

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own software or <https://pdfcandy.com/> to create a PDF for each answer which requires an upload. If it is large, resize it to A4. Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point.

You are not allowed to use your books, notes, the internet, or other people when taking this test. You can use the internet to access Canvas and to convert your answers to PDF files. Nothing else.

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 have it set up to only give you 2.5 hours.

If you run out of time or lose your internet connection, you can do a second submission. You do NOT have to redo the questions you already did. I will be able to see every submission. If you have problems, you can always contact me via Zoom or e-mail. If you use Zoom, open it in a new tab or window.

1) (26 points) Answer EITHER Part A OR Part B.

A) For BOTH of the following events, determine the debit and the credit. Then determine what happens to the current account and the capital-financial account for the two events combined. You do not need to explain your answer. You send \$2000 worth of N95 masks to Italy. Suppose you went to Costa Rica during spring break. Suppose you paid \$400 for a hotel room.

B) Explain the demand for foreign bonds,  $F = F(i, i^*, EA^*, RP^*)$

2) (20 points) Answer EITHER Part A OR Part B.

A) Draw the supply/demand for the US\$ on the foreign exchange market with the British pound, £, as the other currency. Illustrate a decrease in their interest rates. Explain why the curve(s) moved as drawn. Which currency depreciated? Explain your logic.

B) Note that unlike the book, I am doing this question in terms of dollars, not the foreign currency. Draw the supply/demand for US exports with the price in US\$. Put a scale on the axes. Have the price go to \$20/unit and the quantity go to 1000 units. Draw the demand cross supply at the price of \$12/unit and a quantity of 500. Suppose that the exchange rate there is €1.2/\$. Now, suppose the exchange rate changes to €1/\$. Illustrate the effects of the appreciation on the graph. Explain why you moved the curve you moved and not the other one. Also, explain why it moved as drawn including how you got two points on the new line. On the third exam, I asked you to plot two points on the supply or demand for the \$ on the exchange rate. If I had asked you to do that, which line would that be on. How do you know?

3) (8 points) Answer EITHER Part A OR Part B.

A) Suppose that the exchange rate between the euro and the dollar was €1.5/\$ and the exchange rate between the pound and the dollar was £.5/\$. What is the exchange rate between the euro and the pound? Show all work and briefly state what you did.

B) Suppose the spot rate was €1.8/\$ and the forward rate is \$.5/€. Which currency is expected to appreciate? Show all work and briefly state how you reached the conclusion.

4) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for the \$ on the foreign exchange market in such a way that the exchange rate is unstable. Prove it is unstable.

B) Draw an offer curve diagram which has an unstable equilibrium. Prove it is unstable.

5) (12 points) State EITHER the Rybczynski Theorem OR the Stolper-Samuelson Theorem. Explain why it makes sense.

6) (26 points) Answer EITHER Part A OR Part B.

A) Draw the supply/demand diagram for a country entering a customs union. Draw the graph for a product they currently import from a country which will not be in the customs union. Therefore, there is trade creation and trade diversion. Find the consumer surplus, producer surplus, and dead-weight loss after the customs union. Find the trade creation and the trade diversion. State how you found them. Do NOT worry about consumer surplus or producer surplus before the customs union.

B) Draw the supply/demand diagram for a product which a large country imports. Illustrate the effects of an import tariff. Explain why the curve(s) moved as drawn. What are consumer surplus, producer surplus, tariff revenue, and dead-weight loss before and after the tariff? Briefly state how you found each one.

7) (30 points) Answer EITHER Part A OR Part B.

A) Draw the PPF/CPF/indifference curve diagram for a labor abundant country. Have the products be cars and art. Draw immiserizing growth. What event caused the growth? Explain why the curves moved as drawn. Explain how you know it shows immiserizing growth.

B) Draw the PPF/CPF/indifference curve diagram for a small, capital abundant country. Also draw the offer curve diagram for that country and its trading partner. Illustrate the effects of an import tariff in the small country. Explain why the curve moved as drawn.

8) (12 points) Answer ONE of the following parts.

A) If a capital abundant country had an increase in population, would that be pro-trade growth or anti-trade growth? Explain your logic.

B) Calculate the effective rate of protection if the tariff on imported final products is 22% and the tariff on imported parts is 10%. Assume that imported parts account for 40% of the final product.

C) Why does the WTO want quotas converted into tariffs?

9) (48 points) Answer Part A OR Part B.

A) Use the table to the right to answer this questions. **Show all work and briefly explain all of your answers.** Assume both countries have 300 hours of labor. 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? Draw the EITHER the PPF for the USA OR the PPF for China. What price could they trade with? Draw the CPF curve on the PPF graph. Draw EITHER the S/D diagram for hats OR the S/D diagram for vests.

Q/hours	USA	China
Masks	20	30
Gloves	5	15

B) Draw a PPF/CPF/indifference curve diagram for a country importing paintings and exporting cars. Assume there is free trade. Use your diagram to get TWO points on that country's offer curve. Draw the offer curve through those points. Also draw the TOT line and indifference curve through those points. Briefly explain how you determined where the points were, and the curvature of both the indifference curve and the offer curve.

10) (12 points) State EITHER the Heckscher-Ohlin Theorem OR the Factor Price Equalization Theorem. Explain why it makes sense.

11) (16 points) Answer EITHER Part A OR Part B.

A) Suppose that we export \$500 of a good and import \$300 of the same good. Calculate the level of intra-industry trade. Show all work. What does that number mean?

B) Explain how increasing returns to scale can lead to intra-industry trade. Does that argument require differentiated products? Explain your logic.

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

A) State the Leontief Paradox. What do you think caused it? Briefly explain your logic.

B) In the Specific Factors Model, opening up to trade has an ambiguous effect upon the real wage of labor. Explain why this is true.