

ECONOMICS 50123
International Trade and Payments
Study Questions

INSTRUCTIONS: Over half of the exam questions will be taken **DIRECTLY** from this list, and the rest will be written assuming that you have studied this material. If a question is lifted from here it will still contain any parenthetical references, but not the bracketed ones.

LECTURE

1. Regarding the neoclassical school of economic thought, list and describe in a sentence or two the three inputs into that paradigm's intellectual foundation. [list and describe]
2. What have the four manifestations of those inputs been? [list and describe in a sentence or two]
3. Explain Say's Law of Markets. [paragraph or two]
4. Explain comparative advantage (using the simple John-Harvey method). [paragraph--an example is essential]
5. Show the PPF that results from both countries specializing in their comparative advantages and compare it to one where they specialize incorrectly (start with their individual PPF's and explain the comparative advantages by referencing the slopes). [whatever it takes]
6. Give a simple mathematical example that shows that free trade under comparative advantage will raise world output. [paragraph]
7. Show PPF's for decreasing returns. Why not complete specialization any more? [paragraph]
8. Using indifference curves and PPF's (assuming constant returns) show how each country can benefit from free trade. In the process define DTT, ITT, and MRT. [paragraph or so]
9. Show theory of comparative advantage in terms of output per head. Give a specific example and the general model. [paragraph or so]
10. Explain comparative advantage using currency units. Show the range of exchange rates that will yield two-way trade. Explain how an exchange rate outside that band will cause an adjustment that once again makes trade mutually beneficial. Why will break-even country still be happy? [several paragraphs]
11. Draw an offer curve for a single country and explain how it relates to DTT. Add one for a foreign country and show the ITT. Prove this must be the equilibrium point.[paragraph or so]
12. How is the Heckscher-Ohlin theorem related to comparative advantage? [sentence]
13. Explain the Heckscher-Ohlin theorem. [sentence or two]
14. How well has neoclassical trade theory (comparative advantage plus Heckscher-Ohlin) explained the real world? Explain. [sentence or two]
15. Regarding the Post Keynesian/Institutionalist school of economic thought, list and describe in a sentence or two the three inputs into that paradigm's intellectual foundation. [list and describe]

16. What have the four manifestations of those inputs been? [list and describe in a sentence or two]
17. Explain how absolute advantage can drive trade flows if we allow for less-than-full employment. [paragraph or two]
18. What does Peter Gray think we need to add to make trade theory more realistic? [paragraph]
19. Know how to calculate examples of Gray's approach. [yup, know it]
20. How does the dynamic, technology-based view of trade define the unit labor requirement? Please define each variable. [equation]
21. Show graphically the effect of changing the parameters of the unit labor requirement.
22. Show the result that implies that nations should aim to increase technology if they hope to compete internationally.
23. What are the three kinds of tariffs? Compare them. [paragraph]
24. Show the case of a large importer imposing a tariff.
25. Show the case of a small importer imposing a tariff.
26. Show the case of a tariff imposed on a small exporter.
27. Show the partial equilibrium effects of a tariff. [draw graph, etc.]
28. What is the difference between a quota and a tariff? [couple of lines]
29. Show the partial equilibrium effects of a quota. [draw graph, etc.]
30. Show the difference between a tariff and a quota in the face of rising domestic demand. [graph, etc.]
31. What are the distinguishing characteristics of a voluntary export restraint? [list the two]
32. Variable levy: define the terms. [list and explain]
33. What are the three effects of a variable tariff? [list the three]
34. Show the partial equilibrium effects of a subsidy. [draw graph, etc.]
35. List and explain the six arguments for protection. [list and explain]
36. Define the four stages of economic integration. [list and define]
37. How can the effect of economic integration be either good or bad? [show huge chart with notes]
38. Show the partial equilibrium effects of a customs union. [draw graph, etc.]
39. In thinking about the partial equilibrium effects of a tariff, what will make the benefits greater? [list and

explain]

