UPES School of Business
End-Semester Examination – May 2024

Program: Integrated BBA-MBA **Semester: IV**
Subject / Course: Global Economics & its Impacts **Maximum Marks: 100**
Course Code: ECON 2034 **Duration: 03 Hours**

INSTRUCTIONS:

- **This is a CLOSED-BOOK EXAM. Only calculator is allowed.**
- **Cellphones / Tablets / Laptops / Books / Notes etc. are NOT allowed.**
- **All questions are compulsory.**
- **Your answers must be "brief & to the point."**

Q. No.	Questions	Marks	COs
	SECTION A **10Q x 2M = 20 Marks**		
Q 1.	**1.1.** The trade-to-GDP ratio is calculated by A) exports plus imports divided by GDP. B) exports divided by GDP. C) imports divided by GDP. D) exports minus imports divided by GDP. **1.2.** An important factor that increased international capital flows in the latter part of the 1800s was _____. A) technological innovations B) the creation of the International Monetary Fund C) the creation of numerous regional trade agreements D) the rapid rate of East Asian economic growth **1.3.** A major impact of the transatlantic cables was A) a reduction in time required to complete a financial transaction between New York and London B) an increase in labor flows across the Atlantic. C) a decrease in trade barriers between the United States and Europe. D) an increase in trade conflicts between the United States and Europe.	20	CO1

1.4. Countries that have high rates of savings also tend to have
- A) high rates of investment.
- B) low rates of investment.
- C) stock market bubbles.
- D) low rates of growth.

1.5. Financial capital flows could include
- A) currency market transactions.
- B) real estate purchases.
- C) construction of factories.
- D) the purchase of the physical assets and operations of a multinational corporation by another.

1.6. An example of a foreign direct investment (FDI) would include
- A) a U.S. couple buying land for their dream retirement home in Costa Rica.
- B) a U.S. mutual fund manager buying shares of stock in a Brazilian oil company.
- C) a U.S. firm expanding its U.S. operations.
- D) a wealthy Mexican buying U.S. Treasury bills.

1.7. Economists
- A) describe reducing tariffs and quotas as shallow integration.
- B) describe reducing tariffs and quotas as deep integration.
- C) believe that changing domestic policies affecting trade is a relatively simple process.
- D) believe that the work of reducing trade barriers is done since most tariffs are low and most quotas eliminated.

1.8. Which of the following is an example of an institution whose primary concern is global stability?
- A) IMF (International Monetary Fund)
- B) USMCA (United States-Mexico-Canada Free Trade Agreement)
- C) OPEC (Oil Producing and Exporting Countries)
- D) Asian Development Bank

1.9. The international organization that serves as a forum for trade discussions and the development of trade rules is called
- A) the World Trade Organization (WTO).
- B) the World Bank.
- C) the International Monetary Fund (IMF).
- D) the United Nations.

1.10. The Tokyo Round of the GATT negotiations was notable because it was the first round
- A) to begin establishing rules on subsidies.
- B) that included Japan.
- C) that included textiles and apparel.
- D) to begin discussions of exchange rates.

	SECTION B **4Q x 5M = 20 Marks**		
Q 2.	Define the concepts of absolute and comparative advantage. Which economists introduced these two concepts?	5	CO2
Q 3.	The term "glocal" refers to balancing global strategies with local responsiveness. Pick a well-known multinational company and evaluate how well it achieves this balance. Is it too standardized or too localized? Provide evidence.	5	CO2
Q 4.	Discuss two different types of trade barriers (e.g., tariffs, quotas, subsidies). Analyze their potential economic impacts on domestic producers, consumers, and overall trade flows.	5	CO2
Q 5.	Describe the different levels of regional economic integration. Provide a real-world example of one such integration bloc and its features.	5	CO2
	SECTION C **3Q x 10M = 30 Marks**		
Q 6.	Explain the economic rationale behind multinational companies offshoring production to developing countries. Discuss the benefits and drawbacks of offshoring from the perspective of: [1] The multinational company [2] Workers in the home country [3] Workers in the developing country	10	CO3
Q 7.	Analyze why a particular multinational company might have chosen Foreign Direct Investment (FDI) as a mode of entry into a specific foreign market. Use Dunning's Eclectic Paradigm (OLI framework) to explain how different types of advantages influenced this decision.	10	CO3
Q 8.	Choose a country and a specific industry within that country that exhibits strong international competitiveness (e.g., Germany's automotive industry, South Korea's electronics industry, Switzerland's pharmaceutical industry, etc.). Analyze how the components of Porter's Diamond Model contribute to the success of this industry within the global marketplace.	10	CO3

