OULUN YLIOPISTON
KAUPPAKORKEAKOULU

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| **Tenttipäivä / Date: 22.1.2015** |
| **Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:** **72410A, Global Economics, Exam 2** |
| **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) No; Sanakirja/Dictionary No<br>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. **<u>You need to return both the answer sheet and the question sheets</u>**. Good luck for the exam!

Name / *nimi*: ______________________________ ID number / *henkilötunnus*: ______________________________

Student number / *opiskelijanumero*: ______________________________ Grading / *tentin arvostelu*: ______________________________

**Answer the questions by circling the right answer.**

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| 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. A general pattern in the international trade data is that
   a) international trade a percent of gross domestic product is greater for small countries.
   b) rich countries trade a lot more with poorer countries than other rich countries.
   c) the growth in international trade has been about the same as worldwide GDP growth over the last twenty years.
   d) countries trade more with each other, the further apart they are in distance.
2. Which of the following does NOT occur when a country opens up to trade in standard model?
   a) Comparative advantage differences between the countries decrease.
   b) A country produces more of good for which it has a comparative advantage.
   c) The price of the good for which the country has a comparative advantage increases.
   d) Overall welfare (utility) for bot countries increases.
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 Heckcsher-Ohlin model is consistent with people's concerns that NAFTA could lower U.S. wages?
   a) Stolper-Samuelson theorem.
   b) Rybczynski theorem.
   c) Factor price equalization.
   d) None of the above.
7. A tariff can _______ raise a country's welfare
   a) never.
   b) sometimes.
   c) always.
   d) none of the above.
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. Tariffs and quotas tend to be similar in their domestic welfare effects
   a) if quota licenses are given to foreigners.
   b) if quota licenses are auctioned.
   c) if quota licenses are given to domestic firms.
   d) both b) and c).

10. The gravity model offers a logical explanation for the fact that

   a) trade between Asia and the U.S. has grown faster than NAFTA trade.

   b) trade in services has grown faster than trade in goods.

   c) trade in manufactures has grown faster than in agricultural products.

   d) 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:

   a) tariffs.

   b) arbitrage.

   c) sticky prices.

   d) nontraded goods.

12.The Overshooting theory is useful for explaining:

   a) High exchange rate volatility after the collapse of the Bretton Woods system.

   b) The worsening of the Great Depression under the Gold Standard.

   c) Excessive accumulation of reserves after the Asia Crisis of 1997.

   d) Speculative attacks in the foreign exchange market.

13. Imagine that there are only two nations in the world, the United States and Mexico. If Americans buy more goods made in Mexico, other things constant, the

   a) U.S. demand curve for Mexican pesos will shift rightward.

   b) U.S. demand curve for Mexican pesos will shift leftward.

   c) U.S. supply curve for Mexican pesos will shift rightward.

   d) U.S. supply curve for Mexican pesos will shift lefttward.

14. A Currency board

   a) is responsible for maintaining a fixed exchange rate.

   b) has no monetary policy independence.

   c) includes several countries

   d) all of the above

15. Relative purchasing power party requires:

   a) Real Exchange Rate = 1.

   b) The price of a Big Mac is the same in Oulu as in Paris.

   c) The real exchange rate is constant.

   d) 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 Botwana

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) country’s trade deficit will increase.

b) country’s trade deficit will be unaffected.

c) country’s trade deficit will decrease.

d) foreign goods become cheaper in a country.