

Final Solutions

International Economics, Fall 2019

Topics

- Final Solutions
- Basic Statistics

1. For each of the following, specify whether the foreign direct investment (FDI) is horizontal or vertical (5 points); in addition, describe whether that investment represents an FDI inflow or outflow from the countries that are mentioned. (5 points)

(a) (10 points) Vodafone (a U.K.-based telecommunication company) plans to improve its network and services in Romania after the results in this market lagged behind other countries

- when discussing inflow or outflow, country should be mentioned explicitly (-3)

Vodafone's horizontal FDI. outflow from U.K inflow into Romania.

김영빈

(b) (10 points) Samsung (a Korean chaebol) acquires a minority stake in Japanese stylus maker Wacom.

- taking shares is neither vertical or horizontal: it will not be considered; only the direction of flow will be considered.

1. NO FDI. This is FIJ. > 부록면

If stake scope is lower than 10%, it isn't FDI

(c) (10 points) Huawei (a Chinese corporation) opens up a factory in Indonesia.

- when discussing inflow or outflow, country should be mentioned explicitly (-3)

This would be a horizontal FDI outflow from the China
and a horizontal FDI inflow into Indonesia 2025

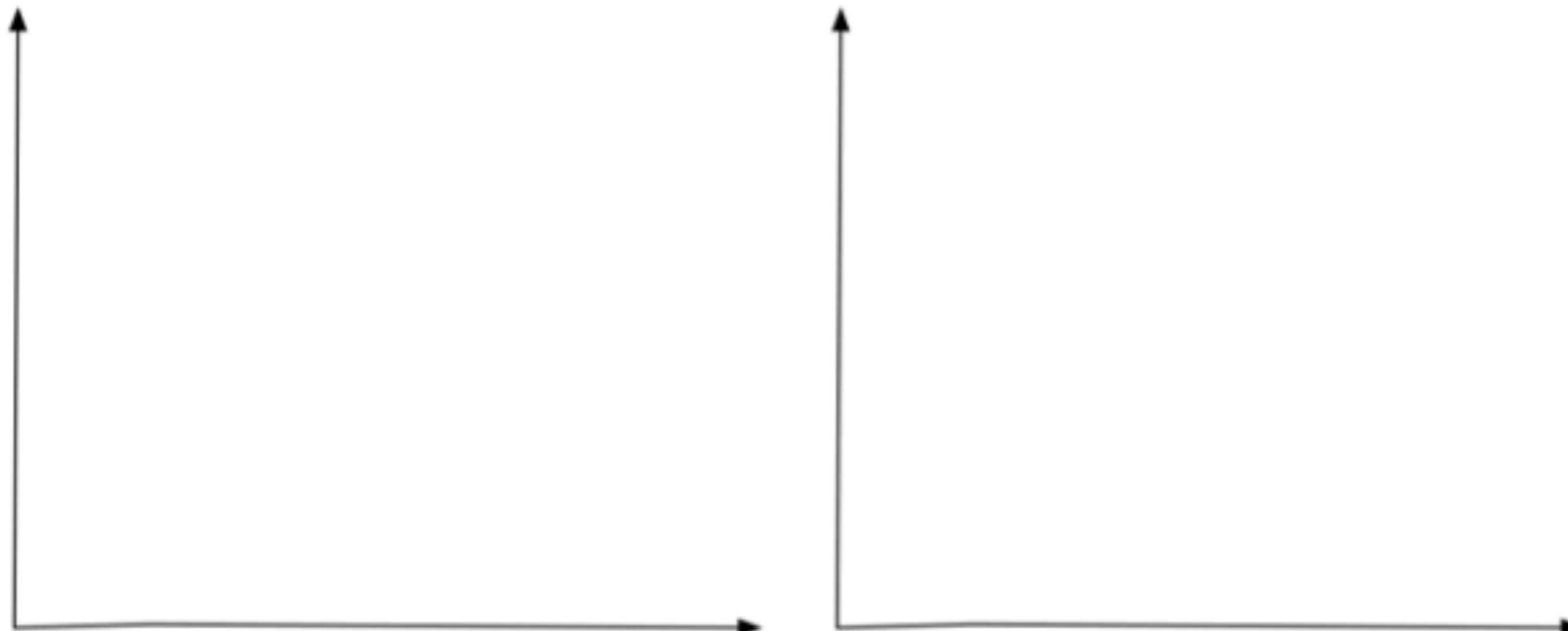
2. The nation of ABC is “large”, but unable to affect the world prices. It imports chocolate at the price of \$20 per box. The demand curve is:

