technology often benefit the production of other firms, because these other firms learn about the new technology and can use some of these ideas for their own production.
5. Is there an externality here?
6. How would an economist rank the following two policies in this situation, and why?
7. A tariff on imports, to make sure that domestic production using the new technology occurs.
8. A subsidy to domestic production, to make sure that domestic production using the new technology occurs.
9. What third policy (a tax or a subsidy or something else) would the economist recommend as even better than these two suggestions? Explain briefly.
10. (15 points) a. Consider the concept of one dollar-one vote metric, applied to a small open economy. If political decisions in this country were based on this metric, how many/what kinds of tariffs would the country have?
11. What is the free-rider problem, and how does it affect the determination of trade policy?

The median on this exam was 66; the high was 100

Econ 348 International Trade **Exam #3 Fall, 2009** Professor Twomey

Please PRINT your name on the back of the last sheet. You will LOSE CREDIT if it appears anywhere else.

Answer on these sheets, using the backsides if you need space. Please ask for clarification for any unclear question. Time: 90 minutes. Good luck!

1. Identify the following with a sentence or at most two (20 points):
2. Joint venture
3. Maastricht
4. Transition economies
5. Round-tripping
6. Transfer pricing
7. (15 points) Around 1950 Raúl Prebisch and others argued that developing countries were facing downward trends in their terms of trade. Identify three distinct reasons given to defend this assertion.

Were they right?

1. (15 points) Identify and distinguish between: Free Trade Agreement (or Area), Customs Union, and Common Market.

Explain briefly the textbook’s two reasons for failure of an embargo: political and economic.

1. (15 points) Consider two countries, A and B, that are about to sign a free trade agreement. Before the agreement, A imports DVD recorders from other countries at $100/unit, and levies a tariff of 30% on them, making their cost to A’s consumers equal to $130/unit. Country B produces the DVD recorders at $110/unit.

Will the FTA produce trade creation or trade diversion?

* Would you expect a free trade agreement between the US and South Korea to produce more trade creation or more trade diversion? Explain your answer briefly.
1. (15 points) Suppose you are an economist working for the US government specializing in the analysis of immigration from Mexico to the US. Suppose you observe the following changes in wage rates and migration flows. Describe one shift in conditions in either country, or in the migration process itself, that could solely itself have caused these changes.
2. A rise in wages in both the US and Mexico, and an increase in migration flows from Mexico to the US
3. A drop in wage rates in both Mexico and the US, and an increase in migration flows from Mexico to the US
4. A drop in US wages, and an increase in Mexican wages, and an increase in migration flows from Mexico to the US
5. (20 points) a. The textbook has a discussion of whether FDI will increase trade, or decrease it. Give one reason for each of those outcomes.

b. Does the textbook’s model of FDI, described in class as OLI model, assume full employment? Explain.

1. International economists analyze policies or economic phenomenon in terms of whether they increase or lower national (potential) welfare. Our textbook is generally in favor of FDI. However, there are some cases where the existence of FDI might lower welfare. Identify two distinct cases.

The median on this exam was 74; the high was 92.

Econ 348 **Exam #1 Fall, 2008** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer in the space provided, or use the backsides of these sheets if you need it. Questions are equally weighted. Please ask for clarification if the question is unclear. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two:

a. Mercantilism

b. Relative factor endowments

c. Gravity model

d. One-dollar one-vote metric

e. Terms of trade

2a. State (don’t prove or illustrate, just state) the Heckscher Ohlin Theorem

b. What are some of the important assumptions that are made for the Heckscher Ohlin Theorem?

c. One of the famous implications of the Heckscher Ohlin Theorem is the Stolper Samuelson Theorem. State that theorem.

d. What is the Leontieff paradox, and how does it relate to Heckscher Ohlin Theorem?

3. Consider a standard Ricardian world with two countries, A and Z, and two products, autos and wheat. The labor inputs per unit of output in these two countries are as given in the table (and these are constant).

|  |  |  |
| --- | --- | --- |
|  | Inputs per unit of autos | Inputs per unit of wheat |
| A | 75 | 100 |
| Z | 50 | 50 |

1. Does country A have absolute advantage in the production of autos? Of wheat?
2. Does country A have a comparative advantage in the production of autos? Of wheat?
3. If no international trade is allowed, what price ratio would prevail between autos and wheat in A?
4. If free international trade is allowed, what are the limits of the equilibrium international price ratio? What product would country A export, and what would it import?

4a. China is a large country, both in terms of geographical size and in terms of population. After making major changes a couple of decades ago in its orientation towards growth, and moving towards free trade, China now is a major rice importer. The textbook argues that it is quite understandable that China would import rice, instead of exporting that product. What is the key to that argument?

b. There are two ‘stylized facts’ about international trade, that are inconsistent with standard trade theory. First of all, there is a growing amount of intra-industry trade. Secondly, a few large firms dominate trade flows.

i) First of all, what is intra-industry trade?

ii) A standard explanation for these two stylized facts is the presence of monopolistic competition. What is meant by this term, and how does this (assumed) world differ from the world assumed in standard trade theory?

iii) Trying to avoid the use of graphs, describe how monopolistic competition explains – at least in part – the two stylized facts mentioned above.

5. Consider a world composed of two countries, Alphaville (α) and Betazone (β), with only two products DVDs (D) and erasers (E). Suppose furthermore that there are only two factors of production, capital (K) and labor (L), and that DVDs are capital intensive, and that the other assumptions for the Heckscher Ohlin theory are valid. Finally, suppose Alphaville is relatively capital abundant.

1. Draw the production possibility curves for both countries. For each country, indicate pre-trade and post trade situations of production and consumption.

b. What should the opening of trade do to the incomes of workers in each country? (A graph is helpful, but not obligatory).

c. One of the justifications for using Community Indifference Curves is that there exists compensation from winners to losers. In Betazone, who benefits and who loses from free trade?

The high on this exam was 99. The median was 66.

Econ 348 **Exam #2 Fall, 2008** Professor Twomey

Please PRINT your name on the BACK of the last sheet. The weight of each question is indicated. If a question is not clear, please ask for clarification. Use the backs of these sheets if you need more space. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
2. Tariff escalation pattern
3. Rybczynski theorem
4. Theory of second best
5. Dutch disease
6. Free rider problem
7. (15 points) Consider the situation of US production and imports of silk sweaters. Suppose the world price is $50/unit. The world’s competitive producers use $30 worth of silk in the production of each sweater. The US produces and imports silk, as well.
8. If the US has free trade in silk, and a 20% tariff on imported sweaters, what is the effective rate of protection for the US sweater industry?

b. Consider a more complicated situation. The US has a 40% tariff on imported sweaters, and a 20% tariff on imported cotton. For this case, what is the effective rate of protection for the US sweater industry?

3. (15 points) Explain briefly what is meant by persistent dumping.

Out textbook discusses a case when persistent dumping can be economically rational. Explain and illustrate it with a graph.

In the case you have just discussed, should the importing country welcome the imports, or keep them out with prohibitive tariffs? Discuss.

4. Consider the case of a large country, one that can affect the international price of its exports. If this country were to intervene in its export activities, would it be better off subsidizing its exports, or taxing them? Explain briefly (10 points)

5. (15 points) Suppose Australia has only one firm that makes aircraft. Without assistance from the government, that firm has lost most of its business to imports from the US and Europe. Which of the following policies would be most costly for the Australian nation as a whole, and which would be least costly? Explain briefly.

Policy A. Paying the lone Australian firm a *production* subsidy per plane, without protecting it against imports.

Policy B. Imposing a *tariff* equal to the production subsidy in Policy A.

Policy C. Imposing an import *quota* that cuts imports just as much as Policy B would.

6. (15 points) A free-trade equilibrium exists in which the US exports machinery and imports clothing from the rest of the world. The goods are produced with two factors: capital and labor. The trade pattern I the one predicted by the Heckscher Ohlin theory. Now, an increase occurs in the US endowment of capital, its abundant factor.

* 1. Explain and illustrate with a graph the effect on the shape and position of the US production possibility curve.
	2. If world prices are unchanged, what is the effect on the actual quantities produced in the US? Explain
	3. If the growth in the US were to affect the world price ratio (pexports/pimports), what would be the direction of this change?
	4. Is it possible that the US national well-being declines as a result of the endowment growth and the resulting change in the world price ratio? Explain briefly.

7. (10 points) Consider the following payoff matrix for two firms Americana and Europa, located in the US and the EU, respectively, who are the only potential producers of a new product.

|  |  |  |
| --- | --- | --- |
|  | Europa produces | Europa does not produce |
| Americana produces |  | 5 |  | 0 |
| 5 |  | 60 |  |
| Americana does not produce |  | 60 |  | 0 |
| 0 |  | 0 |  |

b. If instead the gain in the upper left hand corner o Americana were 5 and that of Europa were 0, should the EU’s government offer a subsidy to Europa? Explain.

c.What strategy should the EU government follow – subsidize or not? Explain

The high on this exam was 84. The median was 61.

Econ 348 International Trade **Final Exam, Fall 2008** Professor Twomey

Please print your name of the BACK of the LAST SHEET. Please answer on these sheets, using the backs if you need more space. The weight of each question is indicated. Please ask for clarification if any question is unclear. Time: 90 minutes. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. Rules of origin
3. ISI
4. Mercosur
5. Trade diversion

e) Transfer pricing

1. (10 points) When speaking of embargoes, our textbook argues that there are two major types (or reasons) for the failure of embargoes, political and economic.

Describe briefly what is meant by each of these failures.

Name two countries/cases, about whom it is often said that the embargo against them was not successful.

1. 15 points) Raúl Prebisch and others asserted that the prices of raw materials faced a declining long term trend.

a). Identify and explain briefly two reasons that was given to explain the declining trend.

b). What policy prescription did they derive from this assertion? Explain.

1. (20 points) As discussed in our textbook, John Dunning’s ‘eclectic model’ of foreign direct investment has five parts that attempt to explain FDI. The first is a recognition that a multinational firm is at an inherent disadvantage in producing overseas. The other four discuss various reasons or motives for FDI. Identify and explain them briefly.

Give two reasons for the low level of FDI into the US in the 1930s.

1. (15 points) Standard economic analysis – as in our textbook – tends to analyze economic situations with what has been called a static model; the supply and demand curves are given, and the benefits and costs of particular actions can be calculated directly from them. However, in many cases, there are asserted to exist dynamic considerations and externalities, which alter the conclusions from the static model. Here are three topics, in which the dynamic considerations were discussed, and at least some believe them to be larger and more important than the static ones. In each case, identify what are the dynamic considerations.
	1. The benefits of establishing a common market such as the European Union.

b). The costs and benefits to the sending country of having its citizens migrate overseas

c). Whether or not third world countries should follow free trade, or engage in protectionism.

1. (20 points) Consider a world of two countries, Industrytown and Farmville, where Industrytown is characterized by high wages, and Farmville has low wages. Suppose that an agreement is reached allowing international migration. Draw graphs of the labor markets in each country indicating the before and after situation of wages and employment.

In Industrytown, what is the impact of migration on wages, the return to capital, and total output? (short explanation is optional).

The analysis of immigration policy in the U.S., Canada, or Australia often refers to a ‘point system.’ What is meant by this term, and what are its intended effects?

The high on this exam was 100. The median was 66.

Econ 348                        **Fall, 2007                Exam #1**     Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the backsides if necessary. Please ask for clarification if any question is unclear. Questions are equally weighted. On this exam, especially, be sure to label the axes. Time: the entire class. Good luck

1. Identify the following with a sentence or at most two:

Product Differentiation

Opportunity cost

Gravity model of trade

Stolper Samuelson Theorem

Terms of trade

2a. Describe what is meant by the Leontieff paradox. Identify three potential explanations of it.

b. What is intra-industry trade? How is it measured? Why is it important?

3a. Explain briefly why is trade a substitute for migration in the Heckscher-Ohlin model.

b i. If there is a downward sloping supply curve, the models of foreign trade (and many others) become dramatically different. Explain briefly two different reasons why supply curves might be downward sloping.

ii. In terms of models of foreign trade, what might be two ways the conclusions/predictions would change if there are downward sloping supply curves.

4. In the context of a Heckscher-Ohlin model, with two countries Dudsville (D) and Bluestown (B ), two products aardvarks (A) and yo-yos (Y), and two factors of production, land (T) and labor (L), the production of yo-yos is labor intensive, and Dudsville has relatively more land;

draw the production possibility curves of the  two  countries, and on them illustrate the gains from trade for each country.

In the move from no-trade to free trade, what happens  to wages in each country? Illustrate on a graph is optional.

5a. Suppose the U.S. produces laptops, and with free trade that we would export laptops. Considering a simple no-trade/free trade comparison, show how the opening of trade will affect producer surplus and consumer surplus for laptops in the U.S. Illustrate with a graph.

b. Consider two countries, Alpha and Beta, and two products, xylophones (X) and zebras (Z). In a simple Ricardian world of one factor of production with constant productivity, suppose the labor input is:

         Alpha       Beta

X         6             10

Z          9             20

Which country has absolute advantage in which good?

