

Economics of Globalization

Final Exam

The exam lasts 2h. Written and printed materials are authorized. Any other type of materials is not authorized. The exam is 5-pages long.

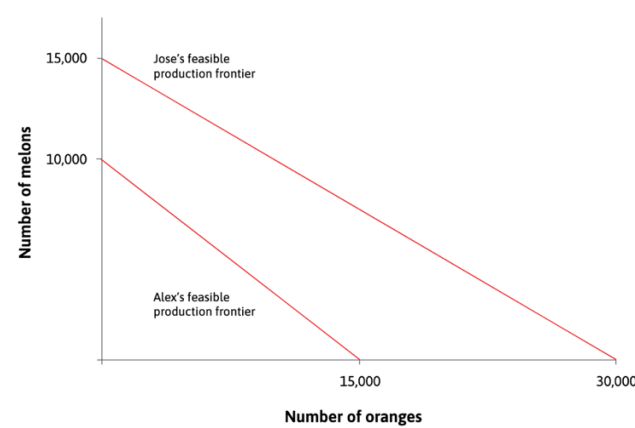
Multiple Choice Questions (6 points)

Multiple answers are possible. 0.75 point per question. No negative points.

1. In country A, the number of hours necessary to produce good 1 is 5, and the number of hours necessary to produce good 2 is 3. In country B, the number of hours necessary to produce good 1 is 4 and the number of hours necessary to produce good 2 is 20. Hence:

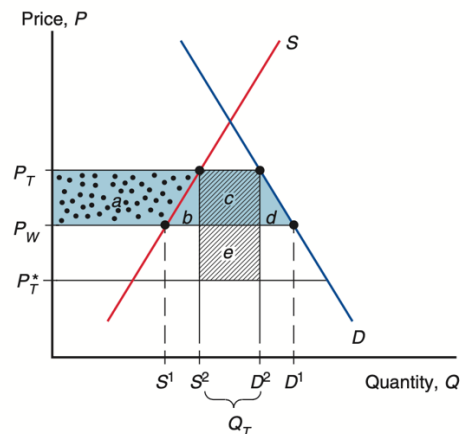
- A. Country A has a comparative advantage for both goods.
- B. Country A has a comparative advantage for good 1 and country B for good 2.
- C. Country A has a comparative advantage for good 2 and country B for good 1.
- D. Country A has no comparative advantage.

2. The following diagram shows Alex's and Jose's feasible production frontiers for oranges and melons. Which of the following statements are correct?



- A. Jose has an absolute advantage in the production of both melons and oranges.
- B. Jose has a comparative advantage in the production of melons.
- C. With trade and specialization, Jose will specialize in the production of oranges while Alex will specialize in the production of melons.
- D. The relative price of melons after trade will be 1.75.

3. 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 $c+e$.
- G. Tax revenues increase by e .
- H. Imports after tariffs are equal to S^2 .

4. 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.

5. 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.

6. 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.

E. Highlights a negative effect of distance on bilateral trade volumes.

7. An increase in the specialization of an economy means that

A. Its ratio of value-added to gross exports increases.

B. Its ratio of value-added to gross exports decreases.

C. Imposing a tariff on intermediary products is likely to increase employment.

D. Imposing a tariff on intermediary products is likely to decrease employment.

8. Check the answers that are true about the way Western countries' tax systems are affected by globalization

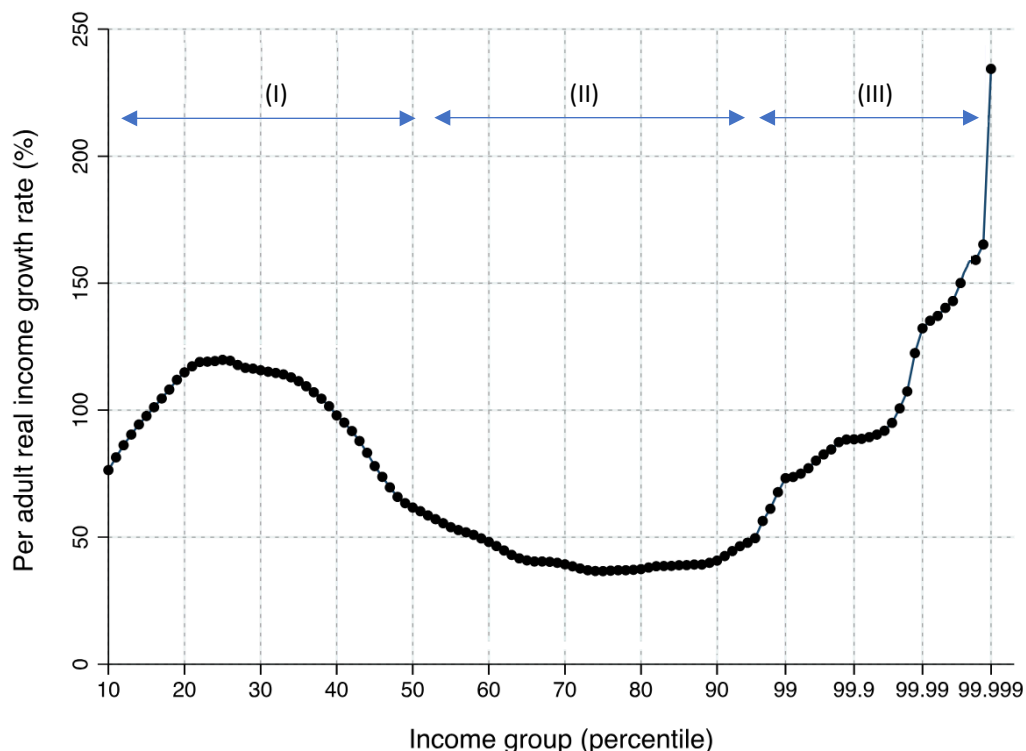
A. Globalization tends to increase corporate income tax rates

