

SPRING 2000

INTERNATIONAL COMPREHENSIVE EXAM

LEIGHTON/BRITTO

PART I. ANSWER TWO OF THE FOLLOWING:

1.
 - (i) What does one mean by the concept of the effective rate of protection?
 - (ii) Can the effective rate of protection of an industry be negative? Explain.
 - (iii) If the effective rate of protection of industry A is 50% while that of industry B is 100%, and A is more capital-intensive than B, does this mean that labor is being protected while capital is not protected, labor being the other factor of production? Explain.

2. The winner of the 1999 Nobel Memorial Award in Economics is Robert Mundell. Select one of Mundell's contributions to international economics, and discuss
 - (i) the nature of the contribution,
 - (ii) its importance,
 - (iii) any empirical implication it might have.

3. Suppose that country X's production-possibility function and utility function are given by

$$x_1^2 + 4x_2^2 = 37 \text{ and } u^x(c_1, c_2) = c_1^{1/3} c_2^{2/3} \text{ respectively.}$$

Then one can check that if the price ratio is such that it produces 6 units of good 1 and $\frac{1}{2}$ unit of good 2, it will want to consume $\frac{37}{18}$ and $\frac{37}{3}$ units of the 2 goods respectively.

If country Y's production-possibility function and utility function are given by

$$y_1^2 + 4y_2^2 = 10 \text{ and } u^y(c_1, c_2) = c_1^{1/2} c_2^{1/2},$$

are the amounts given above of X's production and consumption bundles free-trade equilibrium quantities? Explain.

PART II. ANSWER TWO OF THE FOLLOWING:

1. It is said that reserves are the crucial problem for any exchange rate system. Explain what the reserves are, what their function is, and what problems exist with them for the gold standard, dollar exchange standard, and floating exchange rates.
2. Set forth the consequences of capital flows for fiscal and monetary policy with fixed and floating exchange rates.
3. Mundell argues that fiscal and monetary policy have to be used in a particular way with fixed exchange rates. What is his conclusion and how does he arrive at it? (You cannot use this paper here and in Part 1, #2.)