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OLLSCOIL NA hÉIREANN
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SEMESTER I EXAMINATION 2000/01

EC382 INTERNATIONAL ECONOMICS

B.A. & B.Comm. Degree Examination

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Time allowed: 2 hours. Non English speaking students 2.5 hours.

SECTIONS A AND B MUST BE ANSWERED
USE SEPARATE ANSWER BOOKS FOR SECTIONS A AND B

SECTION A: INTERNATIONAL TRADE

Answer TWO of the following questions. Each question is worth equal marks.

1. (i) Explain the concept of Comparative Advantage and its implications for technologically less advanced countries.

   (ii) Explain why the greater the difference between domestic opportunity cost of producton and international relative prices, the greater the potential gains from trade.

   (iii) Explain how monetary factors (for example exchange rates) could invalidate the theory of comparative advantage.

   (iv) Show how even if a country did not change its production structure subsequent to trade liberalisation, it could still gain from such liberalisation. What is the intuition behind this result?

2. (i) Two central concepts in the Factor Endowments (or Heckscher-Ohlin) theory of trade are: (a) factor abundance and (b) factor intensity. Explain these concepts and support your answer with real world examples. Show how these concepts are used to explain international trade patterns.

   (ii) What measurement issues came to the fore as a result of Leontief's and subsequent researchers' attempt to test the validity of the Factor Abundance theory of trade?

3. (i) According to the Stolper-Samuelson theorem , what category of workers stands to gain/lose from increased international trade and how does this occur?

(ii) If workers were not as mobile as is generally assumed, how would they be affected by increased trade?

(iii) There is a highly emotive debate being conducted in Developed Countries about the effect of trade on the demand for unskilled labour in such countries. Discuss some of the evidence that is used by both sides of the debate to defend their perspective.

4. (i) What is meant by a domestic factor market distortion and how might such a distortion reduce, if not eliminate, the gains from trade?

(iii) Why is trade policy considered to be a third best means of addressing the adverse effects of trade when factor market distortions exist?

(iii) Why are first best methods of addressing adverse effects of trade (when factor market distortions exist) not always possible?

SECTION B

Instructions: Answer two of the four questions. All questions carry equal marks.

1. (a) Explain the concept of exchange rate overshooting.

   (b) Outline the short-run and long-run effects of an increase in the U.S. money supply on the interest rate, price level and Dollar/Euro exchange rate.

2. (a) Briefly discuss the relationship between Purchasing Power Parity (PPP) and the Law of One Price.

   (b) What is the difference between absolute PPP and Relative PPP.

   (c) Suppose the overall level of spending in an economy doesn't change, but domestic residents decide to spend more of their income on non-tradable products and less on tradables. How would you expect the currency's real exchange rate to change against foreign currencies?

3. (a) What effects, if any, do real exchange rate changes have on the current account of the Balance of Payments?

   (b) How can the government, using macro-economic policies, maintain full employment after a temporary fall in world demand for domestic products? Explain using AA and DD schedules.

   (c) Why might the implementation of these policies not always have the desired effects?

4. (a) Compare the effects of sterilized and non-sterilised foreign exchange intervention by the Central Bank on the money supply.

   (b) Compare and contrast how output changes when you have 1) A monetary expansion and 2) A fiscal expansion under:

   (i) A fixed exchange rate system

   (ii) A floating exchange rate system

   (Compare and contrast for the monetary and fiscal expansions separately.)