

International Economics Sample Final:

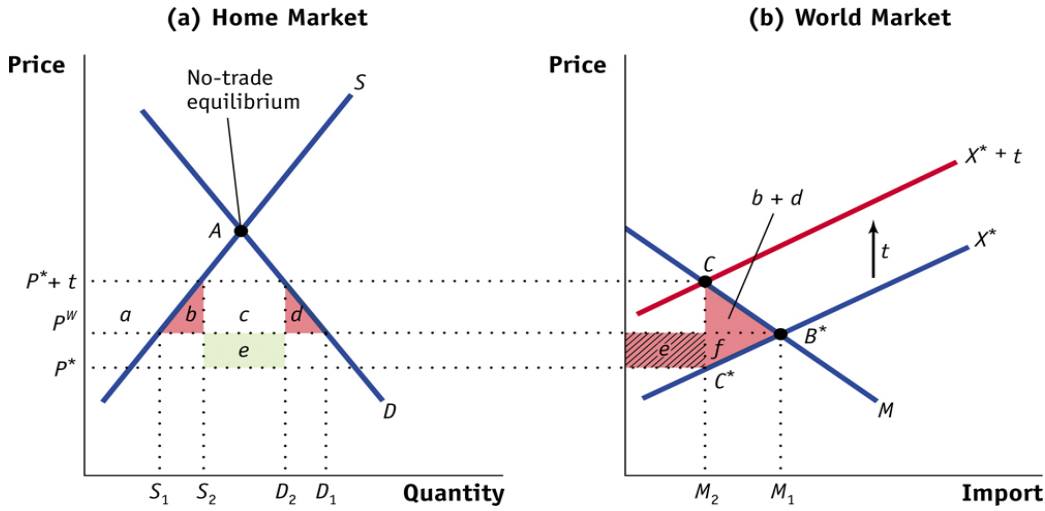
1. Suppose demand and supply for DVDs in Lalawood (a small country) are given by: $D=100-2P$, $S=3P$ and the world price for DVDs is \$10. How much will imports decline if Lalawood imposes a \$5 specific tariff on DVD imports? What happens to welfare? (Give specific values).

2a. Suppose that Airbus and Boeing are the only two commercial airplane producers in the world. The table below gives the profits for each firm depending on whether each firm enters the market. Suppose Boeing enters the market first, will Airbus enter the market (explain)?

		Airbus	
		Produce	Don't produce
Boeing	Produce	-5	0
	Don't produce	0	0

2b. How can the EU get Airbus to enter the market? Is your solution justifiable from a welfare perspective (for the EU)? What are the practical difficulties with your proposed solution?

3. Using the following graphs, which illustrate the effects of a large country imposing an import tariff, develop an argument for the logic behind multilateral trade agreements.



4. What is the uncovered interest parity condition (show the equation)? Given a 7% rate of return on dollar deposits, a 5% rate of return on euro deposits, if the expected future exchange rate rises from $E_{\$/\text{€}} = 1.20$ to $E_{\$/\text{€}} = 1.40$, by how much will the exchange rate appreciate or depreciate? (Round to the nearest penny)

5. Using a figure describing both the U.S. money market and the foreign exchange market, analyze the short and long-run effects of an increase in U.S. money supply on the dollar/euro exchange rate.

6. According to the exchange rate model based on purchasing power parity, how does each of the following affect the dollar/euro exchange rate, explain:

i) an exogenous increase in US interest rates

ii) a decrease in the Euro money supply

iii) a higher growth rate of European relative to US GDP

3. Define purchasing power parity (PPP). What conditions are required for PPP to hold?

4. What is the real exchange rate? How do we interpret a real exchange rate (dollar/euro) equal to 1.2?

Definitions (3 points each)

1. law of one price:

2. forward exchange rate:

3. pass-through:

4. Fisher effect:

5. exchange rate overshooting: