

NAME: _____

Student ID No.: _____

**Economics 340
International Economics
Prof. Alan Deardorff
Final Exam**

Form (KEY) 0

April 25, 2018

INSTRUCTIONS: READ CAREFULLY!!!

1. Please do not open the exam until you are told to do so.
2. **PLACE YOUR NAME AND STUDENT ID NO. (THE EIGHT DIGIT NUMBER FROM YOUR M-CARD) ON THE EXAM AND ON THE SCANTRON SHEET.**
3. **After** you are told to open the exam, find the **FORM NUMBER** above and enter it where it asks for “KEY” on the scantron sheet. Be sure to fill in the bubbles.
4. This exam has 100 points and you have approximately 120 minutes to complete the test. Check that you have all 19 pages of the exam, including this cover sheet.
5. **Part 1** consists of 35 multiple choice questions worth 1 point each. Answers to the multiple-choice questions in Part 1 should be marked on the scantron sheet using a #2 pencil. There are no penalties for guessing.
6. **Part 2** consists of short-answer questions for which you must provide written answers on these sheets. Point values for questions in Part 2 are indicated in parentheses. Part 2 has 63 points total.
7. That leaves 2 points unaccounted for. You will get these if (and only if) you put your name and ID number on both this exam booklet and the scantron sheet, **and** if you enter the form number (see above) on the scantron.
8. Good luck!

FORM (KEY) 0

Economics 340 Final Exam

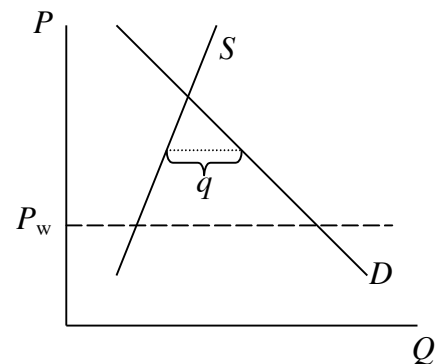
Part 1: Multiple Choice (1 point each)

Select the **best** answer of those given. Answers to this part should be marked on the scantron sheet using a #2 pencil. There is only one correct answer per question, and there is no penalty for guessing.

1. Which of the following is a plausible reason for an American to buy 1,000,000 British pounds on the 30-day forward market when the forward rate is 1.42 \$/£?
 - a. The current spot exchange rate is 1.41 \$/£ and the American expects the rate of inflation in Britain to be at least one percentage point higher than in the U.S.
 - b. The American's firm has just sold a quantity of American-made machine tools to a British importer and will be paid £1,000,000 for it in 30 days.
 - c. The American believes that the pound is likely to appreciate substantially from its current spot price of 1.41 \$/£.
 - d. Seeing high short-term interest rates in Britain, the American has just bought a British Treasury Bill that will mature in 30 days for £1,000,000.
 - e. The American has \$1,420,000 that he wants to invest profitably for one month.
2. When the U.S. eliminated tariffs on imports from Mexico as part of the NAFTA, certain goods that the U.S. had previously imported from Asia subject to tariffs were now purchased from Mexico instead. From the perspective of the welfare of the United States as a whole, this was
 - a. Good for the U.S. because the Mexican goods cost less than the Asian ones.
 - b. Bad for the U.S. because American producers were forced to shut down.
 - c. Good for the U.S. because the prices of these imports were less distorted by tariffs.
 - d. Bad for the U.S. because Mexico's cost of producing these goods was higher than Asia's.
 - e. Good for the U.S. because this new trade with Mexico was free of any tariff.

3. Which of the following **is** a member of the European Union and has **not** adopted the euro as its currency?
 - a. Denmark
 - b. Finland
 - c. Greece
 - d. Italy
 - e. Switzerland
4. The original name of the World Bank was
 - a. International Trade Organization
 - b. International Monetary Fund
 - c. Bretton Woods Institute
 - d. International Aid Institution
 - e. International Bank for Reconstruction and Development
5. Suppose that Belgium is twice as productive as France in producing glass and three times as productive as France in producing sheet metal. Considering a world that includes only these two countries and these two goods, who has a comparative advantage in glass?
 - a. Belgium
 - b. France
 - c. Both countries
 - d. Neither country
 - e. It is impossible to tell from the information given
6. Suppose that a country starts in autarky, then opens to free international trade, whereupon it exports a certain good, call it widgets. Both the Ricardian Model and the Heckscher-Ohlin Model include predictions of what will happen in this country. Which of the following **is** a prediction of the HO Model and **is not** a prediction of the Ricardian Model?
 - a. Output of widgets will increase.
 - b. Labor will move from another sector of the economy into the widget sector.
 - c. The technology in the widget sector will improve.
 - d. Consumers in the country will have access to a larger variety of widgets.
 - e. The real wage of the country's scarce factor will fall.

