

# Economics of Globalization

## Final Exam

The exam lasts 2h. Materials are not authorized. The exam is 5-pages long.

### Multiple Choice Questions (8 points)

*Multiple answers are possible. 1 point per question. No negative points.*

1. In country A, the unit labor requirement for producing good 1 is 3, and the unit labor requirement for producing good 2 is 6. In country B, the unit labor requirement for producing good 1 is 5 and the unit labor requirement for producing good 2 is 20. Hence:

- A. Country A has a comparative advantage for both goods.
- B. Country A has a comparative advantage for good 1 and country B for good 2.
- C. Country A has a comparative advantage for good 2 and country B for good 1.
- D. Country A has no comparative advantage.

2. Keeping the parameters of question 1: if we move from autarky to free trade, and assuming that the world demand is such that both countries fully specialize:

- A. The relative price of good 1 will rise in country A.
- B. The relative price of good 2 will rise in country A.
- C. Relative prices will remain the same for both goods.
- D. Relative prices will move, but we can't say anything about the direction of the change.

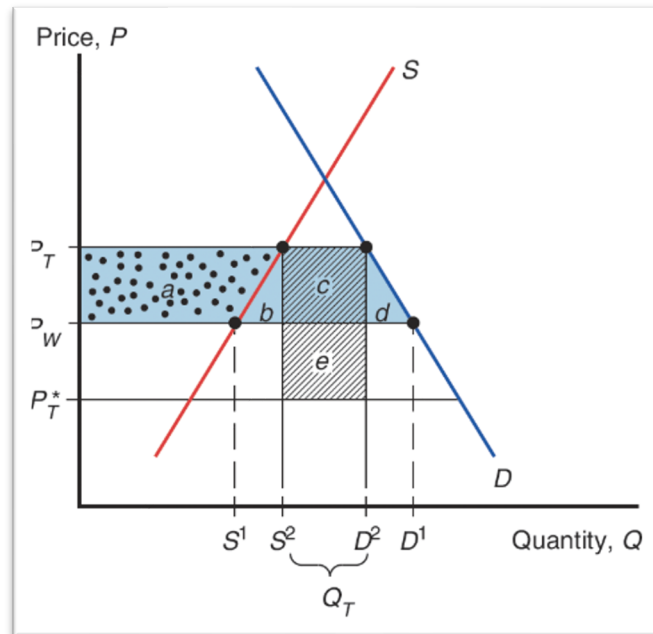
3. In the 2-factor, 2 good Heckscher-Ohlin model, the two countries differ in:

- A. Tastes.
- B. Size.
- C. Relative availabilities of factors of production.
- D. Labor productivities.

4. If we observe a decrease in the ratio of value-added of exports over gross exports of a country, it suggests that:

- A. The country is exporting more intermediate goods
- B. The fragmentation of the production process has reached its limits.
- C. The country is more integrated in global value chains.
- D. None of the above.

5. The following figure corresponds to the analysis of the impact of a tariff on an importing country.



- A. Consumers lose the area  $a+b+c+d$ .
- B. Consumers lose the area  $a$ .
- C. Consumers lose the area  $c+e$ .
- D. Consumers gain the area  $a+b+c+d$ .
- E. Consumers gain the area  $a$ .
- F. Consumers gain the area  $c+e$ .

6. Leakage effects of environmental policies correspond to the fact that:

- A. The policy generates an increase in pollution in foreign countries because they are not regulated.
- B. The policy generates a decrease in pollution because it increases green innovation and its diffusion.
- C. The policy generates a decrease in pollution because it makes the price of energy higher.
- D. The policy generates an increase in pollution because it makes the price of energy lower.

7. A firm will prefer to serve a market by opening a foreign affiliate compared to exporting there when:

- A. Tariffs in the export market are high.
- B. Tariffs in the export market are low.
- C. The comparative advantage of the foreign country is large.
- D. The comparative advantage of the home country is large.

8. The gravity equation of bilateral trade flows:

- A. Predicts that trade is larger between countries with a high GDP per capita.
- B. Implies a negative impact of common religion and language on trade.
- C. Predicts larger trade flows between China and Mexico than between China and the USA.
- D. Estimates a negative effect of distance on bilateral trade volumes.

