Instructions: The exam must be answered individually. You are not allowed to compare/share answers with your classmates. On the last page of each exam you must write and sign the following disclaimer: *I have consulted with no one with the possible exception of Professor Sandoval-Hernandez on any aspect of this examination. I am fully aware that doing so would be considered academic misconduct, for which I would receive, at a minimum, a grade of F in FYSM 143.* Follow this with your signature.

For each question provide short explanations, you will be penalized for excessive rambling. Your explanations must be in your own words according with your understanding; this means that just copying and pasting the answer from the readings would render into none credit.

Essay questions. (questions 1-5, 10 points each, and question 6 worth 20 points)

1. Define globalization. What are some of the most important driving forces of the current globalization process?

2. Read the article “The New Wave of Globalization and Its Economic Effects,” and briefly describe the three modern “waves of globalization” since 1870. What were the causes for the rise of globalization? Why the globalization process was reversed in the previous two “waves”?

3. What are the differences among tariffs, quotas, and subsidies? What are the economic ramifications for the home and target countries of using each? What are three different reasons why a government would decide to impose tariffs?

4. What are the arguments given in favor of trade liberalization? What are the arguments against it?

5. How does trade liberalization affect a developing country differently from an industrialized country?

6. In the paper “Globalization for Whom? Time to change the rules—and focus on poor workers,” Dani Rodrik contrast the development strategies adopted by China, India, South Korea and Taiwan with those adopted by Latin America and Easter European countries.

   a. What are the major differences between these two different sets of policies?
b. What group of countries had been more successful in pulling their populations out of poverty?

Rodrik also argues that both trade liberalization and international labor mobility remain highly unpopular in advanced countries.

c. Why barriers to trade have been brought down to historic lows but the opening of international labor markets has remained untouched by the globalization trend?

Analytical/Numerical Problems

6. (30 points). Suppose there are two countries, the North Pole and Antarctica, and two goods, fish and jellybeans. There are 90 workers in each country, and workers cannot move between countries. In the North Pole, it takes 6 workers to make 1 jellybean, and 18 workers to make one fish. In Antarctica, it takes 5 workers to make 1 jellybean, and 10 workers to make 1 fish.

a. In Antarctica, what is the opportunity cost of producing one fish?

b. Which country has an absolute advantage? Explain.

c. Which country has a comparative advantage in producing fish?

d. Which country has a comparative advantage in producing jellybeans?

e. Draw the production possibilities frontier (PPF) of each country, labeling the axes and the numerical quantities where the PPFs intercept each axis.

f. Suppose that each country only produces the good in which it has a comparative advantage, and that the two countries trade with each other, at a price of 5 jellybeans per 2 fish. Suppose that Antarctica consumes 5 fish.

i. How many jellybeans does Antarctica consume?
ii. How many fish does the North Pole consume?
iii. How many jellybeans does the North Pole consume?
iv. What are the gains from trade?

Bonus question

8. (10 points). The graph below refers to the domestic market for digital cameras with a domestic price of PA and a world price of PW. The domestic government decides to impose a tariff on each imported digital camera, and the new price is Pt. In the graph, identify the area that corresponds to the tax revenue collected by the government. Identify the area that corresponds to the deadweight loss that results from the tariff.