7. A large country may gain by imposing a tariff on its imports because
- The world price of the imported good will rise.
 - Other countries will respond by supplying more exports.
 - The domestic price paid by consumers of the imported good will fall.
 - Foreign exporters will reduce the price they are willing to be paid.
 - The tariff undermines the monopoly power of domestic producers.
8. A tariff-rate quota is
- The number of import tariffs that the World Trade Organization permits a country to impose.
 - The tax collected by the WTO from countries that use import quotas.
 - A high tariff levied on imports above a specified quantity, combined with a lower or zero tariff on imports below that quantity.
 - A tariff levied only on the first imported unit of a good, other units beyond that being imported free.
 - The number of votes that a country has in the decision making of the WTO.
9. The figure below shows domestic supply and demand for a good in a small country that faces the world price shown as P_w . Suppose that, instead of trading freely at that price, the country is imposing an import quota in the amount shown as q . Which of the following will happen if the world price of the good now falls below P_w ?
- The domestic price of the good will fall.
 - The quantity of imports of the good will increase.
 - The total value of the quota rents will increase.
 - Domestic supply of the good will decrease.
 - All of the above.



10. The main reason why developed countries today use import tariffs is
- To sustain a distinctive national culture.
 - To help a domestic industry.
 - To help domestic consumers.
 - At the request of foreign governments.
 - As a major source of government revenue.

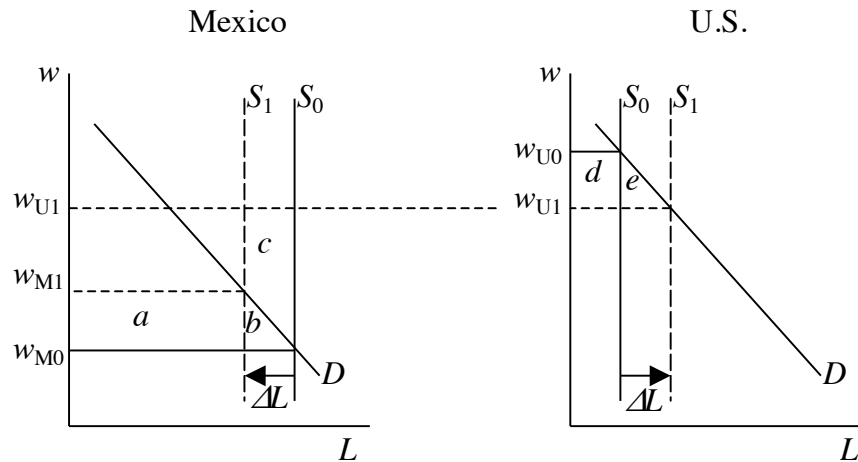
11. Which of the following is **not** a member of the WTO?

- a. United States
- b. China
- c. Russia
- d. Taiwan
- e. Iraq

12. Which of the following would be an example of foreign direct investment from the United States to Brazil?

- a. An American professor deposits money in a Brazilian bank, which the bank then lends to a Brazilian firm.
- b. A firm in the U.S. purchases Brazilian corporate bonds on the Brazilian bond market.
- c. A US-based multinational firm buys a factory in Brazil from a Brazilian who had acquired it cheap from a bankrupt Brazilian manufacturer.
- d. A rich American lends money to a rich Brazilian, to be used in expanding the Brazilian's business.
- e. A New York bank uses dollars that have been deposited in it by the government of an oil exporter to buy Brazilian government bonds denominated in dollars.

13. The figure below shows the labor markets in Mexico and the United States and the effects of a migration of labor in the amount ΔL from Mexico to the U.S. Using the labels in the figure, what is the net effect of this migration on the welfare of *all* Mexicans, including the Mexican workers, the Mexican migrants, and the owners of all other factors of production in Mexico?



