Department of International & European Economic Studies

Structure and Functioning of the
European and Global Economic System

Mock Exam

Please Answer All Questions

<u>**SYMBOLS**</u>

FT= Free Trade	**GDP=Gross Domestic Product**
GNI=Gross National Income	**PS=Private Saving**
CAB=Current Account Balance,	**NFA=Net Foreign Assets**
NX=Net Exports,	**G=Government Spending**
T=Tax Revenue	**I=Investment**

Questions 1 to 2 refer to the following table which shows the technological capabilities in Greece (G) and in Denmark (D). The two countries are similar in size, and the assumptions of the Ricardian model hold.

	LABOUR UNITS REQUIRED TO	PRODUCE 1 UNIT OF EACH GOOD
	AGRICULTURAL GOODS (A)	MANUFACTURING GOODS (M)
GREECE	6	30
DENMARK	3	10

1. In autarky, the relative price (P_A/P_M) <u>will</u> be equal to:
(a) (3/10) in G, and (6/30) in D.
(b) (10/3) in G, and (30/10) in D
(c) (3/6) in G, and (6/30) in D
(d) (10/3) in G, and (10/30) in D
(e) **none of the above**

2. Under FT the relative price (P_A/P_M) <u>can</u> be equal to:
(a) **4/15**
(b) 7/15
(c) 8/15
(d) 15/10
(e) none of the above

3. The CAB of a country improves if initially its NFA are equal to -200 and:
(a) the common rate of return on NFA (applying to both domestic and foreign assets) drops by 3 percentage points (p.p.), and net exports of goods and services (NX) deteriorate by 25.
(b) **the common rate of return on NFA increases by 2 p.p. and NX improve by 10.**
(c) there is a haircut of 30 on the debt owed by the domestic country, the common rate of return on NFA is 5%, and NX deteriorate by 20.
(d) both (a) and (c)
(e) none of the above

4. If G=30, T=25, it <u>is possible</u> that:
(a) CAB =-10, I=30, PS=30
(b) CAB=-10, I=10, PS=20
(c) CAB=0, I=15, PS=30
(d) **CAB=15, I=10, PS=30**
(e) none of the above

5. Consider a Specific Factors Model in which <u>labour</u> is the mobile factor, and land and capital are the specific factors. Then, as a result of migration from <u>country A to country B</u>, the following changes in the incomes of workers, capitalists, and landowners <u>are possible</u> in country <u>B</u>:
(a) Workers lose 50, landowners lose 20, and capitalists gain 80.
(b) Workers lose 70, landowners lose 20, and capitalists gain 80.
(c) **Workers lose 90, landowners gain 20, and capitalists gain 80.**
(d) Workers lose 110, landowners gain 20, and capitalists gain 80.
(e) None of the above