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THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

WINTER EXAMINATION 2001

INTERNATIONAL ECONOMICS I (EC382)
B.A. & B.Comm. Degree Examination

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Time allowed: 2 hours. Non English speaking students 2.5 hours.
Answer 3 of the following questions

1 (i) Explain the concept of comparative advantage and its trade policy implications for countries.

(ii) How does comparative advantage translate itself into absolute competitiveness.

(iii) Explain why, according to the theory of comparative advantage, the greater the differences between countries the greater the possibility for mutually beneficial trade?

(iv) Why is the assumption of an equilibrium exchange rate (one that will give rise to balanced trade) so essential to the theory of comparative advantage?

2 (i) Explain the relationship between factor endowments, factor intensities and comparative advantage.

(ii) The countries of Eastern Europe have reduced considerably barriers to trade with the European Union (EU) in preparation for accession. According to our Factor Endowments theory, who should gain and who should lose in Eastern European countries from such trade and why?

(iii) If, for demographic reasons, the supply of skilled workers relative to other factors of production were to decrease in Ireland in the near future, what would happen to the structure of production and the nature and extent of Ireland's international trade? What theorem gives this result?

3 (i) The increase in relative disadvantage of unskilled workers in Western economies has been blamed on increased globalisation. What is the theoretical basis for such a claim? Are there alternative explanations?

(ii) If workers are not very mobile between different sectors of the economy, how would you expect them to react to increased trade?

(iii) If after the next round of WTO talks the price of agricultural products continues to fall, what should be its implications for profits and output in other sectors of the economy?

4 (i) Explain how in the presence of market imperfections a country might not gain from increased trade liberalisation.

(ii) What are the possible policy responses by governments to the problems caused by trade liberalisation in the presence of market imperfections?

5 (i) 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.

(ii) Explain the relationship between (a) absolute purchasing power parity (PPP) and the real exchange rate and (b) relative purchasing power parity and the real exchange rate.

(iii) What are the factors that might cause PPP not to hold?

6 (i) If market prices are not sufficiently flexible to ensure that markets always clear, what effect could a restrictive monetary policy have on: (a) the nominal exchange rate; (b) the real exchange rate and; (c) the level of economic activity in an economy?

(ii) Explain why changes in the nominal exchange rate may have muted effects on a country's current account of the balance of payments?

(iii) Explain the fundamental incompatibility of the following three polcies: (a) an independent monetary policy; (b) no restrictions on international capital flows and; (iii) a fixed exchange rate.