University of Cassino
Economics and Business

International Economics – Trade
A.A. 2019/2020
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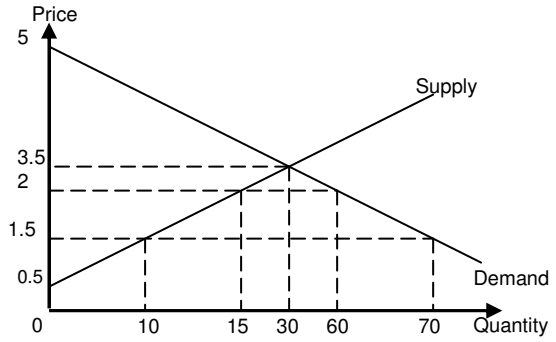
Exam – 21 Jan. 2020

Notes: Only this text should be handed. Correct answers in exercise 3 should be underlined, and wrong answers should not be underlined. If the writing is hard to read is tantamount to not answering.

Exercise 1. ***(10 points)*** Figure below represents the case of a country with demand and supply of a tradable good with world price *pw*=1.5, and with the possibility to impose a tariff *t* on imports.



If the tariff is not yet imposed (i.e. when *t*=0), calculate:
1) the consumer surplus [__**122.5**___];
2) the producer surplus [____**5**___];
3) the imports [____**60**___].
If the tariff of *t*=0.5 is imposed, calculate:
4) the consumer surplus [__**90**___];
5) the producer surplus [__**11.25**___];
6) the imports [____**45**___];
7) revenues levied [____**22.5**___];
8) domestic production [____**15**___];
9) domestic consumption [____**60**___];
10) total losses (sum of triangles) [____**3.75**_].

Exercise 2. ***(4 points)*** The table below reports the productivities of goods x and y by countries A and B.

	A	B
x	4	6
y	2	1.5

Calculate the prices of x for A and B and the opportunity cost (OC) of y for A and B:

	A	B
price of x	**0.5**	**0.25**
OC of y	**2**	**4**

Exercise 3. ***(7 points)*** Which of the following statements are true?
(a) Comparative productivity advantage of a country is its advantage in producing more of a certain good per hour worked than another country.
(b) The production possibilities curve (PPC) represents the maximum amount of consumption of different baskets of goods for given primary resources and given technology.
(c) The world price of the traded good x is equal to the price of x of the country with comparative advantage in producing x.
(d) When two countries open to trade, they move to complete specialization if they exhibit a concave Production Possibility Curve.
(e) OLI theory of Foreign Direct Investment stands for Ownership, Location, and Internalization.
(f) In the Voluntary Export Restraint the foreign importing country "voluntarily" agrees to limit its imports for a period.
(g) NAFTA means North African Free Trade Agreement.
(h) In case of high transportation costs and no (internal) economies of scale, it is convenient to decentralize production in small plants.
(i) The 'smile curve' of the Global Value Chains depicts the comparative advantage of a country in entering in one stage of GVC.
(j) None of the above statements is true.

Exercise 4. ***(4 points)*** Please list three effects on firms when a monopolistic market expands:
1. new firms enter the market,

2. each firm increases its size, 3. they specilize

4. firms gain competitive advantage.

Exercise 5. ***(6 points)*** When high-standard countries require their firms to follow home country standards when operating abroad, which are the main Pros and the main Cons?
Pros: **i) this impedes the race to the bottom; ii) avoids the problem of high-income countries' dictating standards;**
Cons: **i) addresses only firms of high-standard countries; ii) low-country producers are not affected; iii) a high-standard country firm may outsource production to a low-standard country producer.**