Examination Period 3: 2016/17

ECNM01317N

Module Title International Economics
Level Seven
Time Allowed Three hours

Instructions to students:
• Enter your student number not your name on all answer books.
• Answer four questions from Section A and all questions from Section B.
• All questions are equally weighted.
• The use of a non-programmable calculator is permitted.

No. of Pages 4
No. of Questions 9
Section A

Answer four out of eight questions.

1. Analyse the 2007/08 US financial crisis use the national accounting identity formula: \((T - G) + S = I + CA\), where \(T\) stands for taxes, \(G\) stands for public expenditure, \(S\) stands for private savings, \(I\) stands for investment, and \(CA\) stands for the current account deficit/surplus.  
   (20 marks)

2. Compare and contrast the classical and Heckscher-Ohlin (HO) theories of trade. Discuss the differences in assumptions, post trade production points, and the effects of trade on the distribution of income.  
   (20 marks)

3. Explain what intra-industry trade is and how it differs from inter-industry trade. Are the gains from trade similar?  
   (20 marks)

4. Summarise the facts about trade at the firm-level. Analyse how Melitz’s (2003) model differs from previous trade theories and how it explains the facts about firm-level trade flows and the gains from trade. Who are the winners and losers generated by trade liberalisation?  
   (20 marks)

5. Use appropriate diagram(s) to explain the effects of imposing a tariff in the small country case. Describe the welfare results. Outline the impact of the tariff on the well-being of the small country, the well-being of the trade partners of the country imposing the tariff. Who benefits from the tariff?  
   (20 marks)

6. Explain the theoretical justifications for targeting the development of specific industries. What are the common problems in implementing industrial policies?  
   (20 marks)

Section A continues overleaf
7. Explain the five main types of regional trade agreements and their primary characteristics. Include examples in your explanation.

(20 marks)

8. Explain the options that a firm in one country can serve (sell its product to) a market in a foreign country. Analyse the advantages of each option and under which circumstances one option is superior to the other?

(20 marks)

Total: 80 marks
Section B

Answer all questions.

9. Suppose the world price for a good is 40 and the domestic demand-and-supply curves are given by the following equations:

\[
\text{Demand: } P = 80 - 2Q \\
\text{Supply: } P = 5 + 3Q
\]

Answer the following questions, where appropriate include diagram(s) to illustrate.

a. How much is consumed? (2 marks)

b. How much is produced at home? (2 marks)

c. What are the values of consumer and producer surplus? (4 marks)

d. If a tariff of 10 percent is imposed, by how much do consumption and domestic production change? (4 marks)

e. What is the change in consumer and producer surplus? (4 marks)

f. How much revenue does the government earn from the tariff? (2 marks)

g. What is the net national cost of the tariff? (2 marks)

Total: 20 marks