

Sample Final Exam¹

I. Explain each concept as indicated and tell the **context** in which the concept was discussed in the course.

1. ***Debt sustainability*** (Explain the concept with regard to a country's capacity to pay debt, and discuss at least two indicators used to measure its capacity to pay debt)
2. ***Zones of imbalance*** (Explain with the aid of a phase diagram that shows the relationship between real exchange rate and absorption.)
3. ***Gain from trade*** (Explain with the aid of a production possibility frontier and indifference curves.)
4. ***Tariff*** (Explain with the aid of the demand-supply diagram and illustrate the impact of tariff protection on social welfare.)

II. Short Answer Questions

1. Discuss three broad categories of foreign direct investment (FDI), particularly in light of benefits and/or drawbacks of each category of FDI.
2. What is the "Dutch Disease"? Explain its primary cause and use graphs to explain how the price in the nontradables market rises as a consequence of the Dutch disease.

IV. Essay Question

Consider a hypothetical economy that currently has a trade deficit and unemployment.

1. With the aid of a correctly labeled diagram, use the framework in the Australian model to explain the disequilibrium of this economy. Also, discuss "self-correcting" tendencies toward the equilibrium in the economy. What are possible obstacles that could prevent the economy from adjusting toward the equilibrium?

¹ These are sample exam questions only. On the real exam, there might be more or fewer questions.

2. Suppose that the “self-correcting” tendencies toward the equilibrium fail to work. What kinds of policies should the government implement in order to stabilize the economy? Use an appropriate diagram to explain the consequences of your suggested policies on the changes in the real exchange rates and absorption. Discuss whether there is any possibility that the policies may not work.