

Simon Fraser University
Econ 102-1: The World Economy
Final Examination
April 2009

First Name:

Last Name:

Student Number:

Tutorial Section (number and/or day/time):

TA's Name:

Instructions: Answer all questions. The total marks for this exam is 100. Please use the `bubble' sheet to answer the multiple choice questions (Part I), and the space provided in this booklet below each question to answer the short questions (Part II).

1.

2.1.

2.2.

2.3.

Total:

I. Multiple choice questions (Total: 50 marks – 2 marks per question)

1. In richer countries, the distribution of income tends to be _____ within poorer countries.
 - a. much less equal than
 - b. slightly less equal than
 - c. distributed about the same as
 - d. more equal than

2. Over the last few decades Canadians have chosen to cook less at home and eat more at restaurants. This change in behavior, by itself,
 - a. increased GDP.
 - b. reduced GDP.
 - c. did not affect GDP.
 - d. affected GDP only to the extent that people eat more at restaurants than at home.

For questions 3 to 5, use the accompanying table.

Hours needed to make one unit of:	Amount produced in 2400 hours:
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	<u>Cars</u>	<u>Airplanes</u>	<u>Cars</u>	<u>Airplanes</u>
U.S.	40	160	60	15
Japan	50	150	48	16

3. According to the tables shown, the opportunity cost of 1 car for the United States is
 - a. 4 airplanes.
 - b. 3 airplanes.
 - c. 1/3 airplane.
 - d. 1/4 airplane.

4. According to the table shown, Japan has a comparative advantage in
 - a. airplanes and the United States has an absolute advantage in cars.
 - b. cars and the United States has an absolute advantage in airplanes.
 - c. cars and the United States has an absolute advantage in neither good.
 - d. airplanes and the United States has an absolute advantage in both goods.

5. According to the table shown, if Japan and the United States trade based on the principle of comparative advantage,
 - a. all individuals in both countries will gain.
 - b. car producers in Japan and airplane producers in the United States will gain.
 - c. some individuals within each society will be made worse off.
 - d. one country will be better off and the other country will be worse off.

6. Critics of free trade sometimes argue that allowing imports from foreign countries costs jobs domestically. An economist would argue that
 - a. foreign competition may cause unemployment in import-competing industries, but the effect is temporary and therefore not important.
 - b. foreign competition may cause unemployment in import-competing industries, but the increase in gains from trade due to free trade is more valuable than the lost jobs.
 - c. the critics are correct, so countries must protect their industries with tariffs or quotas.
 - d. foreign competition may cause unemployment in import-competing industries, but the increase in the variety of goods consumers can choose from is more valuable than the lost jobs.
7. The world price of yo-yo's is \$4.00 each. The pre-trade price of yo-yo's in Taiwan is \$3.50 each. If Taiwan allows trade in yo-yo's we know that Taiwan will
 - a. import yo-yo's and the price in Taiwan will be \$4.00 each.
 - b. import yo-yo's and the price in Taiwan will be \$3.50 each.
 - c. export yo-yo's and the price in Taiwan will be \$4.00 each.
 - d. export yo-yo's and the price in Taiwan will be \$3.50 each.
8. In a market economy,
 - a. demand is determined by supply.
 - b. supply is determined by demand.
 - c. the price on a market is set by the firms selling the product.
 - d. the quantity bought and sold is determined by the price on the market.
 - e. Either a or b are correct, depending on the product.
9. An economy's scarce resources are allocated by
 - a. economic planners.
 - b. producers who use resources.
 - c. prices for resources.
 - d. government regulation of scarce resources.
10. The Bank of Canada does all except which of the following?
 - a. control the supply of money
 - b. control the value of money
 - c. make loans to individuals
 - d. regulate the banking system
11. If the United States exports cars to France and imports cheese from Switzerland,
 - a. the United States has a comparative advantage in producing cars, and Switzerland has a comparative advantage in producing cheese.
 - b. the United States has a comparative advantage in producing cheese, and Switzerland has a comparative advantage in producing cars.
 - c. the United States and France would both be better off if they each produced cars and cheese.
 - d. Comparative advantage cannot be determined without knowing absolute prices.

