**İnternational Economics**

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. 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. 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?
6. 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.
7. “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?
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. 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.
15. 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?
16. 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?
17. 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?
18. 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?
19. 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?
20. “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.
21. 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?
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. 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.
26. 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
27. 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.
28. 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.
29. 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.
30. 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?
31. “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.
32. “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.
33. 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?