$$D = 700 - 10P.$$

The supply curve is

$$S = 350 + 5P.$$

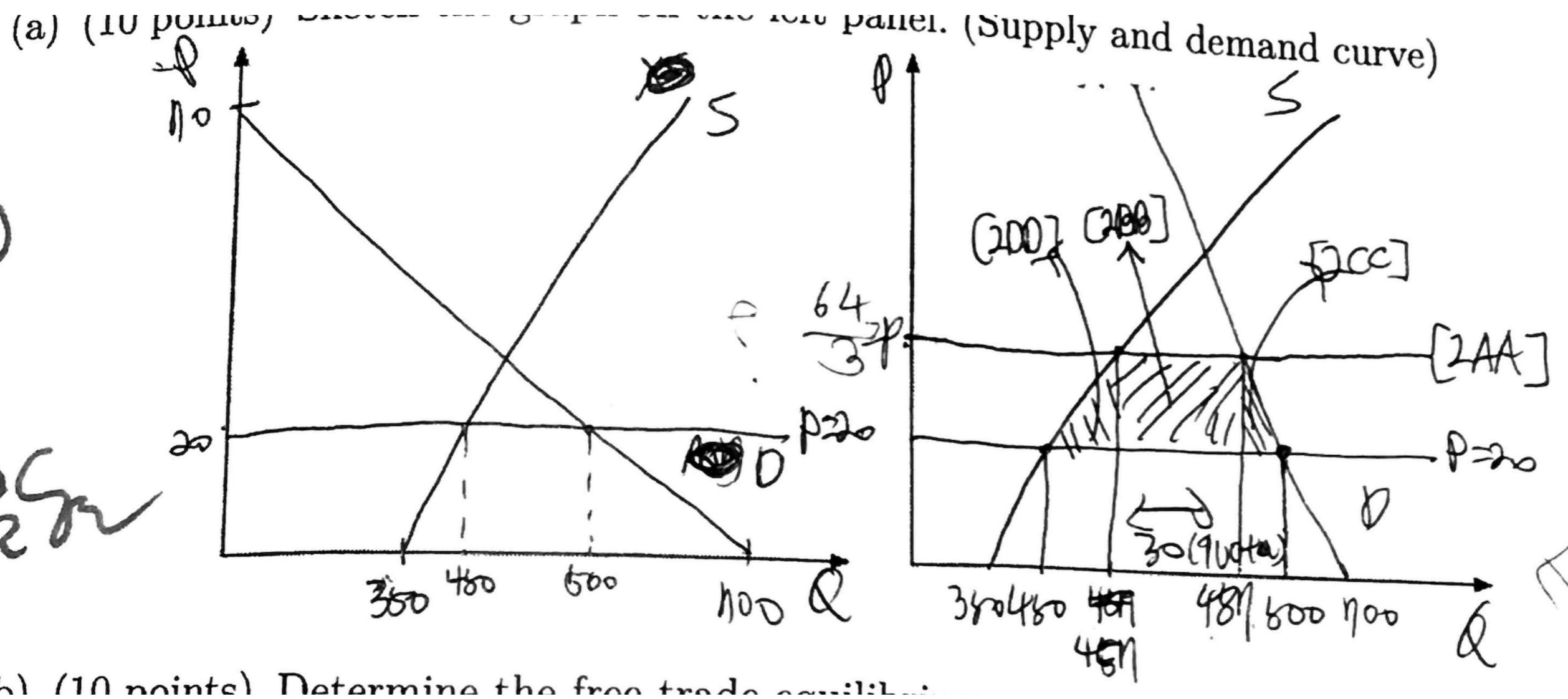
- (a) (10 points) Sketch the graph on the left panel. (Supply and demand curve)



