Sample examination paper

Please note: The format of the final exam paper will resemble the sample provided, however, note that there may be some variations to the number of choices within questions, particularly, in Part B of the exam.

FACULTY OF COMMERCE

AUTUMN SESSION EXAMINATION 1998

ECO320 INTERNATIONAL ECONOMICS

INTERNAL (Bathurst & Wagga), EXTERNAL (Wagga) AND OFFSHORE

SUBJECT CONVENOR: Kishor Sharma (Wagga Wagga)
DAY & DATE: TIME:
WRITING TIME: Three (3) hours READING TIME: Ten (10) minutes
MATERIALS SUPPLIED BY UNIVERSITY: One 24 page examination answer booklet
MATERIALS PERMITTED IN EXAMINATION: Battery operated calculator (must be no printer on calculator)
NUMBER OF QUESTIONS: Part A: 20 Part B: 3 Part C: 1

INSTRUCTIONS TO CANDIDATES

1. Enter your name and student number and sign in the space provided at the bottom of this page.
2. This is a closed book examination; therefore no written material, reference books or notes will be permitted into the examination room.
3. Write your answers in the answer booklets provided. Number each question clearly.
4. This examination is divided into three parts:
   Part A: Twenty multiple-choice questions - answer all questions (20 marks).
   Part B: Six problem questions - answer three (3) only (3 x 20 = 60 marks).
   Part C: Two essay questions - answer one (1) only (20 marks).

This examination is worth 50% of the final assessment.

INSTRUCTIONS TO INVIGILATORS

The examination paper must not be retained by the candidate.

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PART A  Compulsory Multiple-Choice Questions  (20 \times 1 = 20 \text{ marks})

Write clearly the question number and the letter corresponding to the correct answer for each question, in the answer booklet provided.

1. International economics deals with:
   (a) the flow of goods, services and payments among nations
   (b) policies directed at regulating the flows of goods, services and payments
   (c) the effects of policies on the welfare of the nations
   (d) all of the above.

2. In the study of international economics we use the tools of:
   (a) microeconomic theory only
   (b) macroeconomic theory only
   (c) neither micro nor macro
   (d) both micro and macro theory.

3. The mercantilists did not advocate:
   (a) free trade
   (b) accumulation of gold by the nation
   (c) restricting the nation’s imports
   (d) stimulating the nation’s exports.

4. A difference in relative commodity prices between two nations can be based upon a difference in:
   (a) factor endowments
   (b) technology
   (c) tastes
   (d) all of the above.

5. We say that commodity Y is K-intensive with respect to X when:
   (a) more K is used in the production of Y than in X
   (b) less L is used in the production of Y than in X
   (c) a lower L/K ratio is used in the production of Y than in X
   (d) a higher K/L is used in the production of X than in Y.

6. Intra-industry trade:
   (a) is not consistent with the Heckscher-Ohlin theorem
   (b) is equivalent to entrepot trade
   (c) represents only a small proportion of total world trade
   (d) is confined to trade between LDCs.

7. Leontief found that the United States:
   (a) exports were K-intensive
   (b) imports were L-intensive
   (c) exports were K-intensive and imports were L-intensive
   (d) exports were L-intensive and imports were K-intensive.
8. When a nation imposes an import tariff:
   (a) the price of import commodity rises
   (b) consumption and imports of the importable commodity falls
   (c) local production of the import-competing commodity increases
   (d) all of the above.

9. If a small nation increases the tariff on its import commodity:
   (a) the rent of domestic producers of the commodity increases
   (b) the protection cost of the tariff decreases
   (c) the deadweight loss decreases
   (d) all of the above.

10. An international cartel refers to:
    (a) dumping
    (b) an organisation of exporters
    (c) an international commodity agreements
    (d) voluntary export restrains.

11. The “most-favoured-nation principle” refers to the:
    (a) extension of any reciprocal tariff reduction to all trade partners
    (b) high tariffs
    (c) multilateral trade negotiations
    (d) non-tariff barriers.

12. On which of the following principles does WTO rest?
    (a) nondiscrimination
    (b) elimination of nontariff barriers
    (c) consultation among nations to solve trade disputes
    (d) all of the above.

