

International Economics

1 September 2026

Name:

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Points:

5-A: 24-25; 5-B: 22-23; 4-C:
19-21; 3-D: 16-18; 2-E: 13-15; 1-
F: 0-12

Needed for signature: 10
Needed for offered grade: 12

Single-choice questions. There is only one correct answer to each question. Copy your answers to the table at the end of the single-choice section.

1. Hungarian car prices rose $\times 3.2$ and Hungarian flat prices rose $\times 4.3$ while wages rose $\times 3.5$. Which good got cheaper in work hours?
 - a. Only the car, because wages outgrew its price
 - b. Only the flat, because housing is a necessity
 - c. Both goods, because wages rose in nominal terms
 - d. Neither good, because both prices rose
2. A rest-of-world partner is enormously larger than Hungary. Where does the terms of trade settle?
 - a. Exactly at Hungary's own domestic relative price
 - b. Precisely halfway between the two domestic prices
 - c. Exactly at the rest of the world's own domestic relative price
 - d. Wherever Hungary's government sets it by decree
3. A country's production point and consumption point lie on the same iso-value line but are different points. What does the gap between them represent?
 - a. A calculation error somewhere in the model
 - b. The country's total production surplus
 - c. The domestic relative price
 - d. The country's trade — its exports and imports
4. Which of these is required for a large country's export-biased growth to worsen its own terms of trade?
 - a. World demand for the export good must be perfectly elastic
 - b. The country's extra output must be too small to affect the world price
 - c. The country's extra output must be large enough to move the world price
 - d. The country must be import-biased in its growth
5. The relative price of a labour-intensive good rises. What does the Stolper-Samuelson theorem predict for the real wage and the real rent?
 - a. Both rise
 - b. Both fall
 - c. The real wage rises and the real rent falls
 - d. The real wage falls and the real rent rises
6. Two countries have identical technology, trade freely, and both produce both goods. What does Heckscher-Ohlin predict about their wages and rents?
 - a. They diverge further apart over time
 - b. They are equalised only if factors are allowed to migrate
 - c. They are unrelated to each other
 - d. They are equalised, even though no factor crosses a border
7. A shipment of components moves from a firm's plant in one country to its assembly plant in another, both owned by the same company. What is the internal price of that shipment called?
 - a. The world price
 - b. The transfer price
 - c. The terms of trade
 - d. The marginal cost
8. Market integration doubles the number of firms and lowers the price. Which of the following is NOT one of the three gains identified in this model?

- a. More product variety
 - b. A shift in comparative advantage toward the abundant factor
 - c. Larger, more efficient firms
 - d. A lower price for every variety
9. Which of the following best describes what every trade-policy instrument has in common?
- a. They all raise government revenue
 - b. They all require the exporting country's cooperation
 - c. They all operate only through the price of the good
 - d. They all make foreign output different from domestic output
10. The MD/XS diagram differs from the RS/RD diagram used in Weeks 1–5 in which respect?
- a. MD/XS uses a relative price; RS/RD uses a money price
 - b. MD/XS only applies to large countries
 - c. MD/XS and RS/RD answer exactly the same question
 - d. MD/XS covers one good in partial equilibrium; RS/RD covers two goods in general equilibrium
11. A large country sets its tariff at the optimum level identified in this week's material. What is the most likely response from its trading partner?
- a. No response is possible under WTO rules
 - b. The partner has an incentive to retaliate with its own tariff
 - c. The partner must lower its own tariffs in compensation
 - d. The partner's terms of trade automatically improve to offset the loss
12. Both countries in a trade-war game end up worse off tariffing each other than they would be under mutual free trade, even though each acted rationally. What is this outcome called?
- a. A Prisoner's Dilemma
 - b. The optimum tariff
 - c. Factor price equalisation
 - d. The small-country case
13. Effective rate of protection is defined as which of the following?
- a. The nominal tariff rate on the finished good
 - b. The absolute price change of the finished good
 - c. The percentage change in value added caused by a tariff schedule
 - d. The world price minus the domestic price
14. Why might a policymaker choose a fast, second-best measure even while accepting free trade plus adjustment is better long-run policy?
- a. The second-best measure is always more efficient in the long run
 - b. First-best fixes take years; protection shows results within one political cycle
 - c. Free trade has no real adjustment costs to address
 - d. Second-best measures are required under WTO rules
15. A depreciation is best described as acting like which combination of trade-policy instruments?
- a. A tariff on imports only, with no effect on exports
 - b. An export subsidy only, with no effect on imports
 - c. A uniform tariff and export subsidy at once, but with no revenue collected and no budget spent
 - d. A quota on both imports and exports simultaneously

Please copy your test answers to the table.

1		2		3		4		5	
6		7		8		9		10	
11		12		13		14		15	

Essay questions

I. Poland and Germany can each produce cars or furniture, using capital and labour, with the same technology: cars need 3 units of capital and 1 unit of labour per unit; furniture needs 1 unit of capital and 3 units of labour per unit. Input ratios in this exercise are FIXED, regardless of the wage-rental ratio. Poland has 560 units of capital and 1,120 units of labour. Germany has 7,200 units of capital and 3,600 units of labour. At a world price of 100 for both goods, $r = w = 25$ in Poland (so $w/r = 1$). Trade then raises the price of furniture to 140, while the price of cars stays at 100.

(a). NUMERICAL ANSWER — State which country is capital-abundant and which is labour-abundant. Solve for each country's full-employment production of cars and furniture, and confirm this matches the Heckscher-Ohlin prediction. Then find Poland's new rental rate, wage, and wage-rental ratio after the price of furniture rises to 140. [2 points]

(b). GRAPH — Sketch the relationship between (P_F/P_C) and w/r for Poland — it is increasing throughout. Mark the point before trade ($w/r = 1$) and after trade. [2 points]

(c). EXPLANATION — A colleague claims that because Germany has far more capital than Poland has of anything, German workers must be better off than Polish workers regardless of what is traded. Explain in at most three sentences why this reasoning does not follow from the Heckscher-Ohlin model. [1 point]

II. Home demand for aluminium is $D = 78 - 10P$; home supply is $S = 4P - 6$. Foreign export supply is $XS = 14P$. A tariff of $t = 1$ is imposed.

(a). NUMERICAL ANSWER — Compute MD, and find the no-tariff world price and quantity traded. Then solve the small-country case, find the resulting home price (and world price, for the large-country case), and compute areas a, b, c, d. State the net welfare change. [2 points]

(b). GRAPH — Sketch the small-country diagram, with all four areas (a through d) labelled and shaded. [2 points]

(c). EXPLANATION — A classmate argues that since the small-country tariff and the large-country tariff use the SAME formula (t added to the price), the two cases must always give the same answer for who gains and who loses. Explain in at most two sentences why this reasoning is incomplete. [1 point]