

ECON 136, International Economics
Final exam study guide
Dec. 15, 2016

1. Name the three broad categories of international trade policies listed in class.
2. Given production capacities per hour for two products in two countries:
 - (a) Draw production possibility frontiers on a graph.
 - (b) Identify absolute advantages for each product.
 - (c) Identify opportunity costs for each product.
 - (d) Identify comparative advantages in each country.
 - (e) Identify the range of favorable terms of trade.
 - (f) Given particular terms of trade, draw trading possibility curves for each country, like Fig. 3.2
 - (g) What happens to Country A's gains from trade (increase or decrease) as terms of trade approach its PPF (Fig. 3.4).
3. Given relative capital-abundance of countries A and B, and relative capital-intensiveness of industries X and Y, indicate what happens when trade opens up.
 - (a) In Country A, production shifts from X to Y or vice versa?
 - (b) The shift causes shortages of K and surplus of L or vice versa?
 - (c) How are the shortages and surpluses cured?
4. Briefly distinguish mobile factors of production from specific factors of production.
5. Economies of scale:
 - (a) The meaning of this phrase
 - (b) How it helps explain intra-industry trade
6. Given the side-by-side S/D graphs for sugar in the U.S. and Jamaica that you have seen many times, identify what happens when trade opens up:
 - (a) Identify the equilibrium trade price absent tariffs or transportation costs.

- (b) Identify the areas on each graph that represent
 - i. Gain or loss of consumer surplus
 - ii. Gain or loss of producer surplus
 - iii. Net gain or loss to the country's economy
 - (c) Show the effects of a given transportation cost on the US and Jamaica graphs:
 - i. Equilibrium prices in each country
 - ii. Total transportation revenue
 - iii. Gain and loss in producer and consumer surplus in each country.
7. Given a S/D graph, indicate the effects of a tariff in that country, using the small-country assumption:
- (a) Loss of consumer surplus
 - (b) Gain of domestic producer surplus
 - (c) Tariff revenue
 - (d) Deadweight loss

For this question I could ask you to identify areas by letter (a, b, c) or if the axes have numbers, by the \$ amount

8. Quotas:
- (a) Who gets the revenue that would be tariff revenue if the quota were a tariff instead?
 - (b) Name two ways the government can recoup this revenue. (It's not enough to say just "auction." Auction of what?)
9. Infant industry protection
- (a) What is the purpose of these protective measures?
 - (b) What two things can go wrong?
10. Who gains and loses when the Chinese government subsidizes one of its export industries?
11. Given a change in some exchange rate, indicate which currency has appreciated relative to the other and which has depreciated.

12. Given a macroeconomic development in the US or UK—a change in interest rates or a change in price level:
- (a) What happens to UK demand for US products?
 - (b) What happens to UK demand for US\$?
 - (c) What happens to UK supply of £ in the \$/£ FX market?
 - (d) What happens to the \$/£ XR?
 - (e) What happens to US demand for UK products; to US demand for UK£ to the XR?
 - (f) Are the two effects additive? (Ans: yes)

You may have to identify the effects on a S/D graph.

13. Given Big Mac prices in two countries and given the XR, determine whether the currency is over-valued or under-valued.
14. Given U.S. and U.K. interest rates and given the expected rate of appreciation or depreciation of the £ as implied by forward markets, indicate whether the £ is over-valued or under-valued.
15. Given US and UK price levels and a prevailing \$/£ XR, indicate whether the £ is over- or under-valued.
16. Calculate the round trip profit or loss for a US investor who wants to buy a bond denominated in € paying a stated interest rate:
- (a) Convert \$ to € and pay a small fee
 - (b) Buy the bond, wait a year, and collect interest and principal in €.
 - (c) Convert € to \$ at a new XR, also paying a fee.
17. A question about economic sanctions: their purpose and two reasons why they sometimes fail.
18. Identify the institutions that were established at Bretton Woods. (Ans: IMF, GATT)
19. How does the WTO differ from GATT, its predecessor?
20. How did the Bretton Woods monetary system work and what was its main shortcoming?

21. What is the main distinction between multilateral trade agreements and regional agreements? Which of these has proliferated in recent years and which has died out. Why?
22. Given the five levels of economic integration (Fig. 11.2) arrange them in order from least comprehensive to most comprehensive.
23. What does NAFTA stand for and who are its member countries?
24. What does TPP stand for? Name two member countries other than the U.S.
25. What is the main reason why governments often seek to reduce the XR value of their own currency?
26. What will be the consequences of Brexit, once it takes effect, on which currency it uses, its military alliances, and its membership in various regional trade agreements?
27. At the very moment you are taking this exam, the Fed's Open Market Committee will be deciding whether to increase its short-term interest rate target. Market participants are almost unanimous in expecting an increase. If the FOMC *fails* to raise this rate, how would we expect FX markets to react? Would the US\$ appreciate or depreciate relative to other major currencies? Why?

Lastly, there will be an essay question on the effects of tariffs: short-term gains and losses, longer-term gains and losses, the "public choice" explanation for their persistence, and the effects on international political tensions.