13. Developing nations often experience fluctuations in the export price of their primary products because of the:
    (a) inelastic and stable demand and supply
    (b) elastic and unstable demand and supply
    (c) inelastic and unstable demand and supply
    (d) elastic and stable demand and supply.

14. Which is not a function of the foreign exchange market?
    (a) to transfer funds from one nation to another
    (b) to provide short-term credits to finance trade
    (c) to provide facilities for hedging
    (d) to diversify risks.
15. Capital inflows refer to:
   (a) an increase in foreign assets in the nation
   (b) a reduction in the nation’s assets abroad
   (c) a payment from foreigners
   (d) all of the above

16. Portfolio investments refer primarily to:
   (a) direct investments
   (b) stocks and bonds
   (c) liquid assets
   (d) short-term assets.

17. Under a freely flexible exchange rate system, a deficit in a nation’s balance of payments is automatically corrected by:
   (a) a depreciation of its currency
   (b) an appreciation of its currency
   (c) domestic inflation
   (d) a rise in national income.

18. The Bretton Woods system was:
   (a) a gold standard
   (b) a managed floating exchange rate system
   (c) a gold-exchange standard
   (d) none of the above.

19. The present international monetary system is:
   (a) a gold standard
   (b) a fixed exchange rate system
   (c) a fluctuating exchange rate system but with some intervention by monetary authorities to help maintain orderly foreign exchange markets
   (d) none of the above.

20. Which is the most serious international problem facing the world economy today?
   (a) large volatility and disequilibria exchange rates
   (b) the rise of protectionism in developed countries
   (c) the international debt problem and poverty in developing nations
   (d) all of the above.
PART B \( (3 \times 20 = 60\) marks)\\

Answer ANY THREE questions in this part.

1. Assume that one hour of labour time produces 4 kg of wheat in Australia but only 1 kg in the UK and that one hour of labour time produces 3 yards of cloth in Australia and 2 yards in the UK.
   (a) Indicate whether or not trade between these two nations is possible and the basis for trade.
   (b) How much would Australia and the UK gain if 4 kg of wheat were exchanged for 4 yards of cloth?
   (c) What is the cost in terms of labour content of producing one unit of wheat and one unit of cloth in Australia and the UK?
   (d) What is the dollar price of wheat and cloth in Australia if the wage rate is $6 per hour?
   (e) What is the pound price of wheat and cloth in the UK if the wage rate is 1 pound per hour?

2. (a) What do the terms of trade measure?
    (b) Suppose that the terms of trade of a nation improved from 100 to 110 over a given period of time. By how much did the terms of trade of its trade partner deteriorate?
    (c) Does the deterioration in the terms of trade mean that the welfare level of the trade partner has declined? Give reasons to support your answer.

3. (a) What is the deadweight loss and how does it arise?
    (b) Using a diagram explain the deadweight loss.

4. (a) Why do we need to calculate the effective rate of protection as a measure of protection to domestic producers? Explain its importance with the help of an example.
    (b) Explain the methods by which a nation seeks to protect its industries.

5. (a) Using an appropriate diagram, briefly explain the mechanism for correcting a deficit in a nation’s balance of payments via automatic price adjustments under a freely flexible exchange rate system.
    (b) What are the major advantages and disadvantages of automatic adjustment?

6. (a) Assuming that $2.00 = £1 in Sydney, 270 yen = £1 in London and 130 yen = $1.00 in Tokyo, indicate how profitable triangular arbitrage can take place.
    (b) Assume that the three months FR = $2.00/£1 and a speculator believes that the spot rate in three months will be SR = $2.05/£1. How can he speculate in the forward market? How much will he earn if he is correct? What happens if the SR = $1.95/£1?
PART C  (20 marks)

Answer only ONE question in this part.

1. Critically analyse the following statement in the light of multilateral trade negotiations and new protectionism: “While tariffs are negotiated down, non-tariff barriers are on the increase.”

2. “Balance of payments disequilibria may trigger automatic adjustment mechanisms but these mechanisms may have ‘serious unwanted side effects’.” Explain how these side effects arise and how they may be avoided.