

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 240 points (to be scaled up to 250 points) and is scheduled to take 120 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I will give extra time.

1) (12 points) Answer EITHER Part A OR Part B.

A) The Uruguay Round of GATT, item #4 said “The volume of subsidized agricultural exports was to be reduced by 21 percent over a six year period; government subsidies for industrial research were limited to 50% of applied research costs.” Why was this a good achievement?

B) What is the formula for the *effective rate of protection*, g ? What does a negative value for g mean?

2) (12 points each) For TWO of the following events, do the double entry bookkeeping. Briefly explain how you got each entry. What happens to net exports, current account, short-term financial account, and long-term financial account?

A) I am thinking of buying a \$44 compact disk from Japan. Suppose I do that.

B) You buy \$5000 worth of Alibaba because it is the Chinese Amazon.com.

C) You sent \$100 worth of clothing to Ukrainian refugees in Poland.

3) (14 points) Answer EITHER Part A OR Part B.

A) State the Heckscher-Ohlin Theorem and explain why it makes sense.

B) State and prove the Law of Comparative Advantage. Make sure your proof is general, i.e., not with numbers.

4) (14 points) Answer EITHER Part A OR Part B.

A) State the Leontief Paradox. Explain how factor intensity reversal could explain it.

B) State the Leontief Paradox. Explain how we could be exporting products which use a third factor intensely, and how that could explain the paradox.

5) (14 points) Answer EITHER Part A OR Part B.

A) Explain why intra-industry trade requires differentiated products, and usually involves increasing returns to scale.

B) Suppose that a country imports \$400 of a good and exports \$600 of the same good. Calculate the value of intra-industry trade, T . What is the economic interpretation of the number you found. Briefly explain your logic.

6) (14 points) State EITHER the Rybczynski Theorem OR the Stolper-Samuelson Theorem. Explain why the result makes sense.

7) (16 points) Answer EITHER Part A OR Part B.

A) Draw the offer curve diagram for USA and China. Have the two goods be tractors and clothing. Illustrate the effects of the USA putting the optimal tariff on Chinese products. Explain how you knew which curve was the American curve and how you know the end result is the optimal tariff.

B) Draw the offer curve diagram for the European Union and India. Have the goods be airplanes and tea. Illustrate the effects of a growth of the population in India. Explain how you know which curve is the Indian curve and why it moves as drawn.

8) (16 points) Draw the S/D for the Japanese yen, ¥, with the British pound, £, as the other currency. Illustrate EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. Which currency appreciated? How can you tell?

- A) British inflation decreases.
- B) Japanese interest rates decrease.

9) (18 points) Answer EITHER Part A OR Part B.

- A) What is the difference between a customs union and a common market? Which is better? Why? Why don't we see many common markets?
- B) What is the difference between a common market and an economic union? Which is better? Why? Why don't we see many economic unions?

10) (24 points) Answer EITHER Part A OR Part B.

- A) Draw the customs union S/D diagram for a product which has both trade creation and trade diversion. Explain why the graph looks as drawn. Show the trade creation and diversion. Explain how you found them.
- B) Draw the supply and demand for the British **import** with goods priced in pounds, £, and the other country being the EU. Assume the exchange rate for what you just drew was 2€/£. Add another line which corresponds to an exchange rate of 1€/£. Explain why the line you moved and not the other line. Explain why it moved as drawn. Use your graph to find two points on either the supply of £ or the demand for £. Draw those two points on a new graph. Show the work which gave you the two points. Are those two points on the supply of £ or demand for £? Explain your logic.

11) (30 points) Answer EITHER Part A OR Part B.

- A) Draw a PPF/CPF/indifference curve diagram for telephones and carvings for a large, capital abundant country. Illustrate the effects of a growth in the amount of capital. Explain why the curves moved as drawn. Draw it so there is immiserizing growth. Explain how you know that there is immiserizing growth.
- B) Draw the PPF/CPF/indifference curve diagram for a labor abundant, small country which is open to trade. Have the two goods be cars and paintings. Illustrate the effects of an implementation of an import tariff. Show the new trade line, new perceived TOT line, new perceived CPF, and the new indifference curve. Explain how your graph shows: a small country, labor abundant, the tariff changing where they are producing, the tariff revenue, and where they are consuming.

12) (44 points) Use the table to the right to answer these questions. Assume both countries have 60 hours of labor **Show all work and briefly explain all of your answers.** Which country has an absolute advantage in hats? Which country has an absolute advantage in vests? Which country has a comparative advantage in hats? Which country has a comparative advantage in vests? What price could they trade with? Draw **ONE** of the countries' PPF & CPF curve on the same graph. Draw the S/D diagram for **ONE** of the products. Remember to briefly explain all answers.

| Units/hr | USA | China |
|----------|-----|-------|
| hats | 5 | 6 |
| vests | 1 | 3 |