2a

- incorrect graph -3 each
- just simple upward downward graph:-6
- at least one passing point should be expressed
- however, below questions will not be cut even if you uses the incorrect graph

김문현



(b) (10 points) Determine the free trade equilibrium.

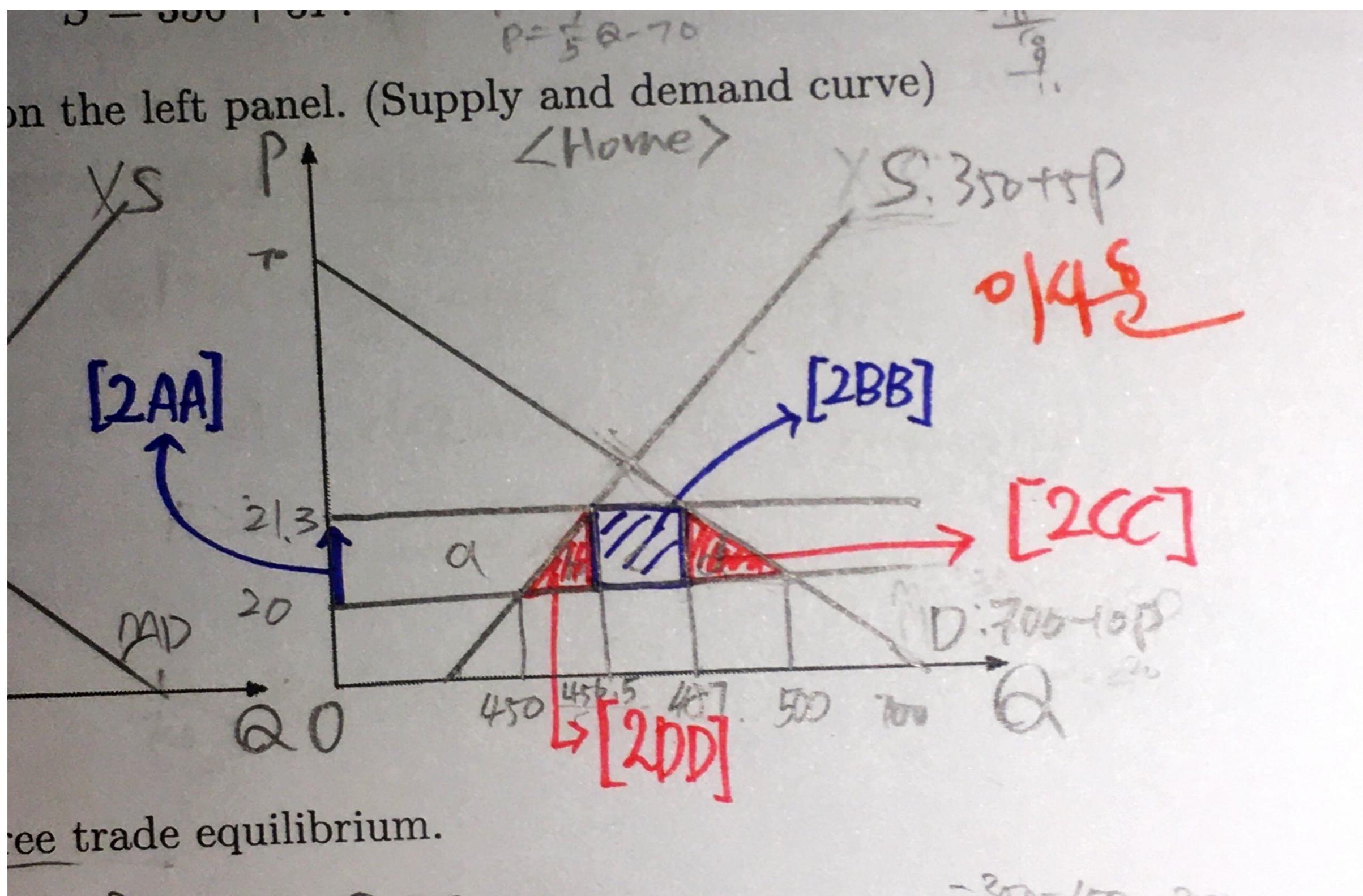
- price: 5
- quantity: 5
- $q=500$: domestic or, $q=50$: imported
- closed economy equilibrium: -8