SECTION D
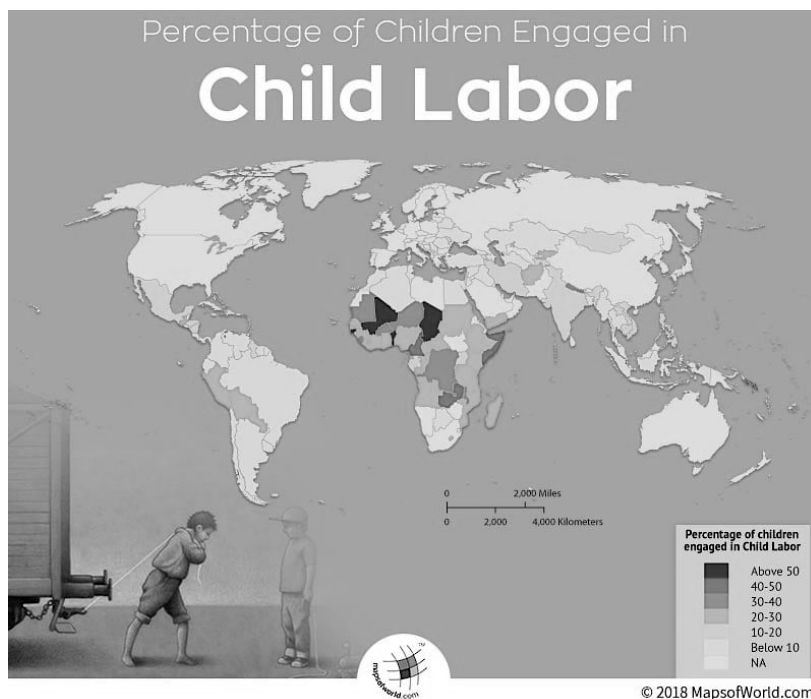### 2Q x 15M = 30 Marks

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Q 9.	Drawing from Kaushik Basu and Pham Van's seminal AER paper 'The Economics of Child Labor (1998),' please provide a critical analysis of the following statement: "If child labor [in the developing countries/the global south] as a mass phenomenon occurs not because of parental selfishness but because of the parents' concern for the household's survival, the popular argument for banning child labor loses much of its force. However, this assumption about parental decision-making coupled with the assumption of substitutability in production between child and adult labor could result in multiple equilibria in the labor market, with one equilibrium where children work [in the developing countries/global south] and another where adult wage is high, and children do not work [in the developed countries/the global north]." • <u>Hint 1</u>: Three axioms: (1) Luxury/Altruism, (2) Substitution, and (3) Transitivity: these are important to model the labor market scenario for (a) good, (b) bad, and (c) unstable equilibria. • <u>Hint 2</u>: You should produce a somewhat similar figure in analyzing the statement, what we did in class: 	15	CO4
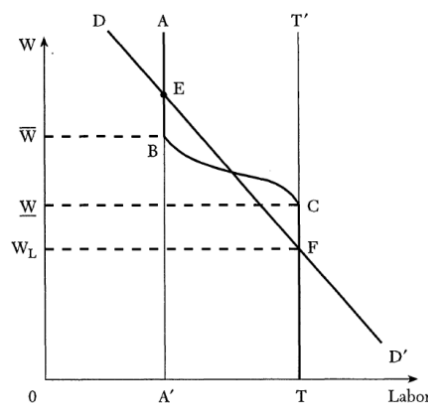
| | **Q 10.** | **Heckscher-Ohlin Framework ($2 \times 2 \times 2$) and Comparative Advantage:** | 15 | CO4 |

Heckscher-Ohlin Framework ($2 \times 2 \times 2$) and Comparative Advantage:

Consider two countries, Country A and Country B, both producing steel (s) and apparel (a). You have the following information:

	Country A	Country B
Production Functions		
Steel Production	$Qs = 2Ls^{0.60} Ks^{0.40}$	$Qs = Ls^{0.30} Ks^{0.70}$
Apparel Production	$Qa = 4La^{0.80} Ka^{0.20}$	$Qa = 3La^{0.75} Ka^{0.25}$
Input Prices		
Wage of labor (L)	(w^A) = \$15 per hour	(w^B) = \$8 per hour
Rent of capital (K)	(r^A) = \$30 per hour	(r^B) = \$40 per hour

Note on the Notations used:
Qs = Quantity of steel production; Qa = Quantity of apparel production
Ls = Labor used in steel production; La = Labor used in apparel production
Ks = Capital used in steel production; Ka = Capital used in apparel production
w^A = Wage in country A; w^B = Wage in country B
r^A = Rent in country A; r^B = Rent in country B

Questions:

10.1. Factor Abundance: Analyze the production functions and input prices to determine which country is relatively labor-abundant and which is relatively capital-abundant. Explain your reasoning, show your work.

10.2. Cost Minimization:

⇒ **For Country A:** Suppose a steel firm in Country A wants to produce 1,000 units of steel. Find the cost-minimizing combination of labor (Ls) and capital (Ks) to achieve this production target.

⇒ **For Country B:** Suppose an apparel firm in Country B wants to produce 500 units of apparel. Find the cost-minimizing combination of labor (La) and capital (Ka) to achieve this production target.

10.3. Comparative Advantage: Based on your analysis, determine which country likely has a comparative advantage in the production of steel, and which has a comparative advantage in apparel. Explain how the Heckscher-Ohlin framework supports your conclusions.