

YLEISEN TENTIN TENTTILOMAKE - GENERAL EXAM FORM

Opiskelija täyttää / Student fills in

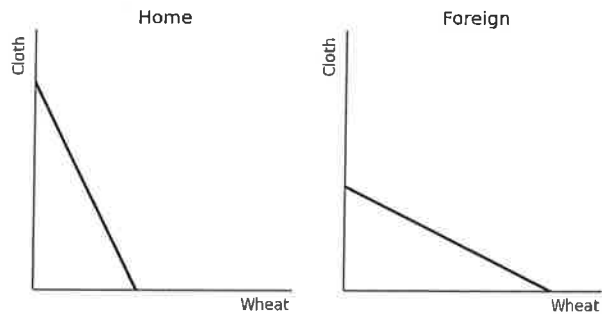
Opiskelijan nimi / Student name: Click here to enter text.	Opiskelijanumero / Student number: Click here to enter text.
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Opettaja täyttää / Lecturer fills in

Opintojakson koodi / The code of the course: 724210A	
Opintojakson (tentin) nimi / The name of the course or exam: Global Economics	
Opintopistemäärä / Credit units: 5 Mikäli kyseessä on välikoe, opintopistemääräksi täytetään 0 op. 0 ECTS Credits is used for mid-term exams.	
Tiedekunta / Faculty: Oulu Business School	
Tentin pvm / Date of exam: 12.11.2018	Tentin kesto tunteina / Exam in hours: 3 h
Tentaattori(t) / Examiner(s): Matti Koivuranta	Sisäinen postiosoite / Internal address: Matti Koivuranta, OyKKK
Tentissä 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 tentissä sallittu materiaali tai apuvälineet. Tarkenna alla. / Other material or devices, allowed in the exam. Specify below. Click here to enter text. <input type="checkbox"/> Tentissä ei ole sallittua käyttää apuvälineitä / The devices are not allowed in the exam	
Muut tenttiä koskevat ohjeet opiskelijalle (esimerkiksi kuinka moneen kysymyksen opiskelijan tulee vastata) / Other instructions for students e.g. how many questions he/she should answer: All questions should be answered	

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. A foreign direct investment (FDI) occurs when an investor buys a government bond issued by a foreign country.
 2. In the Heckscher-Ohlin model rental of capital can differ across industries because land and capital are not mobile across industries.
 3. 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.
 4. Benefits of trade within the monopolistic competition model include the larger product variety available to consumers.
 5. The monopolistic competition model can explain why a country may both export and import some specific good.
 6. The monopolistic competition model predicts that introduction of free trade causes bankruptcies which tend to increase the average costs of surviving firms.
 7. Production subsidies are strictly forbidden under WTO rules.
 8. An import tariff of a small country (home country) benefits the domestic producers of the good under perfect competition.
 9. A large country may benefit from import tariff under perfect competition because the tariff affects the terms of trade.
 10. Economic theory predicts that common resources such as fish in the ocean may be over-harvested if there is no regulation.
 11. Euro appreciates against dollar when euro-dollar exchange rate $E_{\$/\text{€}}$ increases.
 12. Yen-nominated interest rate on Japanese bonds is 2% and dollar-denominated interest rate on U.S. bonds is 4%. According to uncovered interest parity the U.S. dollar is expected to appreciate against the Japanese yen.

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.
- Sketch a figure which displays the world prices and relevant indifference curves with free trade between the countries. Also add labels of world prices, indifference curves, production points and consumption points to the figure.
 - Which country has a comparative advantage in production of wheat and why?
 - What does the Ricardo model predict about specialization and pattern of trade?
 - 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.
- What is the Nash equilibrium of the game? Explain why.
 - 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 what does the concept of arbitrage mean and how lack of arbitrage in foreign exchange markets, bond markets and goods markets can be used to explain the behavior of exchange rates.

