1. According to Ricardo’s analysis, a country exports any good whose production requires fewer labor hours per unit than the labor hours per unit needed to produce the good in the foreign country. That is, the country exports any good in which its labor productivity is higher than the labor productivity for this good in the foreign country.” Do you agree or disagree? Why?
2. As a result of the NAFTA, the US and Canada are shifting toward free trade with Mexico. According to Stolper-Samuelson theorem, how will this shift affect the real wage of unskilled labor in Mexico? In the US or Canada? How will it affect the real wage of skilled labor in Mexico? In the US or Canada?
3. What is the tariff escalation pattern? Why does it exist in many countries? Do you favor or oppose the government policy of offering extra adjustment assistance to workers displaced by increasing imports? Why?
4. The country of Moonland has an endowment of (total supply) 40 units of capital and 5 units of labor, whereas the rest of the world has 10 units of capital and 50 units of labor. Is Moonland labor-abundant country? Is Moonland capital abundant country? If electronics is capital-intensive and cloth is labor-intensive, what is the Heckscher-Ohlin prediction for the pattern of trade between Moonland and the rest of the world?
5. “The factor-price equalization theorem indicated that with free trade the real wage earned by labor becomes equal to the real rental rate earned by landowners.” Is this correct or not? Why?
6. The US is considering adopting a regulation that foreign apples can be imported only if they are grown and harvested using the same techniques that are used in the US. These methods are used in the US to meet various government standards about worker safety and product quality. As a representative of the US government, you are asked to defend the new import regulation before the WTO. What will you say? As a representative of foreign apple growers, you are asked to present the case that this regulation is an unfair restriction to trade. What will you say?
7. You are given the information shown in the table about production relationships between Pugelia and the rest of the world

|  |  |  |
| --- | --- | --- |
|  | Inputs per Bushel of wheat output  | Inputs per yard of Cloth output  |
| Pugelia |  75 | 100 |
| Rest of the world  | 50 | 50  |

You make several Ricardian assumptions: these are the only 2 commodities, there are constant ratios of input to output whatever the level of output of wheat and cloth, and competition prevails in all market.

Which country has absolute advantages in wheat? Cloth?

Which country has comparative advantages in wheat? Cloth?

If international trade is allowed what are the limits for the equilibrium international price ratio? What product will Pugelia export? Import?

1. Uncertainty and international trade may mean that poor countries specialize their production while rich countries diversify theirs. Explain why?
2. Describe plausible conditions under which a nation would benefit from subsidizing imports of a good? Describe the national defense argument for putting up barriers to imports. Why is import protection probably not the best approach?
3. One of your friends suggests to you that our country should stop trading with other countries because imports take away jobs and lower our national well-being. How would you try to convince him that this probably not the right way to look at international trade and its effect on the country?
4. You are an adviser to the Indian government. Until now, government policy in India has been to severely limit imports into India, resulting also in a low level of Indian exports. The government is considering a policy shift to much freer trade. What are the 3 strongest arguments that you can offer to the Indian government about why the policy shift to freer trade is desirable for India? Which groups in India will be supporters of the policy shift toward freer trade? Which groups will be the opponents?
5. To protect Major Steel Company’s jobs, the US might decide to cut its imports of steel by 60 percent. It could do so by either a) imposing a tariff high enough to cut steel imports by 60% or b) persuading other foreign steel makers to set up a VER arrangement to cut their exports of steel to the US by 60 percent. Which of these 2 policies would be less damaging to the US? Which would be less damaging to the world as a whole? Explain.
6. Consider a standard model of the economy, with 2 goods (wheat and cloth) and two factors (land and labor). A decrease now occurs in the relative price of wheat. What are the short-run and long-run effects on the earning of each of the following: labor employed in the wheat industry? Labor in the cloth industry? Land used in the wheat industry? Land in the cloth industry?
7. Moonlandia’s growth has been oriented toward expansion of its export industries (say, it has 2 commodities: cloth – export, and wheat – import). How do you think Moonlandia’s terms of trade have been changing during this time period? Support your answer with graphs.
8. “A tariff on imports of a product hurts any country’s total economic wellbeing.” Do you agree with this? Support you answer with the graphs.
9. “Once we recognize that product differentiation is the basis for much international trade, there are likely to be more winners and fewer losers in a country when the country shifts from no trade to free trade.” There may be several reasons why this statement is true. What are the reasons? Explain each briefly.
10. Explain in what cases introduction and expansion of international trade can make a country’s welfare decline. Support your answer with the graph.
11. A number of Latin American countries export coffee and import other goods. A long-term drought now reduces coffee production in the countries of this region. Assume that they remain exporters of coffee. Explain why the long-term drought in the region might lead to an increase in the region’s well-being or welfare. What would make this gain in well-being more likely?
12. Explain when the growth of an open economy can make its welfare decrease. Support your answer with the graph.
13. The world market for large passenger jet airplanes is an oligopoly dominated by 2 firms: Boeing in the US and Airbus in Europe. Explain why the market equilibrium might involve either a low price for airplanes or a high price for airplanes. For the perspective of the well-being of the US (or Europe) why might a high-price equilibrium be desirable? What price outcome is desirable for Japan or Brazil? Why? If the outcome is the high-price equilibrium, does Japan or Brazil still gain from importing airplanes? Explain.
14. Australia has only one firm that makes aircraft. Without assistance from the government, that firm has lost most of its business to imports from the US and Europe. Which of the following policies would be most costly for the Australian national as a whole, and which would be least costly?

