UNIVERSITY OF CALIFORNIA AT BERKELEY
Department of Economics

International Economics Field Exam
January 2016

GENERAL INSTRUCTIONS:

This is a three-hour field exam. There are 4 questions in total but you only need to answer 3. Questions 1 and 2 in Part A correspond to course 280A, and questions 3 and 4 in Part B correspond to course 280B.
Note that you have 3 hours for this exam, so you have 1 hour on average for each question.

Part A

Question 1

Answer the following questions with as much formalism as you can:

a) In the context of the Krugman (1980) model with CES preferences, what is the effect of integration across two symmetric countries under no trade costs on the number of firms and their size?
b) How does your answer change if instead we think about Krugman (1979), where the price elasticity of demand falls with the quantity consumed? Give an intuitive explanation.

Question 2

Answer the following three questions in reference to Donaldson (2015) "Railroads and the Raj":

a) What is the theoretical mechanism underlying the gains from railroads in this paper?
b) What empirical specification leads to an estimate of the effect of railroad access on trade costs?
c) What empirical specification leads to the conclusion that about 85 percent of the observed economic gains can be explained by the model?

Part B

Question 3. Speculative Attacks

a) In the context of the Morris & Shin (1998) model of speculative attacks, explain carefully, with as much mathematical details as possible, how the absence of common knowledge can eliminate equilibrium multiplicity.
b) Discuss how/whether the presence of a public signal affects this result.

Question 4. Properties of Risk Sharing

Using as much formalism as possible, discuss the key properties of models of perfect international risk sharing and their empirical support.