Which country has comparative advantage in which good?

What are the limits of free trade prices of PX / PZ ?

Assuming Beta has 400 workers, draw a production possibility curve for the country, and indicate on the graph the positions of pre-trade and post-trade  production and consumption.

Which country has absolute advantage in which good?

The median on this exam was 67; the high was 96.

        Econ 348               Fall, 2007             Exam #2                Professor Twomey

Please PRINT your name on the back of the last sheet. Use the flip sides of these sheets if you need more room. The weights of each of the questions are indicated. Please ask for clarification if any question is unclear. Time: the entire class.  Good luck.

1. Identify the following with a sentence or at most two (20 points):

Section 301

Rybczynski Theorem

Countervailing duty

Effective rate of protection

Domestic content requirement

2. Paul Krugman has argued for strategic trade policy helping U.S. export sectors. His well-known analysis of Boeing versus Airbus is featured in our textbook. Yet standard trade theory says that export subsidies harm a country.  To what extent are the differences between his analysis and standard textbook due to the following assumptions/considerations. Explain each answer briefly (15 points).

a. Krugman assumes large country (versus small country)

b. Krugman assumes increasing returns to scale (versus constant returns to scale)

c. Krugman considers subsidies, (which are better than  tariffs).

d. Krugman considers redistribution of benefits

Krugman’s analysis captures product cycle effects.

3.  Explain, and illustrate with a graph, the effects of a tariff in a small country, identifying the costs/benefits to producers, consumers, government, and net cost (20 points).

Explain, and don’t illustrate with a separate graph, how the above analysis changes if one assumes a large country levies the tariff.

The standard analysis says that a subsidy is better than a tariff. Explain this point, making reference to your answer to the first part of this question.

4. The Theory of Second Best is frequently used to justify tariffs. For the case of the U.S., pick a product and suggest some situation where the Theory of Second Best has been (might be) used to justify protectionism. Explain real briefly. (10 points)

5. What is trade adjustment assistance?  Is it compatible with the specificity rule? Why might it be criticized for generating perverse incentives? (10 points)

6. Explain, (graph optional) what is meant by immiserizing growth (15 points).

Is this more likely to occur with:

Small country or large country?

Steep (inelastic) or flat demand curve for exports

Having a set of diverse exports, or only one or two products.

Growth that is due to productive capital, technology, or raw material supply

7. State the infant industry argument (graph optional). If you were the leader of a third world country considering this policy, identify and explain briefly two factors that you should need to take into account in considering this policy. (10 points).

The median on this exam was 73; the high was 94.

Econ 348                         Final Exam                Fall 2007              Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification if any question is unclear. Note that the questions have different weights. Time: one and a half hours. Good luck!

Identify the following with a sentence or at most two: (20 points)

MERCOSUR

Trade diversion

Round tripping (FDI)

Joint Ventures

Environmental Kuznets Curve

2a (15 points) Standard economic theory suggests that both international trade and FDI would predominantly take place between rich and poor countries. Yet both seem to occur among rich countries. Identify and explain very briefly two reasons that have been proposed to explain this outcome.

b. Give one argument for the position that international trade substitutes for FDI, and one that asserts that trade and FDI are complements, that is, they go together.

3.  (10 points) Identify and explain briefly two different general situations that might lead to an economic failure of a trade embargo.

4. (15 points) Consider a simple textbook model of allowing the migration of labor between poor and rich countries. What happens to wages and output in each country?

 - In terms of the market for labor in the rich country, identify which group – bosses or workers - receives “producer” and “consumer” surpluses, and use a graph to illustrate and explain what happens to producer and consumer surplus in that country.

- In the standard economic analysis of the net effect on the country of allowing international migration, is there an assumption of “one dollar one vote”, of redistribution of benefits, or is there no comparison of welfare between groups? Explain.

5. (10 points) Give two arguments supporting the position of Raul Prebisch and others, that the long run trend is for a deterioration of the prices of raw material exports.

That position is clearly incorrect with respect to petroleum. Might it be true for, say, iron or aluminum? Discuss.

6. (15 points) Our textbook follows the work of John Dunning in explaining the existence of multinational enterprises (MNEs) by referring to five factors, four of which counteract the first, which is the inherent disadvantage of being foreign. Two of the bigger US MNEs are IBM and Exxon. Identify the other four factors that explain MNEs, explaining or illustrating them by reference to IBM or Exxon.

7. (15 points) Which of the following probably violate the rules of the WTO? Explain each answer briefly.

A country’s government places a tax on domestic production to reduce pollution caused by this production.

A country’s government prohibits imports of foreign goods produced using production methods that would violate this importing country’s environmental protection laws.

A country’s government places a tax on domestic consumption of goods (both imported and domestically produced) to reduce pollution caused by this consumption.

d. A country’s government restricts imports of a good to reduce pollution caused by consumption of this good.

The median on this exam was 82; the high was 100

# Econ 348   International Economics     Exam #1    Fall, 2006           Prof. Twomey

Please answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Please ask for clarification if any question is unclear. Time: the entire class.

1.(20 points) Identify the following with a sentence or at most two:

Product differentiation

Mercantilism

Gravity model

Intra-industry trade

(What is the difference between) economies of scale that are “internal” and those that are “external”?

2. State the Heckscher Ohlin theorem.

The textbook indicates three important implications of the Heckscher Ohlin theorem. Identify and briefly describe each one with a sentence or two. (no proofs!)

3.  Consider the world market-exports and imports-for cotton textiles (as the book does in Chapter 2, without considering other products). Illustrate on a graph the gains from trade for exporters and importers, and explain what this analysis indicates about the relative sizes of those gains, for the two groups.

--Explain and indicate on a graph how a change in  consumer preferences, from cottons to synthetics, could be expected to change the world price of cotton textiles.

--Suppose technological change in agriculture leads to a decline in the cost of cotton. Explain and illustrate on another graph how that would change the world price of cotton textiles.

4. Consider now a Ricardian (one factor) world in which, before engaging in trade, in country Alpha it takes workers two hours to produce flowers and five hours to produce watches, whereas in country Beta it takes workers three hours to produce flowers and fourteen hours to produce watches.

Which country has absolute advantage in which good?

Which country has comparative advantage in which good?

What are the limits in the range of the relative price of flowers to watches, if there is free trade?

Assume Alpha has sixty workers. Draw Alpha’s production possibility frontier, illustrating pre- and post-trade positions.  Assuming a free-trade relative price between the limits indicated above, draw a possible trade triangle for Alpha, indicating the country’s ultimate consumption of each good.

5i.  What is the Leontieff paradox?

State one reason why it might matter.

State one reason why it might not matter.

ii.  In class we have used two technical terms: “one dollar one vote metric,” and “Community indifference curves.” State what each one is, and then state what relation, if any, there is between them.

iii . Consider a standard model in which we have increasing costs and community indifference curves.  Illustrate and explain briefly that in such a model, there can be gains from trade (compared to no trade) even if there is no change in production.

The median on this exam was  72; the high was 92.

Exam #2 Fall 2006 went down with the office desktop’s harddisk. The median on that exam was 75, and the high was 99.

Econ 348               Final Exam                Fall 2006              Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if you need more space. Please ask for clarification if any question is unclear. Note that the questions have different weights. Time: one and a half hours. Good luck!

1. Identify the following with a sentence or at most two: (20 points)

Countervailing duty

Montreal Protocol

Rules of origin

Common Agricultural Policy

Remittances

2. (10 points) The Argentine economist Raul Prebisch asserted that the long run trend in the terms of trade for developing countries would be a decline. Identify and explain very briefly two arguments why that might be true, and two arguments why it might not be true. (Don’t bother discussing what the actual data indicate).

3. (15 points) What kinds of countries tend to use economic embargoes? What kinds of countries tend to be objects of these embargoes?

IIdentify and discuss briefly what the book describes as political failures of embargoes, and economic failures of embargoes.

4. (15 points) Suppose NAFTA were to become a common market, with a common external tariff. Identify what is meant by trade creation and trade diversion, and suggest (i.e. make up) an example of each case, for the US or one of the other NAFTA countries.

In our textbook’s discussion of the impacts of economic integration, mention is made of other possible gains for such integration, beyond trade creation. Identify and explain real briefly two such examples that might plausibly occur in the NAFTA countries.

5. (10 points) Our textbook follows the work of John Dunning in explaining the existence of multinational enterprises (MNEs) by referring to five factors, four of which counteract the first, which is the inherent disadvantage of being foreign. Two of the bigger US MNEs are IBM and Exxon. Identify the other four factors that explain MNEs, explaining or illustrating them by reference to IBM or Exxon.

6. (15 points) Oil spills from oceangoing tankers are rare but bring huge damages to coastlines when they occur within 200 miles of shore. Unfortunately, most tanker spills do occur on or near coasts. Rank the following alternative policies according to how efficient they are in responding to the threat of oil spills. Explain your ranking, briefly.

a. Each nation with an endangered coastline should impose a tax on all imported oil, a tax that raises enough revenue to compensate for any oil-spill damages.

b.  Oil-carrying companies should be legally liable for all damages, in the courts of the countries whose national waters are polluted by the spills.

c. Each coastal nation should intercept all oil tankers in national waters and charge them a fee that will cover the estimated costs of future oil spills.

7. (15 points) Consider labor migration between the poor South and the rich North, in a context where initially migration is prohibited, and subsequently migration is unhindered. Draw parallel graphs of the labor markets in North and South, indicating pre- and post-migration wages and total labor supply.

In addition, what does the approval of do to the return to capital and national output in each country? Finally, what happens to world welfare as a result of unhindered migration?

In the U.S., another issue on migration is the empirical question, “Are Immigrants a Fiscal Burden?” If you were designing a research project, what might be three types of situations of immigrants that would have to be investigated?

The median on this exam was 77, and the high was 100

Econ 348   International Economics Exam #1 Fall, 2005 Prof. Twomey

Please answer on these sheets, using the flip sides if necessary. Questions’

 weights are as indicated. Please ask for clarification if any question is

unclear. Time: the entire class.

1. (20 points) Identify the following with a sentence or at most two:

a.      Leontieff paradox

b. One dollar one vote metric

c. David Ricardo

d. Mercantilism

e. (Distinguish between the) Short run and long run factor price response

2. (15 pts.) Define briefly what is meant by the term consumer surplus.

Illustrate with a graph. Does consumer surplus ignore income distribution, or does

it assume redistribution of benefits?

Consider two countries, Home and Foreign. Home imports radios at the world price.

Suppose that Foreign is now able to produce more, because of population growth or

technological change. How will this affect the world price, and Home’s consumer surplus?

 Illustrate with a pair of graphs.

3. (20 points) The country of Michigandia has an endowment of 20 units of labor and

6 units of land, whereas the rest of the world has 80 units of labor and 14 units of

land. Is Michigandia land intensive or labor intensive? If wheat is land intensive and

cloth is labor intensive, what is the Heckscher Ohlin prediction for the pattern of trade

between Michigandia and the rest of the world?

Illustrate on a graph the production possibility curve of Michigandia, indicating the

pre-trade and post-trade positions of production and consumption.

(15 points) Consider the following data on some of Japan'’s exports and imports in

the year 2000, measured in billions of U.S. dollars.

        Exports       Imports

Food           1.8     41.1

Metal ores     0.9     8.7

Pharmaceuticals 2.7     4.8

Iron & Steel   14.8    3.7

Computers      14.8    17.5

Automobiles    56.9    7.0

Aircraft       1.5     3.0

Clothing       0.5     19.7

Medical Instruments    1.5     2.6

For which of these products do Japan’s exports and imports appear to be consistent with the

 predictions of the Heckscher Ohlin Theory, and which are inconsistent? Give a short

explanation for each answer.

(20 points) Consider a situation with two countries, Alpha and Beta, and two products,

hats and gumballs. Labor is the only factor of production, and the amount of labor needed to

produce one unit of each product in each country is shown in the table.

       Alpha   Beta

Hats   10      11

Gumballs       5       6

Which country has absolute advantage in which good?

Which country has comparative advantage in which good?

Suppose Alpha has 200 workers. Draw a graph of Alpha’s production possibility curve.

On that graph, illustrate a (hypothetical) trade triangle.

6. (10 points). Suppose the world consists of two countries, China and R.o.W., and the world'’s

products are cars and textiles, and textiles are labor intensive. China has relatively more

 labor, and R.o.W. has relatively more capital. Then consider an analysis of the returns to

labor and capital, before and after free trade is announced between China and R.o.W.

According to the factor price equalization theorem, what will the adoption of free trade do to:

(in terms of raise or lower--no explanation necessary).

Wages in China

Wages in R.o.W.

Return to capital in China

Return to capital in R.o.W.

