International Business Economics

Instructions:
3 points demand: Determine whether the statement is true or false and motivate your answer;
9 points demand: short essay.

1. Globalisation:

- Describe the globalisation process and discuss its link with poverty and inequality (9 points).
- “The extreme poverty has shrunk in the last 20 years”. Comments. (9 points)
- Describe the main features of the globalisation process. (9 points)
- The world poverty has decreased. Globalisation has increased. Hence we can infer that to reduce the poverty level we should decrease globalisation. (9 points)


2.1 The Ricardian Model: Comparative and Absolute Advantages.

- A country cannot have comparative advantages in producing all goods/in all its sectors. (3 points)
- A country cannot have a comparative and absolute advantage in the same goods. (3 points)
- A country cannot have an absolute advantage in all its sectors. (3 points)
- A country cannot have a comparative disadvantage in producing all goods. (3 points)
- If a country has a comparative advantage in producing a good, it cannot have an absolute advantage on the same production. (3 points)
- China has an absolute and comparative advantage in all its sectors. (3 points)
- Thanks to the comparative advantage’s theory we can explain the “inter-industry” but not the “intra-industry” (i.e. of similar goods) trade. (3 points)
- A country has a comparative advantage in producing a good if its labour force produces it relatively more efficiently than workers in the other country. (3 points)
- A country has a comparative advantage in a sector if the workers employed in that sector are relatively more productive than the labour force in another country. (3 points)
- If country A has an absolute advantage in all sectors in comparison to country B, it implies that only country A will gain from trade openness. (3 points)
- The comparative advantage’s theory suggests that international specialization is driven by the consumers’ preference. (3 points)
- After presenting in a detailed way the Ricardian model, discuss its strength and its weakness. (9 points)

2.2 Misconceptions about Comparative Advantages.

- Free trade is beneficial only if your country is strong enough to stand up foreign competition. (3 points)
- Foreign competition is unfair and hurts other countries when it is based on low wages. (3 points)
- Trade exploits a country and make it worse off if its workers receive much lower wages than workers in other nations. (3 points)

3.1 The Heckscher-Ohlin Model

- The Heckscher-Ohlin theory suggests that each country exports all the goods that it produces. (3 points)
- The Heckscher-Ohlin theory shows that each country produces only the goods that it produces. (3 points)
- In the Heckscher-Ohlin model similar countries trade similar goods and this leads to a complete specialisation in the production pattern. (3 points)
- A country tends to export and produce only the goods that are relatively intensive in the factors with which they are relatively abundantly supplied. (3 points)
- In a world with only two countries that differs in term of factor endowment, international trade doesn’t lead to the convergence in the relative price of goods. (3 points)

3.2 Empirical Evidence in the Heckscher-Ohlin model

- The ‘missing trade’ argument suggests that, in the reality, the indirect international trade of production factors is smaller than forecast by the Heckscher-Ohlin model. (3 points)
- The ‘missing trade’ argument refers to the presence of too high protectionism levels. (3 points)
- The Leontief Paradox shows that the US share of international trade is extremely low. (3 points)
- The Leontief Paradox is caused by the excessive level of intra-industry trade among developed countries. (3 points)
- The Leontief Paradox explains the tariff’s effects on a country’s economic welfare. (3 points)
- The Leontief Paradox is caused by the trade relations among similar countries. (3 points)

3.3 The Stolper-Samuelson Theorem

- International trade reduces the real income of skilled workers. (3 points)
- Consider a country that has only two production factors: capital and labour. Workers would be favour to international trade only if the country is relatively abundant of labour. (3 points)
- In a country everyone gains from trade liberalisation. (3 points)
- Comment the following statement: “The international trade of goods causes income distribution effects”. (9 points)
- Describe the income distribution effects caused by international trade. (9 points)
- “The entrance of East-European countries in the European Union could provoke an income redistribution that favours skilled workers and damages unskilled workers in the EU 15 countries. (9 points)
- The international trade theory suggests that trade openness induces an income reallocation among the involved countries. Present in a detailed way a theory that explains this effect. Does the empirical evidence support the theory? (9 points)
- In the USA the increasing trade openness has widen the wage gap between skilled and unskilled workers. (9 points)
4. Trade, growth and the terms of trade

- If a country adopts an import-biased growth strategy, its economic welfare could decrease. (3 points)
- Export-biased growth increases the country’s welfare through an improvement in its term of trade. (3 points)
- Import-biased growth decreases the country’s welfare through a worsening in its term of trade. (3 points)
- If country’s growth is biased toward the imported goods, it could decrease the welfare income of a country. (3 points)
- The economic growth cannot have negative effects on the country’s welfare. (3 points)
- The ‘immiserizing growth’ is due to an export-biased growth. (3 points)
- The ‘immiserizing growth’ is caused by the introduction of a tariff on the imported goods. (3 points)
- In theory it’s possible that economic growth has immiserizing effect on a country. (3 points)
- The economic growth can impoverish a country. (3 points)
- The import-biased growth can generate an immiserizing effect. (3 points)