B. Globalization tends to increase the tax burden of middle classes

C. Globalization tends to make tax systems more progressive

Exercise (7 points)

This graphic shows the world-level income over the period 1980-2016, by percentile of income.

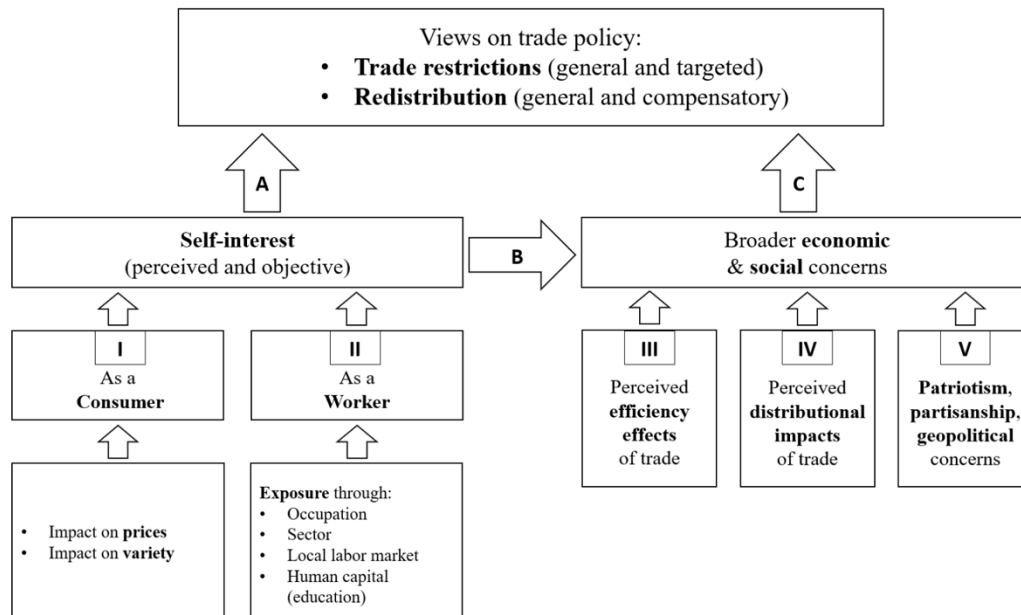


The vertical axis shows the total real income growth between 1980 and 2016 for each percentile of the global distribution of income per adult. The bottom 10 percentiles are excluded as their income levels are close to zero. The top 1% is divided into smaller groups (up to the top .001%) so as to better account for its share in total global growth captured. Source: WID.world.

Figure 1 Total Income Growth by percentile across all world regions, 1980-2016

1. (1 point) Describe the figure. Explain to which region of the world corresponds each part (I, II, and III) of the figure.
2. (1 point) What kind of economic theory about globalization is able to explain this phenomenon. Explain why.

In a recent article, Stantcheva (2023) runs a large survey experiment about the perceptions of globalization by American citizens. The following figure shows how people reason about trade and trade policy and what might influence these views.



3. (1 point) How can the “impact on price” affect views about trade? Should it affect positively or negatively one’s views on trade. You should mobilize economic theories to answer.
4. (1 point) How can exposure to trade as a worker affect the perceptions about trade? Use the economic theories discussed in class to answer.

In the survey, she finds that an individual in a comparative-advantage occupation is significantly more likely to be pro-trade compared to an individual in another occupation. She also finds that an individual in an offshorable occupation is 14% less likely to be pro-trade.

5. (1 point) What is the Ricardian model? What assumption of this model should we relax to understand this result in light of the Ricardian model?

The author finds that the support for trade is larger for more educated workers.

6. (1 point) In more advanced economies like the U.S., what is the effect of opening to trade on more educated workers according to the Heckscher-Ohlin model? Is the result of the author in line with this prediction?
7. (1 point) Discuss the predictive power of the Heckscher-Ohlin and of the Ricardian model in explaining individual perceptions on trade.

Essay (7 points)

Choose only one of the two subjects. No good or bad answers, only convincing or weak arguments. About 1-2 pages. You will answer using empirical and theoretical arguments discussed in class and from your personal knowledge. Suggested structure: you can begin by a few lines to introduce and define the problem and the key issues of the topic. You should dedicate most of the essay to answering this problem. You can conclude in one or two sentences.

1. Environmental policies and regulatory competition.
2. Multilateralism: problems and solutions.