Policy A: Paying the lone Australian firm a production subsidy per plane without protecting it against imports?

Policy B: Imposing a tariff equal to the production subsidy in Policy A

Policy C: Imposing an import quota that cuts imports just as much as policy B would

1. “According to the Rybczynski theorem, an increase in the country’s labor force will result in an increase in the quantity produced of the labor-intensive good, with no change in the quantity produced of the other good.” Do you agree or disagree? Why?
2. Explain the paradox: landowners whose property is used to produce goods that compete with imports may favor free trade even though it lowers the profits of the firms located on their land.
3. Assume that the sock-importing countries are determined to expand their domestic production of socks. From the point of view of the sock-exporting countries, how would you rate each of these three policies that could be used by the sock importers? Why?
4. Subsidies to domestic production in the importing countries
5. Tariffs on sock imports
6. VERs on sock exports
7. “A country whose trade has almost no impact on world prices is at great risk of immiserizing growth.” Do you agree or disagree? Why?
8. What is the difference between a free-trade area and a customs union? How are trade creation and trade diversion defined, and what roles do they play in the world gains and losses from a trade bloc? Support your answer with the graphs.
9. “Most FDI is made to gain access to low-wage labor.” Do you agree or disagree? Why? “Industrialized countries are the source of most FDI because they have large amounts of financial capital that they must invest somewhere.” Do you agree or disagree? Why? ”Multinational enterprises often establish affiliates using little of their own financial capital because they want to reduce their exposure to risks.” Do you agree or disagree? Why?
10. The Pugelovian government is attempting to peg the exchange-rate value of its currency (the pnut) at a rate of three pnuts per U.S. dollar (plus or minus 2 percent). Unfortunately, private market supply and demand are putting downward pressure on the pnut’s exchange rate value. In fact, it appears that, under current market conditions, the exchange rate would be about 3.5 pnuts per dollar if the government did not defend the pegged rate
11. how could the Pugelovian government use official intervention in the foreign exchange market to defend the pegged exchange rate?
12. how could the Pugelovian government use exchange controls to defend the pegged exchange rate?
13. how could the Pugelovian government use domestic interest rates to defend the pegged exchange rate?
14. Which countries are likely to gain, and which are likely to lose, from the North American Free Trade Area? How are the gains and losses likely to be distributed across occupations and sectors of the Mexican economy? The U.S. economy?
15. Kazakhstan has to decide on a trade-policy strategy to go with other reforms for promoting development. Comment on the merits and drawbacks of the following available choices: a) *u*nilaterally taxing its wheat exports.*b)* Forming a wheat-exporting cartel with Argentina, Australia, and Canada, which arealso major wheat exporters. *c)* Choosing manufactures it could export (e.g., batteries), giving them a profitable home-market base protected by tariffs, and encouraging exports to other countries at competitive world prices.
16. What is the difference between a clean float and a managed float? What is the difference between an adjustable peg and a crawling peg? A government has just imposed a total set of exchange controls to prevent the exchange-rate value of its currency from declining. What effects and further developments do you predict?
17. What is an economic embargo? What kinds of countries tend to use economic embargoes? In what cases embargoes are successful? What are the cases for embargo to be successful? Support your answer with the graphs
18. A country currently prohibits any FDI into the country. Its government is considering liberalizing this policy. You have been hired as a consultant to a group of foreign firms that want to see the policy loosened. They ask you to prepare a report on the major arguments for why the country should liberalize this policy. What will your report say?
19. For your next foreign vacation, would it be better to go to a country whose currency is overvalued relative to PPP or one whose currency is undervalued relative to PPP (other attractions being equal)? According to PPP and the monetary approach, why did the nominal exchange-rate value of the DM (relative to the dollar) rise between the early 1970s and the late 1990s? Why did the nominal exchange-rate value of the pound decline?
20. Which of the following trade policy moves is most certain to bring gains to the world as a whole (explain why and support you answer with the graphs): (a) imposing a countervailing duty against an existing foreign export subsidy; ( *b* ) forming a customs union in place of a set of tariffs equally applied to imports from all countries, or ( *c* ) levying an antidumping import tariff?
21. For each of the following observed changes in wage rates and migration flows from the low-wage South to the high-wage North, describe one shift in conditions that, by itself, could have caused the set of changes (support you answer with the graph):