5. Causes and consequences of international trade: imperfect competition and economies of scale.

5.1 Imperfect Competition and Internal Economies of Scale: the Krugman’s model.

- In the Krugman’s monopolistic competition model, the international trade between two countries increases the economic welfare of the domestic consumers. (3 points)
- In the Krugman’s monopolistic competition model, the economic integration between two countries increases the goods varieties available on the domestic market. (3 points)
- The presence of internal economies of scale is one of the international trade determinants. (3 points)
- The international trade of similar goods among similar countries could be explained using the comparative advantage theory. (3 points)
- Present the monopolistic competition theory of international trade and discuss the main differences in comparison to the Heckscher-Ohlin model. (9 points)
- Discuss the following statement using an analytical approach: “Internal economies of scale and monopolistic competition impact on the international trade patterns”. (9 points)
- “International trade between two similar countries that present imperfect competitive markets could induce economic welfare gains for both countries”. (9 points)
- Present a model of international economics that could explain the pro-competitive effect of trade openness. (9 points)
- “International trade could exist also between similar countries and both countries could gain from it”. (9 points)
- Using an analytical tool, explain how is possible that two similar countries that produce similar goods could gain from international trade. (9 points)

5.2 External economies of scale and international trade

- The knowledge spillovers favour the geographic agglomeration of production activities. (3 points)
- The external economies of scale explain how a country keeps its international specialisation pattern without having a comparative advantage. (3 points)
Thanks to the presence of external economies of scale a country can specialize in a sector without having a comparative advantage. (3 points)

Comparative advantages are the only drivers of international specialisation. (3 points)

After presenting the linkages between external economies of scale and geographical agglomeration of production activities, explain the impact of external economies of scale on the international trade. (9 points)

6. International mobility of production factors

6.1 Foreign Direct Investment (FDI)

- Foreign direct investment always substitutes international trade. (3 points)
- Developed countries are the main receivers of foreign direct investment. (3 points)
- ‘Greenfield’s FDI’ are the principal forms of foreign direct investment. (3 points)
- “Greenfield foreign direct investment’ means the creation of a new activity in the agricultural sector. Moreover Greenfield FDI is the main form of FDI towards developed countries. (3 points)
- Present the empirical evidence on foreign direct investment around the world and their main determinants. (9 points)
- Present the empirical evidence on foreign direct investment and discuss the main theories that explain foreign direct investment and multinational firms. (9 points)

6.2 Migrations

- Workers’ free movement across countries induces welfare gains among all countries involved in the process. (3 points)
- Everyone gains from migration. (3 points)
- Migration raises total world output by favouring a better labour reallocation. (3 points)

7. Trade policy instruments

7.1 Tariffs

- The domestic consumers gains when a large country imposes a tariff on its imports. (3 points)
- The domestic producers gains when a large country imposes a tariff on its imports. (3 points)
- The government of a small country has no incentives to impose a tariff on its imports. (3 points)
- It is impossible to demonstrate that a tariff could increase the national welfare. (3 points)
- A small country doesn’t gain from the introduction of a tariff on its imports. (3 points)
- A large country always gains from the introduction of a tariff on its imports. (3 points)
- A small country could improve its economic welfare by imposing a tariff on its imports. (3 points)
- If a country is small, the domestic producers do not gain from the introduction of an imports tariff. (3 points)
- The introduction of a tariff on imports decreases the national welfare if the country is not able to influence its terms of trade. (3 points)
- A tariff on imports improves the term of trade of a country. (3 points)
- The economic welfare of small country always decreases after the introduction of a tariff on its imports. (3 points)
• The introduction of a tariff on imports always hurts the domestic consumers without regards to the country’s size. (3 points)

7.2 Export Subsidies

• An export subsidy always reduces the domestic welfare. (3 points)
• An export subsidy could improve the country’s welfare. (3 points)
• An export subsidy increases the domestic price of the protected goods. (3 points)
• Domestic consumers gain from the introduction of an export subsidy only if the country is large. (3 points)
• Domestic producers always gain from the introduction of an export subsidy. (3 points)
• The introduction of an export subsidy decreases the national welfare only if the country is not able to influence its terms of trade. (3 points)
• An export subsidy improves the term of trade of a country and hence increases the national welfare. (3 points)
• For the local government imposing a tariff on imports has the same effect as introducing an export subsidy. (3 points)

7.3 Import Quota and Voluntary Export Restraints.

• In a large country, an import quota is preferable to an import tariff in terms of its impact on the domestic welfare. (3 points)
• Both an import quota and an import tariff have positive effects on the domestic firms and negative effects on the domestic consumers. (3 points)
• An import quota has the same effect as an import tariff. (3 points)
• The voluntary export restraint has the same effect as the import quota. (3 points)
• A Voluntary export restraint is preferable to a tariff on imports. (3 points)
• An import quota differs from a voluntary export restraint in terms of its effect of domestic price and on the national welfare of the importing country. (3 points)

