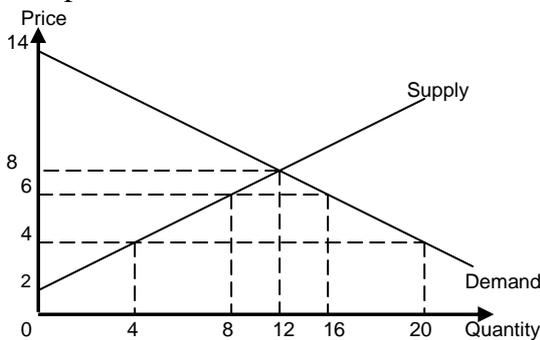


Exercise 1. (10 points) The figure below represents the case of an open economy with demand and supply of a tradable good x with world price $p_w=4$, and with a tariff imposed on imports $t=2$.



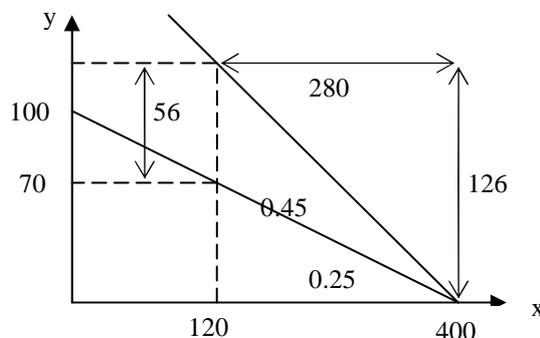
How much is the domestic price of x ?

[0, 2, 4, **6**, 8, 14]

How much are imports of x ?

[0, $8-4=4$, 12, **$16-8=8$** , $20-4=16$, 20]

Exercise 2. (10 points) Let us study the case of complete specialization of country A when it trades with country B. The figure below represents the Production Possibilities Curve (of slope 0.25, as indicated), the Consumption Possibilities Curve (of slope 0.45), and consumption of good x (120, as indicated) by country A.



Calculate the exports of x from A.

[70, 100, 56, 126, 120, 400, **280**]

Calculate the imports of y in A.

[70, 100, 56, **126**, 120, 400, 280]

Exercise 3. (5 points) Which of the following statements is true (only one is true)?

1. In the Specific Factor Model, factors are mobile in the short run.
2. FDI are usually undertaken by small firms.
3. Monopolistic firms do not earn positive profits in the short run.
4. Product differentiation usually implies a reduction in fixed costs.
5. **Perfect competition can persist with External Economies of Scale.**
6. Global Value Chain participation is an international trade agreement.

Exercise 4 (5 points) Which of the following statements is true (only one is true)?

- (a) The Modern Trade Model states that the different productivity of factors of production between countries can explain their different gains from trade.
- (b) **The Modern Trade Model states that the different endowments of factors of production between countries can explain their differences of productivity.**
- (c) Complete specialization means that the production of a good x entirely comes from one country on the world market.
- (d) Geographical monopoly often requires new investments, so that variable costs must increase.
- (e) Protection is usually used against imports from countries where wages are much higher.
- (f) The TRIPS agreement of the Uruguay Round concerns freedom to travel across countries.