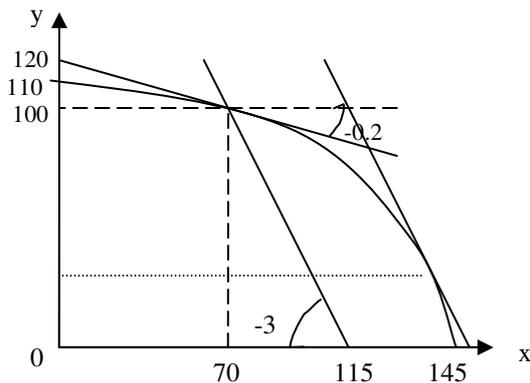


*University of Cassino
Economics and Business*

International Economics – Trade
A.A. 2018/2019
Prof. Maurizio Pugno

Exam – 18 June 2019

Exercise 1. (11 points) The Figure below represents the (concave) Production Possibilities Curve, and the Consumption Possibilities Curve of the US for the two goods x and y when the US can trade with Canada.



The US is capital abundant relatively to Canada, and x is capital intensive relatively to y, being the same technologies in both countries.

- 1.1 What is the price of x (in terms of y) if the US was closed to international trade? [**0.2**];
- 1.2 What is the price of y (in terms of x) if the US was closed to international trade? [**1/0.2=5**];
- 1.3 What is the quantity produced of x if the US was closed to international trade? [**x= 70**];
- 1.4 What is the quantity produced of y if the US was closed to international trade? [**y= 100**];
- 1.5 What is the price of x if the US can trade with Canada? [**3**];
- 1.6 What is the opportunity cost of x if the US can trade with Canada? [**3**];
- 1.7 What is the price of x if the US can trade with Canada? [**3**];
- 1.8 What is the quantity produced of x if the US can trade with Canada and it becomes specialised in producing one of the two goods? (tick the right box)

0 0-70 70 70-115

115 115-145 145 >145

- 1.9 What is the quantity produced of y in the same condition as in question 1.8?

0 0-100 100 100-110

110 110-120 120 >120

- 1.10 What is the price of x when the US is specialised? [**3**].

Exercise 2. (8 points) Which of the following statements are true.

- (a) In the Specific Factor Model, factors are mobile in the short run.
- (b) Intra-firm trade arises when firms reproduce abroad the whole production rather than moving abroad intermediate stages of production.
- (c) Monopolistic firms do not earn positive profits in the short run.
- (d) Product differentiation usually implies a reduction in fixed costs.
- (e) **Perfect competition can persist with External Economies of Scale (lecture 6 slide 20).**
- (f) **WTO as part of the Uruguay Round has limited the use of industrial policies.**
- (g) **Imposing quotas on imports reduces consumer surplus.**
- (h) Global Value Chain participation is an international trade agreement.

Exercise 3. (4 points) Which is the definition of the 'terms of trade': . . . **the ratio of the price of country's export commodity to the price of its import commodity**

Exercise 4. (4 points) Do Global Value Chain makes the labor income shares of low-income countries more similar or more different from those of high-income countries? Briefly explain why.
 . . . **more similar, because skill-biased tech change favours skilled labour against unskilled labour irrespective of skill-abundance or skill-scarcity in the two types of countries.**
 (lecture 9 slides 22-24)

Exercise 5. (4 points) Please mention at least three main problems raised by MultiNational Enterprises in the host country:

1. **Technological dependence due to displacement of local talents and saving from autonomous research.**
2. **(Over-)exploitation of natural resources by paying low prices to the host country.**
3. **Use of highly capital-intensive production techniques inappropriate for labor-abundant developing nations.**
4. **Alteration of trade flows due to MNEs' strategy or to compliance with the law of home country.**
5. **Alteration of national tastes with large-scale ads.**