- a
 - b
 - c
 - $a+b$
 - $b+c$
14. Which of the following was one of the reasons why foreign direct investment was small during the 1950s and 1960s?
- Government controls on international capital movements.
 - High wages of unskilled labor.
 - The low price of oil.
 - Returns to capital were largely the same in all countries due to factor price equalization.
 - The IMF discouraged FDI.
15. Which of the following is **not** included in the U.S. current account?
- U.S. exports.
 - U.S. imports.
 - U.S. unilateral transfers to foreigners.
 - Interest paid by the U.S. on bonds held by foreigners.
 - U.S. foreign direct investment abroad.

16. The statement “the yen rose today from 121 to 117” makes sense because
- The U.S. gains when Japan loses.
 - These numbers measure yen per dollar, not dollars per yen.
 - These numbers are indexes, defined relative to a base of 100.
 - These numbers refer to time of day that the change took place.
 - The yen is a reserve currency.
17. If Canada were pegging the Canadian dollar to the U.S. dollar and also acting to sterilize the effects of its exchange market intervention, then when it buys U.S. dollars on the foreign exchange market, it should
- Buy Canadian dollars.
 - Sell Canadian government bonds.
 - Buy Canadian government bonds.
 - Sell U.S. government bonds.
 - Buy U.S. government bonds.
18. Which of the following is an example of Strategic Trade Policy?
- A subsidy to a domestic manufacturer of airplanes intended to allow it to take the market away from a foreign manufacturer of airplanes.
 - A countervailing duty.
 - Use of a tariff by a large country to improve its terms of trade.
 - Negotiation of a free trade agreement.
 - A subsidy to farmers in a rich country that lowers the world price of their agricultural exports and impoverishes foreign farmers in poor countries.
19. Letting S =private savings, I =domestic investment, T =net taxes, G =government purchases, which of the following equations correctly describes the current account surplus, CA ?
- $CA = S + I - T + G$
 - $CA = S - I + T - G$
 - $CA = -S + I - T + G$
 - $CA = -S + I + T - G$
 - $CA = S - I - T + G$

20. According to an assigned article in the *Economist*, which of the following types of countries tend to get the most aid per capita?
- a. Countries with small populations.
 - b. Countries with large populations.
 - c. Poor countries.
 - d. Countries with few natural resources.
 - e. Countries with good governance.
21. Countries that are part of the euro zone are committed by the Maastricht Treaty to keep their government budget deficits
- a. In surplus.
 - b. Equal to zero.
 - c. Less than 3% of their country's GDP.
 - d. Less than 60% of their country's GDP.
 - e. Smaller than the average of the deficits of the other member countries.
22. According to the Infant Industry Argument
- a. Countries that allow children to work have an unfair advantage in international trade.
 - b. Poor countries can foster economic development by using tariffs to protect new firms while they learn to become more productive.
 - c. Costs of young firms are low because their workers lack seniority, and this contributes to comparative advantage.
 - d. If a new firm exports for a price lower than it charges in its domestic market, that constitutes unfair trade.
 - e. When technological change creates a new product, it is the innovating country that is likely to be able to export it.
23. Which of the following did **not** contribute to the debt problems that many developing countries encountered in the early 1980s?
- a. The rise in oil prices.
 - b. Recession in the United States.
 - c. Appreciation of the U.S. dollar.
 - d. The drop in developed country tariffs negotiated in the Tokyo Round.
 - e. Developing country inflation.

24. Which of the following is included in basic labor rights according to the International Labor Organization?
- a. Freedom to employ child labor.
 - b. Freedom of association and collective bargaining.
 - c. Guarantee of lifetime employment.
 - d. Payment of a living wage.
 - e. Limit on the number of hours worked in a day.
25. Which of the following exchange arrangements is used by a smaller number of countries than the others listed?
- a. Independently Floating Exchange Rates
 - b. Currency board
 - c. Managed floating
 - d. Pegged Exchange Rates
 - e. None of the above (all are used by about the same number of countries)
26. In 2005 (the year for which data on aid were reported in class), which country gave the largest total dollar amount of official development assistance to developing countries?
- a. Denmark
 - b. Germany
 - c. Japan
 - d. Luxembourg
 - e. United States
27. How does offshoring affect an industry's productivity?
- a. It reduces productivity by making workers anxious and unable to concentrate on their jobs.
 - b. It reduces productivity by replacing workers with low-quality machines, produced abroad.
 - c. It increases productivity by scaring workers into working harder.
 - d. It increases productivity by eliminating the activities at which the firm is least efficient.
 - e. It has no measurable effect on productivity, according to studies that have sought to measure it.

