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**1006**

**International Economics – 75 Questions**

1. Explain three main misconceptions about the comparative advantage concept.

2. Explain what is Gravity model and why there are certain anomalies from the predicted

outcomes of it in the world trade. Problem solving: Gravity model.

3. What are the main incentives and impediments in front of world trade among the

countries? Also, argue about the relevance of simple and early trading models (for instance,

like Ricardian model) from the point of view of modern principles of international trade.

4. Explain what is Gravity model and what type of relationship it considers among the trading

countries. Then, explain this anomaly: despite being small and far from the USA, certain

countries like the Netherlands, Belgium and Denmark, hold big shares in trading with it while

they all belong to the single market in the EU and get a small share from unionwide trading.

What is the reason behind it? Problem solving: Gravity model.

5. Explain what is Gravity model and why there are certain anomalies from the predicted

outcomes of it in the world trade. Problem solving: Gravity model.

6. Problem solving: Ricardian model

7. Problem solving: Ricardian model

8. Problem solving: multigood model of Ricardian trade model.

9. Problem solving: multigood model of Ricardian trade model.

10. Problem solving: multigood model of Ricardian trade model.

11. Considering the Specific Factors and Income Distribution Model, explain mechanisms of

international labor mobility with the help of the graphical representation of the causes and

effects of international labor mobility. Describe how the balance of Marginal Product of

Labor changes as the result of this mobility.

12. Explain an equal-proportional increase in the prices and an increase in only one price of

any two given goods considering the Specific Factors and Income Distribution Model

drawing its graph.

13. Describe potential gains from trade for everyone considering the Specific Factors and

Income Distribution Model. However, it is also a very well-known fact that there are always

certain losers from international trade. Indicate a preliminary view related to the political

economy of trade.

14. Outline the general mechanics of skill-based technological change and income inequality

considering the two-factor Hecksher-Ohlin Model. Draw the separate figures of the effect of

trade and the effect of skilled-biased technological change on the relationship between

skilled-unskilled wage ratio and skilled-unskilled employment.

15. Read the following theoretical case: Imagine that there are just two goods: food and cloth

and Home country is involved to produce them. Under the Standard Trade Model, what kind

of change happens to the production possibilities frontier when the relative price of cloth

production increases? Draw its graph. Then, draw the graph of the relative supply curve of

the cloth industry and explain the consequences of the price increase as well.

16. Explain and draw the graph of the relationship among the production, consumption and

Trade in the Standard Trade Model. Consider the fact that, it is the second key relationship

which the model bases its essence.

17. Explain what are import tariffs and export subsidies. Then, by focusing on the import

tariffs aspect, draw the figure of the effects of a Food Tariff on the Terms of Trade.

18. Explain what are import tariffs and export subsidies. Then, by focusing on the export

subsidies aspect, draw the figure of the effects of a Cloth Subsidy on the Terms of Trade.

19. Outline Marshal’s 3 arguments about why a cluster of firms are more efficient than an

individual firm in isolation. Give some examples. Based on your explanation, define what are

internal economies of scale and external economies of scale. Lastly, give a numerical

example of the relationship among the output, the total labor input and average labor input.

20. Draw the graph which explains the relationship between external economies and market

equilibrium in the absence of international trade. Then, explain the pattern of trade between

any country and the world via figure (there is no need to compare two countries, just one

country is enough).

21. Sometimes having a comparative advantage in a form of lower AC curve and even

external economies of scale are not enough to trade. What is that specific additional

important factor when it comes to production and international trade? Draw its graph, as well

as, graphically represent external economies and losses from trade.

22. Outline what is biased growth and its reasons. Then explain and graphically represent

how biased growth impacts world relative supply and the terms of trade.

23. Explain the effects of economic integration in a form of winners and losers from it. Draw

its graphs.