*a.* A rise in wage rates in both South and North, and additional migration from South to North.

*b.* A drop in wage rates in both South and North, and additional migration from South to North.

*c.* A drop in the northern wage rate, a rise in the southern wage rate, and additional imigration from South to North.

1. As a foreign exchange trader, how would you react to each of the following news items as it flashes on your computer screen?
2. Mexico’s oil reserves prove to be much smaller than touted earlier.
3. The Social Credit Party wins the national elections in Canada and promises generous expansion of the supply of money and credit.
4. In a surprise vote the Swiss government passes a law that will result in a large increase in the taxation of interest payments from Switzerland to foreigners.
5. You are an adviser to the government of a country whose exports are mainly a few primary products and whose imports are mainly manufactured products. You are asked to prepare a short report on the forces that are likely to drive the country’s terms of trade during the next two decades. What will the main points of your report be?
6. Which of the following transactions would contribute to a U.S. current account surplus?

*a).* Boeing barters a $100 million plane to Mexico in exchange for $100 million worth of hotel services on the Mexican coast.

*b).* The United States borrows $100 million long-term from Saudi Arabia to buy $100 million of Saudi oil this year.

*c.* The United States sells a $100 million jet to Turkey, and Turkey pays by transferring the $100 million from its bank account to the U.S. seller.

*d.* A British investor buys $100 million of IBM bonds from the previous U.S. owner of these bonds, and the British buyer pays by transferring the $100 million from his bank account to the previous U.S. owner.

