

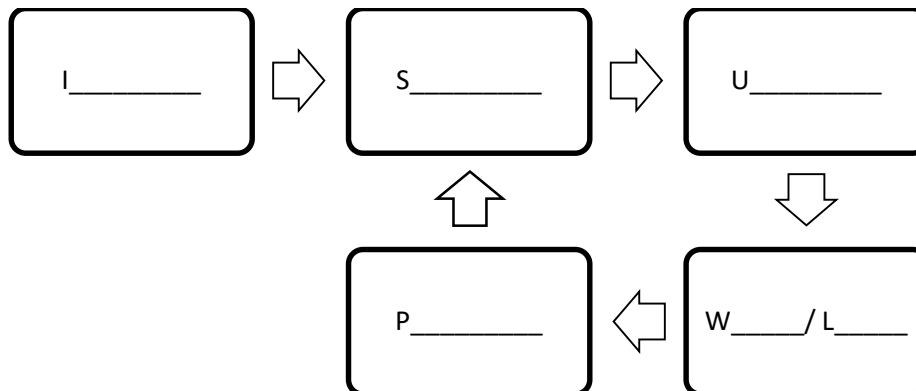
# Final Exam

Name: \_\_\_\_\_ PUID: \_\_\_\_\_ Score: \_\_\_\_\_

1. Fill out the blanks. [1pt for each blank, total 5pts]

Interdependence	Likelihood of War	Explanation
Low	R: Low	Low <input type="text"/> cost
	L: High	Low <input type="text"/> cost
Asymmetrical	R: <input type="text"/>	Dependent state initiates war: (avoiding dependency)
	L: High	Independent state initiates war: <input type="text"/>
High	R: High	High dependency cost
	L: Low	<input type="text"/> opportunity cost

2. Fill in the blanks. [1pt for each blank, total 5pts]



3. Which of the following is TRUE? [3pts]

- Vertical FDI will increase if trade costs increase.
- The price of intermediate goods is negatively correlated to horizontal FDI flows.
- A firm with less intangible asset is less likely to engage in vertical FDI flows.
- If plant-level fixed costs are more costly than trade costs, horizontal FDI will be greater.
- If a host country provides enormous locational advantages to other countries, firms are more likely to make FDI.

4. Which of the following is true? [3pts]
- a. If the demand of Mexican Peso increases, Mexican consumers will purchase less US goods.
  - b. If the supply of USD increases, US consumers will have greater purchasing power over foreign goods.
  - c. Depreciation of Mexican Peso will decrease its trade deficit.
  - d. Appreciation of Euro is beneficial for their social welfare program.
  - e. Inflation in the US creates additional trade surplus.
5. From the realist perspective, why does interdependence fail to reduce the war propensity? [provide two, 2pts for each, total 4pts]
6. Which of the following is TRUE about the currency speculation? [3pts]
- a. Fixed exchange rate system is vulnerable to currency speculation.
  - b. To defend fixed rate, governments need to keep lower interest rate.
  - c. Currency speculation incurs deflation.
  - d. Once the government appreciates its currency value to defend currency speculation, value of debt increases.
  - e. Currency speculations are usually made by governmental investors.
7. Which of the following would be expected by the Heckscher-Ohlin trade theory? [3pts]
- a. A country with abundant fertile land exporting agricultural products.
  - b. A country with abundant capital importing manufactured goods.
  - c. A country with abundant fertile land importing agricultural goods.
  - d. A country with abundant labor exporting agricultural products.
  - e. A country with abundant capital exporting agricultural goods.
8. According to Buthe and Milner, what is the political effect of trade agreements in addressing commitment problem? [Choose two, 1.5pts for each, total 3pts]
- a. Increase the market size
  - b. Signaling policy orientation
  - c. International pressure on compliance
  - d. Reputational costs on violation
  - e. Lowering tariff
9. What's the change in SDR after October 2016? Why? [3pts]

Use the following table for questions 10-13.

10. Fill in the blanks.

[1pt for each blank, total 4pts]

	Output per hour	
	Spaghetti	Meatballs
Lady GaGa	3	6
Drake	5	8

	Opportunity Cost	
	1 Spaghetti	1 Meatball
Lady GaGa	_____ Meatballs	_____ Spaghetti
Drake	_____ Meatballs	_____ Spaghetti

11. Which of the following is TRUE of Lady GaGa in the table? [3pts]

- a. She has an absolute advantage over Drake in both foods.
- b. Her opportunity cost for making meatball is lower than Drake.
- c. She can cook more spaghetti than Drake.
- d. Neither of them has a comparative advantage in cooking Spaghetti.
- e. Neither of them has a comparative advantage in cooking Meatball.

