BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI
FIRST SEMESTER 2016-2017
COMPREHENSIVE EXAMINATION
(Closed Book)

Course No. : ECON F311   Max. Marks : **20**
Course Title : **International Economics**   Duration   : **90 minutes**
Date   : **13/12/2016**   Weightage : **20%**

(Multiple Choice Questions and Fill in the blanks)

Note:
- **There are 30 questions of MCQs and fill in the blank space.**
- **For MCQs encircle the correct option as A, B, C, D or E.**
- **Each correct answer carries 0.5 marks.**

_____

Q1. As a result of international trade, specialization in production tends to be:
- **A)** Complete with constant costs--complete with increasing costs
- **B)** Complete with constant costs--incomplete with increasing costs
- **C)** Incomplete with constant costs--complete with increasing costs
- **D)** Incomplete with constant costs--incomplete with increasing costs

Q2. The trading-triangle concept is used to indicate a nation's:
- **A)** Exports, marginal rate of transformation, terms of trade
- **B)** Imports, terms of trade, marginal rate of transformation
- **C)** Marginal rate of transformation, imports, exports
- **D)** Terms of trade, exports, imports

Q3. Assume that labor is the only factor of production and that wages in the United States equal $20 per hour while wages in the United Kingdom equal $10 per hour. Production costs would be lower in the United States than the United Kingdom if:
- **A)** U.S. labor productivity equaled 40 units per hour while U.K. labor productivity equaled 15 units per hour
- **B)** U.S. labor productivity equaled 30 units per hour while U.K. labor productivity equaled 20 units per hour
- **C)** U.S. labor productivity equaled 20 units per hour while U.K. labor productivity equaled 30 units per hour
- **D)** U.S. labor productivity equaled 15 units per hour while U.K. labor productivity equaled 25 units per hour

Q4. When considering the effects of transportation costs, the conclusions of our trade model must be modified. This is because transportation costs result in:
- **A)** Lower trade volume, higher import prices, smaller gains from trade
- **B)** Lower trade volume, lower import prices, smaller gains from trade
- **C)** Higher trade volume, higher import prices, greater gains from trade
- **D)** Higher trade volume, lower import prices, greater gains from trade

Q5. To correct a balance of payments surplus and unemployment a nation requires a:
- **A)** Devaluation and expansionary fiscal and monetary policies
- **B)** Devaluation and contractionary fiscal and monetary policies
- **C)** Devaluation or revaluation and contractionary fiscal and monetary policies
- **D)** Revaluation and either expansionary or contractionary fiscal and monetary policies

Q6. Hong Kong is relatively abundant in labor, while Canada is relatively abundant in capital. In both countries the production of shirts is relatively more labor intensive than the production of computers. According to the factor endowment theory, Hong Kong will have a(n):
- **A)** Absolute advantage in the production of shirts and computers
- **B)** Absolute advantage in the production of computers
- **C)** Comparative advantage in the production of shirts
- **D)** Comparative advantage in the production of computers

Q7. An increase in tastes of the import commodity in both nations
- **A)** Reduces the volume of trade
- **B)** Increases the volume of trade
- **C)** Leaves the volume of trade unchanged
- **D)** None of the above

Q8. Linder's theory of overlapping demand provides an explanation of:
- **A)** Product life cycle theory
- **B)** Factor endowment model
- **C)** Economies of large-scale production
- **D)** Intraindustry trade

Q9. Should the home country be "large" relative to the world, its imposition of a tariff on imports would lead to an increase in domestic welfare if the terms-of-trade effect <u>exceeds</u> the sum of the:
- **A)** Revenue effect plus redistribution effect
- **B)** Protective effect plus revenue effect
- **C)** Consumption effect plus redistribution effect
- **D)** Protective effect plus consumption effect

Q10. Should Canada impose a tariff on imports, one would expect Canada's:
- **A)** Terms of trade to improve and volume of trade to decrease
- **B)** Terms of trade to worsen and volume of trade to decrease
- **C)** Terms of trade to improve and volume of trade to increase
- **D)** Terms of trade to worsen and volume of trade to increase

Q11. Output per Hour Worked

	United States	Mexico
Computers	3	1
Shoes	6 pairs	3 pairs

Based on Table, trade between the United States and Mexico will occur as long as the relative price of shoes is between
- **A)** three computers and one computer.
- **B)** three computers and two computers.
- **C)** one-half computer and one-third computer.
- **D)** six computers and three computers.
- **E)** None of the above.