28. Comparing cotton farmers in the US and West Africa in recent years,

- a. US farmers lost market share to African farmers.
- b. US farmers are 3 times more efficient than African farmers.
- c. Prices received by African farmers rose, while prices received by US farmers fell.
- d. The United Nations paid subsidies to African farmers, but not to US farmers.
- e. The US government paid subsidies to US farmers, but not to African farmers.

29. Should all countries have the same environmental standards?

- a. Yes. Otherwise countries with low standards will have an advantage in international trade.
- b. Yes. The environment is a global problem and needs to be dealt with globally.
- c. No. Sovereign nations have the right to set their own standards.
- d. No. The costs and benefits of environmental standards vary across countries, requiring different standards.
- e. It doesn't matter. Environmental standards are ineffective anyway.

30. In US trade law, the Escape Clause

- a. Is what allowed President Nixon to increase tariffs on all imports.
- b. Is the law under which the US forced foreign shrimpers to stop catching sea turtles in their nets.
- c. Permits tariffs on imports that have caused injury to American firms and workers.
- d. Would allow the US to exit from the North American Free Trade Agreement.
- e. Implements the WTO anti-dumping provision.

31. If a country with a floating exchange rate expands its money supply, this will cause

- a. Its interest rate to rise and its currency to appreciate.
- b. Its interest rate to fall and its currency to appreciate.
- c. Its interest rate to rise and its currency to depreciate.
- d. Its interest rate to fall and its currency to depreciate.
- e. No change in either its interest rate or its exchange rate, both of which are being managed by the central bank.

32. In class we saw that Singapore's exports are 160% of Singapore's GDP. Why?

- a. Singapore's exports are made using imports.
- b. Singapore's GDP is actually much larger than reported due to misreporting by tax-evading firms.
- c. Singapore's households save an unusually large fraction of their income.
- d. Singapore's exports are over-stated by firms who claim to have been paid higher prices than they actually received.
- e. These data came from the CIA, which tries to make Singapore look good because it is an ally of the United States

33. Who is Robert Lighthizer, and what was his opinion China's entry into the WTO, as reported in the news in January?

- a. Robert Lighthizer is the United States Trade Representative, and he applauded China for having joined the WTO.
- b. Robert Lighthizer is the Director General of the WTO, and he said he expected China to help the WTO enforce its rules of international trade policy.
- c. Robert Lighthizer is USTR, and he said that letting China enter the WTO was a mistake.
- d. Robert Lighthizer is the head of the European Commission, and he said that China should have joined the European Union instead of the WTO.
- e. Robert Lighthizer is Donald Trump's Secretary of Commerce, and he welcomed the ability to levy tariffs on China as will be permitted now that it is a member of the WTO.

34. Does the United States have a bilateral trade surplus or trade deficit in its trade with Canada?

- a. The US has a deficit with Canada in merchandise trade but a surplus in goods and services.
- b. The US has a deficit with Canada, both in merchandise trade and in goods and services.
- c. The US has a surplus with Canada in merchandise trade, but a deficit in goods and services.
- d. The US has a surplus with Canada, both in merchandise trade and in goods and services.
- e. US trade with Canada is not measured.

35. Why did President Trump raise tariffs on the exports of apparel from Rwanda?

- a. He didn't.
- b. Rwanda is a haven for terrorists.
- c. Rwanda has weak labor standards.
- d. Rwanda is blocking imports of used clothing.
- e. Rwanda's exports to the US were causing US apparel factories to shut down.

Part II: Short Answer

Answer on these sheets in the space provided.

1. (10 points) What do the following acronyms stand for in international economics?

a. WTO

b. LICs

c. OECD

d. ECU

e. MFN

f. CVD

g. ILO

h. MCC

i. EMU

j. GSP

2. (9 points) Each of the tables below shows *either* the amounts of labor required to produce one unit of each of two goods in two countries, *or* the outputs per unit of labor in each industry and country. In each case, there are only two goods and only two countries in the world. Fill in the blanks with the name of a **good** or **country**, or with one of the words “**both**” or “**neither**,” as appropriate.

- a. _____ (country) has an absolute advantage in producing beef.

