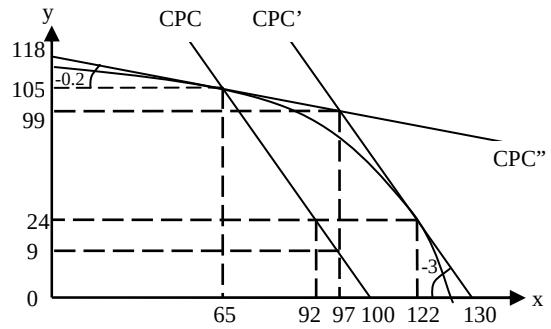
University of Cassino
Economics and Business

International Economics – Trade
A.A. 2019/2020
Prof. Maurizio Pugno

Exam – 15 Sept. 2020

Notes: Only this text should be handed. Only one answer per exercise is correct, and it should be underlined.

Exercise 1. ***(5 points)*** The Figure below represents the (concave) Production Possibilities Curve, and the Consumption Possibilities Curves 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, and both countries use the same production function.
What is the opportunity cost of x if the US can trade with Canada?
[0.2**]**, [**3**], [1/0.2=5], [1/3=.33], [no previous answer is correct**].**



Exercise 2. ***(5 points)*** The Figure above represents the (concave) Production Possibilities Curve, and the Consumption Possibilities Curves 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, and both countries use the same production function.
What is the price of x if the US can trade with Canada?
[0.2**]**, [**3**], [1/0.2=5], [1/3=.33], [no previous answer is correct**].**

Exercise 3. ***(5 points)*** The Figure above represents the (concave) Production Possibilities Curve, and the Consumption Possibilities Curves 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, and both countries use the same production function.
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?
x= [0], [9], [24], [100], [105], [118 **], [no previous answer is correct, which is 122].**

Exercise 4. ***(5 points)*** Let us assume that:
(i) the demand is larger than supply in the domestic market of good X because the international price of X prevails, and
(ii) a quota on imports of X is imposed in order to reduce them.
Which of the following consequences is true:
a. Domestic consumption of X increases
b. Consumer surplus of X increases
c. The price of X remains the same.
d. Quota rent in exporter foreign firms diminishes.
e. A smaller number of foreign producers can limit the quota rent.
g. None of the above statements is true.

Exercise 5. ***(5 points)*** If the monopolistic market of the good X expands because of international trade, which of the following consequences on the new equilibrium is true?
a. The number of existing firms diminishes.
b. The size of existing firms diminishes.
c. The Average Costs curve shifts downwards.
d. The possibility of product differentiation diminishes.
e. The price of X diminishes.
f. None of the above statements are true.

Exercise 6. ***(5 points)*** Which of the following statements is true?
a. According to the Ricardo model, the world price of good X, which is traded by countries A and B, is greater than the domestic price of X in both countries.
b. The reduction of trade protection policies aims to immediately protect the interests of producers.
c. Perfect competition cannot persist with External Economies of Scale.
d. Off-shoring moves some firm's activities to a location outside the home country.
e. Global Value Chains always increase wages of participating countries.
f. Retaliation is the standard reaction of a country when it experiences excess supply of trade.
g. None of the above statements are true.