The median on the first exam was  78, the high was 94

   Econ 348               Fall, 2005             Exam #2             Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET.  If you need more space, use the flip sides of these sheets. Questions are equally weighted. Please ask for clarification if any question is unclear. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two:

a.  Free rider problem

b. MFN treatment

c. Section 301

d. Rybczynski theorem

e. Domestic content requirements

2a. Consider a small country, initially following free trade, which then imposes tariffs. Draw

a graph and explain, using the concepts of producer and consumer surplus, how this will affect the

welfare of the country’s producers, consumers, as well as the overall national welfare.

b. Explain briefly, without using another graph, why a large country might benefit from

protectionism, while a small country will not.

3. Conceptual questions How does the Heckscher-Ohlin theory predict that most research and

development (R&D) activity is done in the industrialized countries?

b. With regard to protection, how are quotas and tariffs the same, and how/when/why are

 they different?

c. The standard competitive model of tariffs predicts that consumers of an exported product will be

 hurt if their country opens up to free trade, while in the “external economies” mode

l (Chapter 5 of our text), consumers of exported products will be helped by the opening to trade.

Why the difference?

d. Identify and explain briefly one explanation for the prevalence of intra-industry trade.

4a. Why might it be economically logical for the sole producer and exporter of a new product to

sell that product at different prices in different markets? (graph optional).  What determines

the different prices in those markets?

b. The textbook gets into an elaborate discussion about how, in the Boeing/Airbus competition, it

might be beneficial for one of the countries involved, to subsidize production. However, there

is never a hint of that debate for, say, GM and Toyota. What is different about the Boeing/Airbus

competition?

5. In the article about agricultural trade reproduced on the previous page:

a. Are these agricultural interventions consistent with comparative advantage?

b. Who gets helped, and who gets hurt, when the U.S. ships large quantities of food as aid?

c. Is it consistent with our textbook’s theory that countries like Japan and Switzerland benefit

 from free trade in industrial products, while they also benefit from restrictions on food imports?

d. Is there a valid economic case for the request that industrialized countries should do more

 than developing nations in reducing trade barriers?

e. Does the article assume that any country (US, EU, Brazil, Australia, etc.) is a large country,

in terms of agriculture? If so, should this conversation be placed in the context of optimal

tariffs/subsidies? If not, then why does any country care what the others do?

The median on the second exam was 77, the high was 100

Econ 348   International Economics     Exam #3    Fall, 2005     Prof. Twomey

Please answer on these sheets, using the flip sides if necessary. The questions’ weights are as indicated. Please ask for clarification if any question is unclear. Time: 90 minutes.

1. Identify the following with a sentence or at most two (20 points):

a) Environmental Kuznets (or inverted-U) curve

b) Engel’s Law

c) Montreal Protocol

d) Trade Diversion

e)  Rules of origin

2.  Short answers (10 points)

i. Why does the European Union need to support prices of agricultural goods if the EU is a net

exporter of these goods?

ii. Our book states that there was more liberalization of US-Mexican trade before the NAFTA

accord, than after. Why was that so?

iii. By most everybody’s account, the European Union has been an economic success. Some of this,

undoubtedly, is due simply to the benefits of comparative advantage, following on the reduction

 of trade barriers. Identify two other economic factors that have contributed to this success.

iv. State three reasons for the decline in the power of the OPEC oil cartel, after its initial

successes in the early 1970s.

3. 15 points) Let us consider foreign direct investment by US firms into China, in terms of

our book'’s theoretical discussion of such FDI. One point not needing illustration is that

 this FDI will be inherently  more difficult than domestic investment, because of cultural

differences. Beyond that, the book talks about four considerations, or factors determining

such FDI. Identify each one, illustrating them with examples taken from the US-China context.

4. The textbook’s discussion of trade embargoes distinguishes between political and economic

 failures. Explain briefly that distinction. (10 points)

5 (15 points). Let’s consider the issue of environmental pollution, caused by logging companies

 producing newsprint in Arkansas for export. As the book notes, one government response to the

pollution would simply be to forbid exports. There are at least two other approaches for the

reduction of that pollution, one focusing on taxes, and the other on property rights. What

concretely would be the proposals of those advocating taxes, and of those pushing property rights?

 b. How are these positions modified if the pollution is created in one country, and affects

another, —as would be the case of pollution from Michigan affecting Canada.

6. 15 points) Consider migration of low wage Algerians into high wage France. Draw a graph

of the labor markets in the two countries, indicating the level of wages before and after

migration is allowed. Explain  the effect of that migration on wages, the return to capital,

and total output, in each country.

b. In class we discussed several modifications of that analysis in real world situations.

Identify and explain briefly two of them.

7. (15 points) The textbook’s discussion of trade policy in developing countries focuses on

 the impact of ISI (or its opposite) on growth of income per capita. What is meant by ISI?

What is its opposite?

For the period after the early 1960s, did ISI work? Why, or why not? Discuss briefly.

The median on this exam was 66, the high was 96.

Econ 348        Exam #1     Fall, 2004         Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Opportunity Cost

b) Leontief paradox

c) Arbitrage

d) Internal Economies of Scale

e) (State the) Stolper Samuelson Theorem

What is the theoretical problem with using community indifference curves in the analysis

of international trade. Identify and explain briefly two theoretical justifications for the

use of community indifference curves in this context.

b. Our textbook's response to this problem is what it calls the "one dollar one vote metric."

What does this mean, and explain how it relates if at all to the two justifications you mentioned

above in part (a).

Consider trade between Japan and Indonesia, in the context of the Heckscher-Ohlin model in

which Japan has relative abundance of capital, and Indonesia has relatively more labor. In true

Heckscher Ohlin style, they are the only two countries, and the only two products are automobiles

and cloth, with automobiles being capital intensive and cloth labor intensive.

A) Draw the production possibility curves for both countries,

 indicating pre- and post-trade equilibrium production and consumption.

B). If the countries move from no trade to free trade,  what will happen to (relative) wages in

Indonesia?

4a. The textbook discusses whether or not U.S. trade patterns are consistent with the Heckscher

Ohlin model, in terms of the U.S. being a net exporter (which we'll write NX) or a net

importer (NM). Some examples are given below. For each of these products, explain

briefly the author's labeling of them, using simple "common sense" or "conventional wisdom"

interpretations or applications of Heckscher Ohlin.

 Consistency:

   wheat (NX),

  coffee (NM),

  aircraft (NX)

  clothing (NM).

Inconsistency:

  pharmaceuticals (NM)

   automobiles (NM).

B. Inter-industry trade is an important phenomenon in today's world markets.

- What is meant by inter-industry trade?

- Identify and explain briefly two explanations for inter-industry trade. (Graphs not necessary)

Consider trade between Alphaville (A) and Zetaburg (Z), where each economy has one factor

of production, labor, which has constant level of labor inputs, and produce two products,

Wiggies (W) and Yonklers (Y). Assume no differences in wages across industries. The

labor inputs are:

                                         Countries

                                  A                Z

  Products               W        4                3

                         Y       13              11

Which country has comparative advantage in which good?

What are the limits of free trade relative price PW/PY ?

If A has 104 units of labor, draw a graph of A's production possibility curve, indicating

pre-trade and post-trade positions.

The median on this exam was 66: the high was 91

Econ 348          Exam #2              Fall, 2004                   Professor Twomey

Please PRINT your name on the back of the last sheet. Questions are equally weighted. Time: 75 minutes. Please ask for clarification if the question is not clear. Good luck!

1. Identify the following with a sentence or at most two:

a. Section 301

b. Free rider problem

c. Persistent dumping

d. Domestic content requirement

e. Rybczynski theorem

2. Draw a graph illustrating the effects of a tariff, including a demonstration and brief

description of the costs of protectionism in terms of producer and consumer surplus.

Explain--using a graph only if necessary how that analysis is affected by:

Consideration of large vs. small country

Tariff vs. subsidy

Static versus dynamic model

3. What is the infant industry argument for protection? Explain, illustrating your answer

with a graph.

The textbook's discussion of infant industry has a section on why "a tariff may or may not

be good." State and explain briefly one argument in favor of using tariffs for infant industries,

and one argument against.

(On a different subject) Suppose a bicycle costs $100 in the world market, and that its

production requires $20 worth of steel, which is the only purchased input. If there is a ten

percent tariff on bicycles, and a twenty percent tariff on steel, what is the effective

rate of protection?

4. What is meant by immiserizing growth?  Explain and illustrate with a graph

b. Why, or in what way, is US anti-dumping policy biased toward finding dumping?

c. The WTO has three categories for export subsidies. Identify each one, giving a concrete example

 of a government policy that would fit into each category.

5a. Why should a domestic monopoly prefer protectionism using a quota, over protection using a

tariff? Explain briefly, illustrating with a graph.

The median on this exam was 74: the high was 93

Econ 348               Final  Exam              Fall 2004            Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer the questions on these sheets, using the back sides as necessary. Please ask for clarification of any unclear question. Questions are equally weighted. Time: ninety minutes.  Good  luck.

1. Identify the following with a sentence or two:

a) PEMEX

b) Common Agricultural Policy

c) Transfer Pricing

d) Environmental Kuznets Curve

e) Rules of origin

2. In discussing embargoes, our textbook distinguishes between two kinds of failures, economic

failure and political failure. Explain briefly this distinction, and suggest what conditions might

lead to each of these outcomes.

3a. The potential entry of Turkey into the European Union has been a topic of discussion. There

are immediate economic impacts, and a set of broader social considerations. Discuss these, from

the point of view of current members of the EU producers, consumers, taxpayers, voters, etc.

b) President Bush is considering allowing greater immigration from Mexico to the United States.

What would be the effects of such a move on US workers and employers, in terms of producer and

consumer surplus? What would be the net national impact on welfare? What would happen to national

income?

4a. What is meant by the Kyoto Protocol? What is its current status?

b. With regard to environmental actions and NTBs, which of the following government actions probably

violates the rules of the WTO? Explain each answer real briefly:

i A country's government places a tax on domestic production to reduce pollution caused by

this production

ii A country's government restricts imports of goods produced using production methods that would

violate the importing country's environmental protection laws

iii. A country's government places a tax on domestic consumption of goods (both imported and

domestically produced) to reduce pollution caused by this consumption.

iv. A country's government restricts imports of a good, to reduce pollution caused by consumption

 of this good.

5a. Several primary product exporting countries tried import substitution industrialization during

the twentieth century, most noticeably after 1929 for countries that were then independent, or

shortly after independence for those who had been colonies. Nevertheless, after about 1970 the

attraction of ISI has almost disappeared.  Why?

b. With regard to the transition economies of eastern Europe and the former USSR, our book

distinguishes between reforms regarding protectionism and other reforms. Which countries had

quicker recoveries, those that had sharp reforms, or those that had gradual reforms?

5a.There are three broad groups of European transition economies; the central European

countries, the Baltic countries, and the other countries which had been part of the USSR.

Setting aside the Baltic countries, which group of countries has fared better, the central

European countries or the former USSR? Beyond trade reforms, what other reforms are judged to

be necessary in these countries?

b. Why does an export subsidy raise domestic prices at least in a small country?

Explain and illustrate with a graph.

      What is the effect of an export subsidy on domestic prices, in a large country?

The median on this exam was 82: the high was 93

Econ 348      Fall, 2003        International Economics    Exam #1   Professor Twomey

Please write your name on the back of the last sheet. Answer on these sheets, using the backs of these sheets if necessary.  Please ask

for clarification if any question is unclear. Time: 80 minutes.

1. (20 points)  Identify the following with a sentence or at most two:

a) Rybczynski Theorem

b) Monopolistic competition

c) Factor content of exports

d) Mercantilism

e) Intra-industry trade

2. (10 points) Consider the situation of two countries (Alpha (A) and Zeta (Z)  producing two products glass (G ) and rakes (R) with

constant productivity of the one factor of production, labor. The levels of labor input needed per unit of output (are as indicated in

the adjoining table.

   G R

A  8 5

Z  7 6

I) Which country has comparative advantage in which good?  II) Suppose A has 60 workers. Draw A's production

possibility, illustrating on it pre-trade and post-trade production and consumption.

3a. (20 points) In its discussion of the effects of free trade, our textbook distinguishes between the short run and the long run. What

is the difference? b) What is the Stolper Samuelson theorem?  To which of the above situations does it apply, short run or long run? c)

It has been the case that automobile workers in the U.S. have opposed free trade in autos. Is this political position explained by

Stolper Samuelson? Is this short run, long run, or both? Explain.

4. (20 points) Consider world trade of a particular product (hats - [H]), and in free trade Canada exports hats and the rest of the

world (RoW) imports hats.  a) Draw graphs illustrating the change in producer and consumer surplus in both countries, if there is a

move from no trade to free trade. b) What happens to world prices, and producer and consumer surplus in Canada, if the rest of the

world there is a decline in its demand for hats? Explain and illustrate with a graph.

5 (20 points) Our book discusses two strands of empirical work relating to the Heckscher Ohlin theorem; the Leontieff Paradox, and

Intra-Industry trade. a) Explain what is meant by each one, and how/why they relate to Hechscher Ohlin. b) If the Leontieff paradox

were "true," how would that make things different for somebody who lives in the real world? c) Our textbook author indicates more

interest in the prospect of government interventionist policies in the world of Intra-Industry trade, at least as compared to the

classical world of Heckscher Ohlin. Why?