READING

Exam One

[*Explaining the U.S. Trade Deficit, Shaikh 1999*: <http://www.levy.org/docs/pn/00-1.html>]

40. What does Shaikh say about the size of the trade deficit compared to the late 1980's? [sentence]
41. What is the central policy implication of Shaikh's argument? [sentence]
42. Shaikh comes to what conclusion regarding the decline in the US trade balance ratio from 1960-85 (be sure in the process to tell specifically how he measures a trade balance ratio)? [sentence or two]
43. Summarize Shaikh's three steps in understanding what drives international terms of trade. [sentence each]
44. What is the last direct implication of Shaikh's approach and how is it that economic growth has a double character? [sentence or two]

[*Trade Picture, Scott 2000*: <http://www.epinet.org/webfeatures/econindicators/tradepict051900.html>]

45. What does the growth in the deficit reflect? [sentence]
46. What might become the largest bilateral deficit in the history of US trade if trends continue? [sentence]
47. Why is it that the US trade deficit with China may understate the net effect China has on the overall US trade deficit? [sentence or two]
48. In what areas have European Union countries recently stepped up efforts to expand exports to the US? [sentence]
49. In what area have European Union countries implemented new regulations that discriminate against US suppliers? [sentence]

[*National Trade Balance*: http://dataweb.usitc.gov/SCRIPTS/cy_m3_run.asp]

50. To what country did the US export most in 2001? Second? Third? [three countries!]
51. From what country did the US import most in 2001? Second? Third? [three countries!]
52. With whom did the US have the largest trade deficit in 2001? Second? Third? [three countries!]
53. What were our top three exports to each of the top three countries you found above? [click on the dollar value: nine products—summarize in a couple of words each]
54. What were our top three imports from each of the top three countries you found above? [click on the dollar value: nine products—summarize in a couple of words each]

[*Prasch 1996*: read pp.37-43 and 49-53]

55. If we drop the assumption of “no externalities” in the comparative advantage model, how can trade **not** be beneficial to a community? [couple of sentences]

56. If we drop the assumption of “free mobility of capital and labor within a country” in the comparative advantage model, how can trade **not** be beneficial to a community? [paragraph]
57. How is less-than-full employment problematical for comparative advantage? [paragraph]
58. What is it that Prasch takes a little over three pages to say in section 9? [paragraph]
59. How does he use S. Korea as an example of that point in his conclusion? [paragraph]

[Nicholas Kaldor 1981: pp.593-600]

60. Say there is a country whose technology is such that the only industries it has which would be competitive in world markets are producers of primary products (agricultural and mining). How might they be hurt by free trade? How is neoclassical theory insulated from such a result? [paragraph]
61. How is it possible for free trade to create a monopoly or polarization in favor of those countries who already have well-developed, competitive industries? How can a nation wishing to develop protect itself? [paragraph]
62. How is the extent of the market related to specialization and increasing returns? [sentence or two]

[Market Competition and the Failure of Competitiveness Enhancement Policies in the United States, Milberg 1994:

http://libnt2.lib.tcu.edu:2091/itw/infomark/188/45/30631302w5/purl=rc2_GBFM_1_Market+Competition+and+the+Failure+of+Competitiveness+Enhancement+Policies+in+the+United+States_____&dyn=2!sg_df_Market+Competition+and+the+Failure+of+Competitiveness+Enhancement+Policies+in+the+United+States_____?sw_aep=txshracd2573

63. Milberg writes that current attempts at competitive enhancement in the United States are inadequate as they seek only to lower costs. He insists that real success will only be had when current programs are enhanced to include performance standards for the domestic firm and insistence on equivalent labor and environmental standards for foreign firms. What does he mean by this? [paragraph]

[Adams 1987]

64. What must the institutional theory explain? [one sentence]
65. A society's external relations must stem from and be consistent with what? [one sentence]
66. Adams says that the "foreignness" of international trade causes a society to treat it very differently from internal trade. Why do they do this? [paragraph]
67. According to Adams, is "free trade" the situation that arises when individuals are allowed to exchange goods and services with no external restriction of their activities? Explain. [paragraph]
68. List and explain(in a sentence or two the five hypothesis derived from institutional theory. [list and explain]

