

# 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. Causes and consequences of international trade: the principle of comparative advantage (differences in relative labour productivity).

### 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. Causes and consequences of international trade: the principle of comparative advantage (differences in relative factor endowments).

#### 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, ect.). 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)