12. The table you completed in the question 10 is an example of: [3pts]

13. According to the principle of comparative advantage, in the example described by the table, Lady GaGa should: [3pts]

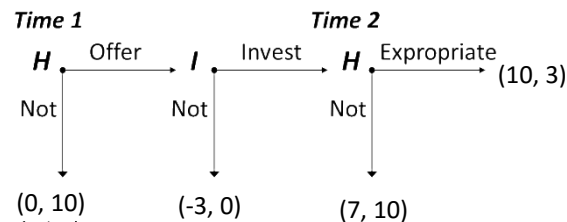
- a. let Drake cook everything.
- b. cook spaghetti exclusively.
- c. cook meatball exclusively.
- d. cook spaghetti exclusively.
- e. cook half the spaghetti and half the meatball needed by both of them.

14. Which of the following does NOT address commitment problem? [3pts]

- a. The Hull Rule
- b. IIAs
- c. PTAs
- d. Veto Players
- e. Intrastate conflicts

15. Which of the following hypotheses has the negative beta coefficient for the key independent variable? [3pts]
- Democratic countries are more likely to receive greater FDI flows
  - If a country puts more efforts on protecting property rights, the country is more likely to be appealing to foreign investors.
  - If all countries have same level of protections on property rights, democracies will receive less FDI flows.
  - A country without IIAs will have less FDI flows.
  - FDI is not a good thing.

Consider the following game:

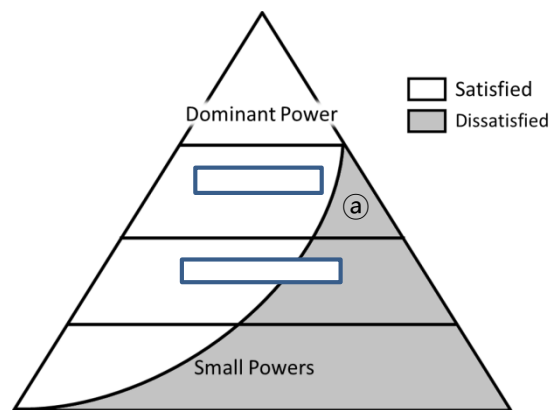


16. For the game above, what is the equilibrium payoff for the host country (H) and the investor (I)? [3pts]
- (0, 10)
  - (-3, 0)
  - (7, 10)
  - (10, 3)
  - No Equilibrium.
17. Provide a definition and at least one example of each of followings: [1pts for each, total 3pts]
- ✓ Greenfield FDI
  - ✓ OLI Paradigm
  - ✓ Obsolescing Bargaining

18. Which is NOT a factor that “Power Transition theory” suggests in explaining the cause of war? [3pts]

- a. Economic development
- b. Alliance
- c. Power asymmetry
- d. Dissatisfaction
- e. Trade dependency

19. Fill out the blanks and provide a name of country which possibly belongs to ①. [3pts]



20. Provide a definition and at least one example of each of followings: [1pts for each, total 3pts]

✓ Seigniorage

✓ Credit Default Swap (CDS) Asset Backed Securities

✓ Second Oil Shock (1979)

21. Choose the right one. [1pt for each blank, total 3pts]

- Negative effects of the appreciation of USD on the rest of the world
  - Importing US goods becomes (more expensive / cheaper)
  - Workers demand (higher / lower) wages
  - The (inflation / deflation) world wide

22. Which country is a veto player in IMF? Why? [3pts]

23. Provide a definition and at least one example of each of followings: [1pts for each, total 3pts]

✓ Dead Aid

✓ Polarity

✓ ODA

24. Provide a political reason why countries give foreign aid to other country? [3pts]

25. Fill in the blanks. [1pt for each blank, total 4 pts]

Most OECD countries have \_\_\_\_\_ exchange rate system, while \_\_\_\_\_ exchange rate system is more popular. By adopting \_\_\_\_\_ exchange rate system, countries can have free capital flow and stable exchange rate but not \_\_\_\_\_.