_____ (country) has a comparative advantage in producing pork.

Good	Labor needed per unit of output	
	Country	
	Argentina	Brazil
Beef	20	18
Pork	30	33

- b. _____ (country) has an absolute advantage in producing squash.

_____ (country) has a comparative advantage in producing okra.

Good	Output per unit of labor	
	Country	
	Mexico	U.S.
Okra	6,000	4,000
Squash	9,000	8,000

- c. Korea has a absolute advantage in producing (good) _____

Japan has an comparative advantage in producing (good) _____

Good	Labor needed per unit of output	
	Country	
	Korea	Japan
VCRs	1.5	1.2
DVDs	3.2	2.4

- d. _____ (country) will export printers.

Burma will import (good) _____

Thailand will import (good) _____

Good	Output per unit of labor	
	Country	
	Thailand	Burma
Printers	56	42
Pencils	2.8 m.	2.8 m.

-

- d) Finally, compare the welfare of these groups after *both* the lower world price *and* the tariff to their welfare before this all started. That is, what is the change in

welfare of each of the following due to this *combination* of a fall in the world price *and* a tariff that restores the initial domestic price of steel?

U.S. steel suppliers (Indicate + or – along with the amount.) _____

The U.S. as a whole (Indicate + or – along with the amount.) _____

4. (9 points) The table at the right shows hypothetical values for the consumer price indexes (CPI) of the U.S., Canada, and Mexico in 2000 and 2001. Their currencies are also indicated as the U.S. dollar (US\$), Canadian dollar (C\$), and Mexican peso (p) respectively. Suppose that exchange rates in 2000 were:

	U.S.	Canada	Mexico
Currency:	US\$	C\$	p
2000 CPI:	150.0	120.0	200.0
2001 CPI:	151.5	123.6	214.0

$$\begin{aligned}2000: \quad & \text{US\$}/\text{C\$} = 0.500 \\ & \text{C\$}/\text{p} = 0.200 \\ & \text{p}/\text{US\$} = 10.0\end{aligned}$$

- a. Calculate the following exchange rates for 2000:

2000:

$$\text{US\$}/\text{p} = \underline{\hspace{2cm}} \quad \text{p}/\text{C\$} = \underline{\hspace{2cm}} \quad \text{C\$}/\text{US\$} = \underline{\hspace{2cm}}$$

- b. By what percentage did prices change from 2000 to 2001 in each of the three countries?

Price increases:

$$\text{U.S.} = \underline{\hspace{2cm}}\% \quad \text{Canada.} = \underline{\hspace{2cm}}\% \quad \text{Mexico} = \underline{\hspace{2cm}}\%$$

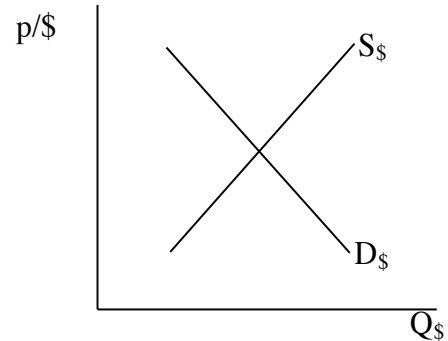
- c. Calculate what the following exchange rates would be in 2001, if the theory of Purchasing Power Parity were to hold:

2001:

$$\text{US\$}/\text{C\$} = \underline{\hspace{2cm}} \quad \text{C\$}/\text{p} = \underline{\hspace{2cm}} \quad \text{p}/\text{US\$} = \underline{\hspace{2cm}}$$

5. (17 points) In each of the cases below, diagrams show the foreign exchange market for a particular country with respect to the U.S. dollar (which is therefore the foreign currency in each case). The currency is either floating or pegged, as stated, and if it is pegged, the central bank of the country is either sterilizing or not sterilizing, as also stated. Aside from exchange-market intervention and possible sterilization, the central bank is not pursuing active monetary policy. You are to answer the questions asked, in each case, and also draw into the diagram the new positions for the curve or curves that shift in each case in response to the indicated change.

- a. Mexico has a freely floating exchange rate for its currency, the peso, p .



- i) In the initial situation,

Mexico's reserves are

- _____ expanding,
_____ contracting,
_____ holding constant,

and its money supply is

- _____ expanding.
_____ contracting.
_____ holding constant.

