

ECONOMICS 50443
International Economic Studies
Study Questions
Summer 2009

INSTRUCTIONS: These questions are to help guide your studying. Though these exact questions may not appear on your exams, **the tests will be based entirely on this list.** I've already answered all the questions (I have a PhD in this stuff!) and so as to give you an idea of how much you need to say, I have told you how many words it took me to do each of the questions. A really good method to use as you are formulating your responses is to imagine that you are explaining to a classmate. Studying involves taking this list and a blank piece of paper and writing out the answers until you don't make any mistakes. Don't try to memorize as there is too much—understand!

Questions are color-coded with respect to school of thought. Those in black are (with one exception—#1) Neoclassical, those in red are Marxist, and those in blue are Post Keynesian. Also, questions are grouped by their source. For example, questions based on lecture material have *Lecture* before them, and then appear without spaces between them. For questions where answers can be found in the reading, the specific chapter of the book is given and the questions are then grouped without spaces.

BACKGROUND

Lecture

1. Distinguish between validity and cogency. [25 words]

FOUNDATIONS

Neoclassical

Lecture

2. Regarding the neoclassical school of economic thought, list and describe in a sentence or two the three inputs into that paradigm's intellectual foundation. [67 words]
3. List and describe the four manifestations of the inputs into the neoclassical school of economic thought's intellectual foundation. [95 words]

Marxist

Lecture

4. From what three separate strands did Marxism evolve? [46 words]
5. In what sense did Marx believe that capitalism was exploitative? [46 words]
6. How did Karl Marx argue that capitalism was a necessary stage in the evolution of human history? [69 words]
7. How did Marx predict that capitalism would sow the seeds of its own destruction? In his view, was the sequence of events likely to occur? [115 words]
8. What do modern Marxists say about the fact that capitalist countries appear to have strong support from their workers? [32 words]

Post Keynesian/Institutionalist

Lecture

9. 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. [58 words]
10. List and describe the four manifestations of the inputs into the Post Keynesian/Institutionalist school of economic thought's intellectual foundation. [109 words]
11. Explain Say's Law (both pro and con). [99 words]

TRADE THEORY

Neoclassical

Lecture

12. Explain comparative advantage (output per unit of labor; must include an example). Be sure you mention the assumptions, absolute advantage, and why both parties will be happy. An example is essential. [90 words]
13. How is the Heckscher-Ohlin theorem related to comparative advantage? [7 words]
14. Explain the Heckscher-Ohlin theorem. [18 words]
15. Explain comparative advantage using currency units. Explain how prices will adjust to make trade mutually beneficial. Be sure to mention the assumptions, absolute advantage, and how the end result compares to the nations' comparative advantages. An example is essential. [136 words]
16. What major problem has neoclassical trade theory (comparative advantage plus Heckscher-Ohlin) had in explaining the real world? Explain. [66 words]

**Glassman, James K. "The Blessings of Free Trade." Center for Trade Policy Studies.
<http://www.econ.tcu.edu/harvey/5443/blessings.pdf>**

17. The article states that free trade does not create jobs. Then why, according to the author, should we want it? [66 words]
18. Any evidence of Neoclassicism's foundation in political individualism (the answer is "yes!")? Explain. [32 words]

Marxist

Lecture

19. What do Marxists think ultimately drives trade flows and how? [9 words]
20. Explain how absolute advantage can drive trade flows if we allow for less-than-full employment. Be sure to mention the assumptions and absolute advantage. An example is essential. [79 words]

Encyclopedia of Marxism

<http://www.marxists.org/glossary/terms/f/r.htm>

21. According to Marxists, who are most likely to be the free traders and who the protectionists (this is not asking about agriculture versus manufacturing)? [66 words]
22. According to Marxists, where do workers fit into the struggle over free trade and protectionism and how will they fare? [22 words]

Post Keynesian/Institutionalist

Lecture

23. If we drop the assumption of “no externalities” in the comparative advantage model, how can trade not be beneficial to a community (be sure to define externality)? [62 words]
24. 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? [46 words]
25. How is less-than-full employment problematical for the *theory* of comparative advantage? [16 words]
26. 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) and they must trade with a nation that exports manufactured goods. How might they be hurt by free trade (in terms of employment)? How is neoclassical theory insulated from such a result? [95 words]

Adams, John. "Trade and Payments as Instituted Process: The Institutional Theory of the External Sector." Journal of Economic Issues (December 1987).

<http://www.econ.tcu.edu/harvey/5443/adams.pdf>

27. What must the institutional theory of trade and payments explain (in terms of its coverage)? [31 words]
28. A society's external relations must stem from and be consistent with what? [19 words]
29. According to Adams, "free trade" is not the situation that arises when individuals are allowed to exchange goods and services with no external restriction of their activities. Explain. [36 words]
30. List the five hypothesis derived from institutional theory of trade and payments. [103 words]

ECONOMIC DEVELOPMENT

Neoclassical

Lecture

31. According to neoclassicism, how will economic development occur? [49 words]

IMF. Global Trade Liberalization and the Developing Countries

<http://www.imf.org/external/np/exr/ib/2001/110801.htm>

32. In section one of the article, on what does it appear to be blamed that some developing nations have progressed while others have not? [67 words]
33. On what sort of goods to industrial countries tend to maintain high protection? [1 word]