Q12. Suppose Mexico can produce 5 autos or 10 corn. Suppose the United States can produce 4 autos or 20 corn. If opportunity costs are constant for both countries, which of the following would NOT be a potential terms of trade?
- **A)** 1 auto for 3 corn
- **B)** 1 auto for 4 corn
- **C)** 1 corn for 1/3 of an auto
- **D)** 1 corn for 1 auto

Q13. A depreciation of a nation's currency shifts
- **A)** Down its supply curve of exports in terms of the domestic currency
- **B)** Down its supply curve of exports in terms of the foreign currency
- **C)** Down its demand curve of exports in terms of the foreign currency
- **D)** Up its supply curve of imports in terms of the foreign currency

Q14. For a country in autarky, the opportunity cost of the good on the horizontal axis is the same as
- **A)** the relative price of the good on the vertical axis.
- **B)** the relative price of the good on the horizontal axis.
- **C)** the opportunity cost of the good on the vertical axis.
- **D)** Both A and C.
- **E)** None of the above.

Q15. Suppose that all goods are made with two factors—labor and capital. The table below shows the total endowments of each factor in the United States and Canada.

Endowment of <u>Labor and Capital</u>

	US	Canada
Workers	100	10
Machines	20	4

Based on Table, according to the Heckscher-Ohlin Theorem, U.S. exports should be goods that

A) intensively use labor input.
B) intensively use capital input.
C) use capital and labor in about equal proportions.
D) use either labor or capital input, depending on the good.
E) Not enough information to tell.

Q16. An autonomous increase in S from a condition of equilibrium in national income and in the trade balance results in the nation's income:
A) Rising and its trade balance turning into surplus
B) Falling and its trade balance turning into surplus
C) Falling and its trade balance turning into deficit
D) Rising and its trade balance turning into deficit

Q17. Suppose that a country is producing on its PPC at a point to the left of the tangency between the trade line and the PPC. At the production point,
A) the opportunity cost in production of the good on the horizontal axis is less than its trade price.
B) the opportunity cost in production of the good on the horizontal axis is more than its trade price.
C) the opportunity cost in production of the good on the vertical axis is less than its trade price.
D) the opportunity cost in production of the good on the horizontal axis may be either less than or more than its trade price.
E) the opportunity cost in production of the good on the vertical axis equals its trade price.

Q18. Which of the following is NOT a proposition of the Heckscher-Ohlin model?
A) A country has a comparative advantage in the production of that commodity which uses more intensively the country's more abundant resource.
B) The effect of international trade is to tend to equalize factor prices between the trading nations.
C) If Mexico is an unskilled labor abundant country, then Mexico has a comparative advantage in the production of goods that use unskilled labor more intensively.
D) If the United States is a skilled labor abundant country, then the United States has a comparative advantage in the production of goods that use skilled labor more intensively.
E) Countries will completely specialize in the product in which they have a comparative advantage if free trade is allowed to occur.

Q19. An increase in tastes of the import commodity of Nation A and export in B:
A) Will reduce the terms of trade of Nation A
B) Will increase the terms of trade of Nation A
C) Will reduce the terms of trade of Nation B
D) None of the above

Q20. Using the HO model, assume that the United States is capital abundant and Mexico is labor abundant. If soybeans are capital intensive and avocados are labor intensive,
A) Mexico will produce more soybeans once trade is introduced.
B) the United States will produce more avocados once trade is introduced.
C) avocado prices in the United States will fall once trade begins.
D) soybean prices in Mexico will rise once trade begins.