- ii) U.S. demand for Mexican exports now rises. Show in the figure how this will alter the supply and/or demand curves.

- iii) As a result of the change in part (ii),

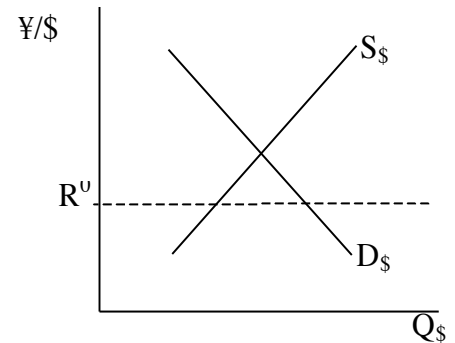
Mexico's currency will

- _____ appreciate,
_____ depreciate,
_____ remain unchanged,

and its quantity of imports will

- _____ expand,
_____ contract,
_____ remain unchanged,

- b. China is pegging its currency, the yuan (¥) to the U.S. dollar at the rate shown as R^0 , and it is sterilizing. (Assume, contrary to fact, that China does *not* interfere with international capital flows.)



- i) In the initial situation,

The yuan is _____ overvalued,
 _____ undervalued,
 _____ neither over- nor undervalued,

the Chinese central bank is _____ buying dollars,
 _____ selling dollars,
 _____ not intervening,

and the Chinese money supply is _____ expanding,
 _____ contracting,
 _____ not changing.

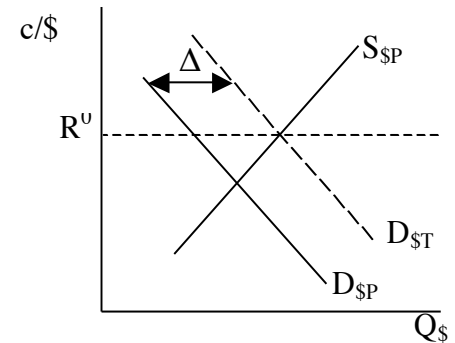
- ii) Expectation of an economic recovery in the U.S. now makes American financial assets more attractive to both Chinese and American investors. Show in the figure how this will alter the supply and/or demand curves.

- iii) As a result of the change in part (ii),

China's exchange rate will _____ appreciate,
 _____ depreciate,
 _____ remain unchanged,

and its reserves will _____ rise more rapidly.
 _____ rise less rapidly.
 _____ fall more rapidly.
 _____ fall less rapidly.
 _____ continue to change as before.

- c. The country of Flaskia has a managed floating exchange rate for its currency, the cork (c). In the figure for the exchange market shown here, $S_{\$P}$ and $D_{\$P}$ are the supply and demand curves arising from private transactions. However, in the initial situation, the Flaskian central bank is also buying dollars in the amount shown as Δ per period, causing the total demand curve in the market to be the one labeled $D_{\$T}$. The exchange rate, as a result, is the one labeled R^0 . The central bank is *not* sterilizing the effects of its intervention.



- i) In the initial situation,
- | | |
|-----------------------------------|---|
| The cork is | ☐ overvalued, |
| | ☐ undervalued, |
| | ☐ neither over- nor undervalued, |
| the international reserves of the | |
| Flaskian central bank are | ☐ falling, |
| | ☐ rising, |
| | ☐ constant, |
| and the domestic money supply in | |
| Flaskia is | ☐ expanding, |
| | ☐ contracting, |
| | ☐ not changing. |
- ii) Demand for Flaskia's principal export, a wine called Ruby Rosé, now decreases. Show in the figure how this will alter the supply and/or demand curves of the foreign exchange market.
- iii) If the central bank continues to intervene as before, continuing to buy dollars in the amount Δ per period, how will the exchange rate change as a result of the change in part (ii)?
- | | |
|-------------------------|--|
| Flaskia's currency will | ☐ appreciate, |
| | ☐ depreciate, |
| | ☐ remain unchanged. |
- iv) If instead the central bank wants to "lean against the wind," then which of the following should it do?
- | |
|---|
| ☐ increase its purchases of dollars above Δ , |
| ☐ decrease its purchases of dollars below Δ , |
| ☐ switch to selling dollars, |
| ☐ stop sterilizing. |

6. (5 points) Define:

a. Fast track

b. Offshoring

c. Race to the bottom

d. Lost Decade

e. Conditionality