12. Net capital outflow measures
- foreign assets held by domestic residents minus domestic assets held by foreign residents.
 - the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic assets bought by foreigners.
 - the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic goods and services sold to foreigners.
 - None of the above is correct.
13. Tony, an Italian citizen, opens and operates a spaghetti factory in the United States. This is Italian
- foreign direct investment that increases Italian net capital outflow.
 - foreign direct investment that decreases Italian net capital outflow.
 - foreign portfolio investment that increases Italian net capital outflow.
 - foreign portfolio investment that decreases Italian net capital outflow.
14. If savings in Germany is \$300 billion and investment in Germany is \$550 billion, then
- there must be net capital outflow of -\$550 billion.
 - there must be net capital outflow of -\$250 billion.
 - the German government must be running a \$250 billion surplus.
 - the German financial market must be experiencing a net capital outflow.
15. The country of Sylvania has a GDP of \$1,000, investment of \$200, government purchases of \$200, and net capital outflow of negative \$100. This means that
- consumption equals \$700.
 - consumption equals \$600.
 - consumption equals \$500.
 - saving equals \$300.
16. If the exchange rate changes from 150 lira per dollar to 110 lira per dollar, the dollar has
- appreciated and so buys more Italian goods.
 - appreciated and so buys fewer Italian goods.
 - depreciated and so buys more Italian goods.
 - depreciated and so buys fewer Italian goods.
17. According to purchasing-power parity theory, if a McDonald's Big Mac cost \$2.50 in the United States and 10 dinars in Tunisia, then the exchange rate should be
- 1/4 Tunisian dinars per dollar.
 - 1 Tunisian dinar per dollar
 - 4 Tunisian dinar per dollar.
 - None of the above is correct.

18. A citizen of Saudi Arabia uses previously obtained U.S. dollars to purchase planes from the United States. This transaction
 - a. increases Saudi net capital outflow, and increases U.S. net export.
 - b. increases Saudi net capital outflow, and decreases U.S. net exports.
 - c. decreases Saudi net capital outflow, and increases U.S. net exports.
 - d. decreases Saudi net capital outflow, and decreases U.S. net exports.

19. After the 1980s,
 - a. foreigners were buying more capital assets from the United States than Americans were buying abroad. The United States was going into debt.
 - b. Americans were buying more capital assets abroad than foreigners were buying from the United States. The United States was going into debt.
 - c. foreigners were buying more capital assets from the United States than Americans were buying abroad. The United States was moving into surplus.
 - d. Americans were buying more capital assets abroad than foreigners were buying from the United States. The United States was moving into surplus.

20. Exchange rates are 150 yen per dollar, 0.8 euro per dollar, and 20 pesos per dollar. A bottle of beer in New York costs 6 dollars, 1,200 yen in Tokyo, 7 euro in Munich, and 100 pesos in Cancun. Where is the most expensive and the cheapest beer in that order?
 - a. Cancun, New York
 - b. New York, Toyko
 - c. Toyko, Munich
 - d. Munich, Cancun

21. According to most experts, the best way to control pollution and the environment is
 - a. to place quotas on the quantity of carbon emitted.
 - b. to do nothing.
 - c. to impose a carbon tax.
 - d. to impose regulations such as the use of particular technology.

22. Foreign direct investment differs from foreign portfolio investment in that
 - a. foreign direct investments involve stocks and bonds.
 - b. foreign direct investments can only be made by the International Monetary Fund.
 - c. foreign direct investments involve physical capital; portfolio investments involve financial capital
 - d. a government must be involved in foreign direct investment, but portfolio investment can involve private firms.

23. In some East Asian countries, average income, as measured by real GDP per person, has grown at an average annual rate of 7%. This implies output should double about every
- 10 years.
 - 15 years.
 - 20 years.
 - 7 years.
24. Productivity
- is nearly the same across countries and so provides no help explaining differences across countries in the standard of living.
 - explains very little of the differences across countries in the standard of living.
 - explains some, but not most of the differences across countries in the standard of living.
 - explains most of the differences across countries in the standard of living.
25. If the reserve ratio is 20 percent, the money multiplier is
- 2.
 - 4.
 - 5.
 - 8.

Part II. Short questions (Total: 50 marks). Provide your answer in the space provided.

2.1 (10 marks) This question is about trade and wages.

a. (2) Define precisely what is meant by average productivity

b. (3) Define precisely labor cost per unit of production with respect to the level of productivity. Explain what it means.

c.(5) Explain why and how a country with a high wage can have a comparative advantage with respect to a country with a low wage. Provide examples.

2.2 (20 marks) This question is about financial crisis and the credit crunch.

a. (8) Explain how credit crunch can occur through the banking system. Be as precise as possible

b. (8) Explain how a credit crunch can occur through the non-banking financial system. Be as precise as possible.

c. (4) Explain why, despite repeated attempts by governments, the banking system is not lending today as much as it did in the past.

2.3 (20 marks) This question is about the imbalance between China and the United States

a. (8) China holds large amounts of financial assets denominated in US dollars. Explain why it has been in the interest of China to buy these assets over the years.

b. (8) Explain why it has been in the interest of the United States to sell these assets to foreign holders over the years.

c. (4) Explain why the strong imbalance that has been created between China and the US represents a dangerous situation.