Without tariffs or subsidies, we complete domestic production as $S = 350 + 5(20) = 450$ and domestic consumption as $D = 700 - (10 \times 20) = 500$, for imports of 50.

Calculate and graph the following effects on an import quota that limits imports to 30 boxes: (You can use above existing graph or sketch new graphs if you want.)

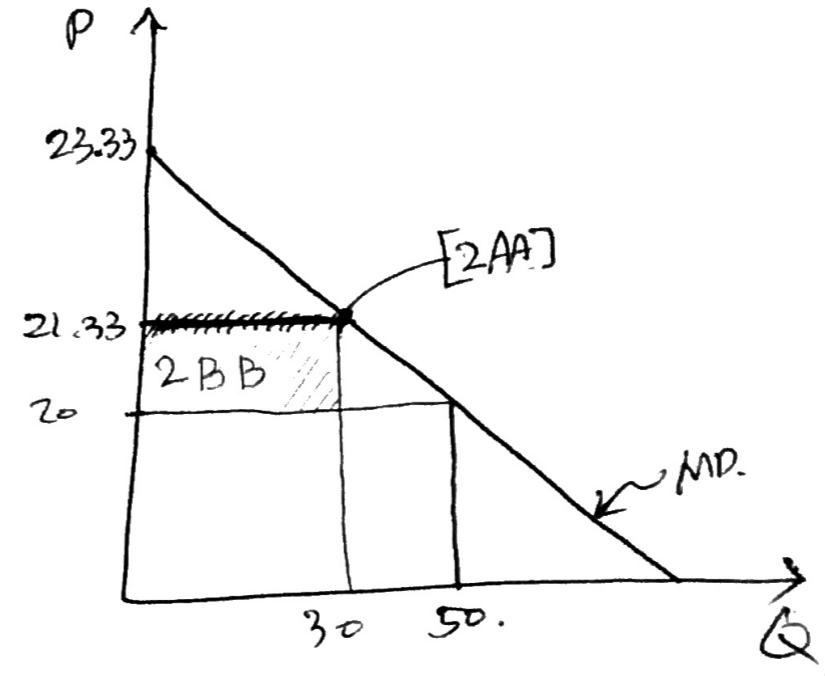
- (c) (10 points) The increase in the domestic price. (Mark as [2AA])
- (d) (10 points) The quota rents. (Mark as [2BB])
- (e) (10 points) The consumption distortion loss. (Mark as [2CC])
- (f) (10 points) The production distortion loss. (Mark as [2DD])

