

UJIAN TENGAH SEMESTER GASAL 2018/2019

Mata Kuliah	: Ekonomi Internasional-A (ECEU603200)
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Waktu	: 180 Menit
Sifat Ujian	: <i>Open Book and Open Notes</i>

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1. The United States has gotten a head start in producing scientific word processing software, and now supplies the world market. There are external economies of scale in the software industry. Investors in India believe India has the natural comparative advantage in software production, and insist that India is worse off under free trade than under autarky. In the space below, please draw a very carefully-labeled graph that illustrates a situation in which the Indian investors are only half correct: although India has a natural comparative advantage in producing this software, India nevertheless is better off importing software from the country that got the head start in the industry (United States) than in autarky.

2. “Consider two countries producing the same good with the same constant returns to scale production function, relating output to homogeneous capital and labor inputs. ... the Law of Diminishing Returns implies that the marginal product of capital is higher in the less productive (i.e., in the poorer) economy. If so, then if trade in capital good is free and competitive, new investment will occur only in the poorer economy, and this will continue to be true until capital-labor ratios, and hence wages and capital returns, are equalized.” – Robert E. Lucas, American Economic Review, 1990. Within the set-up of Lucas' statement – output produced by capital and labor with constant returns to scale and the same technology being accessible to all countries – how can our models of international trade explain why capital flows do not occur the way Lucas argues they should?

3. You have become a (well-paid) consultant to the Government of Indonesia on trade policy. Indonesia is an importer of Cars and an exporter of Steel. Suppose that you are choosing between advocating an import tariff on steel and an export subsidy on cars. If you assume perfect competition on each of these markets, which of the trade policies will you suggest? Please explain.

4. During the annual meeting of the International Monetary Fund and World Bank in Bali, President Joko Widodo made a speech quoting a catchphrase from the well-known HBO Series, Game of Thrones. He said fighting among the “great houses” was distracting them from the threat of an “evil winter”. “Victory or defeat in wars always brings the same result — destruction, It's pointless to become the leading economy in a sinking world. All these troubles in the world economy, are enough to make us feel like saying: ‘winter is coming’”, He put it in a context of US-Sino tariff war that will potentially spur the global trade war. But apparently, US is only protecting her domestic industry from the Chinese aggressive invasion. Is it true there is no other choice? So will it be possible to have a middle ground? As an economist, what do you see from this conflict?