

**Final Exam in the Course “International Economics and Trade (Master IM)”
Winter Term 2015/16**

This exam is designed for 60 minutes. You can reach a maximum of 60 points even though the numbers of points for all problems add up to 65. Therefore, you have some leeway in choosing with which problems you gather your points. Note, however, that it will hardly be possible to complete all problems in the time given. For some guidance on how extensive you should answer questions, you may use as a rule of thumb: “One minute per point”.

Problem 1 _____ of 18 points

Basic ideas:

- a) Distinguish between inter-industry trade and intra-industry trade! 5 Points
- b) What separates the Gross Domestic Product (GDP) from the Gross National Product (GNP)? 3 Points
- c) The last 15 years have seen a rapid expansion in global trade in commercial services. Pick two examples of service sectors where you would expect a particularly strong internationalization and argue your case! 6 Points
- d) Is the value of exports from an economy always measuring the value added by the domestic economy? Explain! 4 Points

Problem 2 _____ of 12 points

As part of an ongoing process of globalization, the patterns of international trade and the structure through which it takes place have undergone fundamental changes over the last two decades. (This was i.e. a main focus of the World Trade Organizations 2014 version of The World Trade Report.)

- a) Outline some of the major changes that have taken place! 6 Points
- b) What are the main driving factors of these changes? 6 Points

Problem 3 _____ of 15 points

The European Union and the United States of America are negotiating a new trade agreement “The Transatlantic Trade and Investment Partnership (TTIP)”.

- a) Which and how is such an agreement violating a core principle of the World Trade Organization (WTO)? 4 Points
- b) Why has the WTO made special allowances for such bilateral trade agreements? 6 Points
- c) Do you think it necessary to talk about “investment” in the context of trade negotiations? 5 Points

Problem 4 _____ of 8 points

The *Bank for International Settlements* reports in the 2013 *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity* that on **an average day** in the month of April 2013 currencies valued at \$5.345.000.000.000 were traded.

- a) Were all these foreign exchange transactions necessary to pay for international trade in goods and services? 3 Points
- b) What does this mean for the exposure of a multinational enterprise to foreign exchange risk? 5 Points

Continued on next page!

Problem 5

_____ of 12 points

Assume an industry producing heterogeneous goods in firms with increasing returns to scale under monopolistic competition. There are two closed economies in the world where all locally produced product variants are domestically consumed.

- c) Describe how a market equilibrium is reached in the two separate autarkic markets!
3 Points
- d) What is going to happen, if the two countries open to international trade (with no transaction cost)?
4 Points
- e) Is it possible to anticipate the pattern of trade and the distribution of welfare gains from trade before the actual opening to international trade?
5 Points