6 (10 points)  [Must have been an easy question]

The median on this exam was 53. The high was 89

Econ 348 Exam #2 Fall, 2003 Professor Twomey Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary.

Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.

Good luck!

1. Identify the following with a sentence or at most two: a) One dollar one vote metric b) Countervailing Duty c)

Specificity rule d) Domestic Content Requirement e) Section 301

2a. Explain the infant industry argument for protection, illustrating your answer with a graph (from the book or from class notes)  b.

One way of arguing in favor of infant industry protectionism is to assert that it is a case of second best. What is meant by second

best?  Identify two plausible situations in which the second best argument might be applied.

3a. It is argued that a large country can gain from protection. Draw a graph of the effects of a tariff on a large country, identifying

and indicating on the graph the gains and losses to the importing country. b. Consider the production of shoes, where the only primary

input is leather. At world prices, the cost of a pair of shoes is $100, and the cost of leather is 20 percent of the cost of the shoes.

Suppose that tariffs on imported shoes are 10%, and tariffs on imported leather are 30 %. What is the effective rate of protection? 4.

What is meant by the product cycle? Graph optional In what way(s) is the theoretical world of the product cycle different from that of

standard trade models? What role, if any, does the product cycle model assign to government policy? Finally, on a different topic:

Identify and explain briefly two ways that the effects of an import quota are different from those of a tariff.

5. This section of our textbook has given a lot of attention to discussions of practical details of trading

arrangements, especially those referring to ways of avoiding free trade. A) What is meant by an NTB? Identify and explain real briefly

three examples. B) In discussing WTO rules on export subsidies, the book discusses three types of subsidies prohibited, actionable, and

non-actionable. Identify what these three terms mean. C) Part of the discussion of VER's involves ways to allocate import licenses.

Identify two such ways. D) What is the difference between predatory dumping and persistent dumping?

The median on this exam was 62. The high was 95

Econ 348 Final Exam Fall, 2003 Professor Twomey Please PRINT your name on the back of the LAST sheet.  Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted. Please ask for clarification of any question that is

unclear. Time: 90 minutes, or until they throw us out.

1. Identify the following with a sentence or at most two:  a) Rules of origin b)

Kyoto Protocol c) Outward oriented policy d) Transfer pricing e) Foreign Portfolio investment

2. In the 1950s Raul Prebisch (and eventually others) argued that developing countries were destined to suffer from a downward trend in

the prices of their exports, which were basically raw materials.  - State and explain briefly two reasons why those prices were

expected to fall - State and explain briefly two reasons why one might have expected that those prices would not fall - Was Prebisch

right?

3. Distinguish between trade creation and trade diversion, giving an example set in the context of countries involved in one of the

expansions of the European Union.

-In the context of NAFTA, which is expected to be larger, trade creation or trade diversion. Explain

-Finally, the book makes an interesting distinction between economic embargoes that are political failures, and those that are economic

failures.  What is that distinction? The U.S. has had an embargo on Cuba for several decades; without any appreciable effect. is this

an example of political or economic failure?

4. Our textbook's preferred model of foreign direct investment involves Dunning's factors OLI. What do these three letters O, L, and I,

stand for? Give an example of each. Our textbook states that the predictions of the standard theory of international migration are in

fact supported by several empirical studies. The U.S. is a labor importer. Explain with words (graph optional) how that migration flow

should affect US wages, profits, and output. Our textbook also has the honesty to acknowledge the possibility of positive and negative

externalities associated with migration. Give an example of each.

5.Oil spills from oceangoing tankers are rare but bring huge damages to coastlines when they occur within 200 miles from shore.

Unfortunately, most taker spills do occur on our near coasts. The following are alternative policies that might be considered by a

country with a coastline. Rank these alternatives according to how efficient they are in responding to the threat of oil spills.

Explain your ranking.

A) Each nation with an endangered coastline should impose a tax on all imported oil, a tax that raises enough revenue to compensate for

any oil-spill damages.

B) Each coastal nation should impose a tax on all domestically purchased oil, a tax that raises enough revenue to compensate for any

oil-spill damages.

C) Oil-carrying companies should be legally liable for all damages, in the courts of the countries whose national waters are polluted

by the spills

D) Each coastal national should intercept all oil tankers in national waters and charge them a fee that will cover the estimated costs

of future oil spills.

E) We might as well save ourselves the expense of trying to prevent spills.  They are just accidents beyond the control of the shipping

companies; they are part of the cost of having coasts.

The median on this exam was 65. The high was 94

Econ 348      First  Exam               Fall 2002            Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer the questions

on these sheets, using the back sides as necessary. Please ask for

 clarification of any unclear question. Time: one hour.  Good  luck.

1. Identify the following with a sentence or at most two:

a) Industrial trade policy

b) Opportunity cost

c) CAP

d) Washington Consensus

e) European Commission

2a. There is a large Free Trade Zone (FTZ) in McAllen, Texas, just on this

side of the border with Mexico.  Arrangements have been made so that

Mexican workers pass freely in both directions across the border. If you

were organizing a firm, what factors would you consider in deciding

whether to operate inside the FTZ, as opposed to operating across the

border--in Mexico itself?

   b. On the graph to the right (taken from another textbook) of a

country's production possibility curves before and after growth, points S1

and S7 represent production before and after growth, and C1 and C7

represent the indifference curves for consumption before and after growth.

For this country, which product (wheat or cloth) does it export, and which

does it import?

    Does the relative price of wheat rise or fall after the country

experiences growth? How can you tell?

3. Consider the following labor input conditions, for countries Alpha (A)

and Zeta (Z), and products goggles (g) and radios (r):

      Which country has absolute advantage in which good?

     A      Z

g    6      15

r    15     30

Which country has comparative advantage in which good?

If country Z has 600 workers, draw its production possibility curve. On

this PP curve, illustrate a potential trade triangle, identifying exports

and imports.

If scientists introduced a third product, TVs, and the labor inputs in

this industry were 10 for A and 12 for Z, what would be the new set of

comparative advantage predictions of who exports what?

4. Consider U.S. imports of cars. Suppose we had an initial situation of

free trade, and then we decided to use tariffs. Draw a graph of the

domestic supply and demand for cars, and explain using that graph the

major impacts of the tariff, on production, consumption, imports and so

on. One frequently used measure of the cost of protectionism is derived

from the concepts of producer and consumer surplus. Explain and show on a

new graph the changes in producer and consumer surplus, and the net change

for the country as a whole. Why is the use in international trade theory

of the concept of an indifference curve different from the use of that

curve in a standard microeconomics class? Identify two justifications for

the use of community indifference curves in the analysis of the effects of

foreign trade on an entire country.

5a. The article by William Cline of the IIE addresses the issue of the

causes of the increasing inequality of the distribution of income, and

specifically of labor income, in the US over the last three or four

decades.  What are the major alternative explanations he considers?  Are

these hypotheses consistent with economic theory? Which one does his

empirical work support?

b. The chapter on European labor markets in the book edited by Hansen

argues that the natural rate of unemployment, called NAIRU, is higher in

Europe than in the U.S. or Japan, due to labor market rigidity in Europe.

-- What is meant by the natural rate of unemployment?

  Discuss briefly two of the explanations that are given for the higher

European labor market rigidity.  What government policies could lessen

that rigidity?

c. In the fifteen countries of the European Union, which

country has the largest total GDP?  Which country has the smallest total

GDP? Luxembourg has the largest GDP per person. Which country has the

smallest? How does the combined GDP of the EUR15 compare to the GDP of

Japan, and to that of the U.S.?

The median on this exam was 68: the high was 92.

Econ 348   Exam #2     Fall, 2002                   Professor Twomey

Please PRINT your name on the back of the last sheet. YOU WILL LOSE CREDIT

IF YOUR NAME APPEARS ANYWHERE ELSE. Answer on these sheets, using the flip

sides if necessary. If any question is unclear, please ask for

clarification. Be sure to label the axes! Questions are equally weighted.

Time: 1 hour.

1. Identify the following with a sentence or at most two:

a) EFTA

b) Rent seeking protectionism

c) Leontieff Paradox

d) Structural Funds

e) Optimal tariff

2a.  Suppose the large country A exports mangos (M) and imports seashell

(S). Draw the offer curve for country A.

b. On that same graph, show what happens if there is bad weather in A, and

their supply of mangos declines. What happens to the terms of trade of

mangos? Explain very briefly

c . Speaking more generally of large countries, why is it easier for

cartels to form on primary products like oil and copper, rather than on

manufactured goods or traded services?

3a. When discussing economic integration, economists distinguish between

trade creation and trade diversion. Explain briefly what the distinction

is, and what is the standard evaluation by economists of which is

beneficial and which is harmful.

b. According to the authors in the Hansen book, which of those two changes

(creation or diversion) has characterized the European Union? Explain

briefly.

c. Finally, the chapter's authors claim that the intra-EU trade has been

characterized by much intra-industry trade. Should this lead to major

"gains from trade" and/or sectoral re-adjustments of the factors of

production? Explain briefly.

4a. Consider the model our book labels the factor proportions model,

a.k.a. the Heckscher-Ohlin model. Suppose the two factors of production

are land (T for terra) and Workers (W).  Suppose the two products are

coffee (c) and shirts (s), that the production of coffee is land

intensive, and that the home country has a relative abundance of workers.

Draw the graph that uses unit value isoquants for the two products to

illustrate the factor price equalization theorem.

b. The "proof" (illustration) of the price/payment theorem (Stolper

Samuelson theorem) uses that picture of the two isoquants, and then

changes one of them, to indicate what happens when the home country

implements a tariff. Draw the corresponding graph, and explain the change.

c. Explain what is meant by the phrase "free trade substitutes for factor

movements."

5. The Hansen book has a lengthy analysis of economic growth.

A) In that book's discussion of the growth of the countries of the

European Union, the basic perspective that is adopted is to compare the

growth of Europe with that of the U.S. and Japan. According to the book,

has there been convergence in income per capita? Explain briefly.

B) According to basic economics, what factors (besides trade policy)

contribute to the growth of a country's income per capita?

C) How well do the factors listed in part (B) explain the results you

describe in part (A)? Elaborate briefly. D) Finally, should be expect the

EU's trade policy to accelerate growth? Has it?

The median on this exam was 63; the high was 88

Econ 348 Exam #3 Fall, 2002 Professor Twomey

Please PRINT your name on the BACK of the last sheet. You will lose credit

if it appears anywhere else. Please answer on these sheets, using the flip

sides if necessary. Questions are equally weighted. Ask for clarification

if a question is unclear. Time: whatever's necessary, which should be 60

to 90 minutes. Good luck!

1. Identifications: Please identify the following with a sentence or at

most two:

a) Brain drain

b) TRIPs

c) The Single Market

d) EBRD

e) Exchange rate peg

f) Convergence criteria

g) Agglomeration advantages

h) Optimum currency area

i) CMEA

j) Copenhagen Criteria

2. The Hansen book argues that the Central and East European (CEE)

countries that used to have socialist economies, would go through three

phases in their transition to capitalist economies. What are those phases?

How long did those phases last? Overall, how well has that prediction

described the experience of the CEE counties?  One of the important

questions of the transition period is the mode of privatization of the

formerly state owned enterprises. Discuss the choice among the three major

alternatives mebo, voucher, and FDI, in terms of theoretical economic

preferability and limitations imposed by political, social, and historical

realities.

3a. In the discussion of the EMU and the process of adopting the euro, the

Hansen book argues that this was a continuation of prior monetary

integration. Sketch briefly the earlier efforts in exchange rate

integration, and describe briefly what the Delors report was, and why it

was important. In discussions about the advisability of joining the EMU,

many economists emphasize the importance of whether macroeconomic

fluctuations (shocks) are similar (correlated) or not the latter term is

asymmetric shocks Why is it important to know if economic shocks are

symmetric or asymmetric? The textbook analyzes this issue with graphs

indicating how unemployment rates have evolved in France, the U.K.,

Finland and Denmark, relative to Germany. Explain and indicate on a graph

what would be the theoretically best outcome, and comment as to what the

data show.

4. We have two major models of foreign investment, the neo-classical or

return to capital model in the Thompson textbook, and Dunning's OLI model,

preferred in the Hansen book.  Compare and contrast the theoretical bases

of those two models in terms of what factors they emphasize, what

assumptions they make, and so on. Here are some "stylized facts"

generalizations about what the data say. Are they consistent with either

or both of those models? Explain each answer briefly.

Most FDI occurs among the industrial countries Recent flows of FDI inside

Europe have been in sectors that we think of as low tech, as compared to

high tech. As China has moved away from the Marxist ideological heritage

of Mao Tse Tung, towards capitalism, it has been one of the major

recipients of new FDI inflows.

5. The Thompson textbook provides the standard model of the impact of

allowing international migration.  Illustrating your answer with a graph,

explain how permitting such migration would affect a high income country's

wages, the return to capital, population, and output. There are several

arguments that can be made to suggest that the above model is incomplete.

Identify and explain very briefly three factors that are ignored in the

standard model. In your opinion, does recent experience in the United

States support the overall predictions of the standard model? Explain

briefly.

The median on this exam was 57; the high was 92.

Econ 348 Mid-Term Exam Fall, 2001 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Effective Rate of Protection

b) NTB

c) Smoot Hawley

d) Section 201 Escape Clause

e) Rent seeking activity

2. Consider the situation of pre-trade labor inputs in a constant cost

model for two countries Alpha (A) and Zeta (Z), producing goods corn

(c) and umbrellas (u):

        A    Z

 c     4    6

 u     8   18

a. Which country has comparative advantage in which good?

b. What are the limits of the free trade prices Pc/Pu?

  c. If A has 40 units of labor, and assuming full employment, draw a

graph of its production possibility curve, showing potential pre-trade

and post-trade points of production and consumption (illustrate

production and consumption with points on the curves, no need to

calculate where they are).

3a. What is meant by immiserizing growth?

b. Draw a graph of this phenomenon.

c. What conditions might make this more likely to occur? Try to give a

couple of concrete examples.

4a. Consider a country which both produces and imports textiles.

Suppose that initially it engages in free trade, but then raises a

tariff on imported textiles.

Define producer and consumer surplus Explain and show on a graph how

this tariff will affect producer and consumer surplus.

 b. One of the arguments in favor of protectionism is that referred

to as infant industry. Explain what is meant by this,

  and illustrate it with a graph.

5. The following are re-phrasings of some of the criticisms of the

World Trade Organization. Please comment on each of them, indicating

for example, whether or not you think the statement is correct

factually, if it is correct "theoretically," whether it was assumed

away in our theories, or whether it really is not a criticism but

should be considered praise, etc.

a.  The WTO and free trade are leading to lower wages in the

industrial countries

b.  The WTO prohibits environmental regulations

c.   In the U.S., the WTO was approved in an undemocratic manner

d.  The WTO undermines national sovereignty because it can enforce

elimination of protectionist policies

e.  The WTO encourages third world countries to exploit their workers

by paying them low wages

f.  The WTO facilitates the spread of low-culture consumer oriented

businesses like McDonalds.

     The median on this exam was 60, the high was 95

Econ 348   International Trade    Fall, 2001       Final Exam       Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. You will lose

credit if your name appears anywhere else. Answer on these sheets,

using the flip sides if necessary. The first question is worth 20

points, and the rest are worth ten points each. Please ask for

clarification if a question is unclear. Time: unlimited, which is

 about 2 hours.

1. Identify the following with a sentence or at most two:

    a) Optimum tariff

     b) Prisoner's dilemma

     c) Factor price equalization theorem

     d) Joint venture

     e) Democratic deficit

     f) CAP

     g) Trigger price mechanism

2. Consider the following duopoly production game between Nigeria and Mexico in the international oil market.

Figures are economic profits in billions of dollars, and the first figure in parenthesis is Mexican profit. Find

the production equilibrium.  Who has the greater incentive to cheat on a collusive cartel agreement?

                                               Nigeria

                                         Low              High

                           Low     (30, 10)        (-20, 40)

      Mexico

                           High    (40, 30)          (0, 0)

3. Borjas proposed a set of components of the "New" economics of

immigration into the U.S. Discuss three of them briefly. How might

they affect U.S. immigration policy?

4.  What is meant by intra-industry trade? Is it (IIT) growing or is

it shrinking? Is IIT more prevalent in developed countries or in

developing countries? Discuss three of the major explanations of this

phenomenon. Generally speaking, does these explanations support or

challenge the Heckscher Ohlin theory and the principle of comparative

advantage? Explain your answers briefly.

5. Generate your own version of an example of the Heckscher Ohlin

Theorem: name the countries, factors, etc., and then state which

country will export which good, according to that theorem. Using your

example, state the factor price equalization theorem, and indicate for

each country which factor will benefit, and which will lose with free

trade.

6. Explain briefly why the US has many MNF (MNC) branch operations in

construction, business services, and oil and coal extraction.

7. Why is it easier for cartels to form on primary products like oil,

copper, minerals, coffee and tea rather than on manufactured goods or

traded services? Why was a banana cartel unsuccessful?

8. Explain and evaluate the proposition that the economic and the

political goals of the European Union are not compatible.

9a.  For either the movement of labor or that of capital, what is the

standard textbook analysis of the effects of permitting international

movement of that factor on output, the returns to labor and capital,

and the distribution of income in the sending and receiving countries?

Illustrate with a graph.

9b.  In class it was argued that there need to be important

modifications to the standard textbook treatment of the economics of

factor movements, whether it be capital or labor. Discuss those

modifications for one of the basic factors of production.

          The median on this exam was 43; the high was 75.

Econ 348               Midterm Exam              Fall 2000            Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer the questions on these sheets, using the back sides as necessary. Please ask for clarification of any unclear question. Time: only one hour.  Good  luck.

1. Identify the following with a sentence or at most two:

a) Hegemony

b) Specific factor model

c) Escape clause relief

d) The Logic of Collective Action

e) International Trade Organization

2. Let's try an assessment of NAFTA in the context of the standard

international trade theory;  Heckscher Ohlin and Stolper Samuelson.

   A) Considering only trade between Mexico and the United States, what

type of goods (Heckscher Ohlin framework) should each country export?

   b) What would these theories predict would be the effect on the

factoral distribution of income in the U.S., of an expansion of trade

between Mexico and the U.S.? Explain briefly.

   c) Is the explanation by William Cline of recent trends of the

distribution of income in the U.S.  consistent with the prediction in 2b

above? In addition to trade flows and tariffs, what is the most important

other factor that Cline includes as affecting wages?

3. Consider production and trade in computers (c) and shirts (s) between

two countries Alphaville (A) and Zetaburg (Z), where the pre-trade labor

productivities are as shown in the following table, and wages are assumed

equal in both industries inside each country.

  ,A,Z

c ,6,8

s ,1,2

A. Which country has comparative advantage in which good?

B. What are the limits of the free trade relative price Pc/Ps?

   C.  Assume each country has five workers. Draw the production

possibility curves for each country, indicating the pre-trade and post

trade production points, and a potential free trade relative price.

4a. Distinguish briefly between the major tasks of the International

Monetary Fund, and those of the World Bank.

   b. One of the major arguments supporting these organizations is that

they provide international public goods. What is meant by a public good?

Identify two examples of such international public goods that these

institutions are presumed to provide.

   c. We all know that these institutions have been subject to criticism

recently in the U.S. Discuss three examples of those criticisms; for each

one, identify what is being asserted, and then argue whether the criticism

is a rejection of the public good argument, an acceptance of the public

good argument but a quarrel over degree (too much, too little) or

ineffective implementation (they don't know how to apply band-aids), or

simply an unawareness of the relevant facts (the IMF should control the

weather).

   5a.  One way of calculating the cost of a tariff is to measure changes

in consumer and producer surplus. The U.S. is a net importer of steel.

Explain and illustrate with a graph the "deadweight loss" of

protectionism.

   b. In what fundamental conceptual way do the Product Cycle and Infant

Industry models differ from the above view of the impact of protectionism.

   c. In the particular case of steel, the following three terms are

mentioned in our readings. Define and distinguish between "escape clause

relief," "Section 301," and "countervailing duties."

   d. In the co-authored article by Brink Linsey of the Cato Institute, it

is claimed "Steel protectionism is incapable of protecting steel jobs,"

even though it is also admitted that employment in this industry has

fallen by 60 % in the last two decades.  If we assume that the 60% decline

data is true, is it true (from a theoretical point of view) to assert the

incapacity of protectionism to save jobs in this industry? Explain your

answer.

The median on this Exam was 62; the high was 90

Econ 348                 Final Exam           Fall, 2000                    Professor Twomey

First of all please, PRINT your name on the back of the last sheet.

Answer on these sheets, using the flip sides as necessary. If any question is unclear, please ask for clarification.

Questions are equally weighted.  Time: 90 minutes. Good luck.

1. Identify the following with a sentence or at most two:

a) Keiretsu

b) Democratic Deficit

c) Auto Pact of 1965

d) convergence criteria

e) Heterodox stabilization policy

2a) According to the theory reviewed in class, how will international

immigration affect wages and income in the sending and receiving

countries? Explain and illustrate with a graph, being sure to label

clearly the axes.

b) A similar story can be used to explain international capital flows,

using interest rates and the return to capital as the explanatory price.

However, when considering foreign direct investment, there are several

specific considerations relating to productive sector, government

policies, etc. which dominate interest rate per se in explaining

investment flows. Identify three examples of these specific factors.

3a Define trade creation and trade diversion, and illustrate both with

examples (real or fictitious) of trade in the NAFTA countries.

b. It was argued that NAFTA represents the solidification of recent

reversals of policies towards each other that were long held inside the

NAFTA countries. For each of the countries, pick an example of such a

policy, and explain it briefly.

c) In the case of economic links between Mexico and the United States, one

can argue that NAFTA has not broken one important historical legacy that

led to an economic policy which impeded free markets. What is that

example? Do you foresee this changing in the near future?

4. Let's consider the Transition Economies.

a) For analytical/historical purposes, what are the main groupings of

these countries, and identify some countries that belong to each group.

b) What are the important legacies from the pre-1989 era?

c) Identify some of the tasks that confronted leaders in the post-1989

period

d) In discussing countries' efforts at achieving the goals of successful

transition, it is argued that important considerations were sequencing and

speed. What is meant by these two terms? Give a couple of illustrative

examples.

e) Why was Russia's experience unique?

5a. The discussion about trade relations between the U.S. and Japan, and

in particular the U.S. trade deficit, typically divides into two schools,

one of which sees nothing unusual in the deficit. What are the names of

these two schools? For each one give two examples of phenomena that are

cited to illustrate their position that the deficit is or is not unusually

high.

b. The text contrasts shallow from deep integration. What is meant by deep

integration? In the case of the European Union, discuss two examples that

illustrate the deep integration.

The median on this exam was 70; the high was 89.

Econ 348             Mid-term   Exam                 Fall, 1999                         Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if necessary.

Questions are equally weighted. Please ask for clarification if a question is unclear. Good luck!

1. Identify the following with a sentence or at most two:

a) Factor Intensity Reversal

b) Mercantilism

c) Compensation principle

d) Input-output table

e) Autarky

2......  Inland Outland

Cars     6     8

 radios 10    12

 Consider a Ricardian world where labor is the only factor of production,

the products are cars and radios, and the two countries are called Inland

and Outland. Suppose their pre-trade labor productivities are as appear in

the accompanying Table.  Assume their demands are similar, and that

nominal wages are equalized between industries inside each country A.

Which country has comparative advantage in which good?

B. What is the range of possible free trade prices?

3a. What is meant by the Leontieff Paradox?

b. Identify and explain briefly three different standard explanations of

this paradox.

c. State (don't prove, don't even draw any pictures) the Heckscher Ohlin

Theorem.

4. The following names are associated with theories/approaches/models

which in some way or other differ from the standard Heckscher Ohlin model.

Identify and explain briefly what the difference is, and how they lead to

conclusions different from the Hechscher Ohlin model.

a) Differentiated Products

b) Economies of scale

c). Product cycle

5. Consider a 2 x 2 x 2 world, under the standard Heckscher Ohlin

assumptions. The countries are Italy and France, the products are Beef and

Wheat, and the factors are capital and labor. Italy is labor abundant, and

the production of Beef always uses relatively more capital.

a. In free trade, which country will export which good?

b. Draw production possibility and community indifference curves for

Italy, indicating pre- and post-trade equilibria (including the trade

triangle). Be sure to label the axes!

c. Draw reciprocal demand curves for the two countries, illustrating free

trade equilibrium consistent with the above information.

d. Draw the curve illustrating factor price equalization (prices of goods

on the vertical axes, prices of factors on the horizontal), and indicate

the pre-trade and post trade points for each country.

The median on this exam was 72 the high was 93.

There was no final that year, we all had a big party.

Economics 348         International Trade         Exam #1

Fall, 1998        Prof. Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets, using the backs if necessary. Be careful to label

each axis and curve. Questions are equally weighted. Ask for

clarification of any unclear question. You have a full hour and a

half. Good luck.

1. Identify the following with a sentence or at most two:

a) Homotheticity

b) Compensation Principle

c) F.O.B.

d) Cardinal Utility

e) Mercantilism

2. Below are several terms that arise in the discussion of either

theoretical extensions or empirical studies of the Heckscher

Ohlin model. For each one, identify it briefly, indicating

whether it supports Heckscher Ohlin, or not.

a) Linder theory

b) Specific factor

c) Intra-industry trade

d) Stolper Samuelson

e) Monopolistic competition

f) Leontieff

g) Increasing returns to scale

3. The product cycle model was presented as an important

alternative to the Heckscher Ohlin model. Rather than ask you to

repeat that model, here are some specific questions related to

it.

a) Discuss three assumptions of the Heckscher Ohlin model which

would not be applicable to Product Cycle.

b) Discuss two policy orientations on which the two models would

not agree.

c) Finally, what can be said about empirical attempts to "prove"

the two models?

