This is the final (and the only) examination. It will take 60 minutes.

In order to pass successfully the exam, read the following instructions carefully:

• write legibly, unintelligible handwriting will not be corrected and will receive zero points
• make answers short and to the point – irrelevant material may be penalized
• the exam has 4 pages (including one extra page for notes), make sure you have all pages
• negative points are awarded for wrong answers (only) in part I
• if you have a question, you must ask it publicly and I will answer publicly
• any violation of academic honesty will be punished to the fullest extent possible

I. Multiple choice questions (circle the correct answer) – more than one answer can be correct, points are subtracted for incorrect answers (30 points total, -30 points minimum)

1. (6 points) Given constant returns to scale, perfect competition and equality of the number of factors to the number of products a rise in the relative price of a good will lead to
   a. an rise or decrease in the return to the factor used in production of a good depending to the intensity of use in the production of that good
   b. a rise in the return to that factor which is used most intensively in the production of the good
   c. a decrease in the return to that factor which is used most intensively in the production of the good
   d. none of the above is correct

2. (6 points) Technological differences among countries
   a. are reasons why there is an international trade
   b. give rise to differences in wages
   c. lead to specialization among countries.
   d. none of the above is correct

3. (6 points) If GLi = 1
   a. there is only inter-industry trade, no intra-industry trade.
   b. there is only intra-industry trade, no inter-industry trade.
   c. intra-industry trade is equal to inter-industry trade.
   d. none of the above is correct.

4. (6 points) Compute optimal tariff for a good M in a big country A if you know elasticity of demand for M in country A ( - 3,0) and elasticity of demand for M in the world market ( - 3,5).
   a. 50 %
   b. 40 %
   c. 33 %
   d. none of the above is correct
5. (6 points) Doha round of international trade negotiations commenced in 2001
   a. and ended in 2012
   b. have not reached any successful results;
   c. is still going on.
   d. none of the above is true.

II. True, False or Uncertain? Explain in space provided! (30 points total, 0 points minimum)

1. (6 points) An influx of immigration from former Soviet Union member states to Israel lead to increase in Israel exports in goods which production is intensive in capital.

2. (6 points) With the increase of demand in Krugman model there is no increase in the size of the firm.

3. (6 points) According to Linder hypothesis poor countries should trade primarily with rich countries.

4. (6 points) Technological differences in the Ricardian model do lead to international trade but give rise to no differences in wages between countries.

5. (6 points) \( BI^A_j = 1 \), country \( A \) is said to have a revealed comparative advantage in industry \( j \), since this industry is more important for country \( A \)’s exports than for the exports of the reference countries. (BI stands for Balassa index)
III. Write a detailed answer (40 points total, 0 points minimum)

1. (20 points) Assume demand bias in countries A and B for domestic production. Show graphically the situation in which a country relatively abundant with capital exports capital intensive goods.

2. (20 points) Explain in detail the principle of the Rybczinski proposition.