7.4 The effective rate of protection

• The effective rate of protection measures the consumers’ protectionism degree. (3 points)
• The effective rate of protection is fixed by the World Trade Organisation (WTO). (3 points)
• The effective rate of protection is always higher than the nominal tariff. (3 points)
• The effective rate of protection cannot be negative. (3 points)
• The effective rate of protection is always positive. (3 points)

8. The debate on free trade

8.1 Pro and contra the free trade argument

• The presence of domestic market failures justifies the adoption of trade policy. (3 points)
• Present the main arguments that support free trade policy and protectionist policy. (9 points)
• Discuss the main arguments that support and obstacle the free trade. (9 points)
• “As suggested by the economic theory, in some cases a country could gain from protectionism. However, the trade economists usually advocate a free trade strategy”. (9 points)
• “The economic theory offers different arguments that support the adoption of trade policy. However these policies are difficult to implement”. (9 points)
8.2 The infant industry

- The infant industry theory suggests that a country should temporally protect all its new emerging sectors. (3 points)
- The infant industry theory holds only in absence of any market failures. (3 points)
- The infant industry theory was used to justify the industrialisation process based on import-substitution. (3 points)
- The infant industry theory was used to justify the industrialisation process based on export-oriented policy. (3 points)

8.3 The Asian Miracle

- The only possible explanation of the ‘Asian miracle’ is the adoption of restrictive trade policy by the Asian governments. (3 points)
- High savings and human capital accumulation are reliable explanations of the ‘Asian Miracle’. (9 points)
- Domestic industrial policy is the main drivers of the ‘Asian Miracle’. (9 points)
- Present the main feature of the ‘Asian miracle’ and discuss its determinants (9 points)
- Discuss the rapid growth in the East-Asian countries. (9 points)
- Present the main features of the export-led industrialisation process that has characterised many East Asian countries.

8.4 Imperfect competition and strategic trade policies.

- A strategic trade policy contributes to the country’s military protection and hence should be defined by the Ministry of Defence and not by the Ministry of Economy. (3 points)
- In presence of oligopolistic competition, a production/export subsidy could increase the national welfare. (3 points)
- The Brander and Spencer’s analysis suggests that a strategic trade policy should be applied only on those sectors that supply the Ministry of Defence. (3 points)
- If a market is characterised by imperfect competition, the implementation of a strategic trade policy could increase the national welfare. (3 points)

9. International economic integration I: the multilateral approach

- ‘The most favoured nation’ (MNF) status guarantee that every tariff reduction is applied to each member of the World Trade Organisation (WTO). (3 points)
- ‘The most favoured nation’ (MNF) status allows the creation of preferential trade agreements. (3 points)
- ‘The most favoured nation’ (MNF) status implies that a country does not pay any tariff on its imports from other countries. (3 points)
- ‘The most favoured nation’ (MNF) status requires the creation of a custom union among countries. (3 points)
- The World Trade Organisation helps to avoid trade war among countries. (3 points)
- The Prisoner’s dilemma explains the importance of an international organisation such as the World Trade Organisation (WTO). (3 points)
- The World Trade Organisation contributes to solve the ‘Prisoner’s dilemma’ in the international economic relations. (3 points)
- The World Trade Organisation is a non-democratic international organisation”. Comment. (9 points)
• Describe the main duties of the World Trade Organisation (WTO). (9 points)

10. **International economic integration II: preferential trade agreements**

• The preferential trade agreements (ex. customs union) always increase the national welfare of the member countries. (3 points)

• In the last decades a large number of preferential trade agreements among different countries have been created (custom unions, free trade area, etc.). Discuss from a theoretical point of view the economic outcomes of these agreements. Moreover, discuss whether these agreements are compatible with the multilateral approach of trade liberalisation supported by the WTO. (9 points)

• The preferential trade agreements are compatible with the WTO’s trade liberalisation approach. (3 points)

• Countries that are members of a free trade area can import goods without tariffs from the entire world. (3 points)

• Only if a nation establishes a preferential trade agreement with other countries can pay on the imported goods a lower tariff. (3 points)

11. **Trade patterns: Italy and EU**

• Owing to its international specialisation pattern, Italy suffers much more the competition pressure from the emerging countries than other European countries. (9 points)

• “The poor Italian economic performance of the last years is caused by its unusual specialisation pattern”. (9 points)

• “The Italian specialisation patters is anomalous in comparison to the specialisation pattern of its competitors”. (9 points)

• “The main cause of the poor international performance that has characterised the Italian economy in the last years is the introduction of Euro”. (9 points)