- no mark or no calculation: -3
- minimal calculation error will not be counted

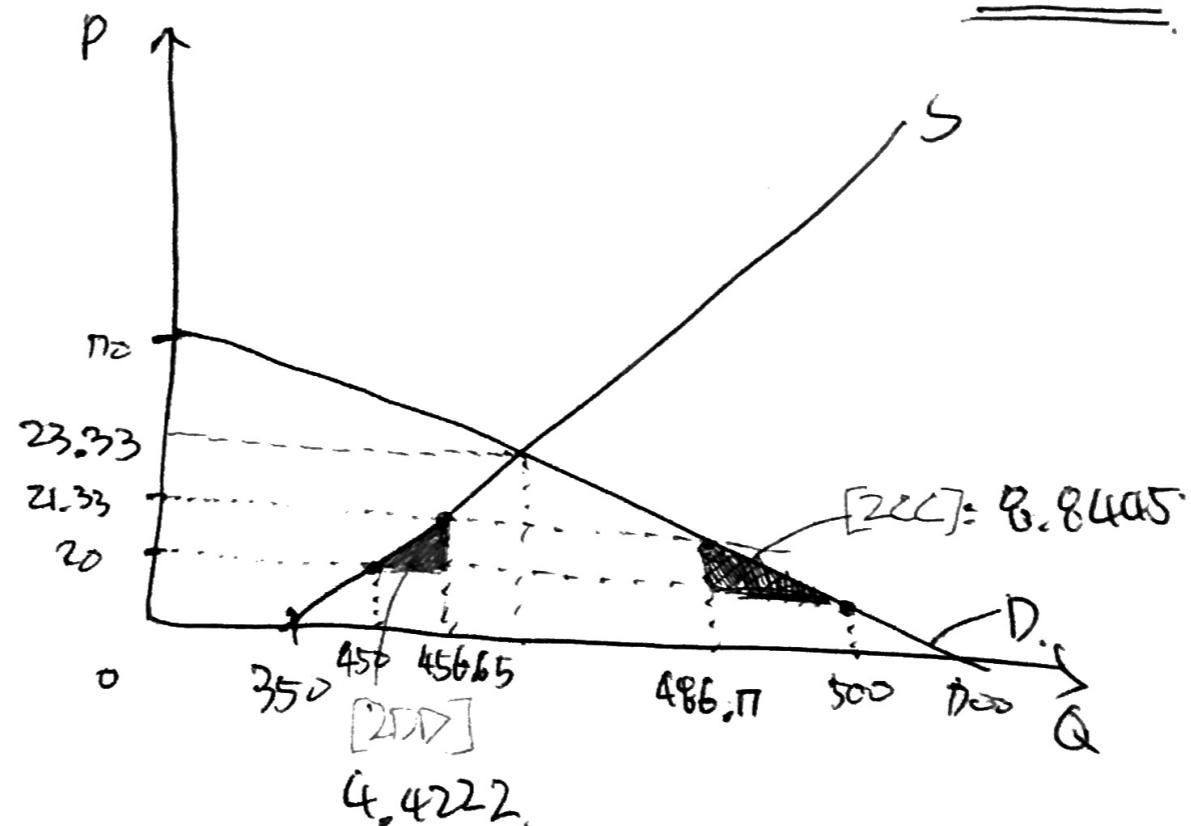


free trade equilibrium.

Alternative Approach



- c. $MD = 30$ to find the quota price. $350 - 15P = 30$.
 $P = 21.33$. \rightarrow price of chocolates rises to 21.33 per bag
- d. the quota rents are $\frac{2}{7} \text{ of } 20 \text{ £}$
 $(21.33 - 20) \times 30 = 39.9$.



Numbers Calculated

Final Examination

can use above existing graph or sketch new graphs if you want.)

- [10] (c) (10 points) The increase in the domestic price. (Mark as [2AA]) $350 - 15P = 30 \Leftrightarrow P = \frac{64}{3}$
- [10] (d) (10 points) The quota rents. (Mark as [2BB]) $D - S = \left\{ 350 - \left(15 \times \frac{64}{3} \right) \right\} \times \left(\frac{64}{3} - 20 \right) = 40$
- [10] (e) (10 points) The consumption distortion loss. (Mark as [2CC]) $\frac{4}{3} \times \frac{40}{3} \times \frac{1}{2} = \frac{80}{9}$
- [10] (f) (10 points) The production distortion loss. (Mark as [2DD]) $\frac{4}{3} \times \frac{20}{3} \times \frac{1}{2} = \frac{40}{9} 10267^{sm}$
3. Determine the following statements are potentially valid arguments for tariffs or export subsidies, or not. (5 points) And explain the reason (5 points)

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(a) (10 points) "The less oil in the United States imports, the lower the price of oil will go in the next world shortage"

(a) (10 points) "The less oil in the United States imports, the lower the price of oil will go in the next world shortage" It is not a valid argument for a tariff.
lower price of ~~oil~~ oil benefits the US.

