

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: 18.11.2019	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. Choose one of the alternative answers. In each item there is a single right answer. Each correct answer is worth 1 point. Each incorrect answer is worth 0 points. Choosing multiple answers yields 0 points.
- (1) Consider situation in the foreign exchange market on October 8th 2019. The triangular arbitrage condition holds. USD/EUR is 1,10 i.e. by one euro you get 1,10 US dollars. NOK/EUR is 10,02 i.e. by one euro you get 10,02 NOK. What is the value of USD/NOK i.e. how many US dollars will you get by one Norwegian krona?
- A 0,09
 - B 0,10
 - C 0,11
 - D 0,12
- (2) Assume the uncovered interest rate parity holds. In the euro area the one year interest rate is 0% and in Norway $1,5\% = 0,015$. NOK/EUR rate is 10,02 and thus EUR/NOK rate is 0,0998. What is the expected EUR/NOK rate? Is the euro expected to appreciate or depreciate?
- A 0,0998. We expect no change in the exchange rate
 - B 0,1009. We expect the euro to depreciate
 - C 0,0905. We expect the euro to appreciate
 - D Cannot calculate using the given information
- (3) Assume the purchasing power parity holds. Inflation in the euro area is 3% and global inflation outside the euro area is 1%. What is the expected appreciation or depreciation of the euro in the foreign exchange market?
- A The euro is expected to depreciate by 4%
 - B The euro is expected to appreciate by 4%
 - C The euro is expected to depreciate by 2%
 - D The euro is expected to appreciate by 2%
- (4) Consider the real exchange rate of Finland. Inflation in Finland is 1% and global inflation (countries relevant from the point of view of Finland's foreign trade) is 2%. The external value of the euro is exogenous from the point of view of Finland and it appreciates in the foreign exchange market by 3%. How much does the real exchange rate of Finland change? Does it appreciate or depreciate? Is this good or bad for Finnish exports?
- A The real exchange rate of Finland depreciates by 4%. This is good for Finnish exports
 - B The real exchange rate of Finland depreciates by 4%. This is bad for Finnish exports
 - C The real exchange rate of Finland appreciates by 2%. This is good for Finnish exports
 - D The real exchange rate of Finland appreciates by 2%. This is bad for Finnish exports
- (5) Let us consider the monetary model of exchange rate determination as explained during the lectures. Which one of the following statements is true:
- A The monetary model holds both in the short and long run. Thus, it is always true
 - B The monetary model describes behavior and pressure in the foreign exchange markets in the long run or medium term
 - C Money markets are not in equilibrium
 - D The monetary model is useful in predicting developments in growth

- (6) Let us consider the monopolistic competition model of trade. Which of the following statements is false:
- A Firms sell differentiated goods within the monopolistic competition model.
 - B Benefits of trade within the monopolistic competition model include the larger product variety available to consumers.
 - C The monopolistic competition model can explain why a country may both export and import some specific good.
 - D The monopolistic competition model predicts that introduction of free trade causes bankruptcies which tend to increase the average costs of surviving firms.

2. 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, 0	-6, 2
	Tariff	2, -6	-3, -3

3. (a) What is the difference between *absolute advantage* and *comparative advantage* in trade theory?
- (b) Consider the Heckscher-Ohlin model where the countries differ only with respect to amount of available resources. What does the model predict about the pattern of trade?
- (c) What is meant by *terms of trade*?