4. Consider the case of two countries, France (F) and Denmark

(D), two goods, meat (M) and wine (W), and that there is only one

factor of production, labor, operating in a Ricardian type world.

     The constant labor requirements per unit output are:

                                                  M    W

                                                  F    8    6

a. Which country has comparative advantage

     in which good?                               D    7    5

b. What is the range of potential free trade

     relative prices? In other words, what is

     the range of autarky price ratios?

c. If France has a population of 100, what is its production

possibility curve?

5. Let's do a summary of the Heckscher Ohlin Theorem.

Suppose there are two countries, Sweden (S) and Hungary (H),

there are two factors of production, K and L, and two products,

books (b) and carpets (c). Furthermore, Sweden has relatively

more capital, and carpets are labor intensive. Assume the two

countries have similar tastes.

a). Which country has comparative advantage in which good?

b). If these two countries were to abandon autarky and adopt free

     trade, how would the relative price of carpets in Sweden

     change? (up or down?) Explain briefly, no graph needed.

c). How does the move to free trade from autarky affect

     (relative) wages in Hungary? (up or down?) Explain briefly,

     no graph needed.

d). Draw the two Edgeworth box diagrams for the two countries,

and the two production possibility curves. On the PPFs, indicate

pre-trade positions of production and consumption, and post-trade

positions of production and consumption, and their respective

trade triangles.

e). Draw the graph indicating the relationship between relative

     prices of the goods and relative prices of the factors. (Be

     sure to label the two axes!) No further explanation or

     derivation is necessary.

The median on this exam was 69. The high was 96

Econ 348   Final Exam   Fall, 1998        Professor Twomey

Please print your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary. Please ask for

clarification of any unclear question. You have two hours.

1. Identify the following with a sentence or at most two:

a) Rent seeking activity

b) Section 301

c) Eurocsclerosis

d) Vent for surplus

e) Transfer pricing

2a. Consider the standard analysis of foreign investment between

two countries, which we might call countries A and B. Before

foreign investment is allowed, country A has a lower return to

capital than country B. How will the elimination of the

investment barrier affect relative wages, relative returns to

capital, and incomes in the two countries? (Capital is assumed

homogeneous throughout the economy). Illustrate your answer with

a graph.

b. In what way does this analysis suggest that foreign trade and

factor movements are substitutes?

c. Does most foreign direct investment take place between rich

and poor countries? Why, or why not?

3a. Define and illustrate on a graph what is meant by producer

and consumer surplus.

b. Using the concepts of producer and consumer surplus, indicate

how the imposition of a tariff (assuming initially free trade and

a small economy) will affect a country's overall welfare.

c. International trade economists often use the empirical results

from analyses based on the concepts above in answer (b) to argue

against tariffs. Identity and discuss briefly two or three

limitations to such arguments.

4. Do one of (a) or (b)

     (a) State and prove the Rybczynski theorem

     (b) Identify and illustrate with a graph immiserizing growth

5a. One of the important approaches for the analysis of economic

integration involves the identification and measurement of trade

creation and trade diversion.

-  Explain what is meant by these two terms, giving an example

from European integration.

- For each of these, would one expect it to be (relatively)

     bigger in the European Union, or in NAFTA? Explain your

     answer.

- In class it was argued that the experience of European

     integration has progressed unequally, in terms of economic

     and political union.

     In what ways have those two types of integration been

different?

     Does it matter? Explain.

The median on this exam was 61. The high was 94

Econ 348    Exam #1   Winter, 1997     Professor Twomey

Please answer on these sheets. Feel free to ask for

clarifications about unclear questions. You have 90 minutes.

Identify the following with a sentence or at most two:

a) Effective rate of protection

b) Mercantilism

c) Opportunity cost

d) Free trade zone

e) give three examples of non-trade barriers

2. What is immiserizing growth? Explain it, illustrating with a

graph. Describe briefly two different situations in which it

might occur.

3. Consider a artificial situation in which China shifts its

policy, from being closed off from trade, to entering into the

world market without any protectionism. Suppose that China would

export textiles and import tea.

 - Using graphs of excess supply and demand, show how one would

expect the world prices of textiles and tea to change.

 - How would the domestic production, inside China, change, due

to this new policy.

4. You are a whiz and can vacuum the floor in 15 minutes, and

type your term paper in 30, while your spouse takes 20 and 45

minutes, respectively. Find who has the absolute and comparative

advantage in each activity.

 - Typically, young folks today tend to attempt to split

housework chores. Is this because they don't understand

comparative advantage, or because the theory omits something

important? Explain.

5a. Suppose the labor inputs for four goods are:

     Country       Good 1    Good 2    Good 3    Good 4

     alpha              3         5         3         7

     beta               2         1         3        10

Predict the pattern of trade.

b. Show on a graph (supply and demand, not PPF) the economic cost

of a tariff on an individual item.

 - What is the logic behind the statement that costs measured

this way will ultimately turn out to be small?

 - Why does this same type of logic conclude that the economic

cost of a quota will be higher? Does this result correspond with

"common sense?"

Econ 348   Winter, 1997  Exam #2

Please answer in the Bluebook

1. Identify the following with a sentence or at most two:

a) L„nder

b) brain drain

c) deadweight loss

d) VAT

e) Jean Monnet

2. Draw a diagram using the production possibilities frontier,

illustrating the effect of a tariff on a (small) countryþs

production, consumption, and welfare (community indifference).

Identify the production and consumption distortions.

3. The book by Dennis Swann identifies three phases of reform in

European Integration, specifically with regard to financing the

Communityþs expenditures. What are those three phases?  In

speaking of the first one, he cites the demand of the British

Prime Minister that she wanted her money back? To what does this

refer; is such a situation inevitable? Explain.

4. Using the Jevons diagram, explain and illustrate the effects

of a capital scarce country opening its borders to foreign

investment. What will happen to wages, output, and the return to

capital, in the sending and receiving countries? How does this

analysis get complicated by the consideration of more than one

type of labor, and the concepts of þfactor friends/factor

enemies?þ How does it get altered by consideration of sector

specific capital?

5. With regard to the political economy of protectionism; A) Why

are large firms and industries often more protected than small

ones? B) Why might US Senators favor protectionism less than

members of the House of Representatives? Presidents less than

Senators?

The textbook speaks of the marginal costs and marginal benefits

of migration. What would be two government policies (in the

receiving country) which would affect the MC and two which would

affect the MR?

What are the countries in the table on page 269?

Econ 348    Exam #1    Fall, 1997              Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on

these sheets, using the backs if necessary. The questions are

equally weighted. Please ask for clarification if you don't

understand the question. Time: 1 hour, or until 6:00 pm.

1. Identify the following with a sentence or at most two:

a) Opportunity cost

b) Industrial Trade Policy

c) Consumer Surplus

d) Effective rate of Protection

e) Mercantilism

2. Explain what is meant by the infant industry argument for

protection. Illustrate it with a graph.

Those who support infant industry disagree with the standard free

trade position. Identify and explain briefly two reasons given by

the infant industry school in support of their position.

What would be two arguments against the infant industry position?

3. Consider a situation of two countries, Home, and Foreign

(indicated by \*), producing two products, food (f) and tv's (t),

and where the (constant) labor inputs are L/f = 6, L/t = 20, and

L\*/f = 18 and L\*/t=45. Which country has comparative advantage in

which good?

Suppose that total labor supply in Home is 600, and the total in

Foreign is 900. Draw the corresponding production possibility

curves.  [indicate the magnitudes; graphs don't have to be to

scale]

Now, suppose these two countries engage in free trade,

specializing according to comparative advantage, and that the 35

units of food are exported for 10 of tv's. For the Home country,

what is the level of free trade consumption of both goods?

Illustrate this with a production possibility curve, being

careful to show the trade triangle.

Finally, suppose a third country enters the scene, called Other,

for whom the labor inputs are L/f = 10 and L/t = 25. Without

drawing another Production possibility curve, state how the entry

of Other might affect the previously identified pattern of free

trade flows. If it doesn't, explain why.

4. Consider the international excess supply and demand curves

represented in the accompanying graph, where the "\*" indicates

the foreign country.

Explain briefly, and illustrate with a graph, what happens to the

equilibrium price, and amount traded, of M if:

a) there is inflation in the foreign country

b) The home country experiences technological change in the

production

of M

c) Wages increase very much in the home country

d) Home becomes protectionist

5. Two key themes in discussions about trade and growth are

immiserizing growth and export led growth. Identify each one,

illustrating the situation with a graph. In addition, for each

case, answer three questions: which, why, what.  Which countries

(currently or in the past, specific names or generic

descriptions) have experienced each phenomenon?  Why does each

phenomenon happen? What can a country do to encourage/discourage

each one?

The median on this exam was 61; the high was 93

Econ  348     International Trade       Exam #2

Professor Twomey

Please PRINT your name on the back of the last sheet. You will

lose credit if it appears anywhere else. Answer on these sheets,

using both sides if necessary. Please ask for clarification if a

question is unclear. Time 90 minutes. Good luck.

1. Identify the following with a sentence or at most two:

a) Nash equilibrium

b) Rent seeking behavior

c) Rybczynski line

d) Dumping

e) Backstop Resources

2. Consider a (Heckscher-Ohlin) world of two goods, Electronics

and Shoes, two countries, Home and Foreign, and two factors,

Kapital and Labor. Suppose Electronics are capital intensive, and

that Home has a relative abundance of labor.

a) Draw the Lerner-Pearce diagram

b) Illustrate on this diagram the effect of an increase in the

price of Electronics.

c) According to the factor price equalization theorem, how would

the opening up of trade affect the returns to capital in the Home

country?

3a. In our textbook's discussion of the political economy of

protectionism, there is a reference to an AFL-CIO pamphlet The

Pocketbook Issues, and how its recommendations are a good summary

of protectionist views. Some of these are obvious, such as "Enact

domestic content laws" or "reestablish the domestic television

industry." Explain why the following examples from that pamphlet

might also be protectionist, or if not, why not.

i) Prohibit Alaskan crude oil exports

ii) Discourage export of capital and technology

iii) Repeal the Foreign (free) Trade Zone Act

b) The standard prediction from the literature on the political

economy of protectionism is that in the U.S., the Senate will be

more oriented towards free trade than the House. This prediction

has been supported, once again, by recent events in Washington.

Explain briefly the rationale for this prediction.

c) Finally, the book discusses some research about which

geographical regions of the U.S. benefit from protectionism.

Those regions gaining most are North and South Carolina, Georgia,

Alabama, Rhode Island and other eastern states. Those losing most

from protectionism include the West and the Midwest, such as

Iowa, Nebraska, California, Nevada and Oregon. Why is this?

4a. Consider a situation of two countries, Home and Foreign, and

two goods, wheat and textiles. In free trade, Home exports wheat.

Draw the offer curves for both countries, identifying the free

trade quantities of exports and imports. Draw Home's production

possibility frontier, illustrating autarky and free trade. (The

two graphs have to be consistent, but not necessarily identically

to scale.)

b. What is the Nash equilibrium outcome of the following tariff

game?

5. Refer to the accompanying article. The following questions

refer to the consistency between our theories (Heckscher Ohlin,

political economy of tariffs, etc.), the information in the

article, and the world which the article reflects. The questions

refer to letters (A, B, etc.) as indicated by me on the article.

a) There is a widespread feeling that NAFTA's negative effects on

     employment are due to foreign investment, as indicated in A

     (badly reproduced). Is foreign investment needed for the

     conclusion that imports cause unemployment, or, indeed, the

     factor price equalization argument? Explain.

b)  The U.S. is a net exporter of agricultural goods. According

     to the H-O theory, should Florida farmers (as in paragraph

     B) be in favor of free trade, or not? Explain.

c) Are our theories consistent with the statement, in section C,

     that consumers do not think of their gains from trade, while

     some producers do? Explain.

d) Is there any reason to think that those hurt by import

     competition will lobby more than those who will benefit by

     export expansion? (paragraph D)

e) Does labor have a justification, within our theories, of

     complaining about free trade agreements with countries like

     Chile and Mexico? (paragraph E) Explain your answer briefly.

The median on this exam was 63, high was 91.

Econ 348  International Economics  Final Exam Fall, 1997  Prof.

Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets, using the backs if you need space. Please ask for

clarification if a question is unclear. Time: two hours. Good

luck.

1. Identify the following with a sentence or at most two:

a) Product Differentiation

b) Escape clauses in the GATT

c) Minimum efficient scale

d) Joint venture

e) International Duopoly

2. Distinguish between "trade creation" and "trade diversion."

According to standard trade theory, should these be large or

small compared to, say, total trade or total GDP.

Distinguish between a "free trade association" and a "customs

union."