34. On what-intensive goods does protection remain high against in industrial countries? [2 words]

Marxist

Lecture

35. What do Marxists say about economic development? [55 words]

Brar, Harpal. *“The analysis of the deepening of the various economic, political and social contradictions of the imperialist world such as those described in V I Lenin’s Imperialism, the highest stage of capitalism,” International Communist Seminar, Brussels, May 2-4, 2001.*
http://www.wpb.be/icm/2001/01en/UK_Harpal.htm

36. What, according to Lenin, is the deepest economic foundation of imperialism? [1 word]
37. What are the five key points of Lenin’s definition of imperialism? [93 words]
38. What can be said about the largest 100 economies in the world? [4 words]
39. By what is the latest stage of capitalism characterized? [56 words]
40. How does the rate of return on FDI (foreign direct investment) in third-world countries compare to that in imperialist ones? [3 words]
41. How does third world debt service compare to the amount of aid they receive? [21 words]
42. Does the author believe that the former colonies received real independence after World War Two? Explain. [51 words]
43. What, according to the author, is the only means of improving the lot of the third world? [1 word]

Post Keynesian/Institutionalist

Grabel, Ilene. *“Emerging Stock Markets and Third World Development: The Post Keynesian Case for Pessimism.” In Foundations of International Economics: Post Keynesian Perspectives, edited by Johan Deprez and John T. Harvey, London: Routledge, 1999.*
<http://www.econ.tcu.edu/harvey/5443/grabel.html>

44. In what three ways have most developing and former socialist country policymakers and (foreign) policy consultants viewed portfolio investment inflows as an unambiguous benefit to the recipient economies? [51 words]
45. Under constrained policy autonomy, what does the necessity of creating an attractive climate for portfolio investment force host-country governments to do (in general) and how might that be a problem? [41 words]
46. The increased risk potential of portfolio investment is an outcome of what? [21 words]

James, Dilmus. "Technology and Third World Development." In John Adams and Anthony Scaperlanda's The Institutional Economics of the International Economy (1996).

<http://www.econ.tcu.edu/harvey/5443/james.pdf>

47. For institutionalists, what has always been viewed as a core element in economic development? [12 words]
48. Among the recent events that have spurred research into technology, James mentions "Recognition of Technological Capacity in the South." Explain what he has to say there. [52 words]
49. What is it that paves the way for the fruitful absorption of technology? [19 words]
50. List the problems with innovation systems in the South. [pick the five you believe to be most important and list them–107 words]
51. In James' conclusion, what does he list as the two main points of his paper? [47 words]

EXCHANGE RATE THEORY

Neoclassical

Lecture

52. Explain purchasing power parity. An example is essential, as is the clear explanation of the effect of PPP on currency prices. [111 words]
53. Show the effect of a rise/fall in the money supply in the monetary model. Be sure to point out exactly what caused the exchange rate to move. [22 words]
54. Explain uncovered interest-rate parity (especially how it affects exchange rates). [123 words]

Marxist

Shaikh, Anwar. "Explaining Long Term Exchange Rate Behavior in the United States and Japan," Working Paper #250, Levy Institute.

<http://www.levy.org/pubs/wp250.pdf>

55. Conventional exchange rate models are based on what fundamental hypothesis? [30 words]
56. Supporters of purchasing power parity who have suggested that it may take a long time for it to act have what time frame in mind? [41 words]
57. Under what circumstances does purchasing power parity appear to hold? [7 words]
58. Shaikh's exchange rate theory based on real unit costs (primarily labor) leads to what two major conclusions? [42 words]
59. Summarize Shaikh's argument regarding the use of absolute costs in the analysis of domestic competition versus the use of comparative costs in the international arena. [190 words]

Post Keynesian/Institutionalist

Lecture

60. Be able to manipulate the exchange rate graph (be sure you can label the actual exchange rate, the balanced-trade exchange rate, imports, exports, capital inflows, capital outflows, the trade balance, and the capital account balance). [zero words]
61. If one goal of an international payments system is a tendency for exchange rates to move toward balanced trade, then what issue is most important? Why isn't the distinction between fixed and flexible exchange rates terribly important? [61 words]
62. What does it mean to say that an international monetary system has a deflationary bias? [53 words]

Harvey, John. "Chapter Three: Psychology and Decision Making in the Foreign Exchange Market." Currencies, Capital Flows, and Crises: A Post Keynesian Analysis of Exchange Rate Determination, London: Routledge, 2009.

<http://www.econ.tcu.edu/harvey/book/BookCh3.pdf>

63. List and explain the three heuristics. [126 words]
64. List and explain Keynes' five observations regarding the workings of asset markets. [301 words]
65. Explain how volatility is created. What stops it? [195 words]
66. Explain how bandwagons occur. [203 words]

Harvey, John. "Chapter Five: Post Keynesian Exchange Rate Modeling." Currencies, Capital Flows, and Crises: A Post Keynesian Analysis of Exchange Rate Determination, London: Routledge, 2009.

<http://www.econ.tcu.edu/harvey/book/BookCh5.pdf>

67. Draw the complete mental model with medium term expectations, technical analysis, bandwagon, confidence, and cash in. [drawing]
68. On the complete mental model with medium term expectations, technical analysis, bandwagon, confidence, and cash in, why are some of the variables marked with a superscript "e?" What do they represent? [48 words]