

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

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 17 points

Basic ideas:

- a) Give two reasons why firms extend their business activities across international borders!
6 Points
- b) Describe what the term “global value creation chain” or just “global value chain” refers to!
3 Points
- c) Meanwhile for decades, WTO-Statistics show, that growth of the volume of international trade in manufacturing products outpaces the overall volume of global trade, which again grows much faster than global production of goods and services. Offer a brief explanation!
5 Points
- d) You are working for a service firm offering maintenance and other technical services to port operators (*Hafenbetreiber*), among other countries in Greece. There is the possibility of new elections in Greece before the end of the year. Is this an issue in your analysis of country risks or is this a normal business risk?
3 Points

Problem 2 _____ of 6 points

Traditionally, globalization became visible through the ever increasing volume of trade in finished products. Nowadays, globalization has many more aspects.

- a) Describe one other form of international economic exchange that could be in part substitutional to the trade in final goods!
3 Points
- b) Pick out one other form of international economic exchange that could be mostly complementary to the trade in finished products!
3 Points

Problem 3 _____ of 9 points

Defining multinational corporations (MNCs) or multinational enterprises (MNEs) as firms that have wholly owned subsidiaries in several countries outside the home country, would be much too narrow. Present three additional aspects that are relevant, if you consider multinational enterprises as a network (organization)!

Problem 4 _____ of 12 points

The World Trade Organization (WTO) is an international organization created in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT).

- a) What is the main objective of the WTO? 2 Points
- b) How is progress towards the organization's objectives reached within the WTO? 3 Points
- c) Name and briefly explain two areas where the WTO goes beyond the purview of the GATT? 4 Points
- d) The most-favored-nation treatment is a core principle of the WTO. Explain what this means! 3 Points

Problem 5 _____ of 11 points

Traditional trade models are based on perfect competition in homogeneous products in all markets for goods and production factors. Transaction costs, asymmetric information or geographic aspects are not really considered.

- a) What is the main reason why countries trade in the Ricardo model (2 goods, 2 countries, 1 factor of production)? 3 Points
- b) Can MNEs exist in a "Ricardo world"? 3 Points
- c) How do trade patterns and the welfare gains from international trade change, if you include monopolistic competition in heterogeneous products in your trade model? 5 Points

Problem 6 _____ of 10 points

One suggestion to bring the Greek economy back on a growth path is for the country to leave the Euro-zone, devalue the new Greek currency and make the country's export and import competing industries more price-competitive. Use the concepts of transaction cost and of economies of scale (that are internal to a region and an industry but external to individual firms) to argue your case for or against the likely success of this strategy to expand Greek manufacturing (net) exports.