Are either or both trade creation and/or trade diversion relevant

to a free trade association, and which of them is relevant to a

customs union? Explain, illustrating with cases from Europe.

3a. According to standard theory, what are the effects of

international migration on the wages and income levels of the

sending and the receiving countries?  Illustrate with the Jevons

diagram.

b. In class, we distinguished four major international movements

of laborers. Identify them briefly by century, sending and

receiving areas, impact on populations of sending and receiving

areas, and modality of movement (i.e., free, indentured, coerced,

etc.).;

4. What is meant by intra-industry trade (IIT)?

In what geographical areas is IIT important?

Identify and explain briefly three explanations for IIT.

In what sense does the presence of IIT challenge standard trade

theory.

5a. What are the major components of Dunning's OLI model of

foreign (direct) investment (FDI)?

b). There is another model of foreign investmentþparticularly

appropriate for portfolio flowsþwhich attributes investment flows

to an entirely different factor. What is that factor?

c). In the article which was distributed in class, Markusen

argues that there are several empirical regularities of FDI and

multinational firms, which the OLI model explains better than the

model referred to immediately above in part (b). Identify and

explain very briefly two of those empirical regularities.

d). Economists have the habit of talking about the "welfare

impact" of some economic phenomenon, such as tariffs, social

security, or, in this case, foreign direct investment. Discuss

briefly two lines of argument about the welfare impact of FDI,

according to the OLI theory.

The median on this exam was 69; the high was 98

Econ 348     Exam #1    Winter, 1996   Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Use the

backs of these sheets if you need more space. Ask for

clarification if the question is unclear. Questions are equally

weighted. Good luck.

1. Identify the following with a sentence or at most two:

a) Effective protection

b) mercantilism

c) industrial policy

d) VER

e) autarky price

2a. The U.S. is an export of business services; most countries

limit these exports. Show on a graph of international supply and

demand for these services what would if other countries decided

to lower their domestic protection of those services. How will

such actions affect U.S. consumers of business services? Explain

briefly.

2b. Explain what will happen in the international market for

autos if technology for auto production improves in the United

States (a net importer of autos). Show on a graph.

3a. Distinguish between the gains from trade along the current

production possibility frontier and developmental gains from

trade. Draw a graph of each.

b. What is immiserizing growth? How does it fit into the

discussion of question 3a? Explain, illustrating with a graph.

c. The NICs (newly industrializing countries) appear to be

avoiding immiserizing growth. How, and why? Explain briefly.

4. Consider a world of two countries, Home and Foreign, and two

products, M and S. Suppose the labor input requirements in Home's

industries are L/M=4, and L/S=5. Total labor L in Home is 260.

Foreign economy has L\*=300 workers, and its production structure

involve labor inputs of L\*/M=6, and L\*/S=5. Find the pattern of

comparative advantage and specialization.

Suppose the free trade price is 1 (book's notation is S/M=1), and

that each country exports 30 units of the good in which it has

comparative advantage. Find the percentage gains from trade for

Home.

5. The attached graph of the market for shoes was drawn for

domestic supply equation S = -20 + P, and domestic demand D = 100

- P. You can answer the questions using algebra, or simply

shading or filling in the graph. (Numbers are different from

question in the book).

-a. Find the level of imports if the world price is $40.

-2a. Suppose a 25% tariff is put on shoe imports, and the world

price is fixed.  What is the resulting domestic price of shoes,

and the new quantity of imports?

-2b. With this 25% tariff, what is dollar value of the tariff

revenue, and the deadweight loss? Illustrate on the graph and

estimate, or find exact amount using calculations.

-3a. Going back to the initial situation, where the world price

is $40, suppose now that a quota of 10 units is imposed. Find the

new domestic price with this quota.

-3b. Find the producer surplus and the total loss associated with

this quota. Illustrate on the graph and estimate, or find exact

amount using calculations.

median on this exam was 64; high was 90

Economics 348      International Trade       Exam #2

Winter, 1996        Prof. Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets, using the backs if necessary. Be careful to label

each axis and curve. Questions are equally weighted. Ask for

clarification of any unclear question. Good luck.

1. Identify the following with a sentence or at most two:

a) International price discrimination

b) Rybczynski theorem

c) convergence of manufacturing labor inputs

d) Product differentiation

e) Smoot Hawley Tariff

2. Consider a standard Heckscher Ohlin world (2x2x2), where the

two goods are cars (c) and vegetables (v); cars are capital

intensive, and the Home country has relatively more labor than

the Foreign country.

a) Draw the two production possibility  frontiers (PPF).

b) On Home's PPF, indicate pre- and free trade production and

consumption.

c) Draw the Lerner Pearce diagram.for the two products

d) State (don't prove) what happens to relative wages in Home

with the

     adoption of free trade.

3a. When the desire to consume imported manufactures increases in

a Large home country, show (and explain briefly) on a graph what

happens to its trade triangle.

b. Explain, and show using offer curves, what happens when home

consumers decrease their demand for foreign's exported goods. Is

the foreign country made better or worse off? Do the home

country's terms of trade improve or worsen?

c. Find the Nash equilibrium outcome of the tariff game

represented in the following table. [Parenthesis are dollar

values of (foreign income, home income)]

                              Home Tariff

                       0%              5%              10%

Foreign        0%        (100, 100)       (95, 102)      (90,

100)

 tariff        5%        (103,  96)       (97,  98)      (94,

99)

          10%       (102,  95)       (95,  96)      (90,  97)

4a. Explain in one sentence the essence of the argument

associated with the idea of the "political economy of

protectionism" about why countries do not have free trade.

b. According to this school, who would be more likely to vote for

tariffs, U.S. Senators or Representatives? Explain real briefly.

c. According to this school, would the U.S. be more likely to

protect sugar or beer industries? Explain.

d. On a slightly different note, explain what is meant by

Prisoner's dilemma.  Should this always occur in debates about

tariff policy? Explain

5. Consider the situation of a country initially in free trade,

which is labor scarce, and imports clothing, which is labor

intensive, and exports computers. In which of the following

situations would it be in the self-interest of the person

concerned to favor protectionism, and why:

i) A worker in a world characterized by the assumptions of the

standard Heckscher-Ohlin/Stolper Samuelson model;

ii) A worker in the computer industry who has special skills

which workers in other industries do not have;

iii) A worker in some government activity which is not itself

traded, but whose skills are similar to those of people in the

clothing industry

iv) What about some worker in the computer industry who had no

special skills, but the computer which s/he produces has a world

monopoly?

median on this exam was 69; high was 85

Econ 348     Final Exam      Winter, 1996         Professor

Twomey

Please PRINT your name on the BACK of the LAST sheet. You will

LOSE CREDIT if it appears anywhere else. Answer on these sheets,

using the backs if needed. Questions are equally weighted. Please

ask for clarification if the question is unclear.  Time:

unlimited, which is about 90 minutes.

1. Identify the following with a sentence or at most two:

 A) Transfer pricing

 b) Minimum efficient scale

 c) Branch Plant

 d) Trade diversion

 e) Joint Venture

2. Explain and show with a graph (perhaps the Jevons diagram) the

standard theoretical predictions about the effect of

international migration on wages in the host and source

countries.

How will migration affect output, the return to capital, and

income distribution in the source (sending) country?

Mainstream economists argue that migration into the U.S.

currently has no major effect on average wages. Explain briefly

two reasons for this conclusion.

3a. Consider the following "duopoly game" between Saudi Arabia

and Libya, where the different levels of

dollar "profit" to the countries (Saudi profit, Libyan profit)

correspond to "low" and "high" levels of production.

                                            Libya

                                        Low       High

         Saudi Arabia         Low       (30, 10)  (-20, 40)

                              High      (40, -30) (0, 0)

 ai) Find the Nash equilibrium.  Is it stable?

 aii) Who has the greater incentive to cheat?

Consider now the issue of differential pricing in different

markets.

ab) Why might an international monopolist operate temporarily at

a loss?

b) Should a country be concerned if foreigners want to sell goods

for less than it costs them to produce them?  Give an example

from the European union.

4. Let's try to tell a story about the evolution of the European

Union, in the form of a set of expanded identifications. Who,

what, and when were/are the following, and what role have they

had in the development of what is now called the EU.

a) Treaty of Rome

b) Margaret Thatcher

c) Maastricht treaty

d) Eurosclerosis

e) The timing and the context of new countries entering the EU.

f) Marshall Plan

5a. What is the OLI model of international investment?

b) How does this model relate to the textbook's model of specific

capital?

c) What major predictions does this model generate about economic

impacts of foreign investment?

d) A somewhat traditional form of foreign investment is that of

automobile manufactures. The textbook notes that new investments

are taking places in services such as banking.

 According to the OLI model, or the specific capital model, who

benefits in the host (or receiving country) from each of these

two types of investment? Who is hurt?

Why is there a shift from manufacturing investment to investment

in services?

median on this exam was 70; high was 92

Econ 348                Exam #1        Winter, 1995

Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

the backs of these sheets if you need space.  Questions are

equally weighted. Please ask for clarification of any unclear

question. Good Luck!

1. Identify the following with a sentence or at most two:

  a) compensation principle

  b) EFTA

  c) homotheticity

  d) trade creation/trade diversion

  e) name three forerunners (predecessors) of the European Union

2. Consider two countries Alpha and Zeta, that produce two goods

cars and wheat.  There is one factor of production (labor), and

the pre trade labor hours per unit in each country are:

        car  wheat            a) Which country has absolute

                              advantage in which good?

Alpha     8      9

                         b) Which country has comparative

Zeta      4      3            advantage in which good?

c) What are the limits on the free trade relative price ratio of

Pcars/Pwheat?

d) Assuming Zeta has 120 workers, draw its production

possibilities curve, and illustrate its autarky and free trade

situations.

3. Consider a situation of a country producing two products,

computers and shoes, under conditions of constant returns to

scale in the two factors of production, capital (K) and labor

(L). Suppose computers are relatively capital intensive.

a) First, define (explain in words what is meant by) the

Edgeworth Box diagram and the Contract curve.

b) Draw the Edgeworth Box diagram corresponding to this

situation, illustrating where the Contract Curve would be

located.

c) Explain the argument that a country would only wish to produce

on its contract curve, illustrating the argument on a graph.

d) Draw a production possibilities frontier for this country's

production of shoes and computers, and identify with a pair of

points (call them A and B) a movement along the PPF with the

corresponding movement (between A and B) along the contract

curve.

4. Suppose you have a situation of two countries with similar

tastes and different production conditions.  There are two goods,

wood (W) and scissors (S). Consider the country which will have

comparative advantage in wood. Draw its production possibility

frontier, its autarky and free trade equilibrium points, the two

relative price ratios, and the two corresponding community

indifference curves.

Repeat next to this graph the graph of the trade triangle,

indicating exports and imports.

How does the opening of trade affect the ratio Pw/Ps for this

country?

On another graph, show the separation of the gains from trade

into its components of gains from specialization and gains from

exchange, explaining what each one means.

5. Let's talk GATT.

a) What is meant by the GATT "rounds?"

b) Which round has just been completed?

c) What were the major issues of the most recent round?

d) What's the WTO?

e) What is "fast track" and why is it relevant to this?

f) With regard to U.S. trade policy, what is Super 301?

g) What are PSE's and what empirical generalization can be made

about them for industrial countries?

The median on this exam was 69. The high was 97

Econ 348  Exam #2   Winter, 1995 Professor

Twomey

Please PRINT your name on the BACK of the LAST SHEET. Please use

the backs of these sheets if you need space. Ask for

clarification of any unclear question. Good Luck!

1. Identify the following with a sentence or at most two:

  a) Leontieff paradox

  b) Stolper Samuelson Theorem

  c) specific factors model

  d) immiserizing growth

  e) State (don't prove, just STATE) the Rybczynski theorem

2) In a Heckscher Ohlin world, consider trade between Brazil and

the U.S.; Brazil exports coffee and the U.S. exports airplanes.

Construct the offer curves for the two countries, and show how a

(proportional) growth in the U.S. will affect our offer curve,

the world relative price of coffee, and Brazilian production of

both products, and her welfare (community indifference curve).

3. Suppose in a Heckscher Ohlin type world, France and Spain are

the only two countries, that the two products which are produced

are wine and cloth, that cloth is capital intensive, and that

Spain has relatively more capital.

a) State (don't prove, just write it down) the factor price

equalization theorem for this situation, and illustrate it with a

graph.

b) How would adoption of free trade be expected to affect wages

in Spain? Explain briefly.

c) Illustrate the Edgeworth Box diagram for France, and show on

it the two points, no trade and free trade.

4a. State briefly the main conclusion of THE Heckscher Ohlin

Theorem.

b) What are some assumptions behind the Product Cycle model? How

are they consistent (or different from) those of the H-O model?

c) If the world is characterized by increasing returns to scale,

which of the conclusions of the Heckscher Ohlin theorem are still

valid, and which not?