Q21. Tijuana, Mexico is across the border from San Diego, California. It has become a world-leading producer and exporter of television sets and computer monitors, which it assembles in modern factories owned by multinational consumer electronics firms such as Sony. Initially, these electronics were produced in the industrialized countries of their parent companies, and after several years, the production moved to Tiajuana. This is an example of
A) the product cycle.
B) intraindustry trade.
C) the specific factors model.
D) the magnification effect.
E) None of the above.

Q22. A nation's demand curve for foreign exchange is derived from the:
A) Foreign demand curve for the nation's export
B) Nation 's supply curve of exports
C) Domestic demand curve for imports and the foreign supply curve for the nation's imports
D) Foreign demand curve and the domestic supply curve for the nation's exports

Q23. Suppose that United States furniture makers import $100 of wood and parts in order to make a dining room table selling for $500. if a tariff of 20 percent is placed on imports of dining room tables, and another tariff of 50 percent is placed on imports of wood and parts, then the effective rate of protection on tables made in the United States is
  A) 70 percent.
  B) 50 percent.
  C) 20 percent.
  D) 12.5 percent.
  E) 0 percent.

Q24. In order for large countries to successfully use tariffs to increase well being,
  A) they must have significant market power so that foreign firms will cut prices to preserve their sales.
  B) the deadweight loss created by the tariff must be greater than the government revenue the tariff generates.
  C) domestic production must increase more significantly than for the small country case.
  D) domestic consumption and imports must decrease more significantly than in the small country case.

Q25. International labor mobility
  A) leads to wage convergence by raising wages in destination country and lowering in source country
  B) Is in accordance with the Reciprocal demand model
  C) Is in accordance with the Heckscher-Ohlin factor proportions model
  D) Leads to wage convergence by raising wages in source and lowering them in destination country
  E) Is in accordance with economies of scale model

Q26. Initially wages are higher in Home than in Foreign, then a movement of workers from Foreign to Home will
  A) Lowers the marginal product of labor in Foreign
  B) Raise total product in Foreign
  C) Raise the income of land owners in Foreign
  D) Raise the income of land owners in Home
  E) None of the above

Q27. The *Metzler Paradox*
  A) Could theoretically happen when a small country levies a tariff
  B) Refers to a situation when an Optimal Tariff hurts a country's economic welfare
  C) Refers to a situation when the imposition of a tariff lowers domestic prices.
  D) Refers to a situation when the imposition of a tariff helps foreign exporters
  E) None of the above

Q28. Use the graph below and the following information to answer the next question. The importing country is small enough not to affect the world price.
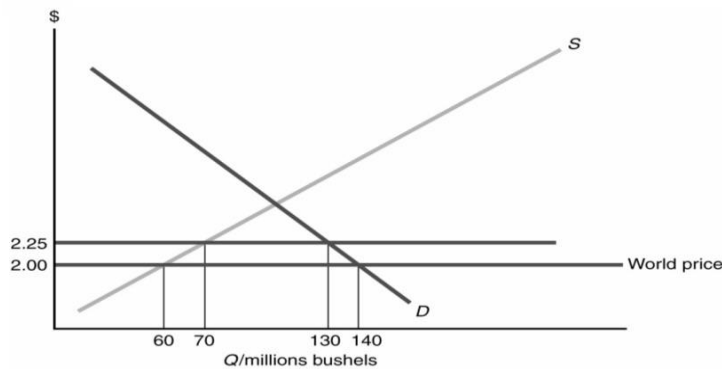
Suppose the government puts a tariff of $0.25 per bushel on soybean imports. How much will the tariff *reduce* imports? How much revenue will the government generate?
  A) Imports will decrease by 10 million bushels and the government will raise $2.5 million.
  B) Imports will decrease by 20 million bushels and the government will raise $15 million.
  C) Imports will decrease by 60 million bushels and the government will raise $5 million.
  D) Imports will decrease by 80 million bushels and the government will raise $32.5 million.

Q29. A trade diverting custom union is more likely to lead to trade creation:
  A) The lower are the pre-union trade barriers of the member nations
  B) The lower are the custom union's barriers on trade with the rest of the world
  C) The smaller is the number of countries forming the customs union and smaller their size

D) The more complementary rather than competitive are the economies of the nations forming the customs union

Q30. An increase in demand of the imported commodity subject to a given import quota
- **A)** Reduces the domestic quantity demanded of the commodity
- **B)** Increases the domestic production of the commodity
- **C)** Reduces the domestic price of the commodity
- **D)** Reduces the producer surplus

Q31. With reference to the given table, assume that labour is the only factor of production and is homogenous. Suppose the wage rate per labor hour is $6 in the United states and that of United Kingdom is 1.8£.

	U.S	U.K.
Wheat(bushel/labour-hour)	6	1
Cloth (yard/labour-hour)	3	2

If the exchange rate between the dollar and the pound is $3 per pound, U.S will import _____and export_____.

Q32. _____ form of Economic Integration provides lower barriers on trade among participating nations than on trade with nonmember nations.

Q33. Suppose that the production of $500,000 worth of steel in the United States requires $100,000 worth of iron ore. The U.S. nominal tariff rates for importing these goods are 15 percent for steel and 5 percent for iron ore. Given this information, the effective rate of protection for the U.S. steel industry is approximately _____.

Q34. Given that (i) Y is at less than full employment, (ii) X = M originally, (iii) X rises by $100 and remains at this higher level. If MPS = 0.15 and MPM = 0.1, BOP adjustment is _____ as X ___M by _____ units.

Q35. If we take 2010 as the base year and find that by the year 2015 a nation's P_X has fallen by 5% while its P_M has risen by 10%, . By the year 2015, the productivity of the nation rises by 30% in its export sector and that of export volume index increases by 20%. Hence we can say that single factoral terms of trade changes by _____percent for this nation from 2010 to 2015 and this nation's capacity to import changes by _____ percent from 2010 to 2015.(Note Indicate increase / decrease and by what %).

Q36. The _____in isolation is given by the common tangency of production frontier and community IC at autarky.

Q37. A nation gains from trade can be broken down into _____ and _____.

Q38. _____ are also known as Reciprocal Demand Curve as given by _____.

Q39. There is a possibility that taste may be different, in that case H.O theory holds good if _____ and _____ bias are in _____direction.

Q40. The _____theorem postulates that an imposition of a tariff by a nation results in an appreciation in the rewards of factors of production intensively used in the import competing goods.

*******END OF CLOSED BOOK*******

Course No. : **ECON F311**   Max. Marks : **20**
Course Title : **International Economics**   Duration : **90 minutes**
Date   : **13/12/2016 (FN)**   Weightage : **20%**

Q1. Suppose that an economy produces and consumes only two goods, X and Y. The economy uses labor as the only input for production. The production function for good X and good Y are given as: $X=\sqrt{L_X}$ and $Y=2\sqrt{L_Y}$. Assume that maximum labor available in the economy is 200. Again, suppose the nation has the following utility function given as U= U(X, Y)= $\sqrt{XY}$. Given this information, answer the following question: (**Note:** Take good Y along Y axis)   **[4.00]**
   a) What is the optimal combination of X and Y that will be produced and consumed in isolation?
   b) What is the internal equilibrium relative commodity price in isolation?
   c) Analyze the above situation with the help of suitable graph with proper labels.

Q2. Consider the market for steel for two nations i.e., Nation 1 and Nation 2. These nations demand function for steel takes the form P = 170 – Q and P = 110 – Q and their supply function for steel takes the form P = 70 + Q and P = 10 + Q respectively. Suppose that the importing nation is large and imports steel from the other country. Further again consider an import tariff of 10 per unit of steel. Given this information now answer the following questions:
[3.00]
   a) What is the price of steel after the imposition of tariff? How much quantity of steel will the importing country consume, produce and import at this price?
   b) Calculate the change in the importing country consumer surplus due to the tariff-induced price of steel. Calculate the consumption, production, redistribution, and domestic revenue effects. What are the domestic welfare gain / loss of the tariff?
   c) What will be the new world price of the steel that the foreign producers will receive? What impact will it have on the importing country terms of trade and on its welfare? Calculate the terms- of trade effect.
   d) What impact does the tariff have on the overall welfare of the importing country?

