

Write your name above, and then answer each of the 15 questions below, in the space provided. Points total 57.5; your total will be multiplied by 0.278 to yield your points (up to 16) toward the quarter's total of 100 points. You may take up to (but may not need) the full class time, 120 minutes.

1. [7.5 points] According to tables or figures in Dicken's Chapter 2, what countries have the largest:

	Agricultural products	Manufactured products ("Merchandise" for exports and imports)	Services
Production of: (3 countries each)			
Exports of: (1 country)			
Imports of: (1 country)			

2. [2 points] How do the data above illustrate any **one** of the following: (1) trade according to absolute advantage; (2) specialization and trade according to comparative advantage; (3) new trade theory?

3. [3 points] Describe the "old international division of labor" and the "new international division of labor." How do the data above illustrate *one* of these patterns?

U.S. National Income and Product Accounts, 1933-2009 (selected years)

Source: [U.S. Department of Commerce, Bureau of Economic Analysis](#)

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{X} - \text{M}$$

C = personal consumption expenditures, as a percent of GDP

I = private domestic investment, as a percent of GDP

G = expenditures and investment by Federal, state, and local governments, as a percent of GDP

X = exports as a percent of GDP

M = imports as a percent of GDP

Year	GDP (billions)	C	I	G	X	M
1933	\$ 56.2	82%	3%	15%	4%	3%
1945	223.2	54	5	42	3	3
1965	719.1	62	16	21	5	4
1973	1,382.6	62	18	21	7	7
1987	4,692.3	66	16	21	6	11
2000	9,817.0	69	18	18	11	15
2008	14,441.4	70	15	20	13	18
2009	14,256.3	71	11	21	11	14

- [1 point] Using the table above, in which year(s) did the US provide more capital investment abroad than foreign investors provided to the US?
- [1 point] Using the table above, in which year(s) did foreign investors provide more capital investment to the US than US investment abroad?
- [2 points] What's the difference between absolute advantage and comparative advantage?
- [9 points] Identify three key assumptions of neoclassical trade theory. For *each*, suggest reasons why it might not hold in a particular real-world situation, *and* at least one implication of the discrepancy between the assumption and reality.

Assumption 1:

Circumstances under which it might not hold:

Implication (of its not holding up) on the way we would use trade theory:

Assumption 2:

Circumstances under which it might not hold:

Implication (of its not holding up) on the way we would use trade theory:

Assumption 3:

Circumstances under which it might not hold:

Implication (of its not holding up) on the way we would use trade theory:

8. [2 points] How does the new trade theory modify the neoclassical model?

U.S. INTERNATIONAL TRANSACTIONS, 2009

(all figures in millions of current U.S. dollars)

Source: Bureau of Economic Analysis, *International Accounts Data, Balance of Payments Tables*; http://www.bea.gov/international/bp_web/ rev 6/17/09

1	Exports of goods, services, income	2,159,000
3	Goods	1,068,499
4	Services (travel, royalties, private services)	502,298
12	Income receipts (on U.S. assets abroad)	588,203
18	Imports of goods, services, income	-2,412,489
20	Goods	-1,575,443
21	Services (travel, transportation, royalties, private services, US defense expenditures abroad)	-370,262
29	Income payments (on foreign assets in U.S.)	-466,783
35	Unilateral transfers, net	-124,943
39	Capital account transactions, net	-140
40	U.S. assets abroad, net change	-140,465
51	US FDI abroad, net change	-268,680
55	Foreign assets in U.S., net change	305,736
64	FDI into the US, net change	134,707
70	Financial derivatives, net	50,804
71	Statistical discrepancy (sum of bold items above, with sign reversed)	162,497
	<i>Memoranda</i>	
72	Balance on goods = (3) + (20)	-506,944
73	Balance on services = (4) + (21)	132,036
74	Balance on goods and services = (71) + (72)	-374,908
77	Balance on current account = (1) + (18) + (35) = - [(39) + (40) + (55) + (70) + (71)]	-378,432

9. [7 points] In the table above, which row most directly contains:
- Chinese government purchases of US government bonds?
 - foreign sales of Boeing aircraft?
 - Microsoft's payments to subcontractors in India?
 - money sent home by Mexican workers in the US?
 - Starbucks' opening new company-owned stores in Canada?
 - tourist expenditures by US citizens traveling abroad?
 - Walmart's purchases of products made in China?
10. [1 point] In the table above, what was the size of net capital inflow into the US?

11. [7 points] Recall our “gains from trade” formulation $G_1 = (A_1/B_2)(C_2/C_1) - a_1/b_1$, where A and B represent world prices, C is currency, a and b represent the value of resources required for (i.e., costs of) production, and the numerals designate countries.

a) Interpret each of the three ratios on the right-hand side of the equation.

b) Explain why the right-hand side of the equation can be interpreted as the “gains from trade.”

c) Suggest long-term measures that Country 1 might take to maximize its gains from trade – suggest one measure from *each* of the three ratios.

12. [3 points] Identify three reasons why a country might restrict imports, despite the presence of gains from trade.

13. [3 points] Identify three *ways* in which a country might restrict imports: give the usual name for each way, and what it means.

14. [5 points] Name and define three levels of international economic integration. Which is exemplified by NAFTA? The EU?

15. [4 points] *If nothing else changes*, how should each of the following circumstances affect the international currency value of Country A? (Assume that Country A allows its currency to be freely traded.)

- a) financial crisis in Country 's largest trading partner
- b) persistent trade surplus in Country A
- c) rapid increase in the rate of inflation in Country A
- d) steep drop in interest rates in Country A

