

Tenttipäivä / Date: 15.12.2014

Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:  
72410A, Global Economics, Exam 1

Tentaattori(t)/ Examiner(s): Marko Korhonen

Sallitut apuvälineet rastitettu/ The devices allowed in the exam marked with a cross:  
Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) Sanakirja/Dictionary  
No No

Muu materiaali, tarkennettu alla/Other material, specified below  
No

Voit vastata tenttiin / You may answer the questions x suomeksi/ in Finnish x englanniksi/ in English

Kysymyspaperi on palautettava / Paper with exam questions must be returned: x Kyllä/Yes Ei/No

The exam consists of 20 multiple choice questions. Each question has only one correct (or clearly best) answer. You get +2.5 points for a right answer, zero point for no answer, and -1 point for a wrong answer. Maximum number of points from this exam is 50. **You need to return both the answer sheet and the question sheets.** Good luck for the exam!

Name / nimi:

ID number / henkilötunnus:

Student number / opiskelijanumero:

Grading / tentin arvostelu:

Answer the questions by circling the right answer.

- |     |    |    |    |    |     |    |    |    |    |
|-----|----|----|----|----|-----|----|----|----|----|
| 0.  | a) | b) |    |    |     |    |    |    |    |
| 1.  | a) | b) | c) | d) | 11. | a) | b) | c) | d) |
| 2.  | a) | b) | c) | d) | 12. | a) | b) | c) | d) |
| 3.  | a) | b) | c) | d) | 13. | a) | b) | c) | d) |
| 4.  | a) | b) | c) | d) | 14. | a) | b) | c) | d) |
| 5.  | a) | b) | c) | d) | 15. | a) | b) | c) | d) |
| 6.  | a) | b) | c) | d) | 16. | a) | b) | c) | d) |
| 7.  | a) | b) | c) | d) | 17. | a) | b) | c) | d) |
| 8.  | a) | b) | c) | d) | 18. | a) | b) | c) | d) |
| 9.  | a) | b) | c) | d) | 19. | a) | b) | c) | d) |
| 10. | a) | b) | c) | d) | 20. | a) | b) | c) | d) |

**CHOOSE THE CORRECT ANSWER. EXPLANATION IS NOT REQUIRED.**

0. Would you like to be graded (**no answer = b**)
  - a) 2 midterms (50%) + final exam (50%)
  - b) Final exam (100%)
1. In which way can many of today's politicians to be considered to have a Mercantilist view of trade?
  - a) They want to return to a currency system that is based on gold.
  - b) They support policies to lower costs for merchants.
  - c) They support policies to reduce imports and encourage exports.
  - d) They believe in the "fair trade" movement to help raise wages in developing countries.
2. If the autarky price of the good T (in terms of good S) is lower in country A than in country B,
  - a) A has a comparative advantage in T.
  - b) B has a comparative disadvantage in S.
  - c) A has comparative advantage in S.
  - d) None of the above.
3. In the Ricardian model of trade with two countries and two goods, an increase in labor for one country
  - a) may change the pattern of trade, that is, which product the country exports to the other country.
  - b) will have no impact on trade volumes.
  - c) will raise wages in that country by Stolper-Samuelson Theorem.
  - d) None of the above.
4. In the Heckscher-Ohlin model with two factors of production (capital and labor), where clothing is the capital-intensive good, an increase in the price of clothing will
  - a) increase wages and decrease returns to capital.
  - b) increase both wages and returns to capital.
  - c) decrease wages and increase returns to capital.
  - d) decrease both wages and returns to capital.

5. The Leontief paradox is the finding that,
  - a) the U.S. engaged mainly intra-industry trade, not inter-industry trade.
  - b) the capital embodied in U.S. imports relative to embodied labor was greater than for U.S. exports, even though the U.S. was considered relatively capital abundant.
  - c) the U.S. saw a large increase in production of capital-intensive products, even though it was experiencing large wave of immigration.
  - d) the U.S. was importing products from the United Kingdom in which the U.S. had a relative productivity advantage.
6. Which theorem from the Heckscher-Ohlin model suggests that output will fall in an industry when there is an increase in the endowment that industry uses least intensively?
  - a) Stolper-Samuelson theorem
  - b) Rybczynski theorem
  - c) Factor price equalization
  - d) None of the above
7. A domestic production subsidy is a better way to help employment in an import-competing sector than an import tariff because
  - a) it will increase consumer surplus leading to a welfare gain.
  - b) it will more likely lead to a terms of trade gain.
  - c) the production efficiency loss will be smaller for the same gain in producer surplus.
  - d) it will only cause efficiency losses in production, not in consumption.
8. In the new trade theory, one source of gains from trade is
  - a) countries' abilities to specialize in their comparative advantage.
  - b) monopolistically competitive firms, abilities to charge price above the marginal cost.
  - c) improvement in production technologies.
  - d) increased variety when we trade with the other country.
9. Like tariffs, quotas tend to lead to
  - a) higher prices and reduced imports
  - b) increased government revenue
  - c) increased consumer surplus
  - d) all of the above

10. The gravity model offers a logical explanation for the fact that
- trade between Asia and the U.S. has grown faster than NAFTA trade.
  - trade in services has grown faster than trade in goods.
  - trade in manufactures has grown faster than in agricultural products.
  - Intra-European Union trade exceeds International Trade of the European Union.
11. All of the following help explain why PPP does not hold well in the short run, except:
- tariffs
  - arbitrage
  - sticky prices
  - nontraded goods
12. The Overshooting theory is useful for explaining:
- High exchange rate volatility after the collapse of the Bretton Woods system
  - The worsening of the Great Depression under the Gold Standard
  - Excessive accumulation of reserves after the Asia Crisis of 1997
  - Speculative attacks in the foreign exchange market
13. Which of the following helps explain failures in uncovered interest rate parity?
- Expectations of a currency depreciation
  - Exogenous shocks to money demand
  - risk of government default
  - all of the above
14. Which of the following would suggest Serbia is a good candidate to join the European monetary union, according to the standard optimal currency area theory?
- Serbia trades more with Russia than with Western Europe.
  - Serbia has a strong economy at present while Western Europe is in recession.
  - There is low labor mobility between Serbia and Western Europe.
  - None of the above.
15. Relative purchasing power parity requires:
- Real Exchange Rate = 1.
  - The price of a Big Mac is the same in Oulu as in Paris.
  - The real exchange rate is constant.
  - Nominal interest rates are equalized across countries.

16. According to the monetary approach to exchange rates, if Zimbabwe has a money supply growth rate of 5% and output growth rate of 2%, while Botswana has money supply growth rate of 3% and output growth of 4% , then the exchange rate (Zimbabwe currency per Botswanan currency) is

- a) rising 3%
- b) rising 2%
- c) falling 2%
- d) none of the above

17. In the case of the question immediately above, what should be the inflation rate of Botswana

- a) 4%
- b) 3%
- c) 1%
- d) -1%

18. The monetary approach to exchange rates requires which of the following theories to hold:

- a) uncovered interest rate parity
- b) purchasing power parity
- c) real interest rate parity
- d) exchange rate overshooting

19. In an efficient foreign exchange rate market, an unexpected increase in domestic money supply growth can lead to

- a) an immediate appreciation of a currency
- b) an immediate depreciation of a currency
- c) an immediate decrease in direct foreign investment
- d) none of the above

20. When a country devalues its currency, we expect that

- a) Income will rise because the devaluation stimulates aggregate demand.
- b) Income will rise because the devaluation stimulates aggregate supply.
- c) Income will fall because the devaluation reduces aggregate demand.
- d) Income will fall because the devaluation reduces aggregate supply