



MID EXAM
Odd Semester 2019/2020
International Economics/Ekonomi Internasional - A
Lecture: Fithra Faisal Hastiadi
Duration: 3 hours /Open Book & Open Note

1. Assuming that there are only two countries in the world, Indonesia and ROW (Rest of the World) which both produce Cloth (C) and Food (F) using labor as factor production. The following table shows the number of hours of work needed to produce one unit of C and F in both countries:

	Cloth (C)	Food (F)
Indonesia	1 hour per meter	2 hour per kg
ROW	6 hour per meter	3 hour per kg

Please answer the followings:

- a. If we use the Smithian Absolute advantage, can both countries gain? Why?
 - b. Eventually, these countries can still trade, please explain
 - c. Please show the gains from trade for producers and consumers in both countries
 - d. Can we see a catching up (factor price) pattern for both countries?
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?