Q3. A domestic producer has the option of dumping his product in the foreign market for the product that's domestic and foreign demands are given as: P = 2000-10Q and   P = 3000-10Q
While the average total cost of the production is 200.
   [3.00]
What are profits, and amount of social welfare for the following situation:
   a) if the producer follows dumping?
   b) if the law prohibits and the producer does not follow dumping?

Q4. Suppose that a nation is at full employment without inflation but has a deficit in its balance of payments. Explain why a depreciation of the nation's currency will not correct the deficit unless

real output rise or domestic expenditure or absorption fall?
[1.00]

Q5. Given the following information for an economy: Investment in the economy is 100, even if income level is zero the nation lives out of its past savings of 100, its marginal propensity to import is 0.20, its marginal propensity to save is 0.20 and the nation meets its import which is equal to 150 through borrowing even if it not having national income and its exports is equal to 350. Given this information, determine algebraically the effect on the trade balance due to an autonomous: **[2.00]**

   a) Increase in X and I of 200
   b) Decrease in S of 100
   **c)** Decrease on M of 100
   d) Decrease in S and M of 100

Q6. Given; (i) an open economy with a fixed exchange rate system and constant internal prices and interest rates, (ii) the change in change in consumption due to change in income is 0.75(iii) the less than full employment equilibrium level of national income = 1000, trade balance is in equilibrium which is 300 and the amount of investment is equal to 100 (iii) further the income elasticity of imports and ratio of the imports to that of national income of the country is 0.5.
[3.00]

   a) If X increases autonomously by 100 units, is the adjustment in BoP complete? Explain it.
   b) What would happen to adjustment in BoP if X had fallen rather than risen autonomously by 100?
   c) What happens if I_d increases autonomously by 200
   d) What if there is instead an autonomous decrease in I_d by 100?
   e) What if there is instead an autonomous increase in S by 100?
   f) Show with the help of graph what happens if there is an autonomous increase in I_d by 200, but the full employment level of national income is $Y_F = 1,000$. Explain analytically the situation that is expected to prevail in the economy.

Q6. Suppose that the nation is having IS, LM and BP curve which is given in the following form.
[2.00]
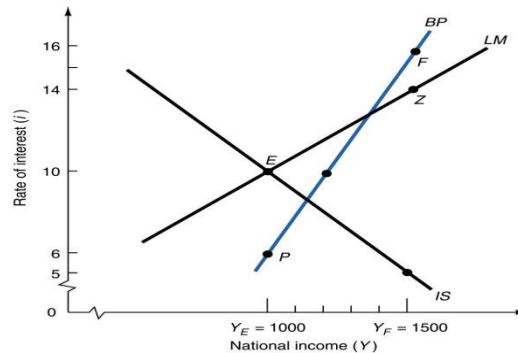
   a) Determine the size of the deficit or surplus that the nation faces at equilibrium level of national income below the full employment level if the income elasticity of imports and ratio of the imports to that of national income of the country is 0.5.and there is no foreign repercussion.
   b) Indicate and show graphically how the nation can reach full employment with external balance by using expenditure changing policies.

Q7. The following table shows the hypothetical demand schedule of labor in the U.K and Hong Kong. Assume that labor and capital are the only two factors of production. Assume that

quantity of supply of labor in both the countries is 600.

[2.00]

Country	Wages (£)	0	5	10	15	20	25	30	35	40	45
UK	Quantity demanded	1200	1000	800	600	400	200	0	-	-	-
Hong Kong	Quantity demanded	1800	1600	1400	1200	1000	800	600	400	200	0

a) Without immigration, what is distribution on income among the factors of production in U.K and Hong Kong respectively in terms of £?

b) Initially assume that immigration is costless and results in an overall change in the labor force, what is its impact on world output?

c) What is the payment paid to the destination country factors of production and the immigrants in terms of £?

d) What is the payment paid to the source country factors of production in terms of £?

*******END*******