### Exercise (6 points)

Mayda and Rodrik (2005) exploited a survey of more than 28,000 respondents originating from 23 countries that asked the following question:

*How much do you agree with the following statement: (R's country) should limit the import of foreign products in order to protect its national economy?*

- 1. Agree strongly
- 2. Agree
- 3. Neither agree nor disagree
- 4. Disagree
- 5. Strongly disagree

Table 1 below gives the average *Opinion on Trade* that corresponds to the average score by country. For instance, if one individual answer "4. Disagree" and one other answers "5. Strongly Disagree", then their average *Opinion on Trade* will be 4.5.

Table 1: Descriptive statistics

	Opinion on trade (average score)
West Germany	2,91
East Germany	2,42
Great Britain	2,25
USA	2,26
Austria	2,1
Hungary	1,92
Italy	2,42
Ireland	2,34
Netherlands	3,09
Norway	2,85
Sweden	2,76
Czech Republic	2,57
Slovenia	2,5
Poland	2,15
Bulgaria	1,68
Russia	2,28
New Zealand	2,59
Canada	2,73
Philippines	2,37
Japan	3,09
Spain	2,12
Latvia	1,89
Slovak Republic	2,49

1. (1 point) Describe Table 1.
2. (0.5 points) Beyond individuals' preferences, what other drivers of protectionism can you think of?
3. (1 point) In order to test the opinion on trade with respect to countries' specialization, one needs to construct an index of comparative advantage. The revealed comparative advantage of country  $i$  in good  $k$  is  $RCA_{ik} = \frac{X_{ik}/X_i}{X_{wk}/X_w}$  with  $X_{ik}$  the exports of good  $k$  by country  $i$ ,  $X_i$  the total exports of country  $i$ ,  $X_{wk}$  the exports of good  $k$  at the world level,  $X_w$  the total exports at the world level. Explain why this index describes the revealed comparative advantages.

The following figure shows the link between the average trade opinion of a country and average trade duties over the period 1992-1998.

4. (1 point) How do you interpret this graph?

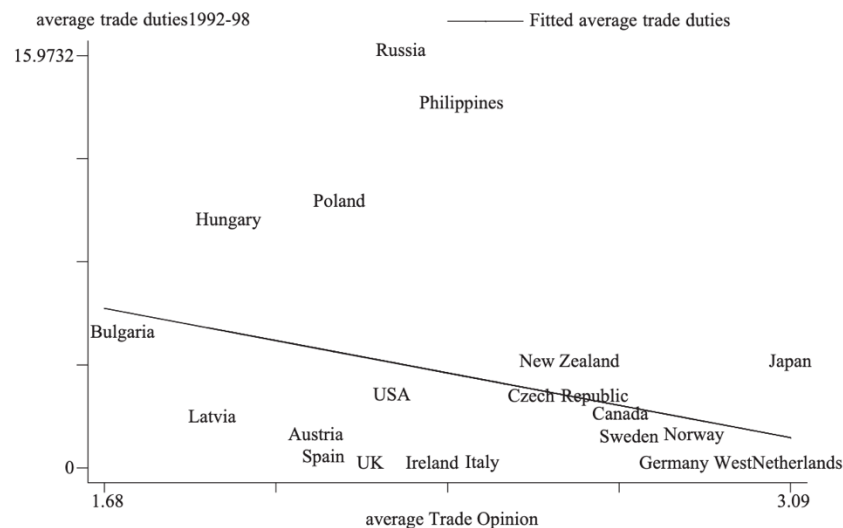


Fig. 1. Relationship between trade opinion and average trade duties (ISSP data set).

The authors find that an individual in a **comparative-disadvantage sector** is significantly less likely to be pro-trade (by 2.5 percentage points), compared to an individual in a non-traded sector.

5. (1 point) Comment this finding in light of the Ricardian model.

The authors find that the support for trade is larger for more educated workers in more advanced economies.

6. (1 point) In more advanced economies, what is the effect of opening to trade on more educated workers according to the Heckscher-Ohlin model? Is the result of the authors in light with this prediction?

7. (0.5 point) Discuss the predictive power of the Heckscher-Ohlin and the Ricardian model in explaining individual perceptions on trade.

### **Open question (7 points)**

***Choose only one of the two questions. No good or bad answers, only convincing or weak argument. About one page. You will answer using empirical and theoretical arguments discussed in class.***

1. What is the impact of globalization on inequalities within and between countries? How can governments play a role to regulate these effects?
2. The EU has recently launched an investigation in order to set up a tariff against the import of electric vehicles from China. You will discuss the rationale and the consequences of such trade policy to answer the question: Should a government limit the import of foreign products in order to protect its national economy?