1. “For an investment in a foreign-currency-denominated financial asset, part of the return comes from the asset itself and part from the foreign currency.” Do you agree or disagree? Explain.
2. “As long as increasing exports of less-skilled-labor-intensive manufactured products are leading to rising employment and rising real wages for its workers, a developing country has no interest in improving its educational system.” Do you agree or disagree? Why?
3. Explain the nature of the exchange-rate risk for each of the following, from the perspective of the U.S. firm or person. In your answer, include whether each is a long or short position in foreign currency.
4. A small U.S. firm sold experimental computer components to a Japanese firm, and it will receive payment of 1 million yen in 60 days.
5. An American college student receives a birthday gift of Japanese government bonds worth 10 million yen, and the bonds mature in 60 days.
6. A U.S. firm must repay a yen loan, principal plus interest totaling 100 million yen, coming due in 60 days.
7. What determines the exchange rate? Provide a detailed explanation.
8. Some developing countries (including some African countries) are encouraging development of local production of basic business services like call centers and data entry, to become an important destination for offshore outsourcing. Which of the four trade policies is most closely related to a national policy to grow this kind of services production? Why?
9. “A country is better off running a current account surplus rather than a current account deficit.” Do you agree or disagree? Explain. “National saving can be used domestically or internationally.” Explain the basis for this statement, including the benefits to the nation of each use of its saving.
10. The spot exchange rate between the dollar and the Swiss franc is a floating, or flexible, rate. What are the effects of each of the following on this exchange rate?
11. There is a large increase in Swiss demand for U.S. exports as U.S. culture becomes more popular in Switzerland.
12. There is a large increase in Swiss demand for investments in U.S. dollar denominated financial assets because of a Swiss belief that the U.S. economy and political situation are improving markedly.
13. Political uncertainties in Europe lead U.S. investors to shift their financial investments out of Switzerland, back to the United States.
14. U.S. demand for products imported from Switzerland falls significantly as bad press reports lead Americans to question the quality of Swiss products.
15. For a country that has a surplus in its current account and wants to reduce this surplus, one way to do so would be to encourage its people to save more and spend less.” Do you agree or disagree that such a shift would reduce the surplus? Explain.
16. Which of the following can effectively provide financing for a country’s current account deficit?
17. Residents of the country sell foreign government bonds (that they had previously purchased) to residents of the foreign country.
18. Residents of the country receive dividends and interest on their portfolio investments in foreign stocks and bonds.
19. Foreign residents purchase newly issued equity in a number of the country’s start-up companies.
20. What are the major types of transactions or activities that result in demand for foreign currency in the spot foreign exchange market? A British bank has acquired a large number of dollars in its dealings with its clients. How could this bank use the interbank foreign exchange market if it was unwilling to continue holding these dollars?
21. “Short-run pressures on market exchange rates result mainly from gradual changes in flows of international trade in goods and services.” Do you agree or disagree? Why?
22. “It is best for a country never to borrow from foreign lenders.” Do you agree or disagree? Why? Why was there so much private lending to developing countries from 1974 to 1982, although there had been so little from 1930 to 1974?
23. The government chooses a fixed exchange rate and the government decided to defend the rate when the supply and demand forces push the rate outside the allowable band. What are the ways the government can deploy to defend the fixed exchange rate. Identify and analyze each way.
24. The official interventions are considered the first line of the government defense to protect the fixed exchange rate. Discuss the logic and the effect of this policy. Draw the graph when the government intervenes to defend a fixed exchange rate: preventing appreciation of the country’s currency.
25. The official interventions are considered the first line of the government defense to protect the fixed exchange rate. Discuss the logic and the effect of this policy. Draw the graph when the government intervenes to defend a fixed exchange rate: preventing depreciation of the country’s currency.
26. Financial crisis in a developing country has serious negative consequences for the borrowing country and its economy. As new lending to the country dries up, the economy goes into recession. Also, a financial crisis in one country can threaten the economies of other countries and the broader global financial system, through contagion effects that reduce capital flows to other borrowers and can send some into their own crises. What are the major policies of international efforts to solve financial crises? Discuss them in detail.
27. International lending to developing countries brings benefits, however, it also brings recurrent financial crises. What are the major forces that can lead to financial crises? Discuss them in detail.
28. We are judging our personal performance in various fields. Sports, Education etc. Judgment about performance is also a very important topic in macroeconomic analysis. How well is a country’s economy performing? This is a very important question to ask. This judgment is done against a number of broad objectives. What are they? What factors do we have to look at to analyze to performance of a country’s economy? Discuss this issue in details.