[Ramstad 1987]

69. There is perhaps no public policy issue on which economists are more likely to agree than what? [sentence]
70. Comment on Ramstad's description of the conventional view of the provisioning process (pp.7-8) in terms of our "foundations of neoclassicism." [paragraph]
71. How does a "concern" contain conflicts and preserve order? [sentence]
72. What is the operative principle of economic life (and what isn't it)? [sentence]
73. From the perspective of the approach employed by Commons, what is competition? [sentence]
74. Are working rules (according to Ramstad) a constraint on economic behavior? Explain. [sentence or two]
75. By what is economic life in the United States regulated? [sentence]
76. Workers get the short end of bargaining because of their markedly inferior what? [sentence]
77. What was "Fair" to Commons? [sentence]
78. TRUE OR FALSE: Commons preferred capitalism to socialism.
79. What was the mechanism Commons believed we needed? [sentence]
80. The market is nothing more than what? [sentence]
81. On what basis does Commons defend tariffs? [sentence or so]
82. Common's Reasonable Value shows that protection is not an unnatural impediment to economic progress, but what? [sentence]

[A Primer on Technology Gap Theory and Empirics, Elmslie and Viera 1999:

<http://www.econ.tcu.edu/harvey/5123/elmslie.html>

83. The mainstream view of technology and trade suggest what? [one sentence]
84. Technology gap theory views technological asymmetries as what? [one sentence]
85. Paraphrase Josiah Tucker's (not Elmslie and Viera's) argument against the view that rich countries' exports will inevitably be taken over by poorer ones' (due to the latter's lower wages and other costs). [paragraph]
86. What is Tucker's general Proposition which very seldom fails? [sentence]

[Milberg 1988]

87. What is intra-industry trade? [sentence]
88. What are firms assumed to be in Milberg's model? [sentence]
89. The mark-up is viewed as what? [sentence]
90. Who determines the price of each good? [sentence]

91. Describe each of the four cases. [paragraph or so]

[EU website: <http://europa.eu.int/index-en.htm> follow the “Institutions” and “overview” links on the menu]

92. Tell of what the “Institutional Triangle” is composed and give a sentence or two on the function of each body. [three to six sentences]

93. By what two institutions is the “Institutional Triangle” flanked? Give a sentence or two on the function of each. [two to four sentences]

[GATT: <http://www.ciesin.org/TG/PI/TRADE/gatt.html>]

94. For what does GATT stand? [four words]

95. When was it first signed? [year]

96. What was it designed to provide? [sentence]

97. What is current GATT membership? [approx number]

[The GATT: <http://thegatt.bizland.com/>]

98. What is The GATT? [important notice: not actually on exam!]

[Suranovich on US Trade Policy: <http://internationalecon.com/v1.0/ch20/20c020.html>]

99. What branch of the US government (assuming that we still have one) is in charge of trade policy? [sentence]

100. Is the existence of the US Trade Representative's office therefore unconstitutional? Tell why it might be and why it isn't. [sentence or two]

101. What do you notice about US customs duties as a percentage of federal government revenue from 1821 to 1996? [sentence]

[Suranovich on US Tariff Policy: <http://internationalecon.com/v1.0/ch20/20c030.html>]

102. With the passage of what amendment did the US become substantially less dependent on tariff revenue? Explain very briefly. [sentence]

103. GATT arose out of what discussions? [sentence]

104. The IMF was designed to do what? [sentence]

105. The World Bank was designed to do what? [sentence]

106. What does article 19 of GATT do? [sentence]

107. What does article 24 of GATT do? [sentence]

[Suranovich on Trade Law: <http://internationalecon.com/v1.0/ch20/20c040.html>]

108. What are the requirements to demonstrate dumping? [sentence or two]