2024.5.2

(b) (10 points) "The growing exports of off-season fruit from Chile, which now accounts for 80 percent of the U.S. supply of such produce as winter grapes, are contributing to sharply falling prices of these former luxury goods."

to sharply falling prices of these former luxury goods."

This is not a potentially valid arguments.

Sharply falling price is benefit for its consumers and it does not be harmed to domestic products since there is off-season fruit and does not compete with the supply of US products. also there is no reason to keep expensive about luxury goods.

(c) (10 points) "The price of coal has been stable but the production

구민서

(c) (10 points) "The price of coal has been stable, but the production dropped 10.3 percent, and workers have been forced to look for other jobs."

- timber industry instead of coal industry: -10

It is a potentially valid argument
As a result, thousands of buyers does not get benefit because the price of coal has been stable.
Proposal of policy is to soften the blow to coal workers: a more efficient policy would be direct payments to coal workers in order to aid their reparation.

구민서

4. (40 points) What were some of the reasons for the decline in the import-substituting industrialization strategy in favor of a strategy that promotes open trade? (Hint: To get a full score, provide at least two reasons.)

- single correct reason: 30points

full score, provide at least two reasons.)

- ① Maybe, The infant industry argument did not appear to work well.
Such protection will not create[✓] a competitive manufacturing sector.
For example the case where many low-income countries lack skilled-labor..
- ② Protection policies in less-developed countries have had a negative impact on incentives which has led to corruption

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5. (40 points) What are the disadvantages of engaging in strategic trade policy even in cases in which it can be shown to yield an increase in a country's welfare? (Hint: To get a full score, provide at least two disadvantages.)

- single correct reason: 30points
- advantages instead of disadvantages: 30points
- fundamental disadvantages such as free trade argument: 30 points

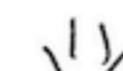
5. (40 points) What are the disadvantages of engaging in strategic trade policy in which it can be shown to yield an increase in a country's welfare? (Hint: To get a full score, provide at least two disadvantages.) Strategic trade policy means government engages in its industry like subsidy.

40

5/20/2018

if one of them make plane first, like faster, means can get whole market.

but if EU (airbus) make subsidy to Airbus, become different situation. (25)



Airbus now got 25 subsidy, so Airbus must produce regardless of boeing.

It means boeing must get loss.

⇒ EU gets welfare increase by sacrificing USA (boeing) ⇒ beggar-thy-neighbor policy.