26. Provide a definition and at least one example of each of followings: [1pts for each, total 3pts]

✓ Heisei Boom

✓ Crime of 1873

✓ Smithsonian Agreements

27. How many Nash Equilibria in the following game? [3pts]

- a. 0
- b. 1
- c. 2
- d. 3
- e. More than 3

	US			
		NAFTA	Tariff	War
	NAFTA	10, 9	2, 5	-12, 5
	Tariff	5, 2	10, -3	-7, 10
	War	6, -10	3, -4	-10, -9

28. Suppose there are two countries: *Peachland* and *Lemonia*. Peachland has the greater number of veto players and higher level of property rights protection. Investment analysts say that the country provides lv. 8 of protections on property rights (maximum level of protection is lv.10). In contrast, Lemonia has just a few veto players with lax protections on property rights (lv. 2). If both countries join an investment agreement, they can increase the level of property rights protection by +5. Please explain the meaning of “institutional quality and IIAs are complementary or substitutive” by using these countries and the investment agreement. [6pts]

TABLE 1 From Economic Baseline Model to Full Political–Economic Model

	Model 1	Model 2	Model 3	Model 4	Model 4 with Bootstrapped Errors
Cumulative PTAs				0.217*** (.0797)	0.217** (.0855)
GATT/WTO membership			1.22*** (.411)	1.08*** (.411)	1.08*** (.381)
Bilateral Investment Treaties (BITs)		0.0496*** (.0131)	0.0502*** (.0127)	0.0411*** (.0129)	0.0411*** (.0147)
Domestic Political Constraints		1.75** (.680)	1.44** (.655)	1.15* (.638)	1.15* (.684)
Political Instability		−0.0129 (.00842)	−0.0144* (.00802)	−0.0153* (.00785)	−0.0153** (.00732)
Market Size	−3.85*** (1.43)	−1.89 (1.29)	−1.94 (1.30)	−1.64 (1.23)	−1.64 (1.28)
Economic Development	−0.0739 (.552)	−0.503 (.541)	−0.595 (.518)	−0.406 (.511)	−0.406 (.496)
GDP growth	0.0395*** (.0109)	0.0344*** (.0102)	0.0331*** (.00994)	0.0302*** (.00981)	0.0302*** (.00995)
Constant	−8.90e <sup>−10</sup> (1.13e <sup>−9</sup> )	−8.15e <sup>−10</sup> (1.16e <sup>−9</sup> )	−1.02e <sup>−9</sup> (1.19e <sup>−9</sup> )	−1.12e <sup>−9</sup> (1.18e <sup>−9</sup> )	−1.12e <sup>−9</sup> (1.10e <sup>−9</sup> )
R <sup>2</sup>	+0.0231	+0.0491	+0.0625	+0.0691	+0.0691

OLS within estimates with Arellano (1987) robust (clustered) standard errors in parentheses; all estimates rounded to three significant figures. \*p < 0.1; \*\*p < 0.05; \*\*\*p < 0.01; two-tailed tests. N = 2,524; n = 122; analysis covers 1970–2000, subject to data availability. All variables detrended, except Political Instability, which exhibited no significant trend. Country fixed effects implemented in advance via “areg” command, with “absorb(country)” in Stata 9.2. R<sup>2</sup> information indicates *additional* variance explained by the variables shown, after country fixed effects and trend have explained 39.2% of the variance in the raw FDI data.

29. According to the table above, which of the following is TRUE (DV is FDI share in GDP): [3pts]

- By joining multiple PTAs, a country can attract more FDIs, which is statistically significant at 95% in model 4.
- If a country has greater market size, it is more likely to attract FDIs, which is statistically significant even after controlling for the effect of international and domestic political institutions.
- The level of Economic Development has negative coefficient, while the coefficient is not statistically significant.
- Political instability is negatively associated with FDIs, which is statistically significant at 99% confidence level.
- GATT/WTO membership is not correlated with FDIs.

30. Why do lots of developing countries turn to protectionist especially by late 1950s? [3pts]

- Great depression undermined the power of import-competing sectors.
- Import-competing sectors won the political battles after the WWII.
- Terms of trade after WWII became more favorable to Import-competing sectors.
- Under-valued exchange rate reduces the gain of export-oriented sectors.
- Neoliberalist tenets were widely adopted during this period.