

YLIOPISTOTENTTI - UNIVERSITY EXAM

Opiskelijan nimi / Student name:	Opiskelijanumero / Student number:
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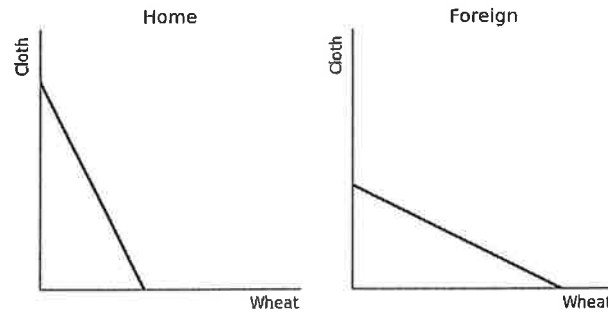
Opettaja täyttää / Lecturer fills in:

Opintojakson koodi and nimi / The code and the name of the course: 724210A Global economics	
Tiedekunta / Faculty: Oulu Business School	
Tentin pvm / Date of exam: 8.11.2017	Tentin kesto tunteina / Exam in hours: 3 h
Tentaattori(t) / Examiner(s): Matti Koivuranta	Opintopistemäärä / Credit units: 5
	Sisäinen postios. / Internal address: Oulu Business School
Sallitut apuvälineet / The devices allowed in the exam: <input checked="" type="checkbox"/> Funktiolaskin / Scientific calculator <input type="checkbox"/> Ohjelmoitava laskin / Programmable calculator <input type="checkbox"/> Muu materiaali, tarkennettu alla / Other material, specified below:	
Tenttiin vastaaminen / Please answer the questions: <input checked="" type="checkbox"/> Suomeksi / in Finnish <input checked="" type="checkbox"/> Englanniksi / in English Suomenkielisessä tutkinto-ohjelmassa olevalla opiskelijalla on oikeus käyttää arvioitavassa opintosuorituksessa suomen kieltä, vaikka opintojakson opetuskieli olisi englanti. Tämä ei koske vieraan kielen opintoja. (Kts. <u>Koulutuksen johtosääntö 18 §</u>) In a Finnish degree programme a student has a right to use Finnish language for their study attainment, even though the language of instruction is English, (excluding language studies) even when the language of instruction is other than Finnish. (See <u>the Education Regulations 18 §</u>)	
Kysymyspaperi on palautettava / Paper with exam questions must be returned: <input type="checkbox"/> Kyllä / Yes <input type="checkbox"/> Ei / No	

1. Determine whether following statements are true or false. Right answer is worth 0.5 points and wrong answer costs 0.5 points. The total points cannot be negative however. There is a single right answer to each item.
 1. The ratio of total trade (as measured by the average of value of imports and exports) to GDP is on average higher for large economies than for small economies.
 2. A foreign direct investment (FDI) occurs when an investor buys a government bond issued by a foreign country.
 3. Euro appreciates against dollar when euro-dollar exchange rate $E_{\text{€}/\$}$ increases.
 4. A large country may benefit from import tariff under perfect competition because the tariff affects the terms of trade.
 5. WTO rules allow the use of import tariffs under specific conditions.
 6. Production subsidies are strictly forbidden under WTO rules.
 7. An import tariff of a small country (home country) imposes a cost on domestic producers of the good under perfect competition.
 8. In the Heckscher-Ohlin model rental of capital can differ across industries because land and capital are not mobile across industries.
 9. According to the Rybczynski theorem an increase in the amount of labor in an economy (i.e. immigration) will increase the output of all industries within the Heckscher-Ohlin model.
 10. The monopolistic competition model can explain why a country may both export and import some specific good.
 11. The monopolistic competition model predicts that introduction of free trade causes bankruptcies which tend to increase the average costs of surviving firms.
 12. Benefits of trade within the monopolistic competition model include the larger product variety available to consumers.

2. Following figure depicts production possibility frontiers of a Ricardian model of trade with two countries, Home and Foreign, producing two goods, wheat and cloth.

- (a) Which country has a comparative advantage in production of wheat and why?
- (b) What does the Ricardo model predict about specialization and pattern of trade?
- (c) Does each country gain from trade? Explain why or why not.



3. Following figure describes a game between two countries which engage in trade with each other. In particular, the matrix contains the payoffs (relative to free trade) of setting or not setting an import tariff.

- (a) What is the Nash equilibrium of the game and why?
- (b) How does the game help understand why multilateral trade agreements are needed?

		Foreign	
		No tariff	Tariff
Home	No Tariff	0	-6
	Tariff	2	-3

4. Explain briefly what do following parities mean and how they help to explain the behavior of exchange rates:

- (a) Purchasing power parity
- (b) Uncovered interest parity