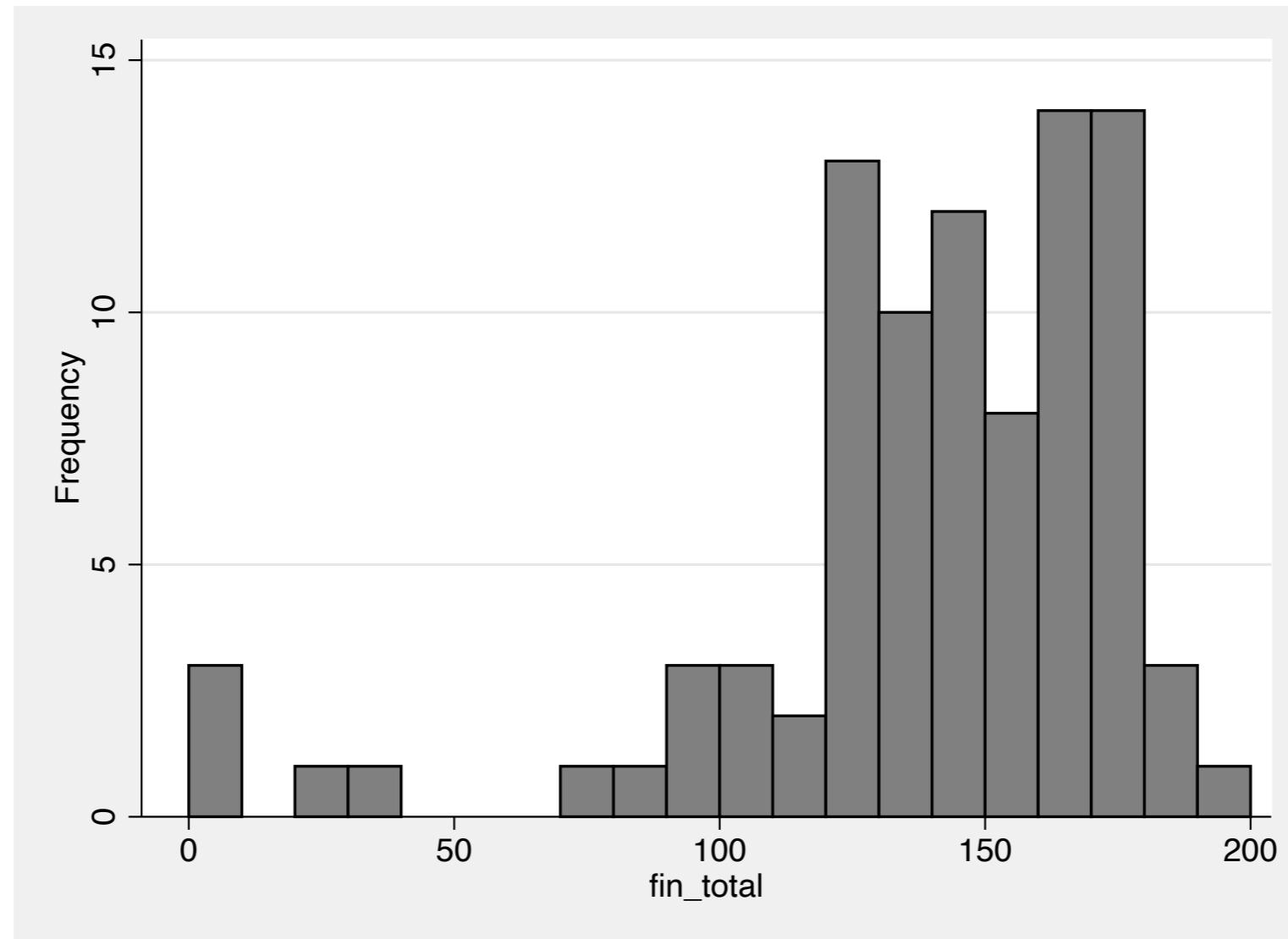
so, disadvantage of this policy is that

(1) second, EU makes subsidy to airbus, means make other industries worse. Policy because this policy is unfair.

because it gets subsidy money by sacrificing other industries.

Basic Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
fin_total	90	138.8889	39.62222	0	191



Aggregated Score

- mid_chosen (30%)
- fin_total (40%)
- assignment (20%)
- attendance (5%)
- etc (5%)
- + bonus (assignment) + bonus (error_report)

Grading from Aggregated Score

Grade	min	max
A+	850	1000
A0	750	849
B+	700	749
B0	650	699
C+	600	649
C0	500	599
D+	400	499
D0	200	399
F	not participated	<199

Notices

- Claim and correction period: 2019.12.27-30
 - Email to: namun@hanyang.ac.kr
 - Write the number of question (final exam.)
 - Before sending email, read this solution carefully
 - I will send you the scanned answer sheet
- **Only incorrect evaluation will be considered**

**Thank you!
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수고하셨습니다!**