24. What is the basic idea behind the export decisions with trade costs. Draw its graphs.

25. Briefly explain the following terms and questions:

- FDI (Horizontal and Vertical FDI decision) and why firms tend to operate in other

countries;

- Outsourcing and offshoring;

- Dumping and antidumping duties;

- Describe the consequences of multinational and foreign outsourcing.

26. Problem solving: deriving import demand curve

27. Problem solving: deriving export supply curve

28. Problem solving: deriving import demand curve

29. Problem solving: deriving export supply curve

30. Graphically analyze the theory behind the effects of a tariff for a small country using partial equilibrium analysis.

31. Problem solving: cost and benefit analysis of a tariff

32. Problem solving: cost and benefit analysis of a tariff

33. Problem solving: net welfare effects of a tariff

34. Problem solving: net welfare effects of a tariff

35. Problem solving: cost and benefit analysis of an export subsidy

36. Problem solving: cost and benefit analysis of an export subsidy

37. List and briefly explain what are the arguments that defend free trade among the theories of international economics.

38. Graphically analyze the argument against free trade named “the domestic market failure

argument for a tariff” and briefly indicate its convenience.

39. Outline the most important results of Uruguay round as a part of the recent international trade agreements.

40. Outline the concept of preferential trading agreements giving some examples.

41. Giving an example, argue about who gets protected as the result of political modelling of the international trade relations.

42. Summarize the arguments that favored and criticized Import-Substituting Industrialization as an international trade policy tool.

43.Write the main results of trade liberalization since 1985 and briefly outline the Asian takeoff.

44. What is Balance of Payments? Explain its main accounts and its fundamental identity.

45. Problem solving: exchange rates and asset returns (a simple rule)

46. Problem solving: exchange rates and asset returns (a simple rule)

47. Graphically analyze the theory behind the effects of a rise in the Dollar interest rate and Euro interest rate.

48. Briefly outline the relation between the current $/€ exchange rate and expected dollar return on Euro deposits drawing its graph. Then, graphically show the determination of the equilibrium $/€ exchange rate.

49. Explain the following terms: 1) spot and forward exchange rates; 2) vehicle currency 3) arbitrage; 4) futures and options.

50. Explain the following terms: 1) Risk and liquidity 2) Interest rate 3) Expected rate of the

appreciation of the currency 4) Interest parity condition.

51. Analyze equilibrium in the money market.

52. Briefly write about the relationship between interest rate and the money supply, as well as the connection between the output and the interest rate.

53. Analyze the money, the interest rate and the exchange rate concepts via the general equilibrium analysis

54. Briefly describe what is the aggregate money demand and its main components.

55. Analyze the supply of foreign exchange through the partial equilibrium analysis.

56. Outline the balance of payments approach of the exchange rate determination.

57. Outline the purchasing power parity approach of the exchange rate determination.

58. Outline the monetary and asset-markets approach of the exchange rate determination.

59. Outline the connection of the speculation and exchange market stability.

60. Analyze the relationship between capital flows and the balance of payments via the capital account curve for USA under the fixed exchange rate mechanisms.

61. Analyze the price adjustment mechanism of the balance of payments under the fixed exchange rate mechanisms.

62. Outline the income adjustments in a closed economy.

63. Write about the mechanisms of the income determination in an open economy.

64. Outline the monetary adjustments of the balance of payments and policy implications under the fixed exchange rate system.

65. Explain exchange rate stabilization and the concepts of devaluation and revaluation.

66. Explain the fixed exchange rate systems and par value.

67. Outline Bretton Woods System and The Smithsonian Agreement

68. Briefly write about when is devaluation is successful.

69. Outline the path of devaluation and J-curve effect.

70. Outline the devaluation: the absorption and monetary approaches

71. Explain the macroeconomic policy goals in an open economy.

72. Briefly write about the open-economy monetary trilemma.

73. Outline the international macroeconomic policy under the Gold Standard, 1870-1914.

74. What were the external balance problem of the United States under Bretton Woods.

75. What are the main four claims that the case for floating exchange rates rest?