



Faculty of Economics and Business Universitas Indonesia (FEBUI)
Undergraduate Regular (S1 Regular)

Final Exam
Odd Semester 2017/2018
International Economics (ECEU603200)
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Open Book and Open Notes
180 Minutes

1. When NAFTA was being debated in the U.S. Congress, Representative Jerry Lewis of California said: "Bill Johnson owns the largest Caterpillar distributorship in the West. There is currently a 20% tariff on his products sold in Mexico. Caterpillar has a 50 percent share of the Mexican market. The other half is dominated by Komatsu Company of Japan. Bill says, 'Imagine what will happen when the 20 percent tariff comes off our tractors and it remains on the ones from Japan.' " Under what circumstances will this effect of NAFTA be beneficial, and when will it be harmful, to (i) the U.S., (ii) Mexico, and (iii) Japan? (25 points)
2. "A nation is enriched as its balance-of-trade surplus grows, so policy should always be aimed at maximizing the trade surplus." Is this quotation correct? Why or why not? Discuss using the terminology and techniques discussed in class, including trade policy, welfare analysis, foreign exchange markets, and the balance of payments. (25 Points)
3. Rich economies have, over the recent years, reduced considerably their industrial (manufacturing?) production and industrial employment. In this context, the political debate in most countries has been focusing on the policies that may be used to attenuate the adverse consequences of globalization. Some would like to introduce new trade barriers; others simply promote the consumption domestic products. What are the arguments that may support such policies? (25 points)
4. Most customs unions or free trade agreements are created between countries of close geographical proximity. Why is this the case? Is this always welfare increasing? Why or why not? (25 Points)

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