



EXAMINATION

Course code: SFB13509	Course: Topics in International Economics
Date: 03.05.2013	Duration 09.00 – 12.00
Permitted sources: Mother tongue – English and English – mother tongue dictionary Calculator	Lecturer: Danuta Tomczak
<p>The examination: The examination papers consist of 3 pages, inclusive this page. Please check that the examination papers are complete before you start answering the questions.</p> <p>Four of six questions should be answered: two question from Part I and two questions from Part II. Mark which questions you answer.</p>	
Date of announcement of the examination results: 29.05.2013	
The examination results will be made available on the Studentweb no later than two workdays after the announcement of the examination results (www.hiof.no/studentweb).	

Please answer four questions – **two questions from part I** and **two questions from part II**. Mark clearly which questions you answer.

Part I

Question 1

The theory of trade explains why nations gain by trading with each other instead of producing all goods themselves. Explain – using The Ricardian model of trade:

- What is meant by comparative advantage and which factors can explain comparative advantage
- Assume two countries: Home and Foreign, producing 2 goods: wine and cloth. The marginal productivity of labour is:

	<u>Home</u>	<u>Foreign</u>
Cloth	2	1/3
Wine	1	2/3

What trade pattern will this suggest according to the Ricardo model? Explain why.

- Assume that Home has labour resources of 100 units, and that the world market relative price $P_w/P_c = 1$. Home exports 100 units of the export good. Does home gain from trade? Show it on the graph and explain.
- Does the Ricardo-model have any relevance for explaining world trade today?

Question 2

The Norwegian government decided to raise import tariffs on cheese from 1.01.2013, which has initiated fierce debates in the EU-countries.

- Show graphically and explain the effects of the tariff
- Does an import tariff improve the welfare of a single nation? Discuss.
- Do you find relevant arguments for tariffs in today's world?
- Assume that you are the leader of the Farmer's Party, lobbying for protection of the cheese producers in Norway by imposing a quota to limit imports. Would it be a better solution than the tariff? Present your arguments.

Question 3

Explain the 'trade creation' and 'trade diversion' effects using theory of a customs union.

- What is a customs union and why does it affect international trade?
- Explain what "trade creation" and "trade diversion" is and show it on the graph.
- Discuss whether it is important to study these effects.

- d) Does a regional customs union violate the free trade principles employed by WTO?

Part II

Question 4

- a) In national income accounting, the following measures are central:

GNE	Gross National Expenditure
GDP	Gross Domestic Product
GNI	Gross National Income
GNDI	Gross National Disposable Income

Explain what is meant by all of these measures and the relationships between them.

- b) What is relationship between national savings, investment and the current account?
c) Why is the overall balance of payments (BOP) always equal to 0?

Question 5

- a) Use relevant models and critically discuss what speaks for and against fixed or floating exchange rates.
b) Assume that a country has pegged its currency to that of another nation. Due to a reduction in national income, money demand falls. How does this affect the possibility of keeping the exchange rate fixed?

Question 6

- a) According to the theory of optimum currency areas (OCA), what are the macroeconomic costs associated with the currency area, and what factors help to minimize the macroeconomic costs of forming the currency area?
b) According to the theory of OCA, whether shocks are expected to be symmetric or asymmetric is very important. Explain these two terms and explain how integration relates to the effects of such shocks.

Please, write and make graphs readable!

Good luck!