Høgskolen i Østfold

EXAMINATION

<table>
<tr><td>Course code:
SFB 13514</td><td colspan="2">Course:
Topics in International Economics</td></tr>
<tr><td>Date:
11.05.2015</td><td colspan="2">Duration
09.00 – 13.00</td></tr>
<tr><td colspan="2">Permitted sources:
Mother tongue – English and English – mother tongue dictionary
Calculator</td><td>Lecturer:
Brit Wichlund</td></tr>
<tr><td colspan="3">The examination:
The examination papers consist of 4 pages, inclusive this page. Please check that the examination papers are complete before you start answering the questions.

Five of seven questions should be answered: two question from Part I and three questions from Part II. Mark which questions you answer.</td></tr>
<tr><td colspan="3">Date of announcement of the examination results: 29.05.2015
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).</td></tr>
</table>

PART I

This part has three questions.
Please answer two of three questions from part I. Mark clearly which questions you answer.

Question 1

a) What was the central idea of mercantilism?

b) List up the assumptions of the Ricardian model and explain why do we need assumptions in economic models.

Assume the following in the Ricardian model :
(where w= wheat, and c= cloth)

$MPL_{W} = 4$
$MPL_{C} = 2$

$\bar{L} = 25$

$MPL^*_{W} = 1$
$MPL^*_{C} = 1$

$\bar{L}^* = 100$
world price line, slope = – 2/ 3

c) Explain these terms. Show on a graph the difference between Home equilibrium with no trade, and Home equilibrium with trade. Explain your graph and mark the Home' s terms-of- trade.

Question 2

a) What are the reasons for trade in the Heckscher – Ohlin model? What are the assumptions for the model?

b) Explain what does the Heckscher – Ohlin model predict. Show the free-trade equilibrium of Home on a graph. Explain the graph.

c) Does everyone gain from free trade? Use trade theory to explain.

Question 3

Assume a small economy and perfect competition.

a) What is meant by the following terms:
- consumer surplus
- producer surplus

Show it in a graph.

b) Show the impact of a tariff on a graph and explain

Assume instead a large country.

c) What does the large country assumption imply? Explain how it is possible for a country to gain from imposing a tariff.

d) What is meant by an 'optimal tariff'?

PART II

This part has four questions.
Please answer three of the four questions from part II. Mark clearly which questions you answer.

Question 4

a) What is meant by the following terms:
arbitrage
depreciation
appreciation
effective exchange rate
real exchange rate

b) Explain the monetary approach to the determination of exchange rates.

c) Explain the asset approach to the determination of exchange rates.

d) What is the 'trilemma' ?

Question 5

a) Explain three different exchange rate regimes

b) What could be the reasons for a country to choose one exchange rate regime or the other?

c) Assume that a country A pegs its currency to that of another country. How does this affect country A's ability to conduct autonomous monetary policy?

Question 6

a) Write down and explain the national income identity.

b) What are the components of the current account?
Write down the current account identity, with public expenditures and explain what does the current account tell us about a country's economic condition.

c)   Consider the following example:

i) Foreign central banks increase their official holdings of U.S. government securities.

ii) A British pension fund sells some of its holdings of the stocks of U.S companies in order to buy U.S. corporate bonds.

What are the effects of each of the above on the U.S. international investment position?

Question 7

a) Give an account of the IS – LM model and show it in a graph.

b) What is meant by the 'liquidity trap' (zero lower bound) ?

c)   Explain the limits of the model. Does the model give predictions for an appropriate economic policy?