# Mock Final Exam

June 3, 2004

Time: **40 minutes**
Total score: **40 points**

1   Comparative Advantage

California's workers can either manufacture 200,000 computers or grow 10 million roses, or a mix of the two. Mexico's workers can either manufacture 60,000 computers or grow 9 million roses, or a mix of the two.

1. Explain in words or show with a numerical example how you can determine California's and Mexico's opportunity costs of computers in terms of roses.

2. Explain in words or depict in the graph below California's and Mexico's production possibility frontiers.
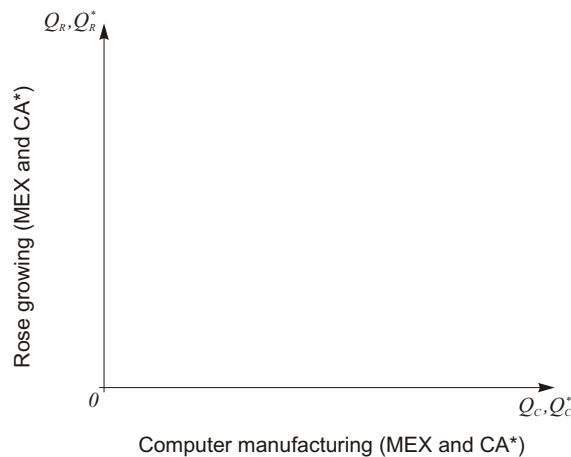

2   Fixed Exchange Rates

Discuss the differences of a fixed exchange rate regime managed by the Central Bank, a currency board and full dollarization.

3   Heckscher-Ohlin

Mexico is relatively abundant in low-skilled labor L and California is relatively abundant in high-skilled labor H. Rose-growing is relatively low-skill intensive

and computer-manufacturing is relatively high-skill intensive.

1. What is the pattern of trade? Why?

2. If Mexico intensifies its trade integration with California, how does the share of H/L in each sector change in Mexico? You may use the graph below to show your answer or provide a verbal explanation.
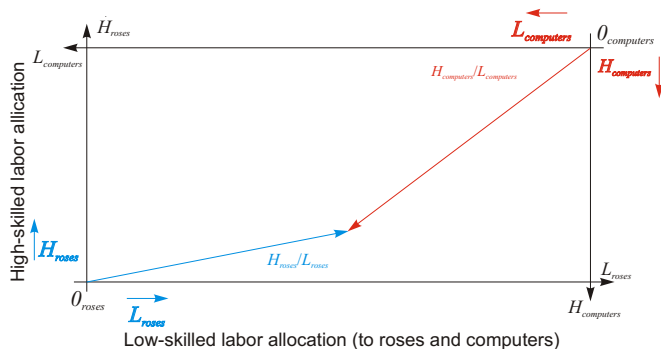
4   Debt Laffer Curve

1. Briefly explain the Debt Laffer Curve. Why does the market value of debt not increase one-to-one with the face value of debt?

2. What is your policy recommendation to a country at the depicted point on the debt Laffer Curve?