29. Discuss and picture 3 major components of the macroeconomy, adding the supply and demand for money and the country’s overall balance of payments (hint: here you have to draw the graphs of the Mundell-Flemming model (IS-LM-FE model) and identify the major assumptions). Discuss what happens if any of the variables changes (hint: you have to provide the analysis of the changes of domestic, money and foreign exchange market based on the changes of 2 variables: GDP (Y) and interest rate (i). What happens to each of the curves when one or both variables change?
30. What does FE curve show? What does IS curve show? What does LM curve show? Discuss and draw the graphs for each curve separately and together (4 graphs). What are the fundamental influences that shift the FE curve to the right? What are the fundamental forces that shift the FE curve to the left?
31. What does FE curve show? What does IS curve show? What does LM curve show? Discuss and draw the graphs for each curve separately and together (4 graphs). What are the fundamental influences that shift the LM curve to the right? What are the fundamental forces that shift the LM curve to the left?
32. What does FE curve show? What does IS curve shows? What does LM curve show? Discuss and draw the graphs for each curve separately and together (4 graphs). What are the fundamental influences that shift the IS curve to the right? What are the fundamental forces that shift the IS curve to the left?
33. What does FE curve show? What does IS curve show? What does LM curve show? Discuss and draw the graphs for each curve separately and together (4 graphs). What is the official settlement balance? Write and explain the formula. Draw the graph which shows the balance of official settlement in deficit. Draw the graph which shows the balance of official settlement in surplus.
34. The performance of a country’s macroeconomy has both internal and external dimensions. What is the internal balance? What does the internal balance focus at? What is the external balance? What does the external balance focus at? Does a government have to pay attention to both the external and external balances? Analyze these issues in detail.
35. Discuss the changes in the central bank’s balance sheet during the official interventions. What happens to the central bank’s balance sheet in the case of the intervention to adjust the country’s official settlements balance surplus. What happens to the central bank’s balance sheet in the case of the interventional to adjust the country’s official settlements balance deficit? Draw the graphs (2 graphs) What is the sterilization policy? Why the central bank is using sterilization policy?
36. Explain why the fixed exchange rate policy greatly constrains a country’s ability to pursue and independent monetary policy. Explain why expanding the money supply worsens the balance of payments with the fixed exchange rates. Explain why decreasing the money supply improves the balance of payments with the fixed exchange rates. Draw the graphs for both of the cases.
37. Explain how the expansionary and contractionary monetary policies affect the balance of payments with the fixed rates. Explain the changes and their direction. Draw the graphs.
38. Explain how the expansionary fiscal policy affects the balance of payments with the fixed rates. Explain the changes and their direction. What role does the issue of responsiveness of the capital plays here? Draw the graphs showing the magnitude of changes when the capital is responsive to changes and when it is not (2 graphs).
39. Explain how an adverse international capital shock affects a country’s economy with the fixed rates. Explain how a trade shock affects a country’s economy with the fixed rates. Draw the graphs for both of the cases.
40. Discuss how a country with fixed rates can address the internal and external imbalances. Provide the analysis of a short-run solution: monetary-fiscal mix. Discuss the essence of the assignment rule. Draw a graph of an expansionary fiscal policy for a country with fixed rates assuming that the initial settlement balance is zero and there is a high responsiveness in capital flow.
41. Imagine the situation that the imbalance in a country’s official settlement balance is very large (deficit). And the government of the country is unwilling to change domestic policies to eliminate the imbalance. Instead, the government concludes that surrendering the fixed rates is the best choice available. So it uses devaluation. Explain the logic of devaluation. Explain the processes that will occur after devaluation. What changes will it bring to the economy? Draw the graph.
42. Imagine the situation that the imbalance in a country’s official settlement balance is very large (surplus). And the government of the country is unwilling to change domestic policies to eliminate the imbalance. Instead, the government concludes that surrendering the fixed rates is the best choice available. So it uses revaluation. Explain the logic of revaluation. Explain the processes that will occur after revaluation. What changes will it bring to the economy? Draw the graph.
43. Explain why with floating exchange rates, monetary policy exerts a strong influence over domestic product and income. Identify the effects of expanding the money supply (Expansionary Monetary Policy) with Floating Exchange Rates. Discuss all changes and their directions. Draw the graph.
44. Explain expansionary fiscal policy for a country with floating exchange rate assuming a high responsiveness of capital. Draw the graphs and analyze the dynamic of changes.
45. Explain contractionary fiscal policy for a country with floating exchange rate assuming a low responsiveness of capital. Draw the graphs and analyze the dynamic of changes.
46. Discuss adverse international shocks for a country with floating exchange (adverse capital shock and trade shocks). Draw the graphs and analyze the dynamic of changes. Discuss the level of disruptiveness of domestic and international shocks both for a country with fixed rates and a country’s with a floating rate.