

ECON 136, International Economics
Fall, 2016
Midterm 2 Study Guide

Part I: short answer

1. Given the side-by-side graphs of sugar markets in the U.S. and Jamaica that you have seen many times in class,
 - (a) Find the equilibrium price in each country without transportation costs after trade opens up. Draw a horizontal line at this level.
 - (b) Find the equilibrium price in each country when a given transportation cost is considered (e.g., \$5 per ton).
 - (c) Indicate the areas representing the welfare changes that arise when transportation costs are added:
 - i. Gain or loss in consumer surplus.
 - ii. Gain or loss in producer surplus.
 - iii. Transportation revenue
 - iv. Deadweight loss.Do this for each country.
2. Consider a foreign government subsidy of one of its export industries, e.g., the Chinese bicycle industry. Which of these groups benefits from the subsidy and which is hurt?
 - U.S. bicycle riders
 - U.S. bicycle manufacturers
 - Chinese bicycle riders
 - Chinese bicycle manufacturers

What is the net welfare effect on the U.S. economy (the first two items)?

- Positive
 - Negative
 - Cannot be determined
3. Arrange the three levels of economic integration in order from least comprehensive to most comprehensive (Fig. 11.2).

4. Which of these are attributes of the European Union as it is currently constituted?
 - Free movement of labor and capital within the EU
 - No internal tariffs
 - Common external tariffs
 - Common labor and environmental standards
 - Common fiscal policy
 - All EU countries use the Euro
5. Suppose there is a free-trade area (but not a customs union) that includes Mexico and the U.S., and suppose a Japanese auto manufacturer wants to export cars into the U.S. Why might they want to export them to Mexico first and then into the U.S.?
6. Name the three countries that are parties to NAFTA.
7. Which of these statements is(are) true of the TPP?
 - (a) China is a party to the TPP
 - (b) The TPP is supported by the Obama administration
 - (c) The TPP is supported by President-elect Trump
 - (d) The TPP was supported by Hillary Clinton
 - (e) TPP negotiations have been completed
 - (f) The TPP will not take effect unless and until the U.S. Senate ratifies it.
8. Which of these is true of the World Trade Organization?
 - It was established at the Bretton Woods Conference
 - China and Russia are members
 - It includes procedures for resolving disputes among member nations
9. What were the four main instances of high tariffs in U.S. history? Arrange them in chronological order.
10. What were the two overall objectives of the Bretton Woods Conference of 1944?

11. Give two reasons why regional trade agreements have largely supplanted multilateral trade agreements.
12. Write the verbal definition of GDP.
13. Write the equation for GDP. Define each of the five terms.
14. Name three categories of goods that are excluded from GDP. *Answer: unfinished goods, goods produced by volunteer labor, illegal goods.*
15. Given the equation (p. 290)

$$X - M = S - I + T - G$$

indicate which of these could offset an increased trade deficit

- Increased saving
 - Increased business investment
 - Increased taxes
 - Increased government spending
16. A question like Quiz #8, where you categorized several international transactions.
 17. A question like #10, p. 305.
 18. Suppose we observe these exchange rates: 105¥/\$ and \$1.15/€.
 - (a) Calculate the expected ¥/€ exchange rate.
 - (b) If the observed ¥/€ exchange rate is higher than the expected rate, which strategy would a U.S. speculator pursue to profit from the disparity?
 - Exchange \$ for €, then € for ¥, then ¥ for \$.
 - Exchange \$ for ¥, then ¥ for €, then € for \$.
 19. Which is the stronger currency: the Korean Won at about 1,100 per US\$ or the British pound at about \$1.25/£?
 - The Won
 - The pound
 - We cannot say without further information

20. Suppose price inflation suddenly jumps in the UK while remaining unchanged in the US.
- (a) Sketch a S/D graph representing the market for $\$/\pounds$ XR as in class. Label the axes properly
 - (b) What happens to the demand for US goods/services on the part of UK consumers? Does it rise or fall?
 - (c) How is this shift reflected in the $\$/\pounds$ XR market?
 - Demand for \pounds rises
 - Demand for \pounds falls
 - Supply of \pounds rises
 - Supply of \pounds falls
 - (d) Draw a shifted curve (dashed) that represents the response of UK people. Mark it “UK response.”
 - (e) What happens to the demand for UK goods/services on the part of US consumers? Does it rise or fall?
 - (f) How is this shift reflected in the $\$/\pounds$ XR market?
 - Demand for \pounds rises
 - Demand for \pounds falls
 - Supply of \pounds rises
 - Supply of \pounds falls
 - (g) Draw another shifted curve (that represents the response of US people. Mark it “US response.”
 - (h) Has the UK \pounds appreciated or depreciated? Show this change on your graph.
21. A question like the previous one, except the premise is that interest rates have increased in the U.S. while remaining unchanged in the UK. The question is about US demand for UK bonds and vice versa.
22. Another question like the previous one, except the premise is that people anticipate future depreciation of the \pounds due to some political event.
23. If the $\$/\text{¥}$ XR changes from 98 to 110, has the US\$ appreciated or depreciated vis-a-vis the Japanese ¥ ?
24. What is a “dirty float?”

25. Under the Bretton Woods monetary system, who was entitled to redeem US\$ for gold?
- No one
 - Anyone
 - Any foreign citizens
 - Any foreign commercial banks
 - Any foreign central banks
26. Regarding the Bretton Woods monetary system,
- What was its main advantage relative to the current system?
 - What was its main disadvantage?
27. Which of these were policies instituted by Pres. Nixon on Aug. 15, 1971?
- A freeze on prices and wages
 - A 10% tariff surcharge
 - An end to all redemption of US\$ for gold
 - New base metal coins to replace silver coins
28. For each of these situations, indicate whether risk could be offloaded by purchasing a forward delivery contract for £ and which by selling a contract:
- (a) Boeing has agreed to sell airliners to British Airways and will receive payment in one year.
- (b) I bet Mark Brady £1,000 that Hillary would win the election. He has given me until Jan. 1 to come up with the money.

Part II: Essay

Two possible essay topics:

- Discuss quotas on sugar imported into the U.S. from countries like Jamaica. Who benefits and who suffers, in each country, from the quotas? What is the overall effect on each country's economy? How does the phrase "concentrated benefits, dispersed costs" help to explain the persistence of quotas? What adverse health effects might indirectly result from the sugar quotas?

- Discuss the international gold standard as it existed prior to World War I. What were the two main advantages it provided? Why was World War I the beginning of the end of the gold standard in Europe. What did Pres. Roosevelt do about gold in March, 1933, immediately after taking office.