Global Value Chains

Question 1   x/6
   a) Draw the smile curve, indicate 5 possible tasks for the automotive industry
   b) Why is the middle part of the smile curve lower than the rest?
   c) What will happen to the curve when 'catch-up' and 'spillover' happen. What is the difference between these two?

Question 2   x/8
   a) Give <u>one</u> mechanism how institutions can shape comparative advantages. Show how this could change the Ricardian model for England and Portugal (it is recommended to use other sectors than cloth and wine)
   b) How do you expect the predictions of the Ricardian model to change when you introduce MNE's that can outsource certain tasks in the production chain
   c) Will there still be trade if all English workers specialize in services that are not directly tradable? Do you need to make adjustments to the Ricardian model?

Question 3   x/8. True or false questions, give a brief explanation
   a) The integration of MNE's into a nation's economy or becoming part of an FTA lower the VAX ratio of a country
   b) The first of these two statements is true: 1 If prices and quantities are constant, a rise of the domestic value added to the trade on the export side will increase a nation's welfare. 2 Same for P and Q, but an increase in the DVA to the trade import side will decrease welfare.
   c) Because Switzerland is wealthier than Portugal, this explains why the VAX ratio from Belgium to Switzerland is higher than the VAX ratio from Belgium to Portugal
   d) If the VAX ratio from A to B is larger than the VAX ratio from C to D, then usually the VAX ratio from B to A will be larger than the VAX ratio from D to C

Question 4   x/8
   a) What is the key insight of the property rights theory? Include key aspects such as, but not limited to: Outsource and in-house
   b) Apply the PRT to television channels. They usually produce their news shows in-house, but leave the production of drama-series to outside firms, why is this the case?
   c) Give the GVC governance types of Geroffi, Humphrey and Sturgeon. Give for each type an example of a specific interaction within an industry

Question 5   x/5
   a) Draw the Helpman, Melitz and Yeaple model, indicate which firms will exit the market, produce domestically, export or conduct FDI
   b) What will happen if the iceberg trade costs increase?

   1.