5a. What are the important characteristics of the Krugman model

which is discussed in the text?  How does it differ from

Heckscher Ohlin in terms of:

a) assumptions

b) prediction in terms of gains from trade

c) compatibility with observed levels of intra-industry trade

d) ability to handle the case of natural resources as a factor of

production

e) Can a country with a single Krugman industry be a "small"

country? Explain

The median on this exam was 62. The high was 87

Econ 348         Third Exam            Winter, 1995

Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

the reverse sides if you need space. Please ask for clarification

if you don't understand the question.  Questions are equally

weighted. Good luck!

1. Identify the following with a sentence or at most two:

a) GSP

b) Offshore assembly

c) Transfer pricing

d) CAP

e) Effective rate of protection

2a. What is the main difference between a customs union and a

free trade association?

b. What is the difference between trade creation and trade

diversion?

c. In general, what are the costs and benefits to Europe of the

Airbus industry?

3. In theory, what are the effects of international labor

migration on wages and total incomes in the sending and receiving

countries? Explain, and illustrate with a graph.

b. What is return migration, and how does it effect our

understanding of migration?

c. In addition to the forced movement of Africans to the western

hemisphere as slaves, name two major migration movements since

1500, and rank them in size to each other and the movement of

Africans.

4a. What is the difference between an export tax and an export

subsidy?  Which instrument are domestic consumers likely to

prefer, and why?

b. Show on a graph how a tariff affects the offer curve of a

large country, and explain how it affects that country's terms of

trade.

5. Consider the application of strategic trade arguments to a

possible government subsidy of research and development of

automobile engines made of ceramics (which would be cheaper than

metal, and also lighter and hence get better mileage).

Would this be defensible by the following arguments? Explain each

answer in a paragraph or so.

a) infant industry

b) tariff to extract foreign monopoly profit

c) economies of scale in a duopoly situation

d) Game theoretic situation of a threat of export subsidy to

deter foreign R&D

The median on this exam was 69. The high was 98.  ECON 348   Exam

#1        Fall, 1990       Professor Twomey

Please PRINT your name on the BACK of the last sheet.  You have

one hour.  Use the backs of these sheets if necessary.  Note that

the questions have different weights.  Ask for clarification of

any ambiguous question.

1. Identification: Identify the following with a sentence or two

(20 points)

a). Stolper Samuelson Theorem  b). NIC

c). Producer Surplus          d). Immiserizing growth

e). Linder's Representative Demand Hypothesis

2. (15 points) Suppose there are two countries, Australia and

Belgium, (or A and B), two factors of production, Kapital and

Labor, and two products, Toys and VCR's, and, furthermore, that

toys are labor intensive, that Belgium has relatively more

capital than Australia, and that tastes are relatively

identical around the world.  For both countries, draw the

corresponding production possiblity curves and indifference

curves for both the before trade and the free trade position.  In

the free trade graphs, indicate exports and imports.

            Pre-Trade                     Free-Trade

Australia

Belgium

How does the opening of trade affect wages in Belgium?

3. (20 points) In the discussion of the graph about the long run

tendency of the terms of trade, the author states: "There has

been a rough balancing of forces that would raise and forces that

would lower the terms of trade of primary producers." State and

discuss briefly two factors which might raise, and two which

might lower these terms of trade.

4.(20 points)  Consider the following matrix of labor

productivities in two countries before they permit free trade.

Assume wages are equal in each industry.

      country      A. Which country has comparative advantage

good   X   Y                 in which good?

wheat  l   2

cloth  3   4

B. Which country has absolute advantage in which good?

 C. How would the adoption of free trade affect the relative

price of wheat in X?

5. (30 points). The attached figure reproduces the book's

estimates of the factor content of Canada's trade.

a According to the Heckscher Ohlin theory, which factors of

production in Canada are benefited by free trade?

b)One of the major criticisms of the Heckscher Ohlin theory is

that it is static.  An alternative model is the product cycle

model. i) Explain briefly the product cycle model ii) In terms of

an application of the product cycle model to the situation of

Canada, what factors of production might be expected to improve

their relative position over, say, the next ten years, which

would lose, and which, if any, would not be affected? Explain

briefly. c). Aside from the fact that it is static, state and

explain three other criticisms of the Heckscher Ohlin model.

Econ 348    Final Exam        Fall, 1990      Professor Twomey

Please PRINT your name on the BACK of the LAST sheet.  Write on

the backs of these sheets if necesary.  Please ask for

clarification of any unclear question.  Time, up to two hours.

Good luck.

1 (20 points). The GATT talks just broke up over the issue of

protectionism on agricultural products.

a) In general terms, what is the characterization which can be

given of the overall approach towards agricultural trade policy

in developing and in the industrial countries?

b) How would you explain the differences in policy between

developing and industrial countries?

c) One of the ways this trade policy is discussed is through

calculation of the nominal protection coefficient.  Briefly, what

is this, and what does it try to measure?

2 (20 points). Sweden has just announced its interest in joining

the European common market.  Theory suggests that such a move

would involve trade creation and trade diversion, and

that there would be both short term static effects and long term

dynamic effects.  Using Sweden as your example, (and making up

production situations if you don't know too much about

that country), explain the concepts of trade creation and trade

diversion, and the difference between static and dynamic effects

of integration.

3.(20 points) Theoretical approaches to the explanation of direct

foreign investment have emphasized the Organization, Location and

Internalization factors.  Explain what is meant by

each of these, giving two examples of each one.  On the basis of

these examples, indicate when it might be in a country's best

interest to encourage foreign investment, and when it

should be discouraged.

4 (40 points). Answer part (a), and four of the six remaining

parts.

a) Explain and show on a supply and demand graph the effects on a

small country of levying a tariff. How does the country's overall

welfare get affected?

Answer four of the following:

b How is the analysis of part (a) changed if we consider the

possibility of tariff retaliations?  In what circumstances might

this be especially likely?

c) What problems exist in measuring protectionism?

d) What is the infant industry argument, and how would it be

shown in terms of the analysis of part (a)?

e) What is the "Theory of Second Best", and how does it get

applied to discussions of protectionism?

f) Why might an export tax have the same sorts of effects as a

tariff on imports?

g) Under what conditions will a quota and a tariff, which have

similar effects on imports, be in all other ways also identical,

and when will they be different?

ECON 442     EXAM #1     Winter, 1987            Professor Twomey

Please PRINT your name on the BACK of the last sheet. You will

lose credit if it appears anywhere else. The questions are

equally weighted.  You have 50 minutes. If there is any

uncertainty about what is being asked, specify how you are

interpreting the question.

l. Identify the following with a sentence or at most two:

a. Large country (as used in this course)

b. Factor intensity reversal

c. Distinguish between trade creation and trade diversion.

d. Draw the graph of an unstable equibirium with regard to offer

curves

e. Distinguish between increasing costs and decreasing costs, and

illustrate each one with a graph.

2. Consider a simple model of no-trade versus free trade, and

assume that there is only one factor of production, called labor,

which in each country is paid identically between industries.

Let the pre-trade productivities of labor be as shown in the

table.                                        Country  A     B

                                            Product

                                              wine     4     2

a. Which country has comparative

advantage in which good?                      cloth    6     1

b. What are the limits of the free trade relative price of wine

with respect to cloth?

c. How does free trade affect wine producers in country A?

3a. State - but don't prove - the Heckscher Ohlin Theorem.

b. What is the Leontieff paradox and how does it relate to the

Heckscher Ohlin Theorem?

c. What are some of the explanations of the Leontieff paradox

which are consistent with the Heckscher Ohlin theorem?

4. Consider the offer curve of country Y which exports food and

imports machines from country Z.

a. How does a tariff in country Y affect Y's offer curve?

Illustrate with a graph.

b. How does a tariff in country Y affect Y's welfare? How would

it affect Z's welfare?

c. What is an optimal tariff?  What are some limitations on the

use of the concept?

5. Consider trade between countries Alpha and Beta. Assume that

there are two goods, guns and butter, that guns are capital

intensive and butter is labor intensive, and that Alpha has

relatively more labor than does Beta, which has relatively more

capital.

a. According to the Heckscher Ohlin theorem, which country will

export which good?

b. Draw the Edgeworth box diagrams, and production possibility

curves, for both countries, indicating the pre-trade and free

trade positions in each diagram.

c. Illustrate (again, don't prove) with a graph the Factor Price

Equalization Theorem. That is, show on the graph the pre-trade

and free trade price ratios for each

country.

Economics 442    Final Exam     Winter, 1987     Professor Twomey

Please PRINT your name on the back of the last sheet.  You have

one hour.  The questions are equally weighted. Use the backs of

these sheets if necessary. If you are not sure what is being

asked, please request clarification. Good luck.

1a. What were the predictions of Vernon's book Sovereignty at

Bay? To what extent were they right or wrong, and why?

1b. According to Magee and other proponents of the 'industrial

organization' school, what are the main factors determining which

industries - and which countries - engage in foreign investment?

2a. What is immizerizing growth?  Illustrate with a graph.

Mention briefly three factors which tend to make it more likely

to occur.

2b. Prove, utilizing a graph, the Rybczynski theorem, which can

be stated; "An increase in one factor of production will lead to

ultra-biased growth, favoring the industry that uses the gorowing

factor intensively."

3. In his article, Krugman states: "The conventional case for the

desirability of free trade rests, in part, on idealized

theoretical models in which free trade can be shown to be

perfectly efficient.  Economists have always known that the

conclusion that markets are efficient becomes suspect when one

abandons some of the idealizations of these theoretical cases."

(p. 11) State and discuss briefly three examples of situations

which have been suggested as justifying the abandoning of those

idealizations, in the context of strategic trade policy.

4. Take one of the following industries, and argue for or against

government assistance, along the lines of strategic  trade

policy, or some other specific (and specificed) rationale: autos,

textiles, or semiconductors.

ECON 442    MID-TERM EXAM      Winter, 1988  Professor Twomey

Please PRINT your name on the BACK of the last sheet. Ask for

clarification of any ambiguous question. Answer on these sheets.

Questions are equally weighted.

1. Identify the following with a sentence or at most two:

   a) Factor Price Reversal      b) GSP

   c) Metzler Paradox            d) Unequal Exchange

   e) Specific Factors model

2. a. Distinguish conceptually between the argument for tariff

based on the idea of an optimal tariff, and that for for infant

industries.

   b. Could Brazil tax its exports of coffee and justify that by

either of the above two arguments? Explain.

   c. In general, is a tariff a second best method of raising

government revenue? Why or why not?

3.  Consider a world of two countries, Austria and Belgium, or A

and B, in which the only factor of production, labor, produces

two goods, called xylophones and zithers, or x and z. Suppose

that in A 6 man-hours of labor are needed to produce x, and 10

are needed to produce z, whereas in B, 4 units of labor produce

one unit of x, and 3 units of labor produce one unit of z. Ignore

inter-industry differences in wages.

a). Which country has comparative advantage in which good?

b). Suppose now that each country has 100 man-hours of labor.

Draw the production possibility frontiers for A, B, and the

world.

c). If the world relative price of the goods is one to one, who

exports what?

d). Going back to the original situation of (b), if everyone

always consumes one x for each unit of z, what should each

country produce, and what should the direction of trade be?

e). Now suppose that it becomes possible to move labor between

the two countries. What should be done?

4.a. Suppose (it is only somewhat true), that in nearly all

countries wages are generally higher in export industries than in

import-competing industries. What would this imply about the

empirical relevance of the human capital interpretation of the

Heckscher Ohlin model?

4b.Some commodities, because of high transportation costs, do not

enter into international trade at all. Personal services are

often of this sort. Suppose we alter the basic Heckscher Ohlin

model by adding a third, non-traded good. If non-traded goods

consist mainly of service industries, what effect would they have

on studies such as Leontieff's?

5. Using indifference curves and offer curves, show that:

a) free trade is always better for a country than autarky

b) Free trade is efficient in the sense that it is impossible to

make one country better off without harming the other

c) Limited trade may be better than, or worse than, free trade

for a single country.

ECON 442   Winter, 1988     Final Exam         Prof. Twomey

Please put your answers in a blue book. Time: two hours.

Answer all the first ..

l. (20 points) What is the OLI theory of foreign investment?

Explain its component parts, giving examples of kinds of foreign

investment where possible.

2. (10 points) On a theoretical level, explain why the standard

interventionist argument in foreign trade talks about an optimal

tariff - which is a tax, while the Strategic Trade Policy

argues for subsidies to domestic industry, or even exports.

3. (10 points) Define and give examples of trade creation and

trade diversion.

4. (10 points) Does a high amount of intra-firm international

trade contradict the product cycle model, or the basic

comparative advantage explanation of foreign trade? Explain.

5. (10 points) How does the presence and growth of multinational

enterprises affect the factor price equalization argument?

6. (15 points) Compare and contrast Industrial Policy in the US,

Japan and France, both on a general overall level, and also with

regard to specific industries.

7. (10 points) Discuss briefly the Regional Policy of the

European Community, and its strengths and weaknesses in terms of

conception and achievements.

8. (15 points) What are the functions of the European Parliament

and the European Monetary System, and to what degree are they

furthering the goal of a united Europe?