Econ 340

Lecture 24

Review

Lecture 24 Outline

For each lecture:

- Outline
- Major questions
- Lists of
  - Terms
  - Acronyms (most are really Initialisms)
- Clicker questions
  - Especially on graphs

Lecture 1: Overview of the World Economy

Overview of the World Economy

- "Globalization"
- Elements of the World Economy
- Ways that Countries Interact
  - Trade
  - Capital Flows
  - Migration
- Policies that Affect Others
- Institutions

- What are the elements of the world economy?
- How have they changed?
- Who trades the most?
- Who trades with whom?

Lecture 1: Overview of the World Economy

- Terms
  - Globalization
  - Openness
  - Gross domestic product
  - Regional trade agreement
  - Capital flow
  - Shallow integration
  - Supply chain
  - Emerging market
  - Beggar they neighbor
  - Bretton Woods
- Acronyms
  - CIA
  - IMF
  - WTO
  - GATT
  - IBRD
  - FDI
  - RTA
  - NAFTA
  - SDR

Clicker Question

Where does the largest share of Michigan's imports come from?

a) Canada

b) China

✓ c) Mexico

d) European Union

Clicker Question

Compared to the 1940s, US tariffs today (as of 2017) are?

a) Higher
b) About the same, on average
c) Half as large
✓ d) Only about 1/10 as large
e) Gone

Lecture 2: Current Tensions in the International Economy

- NAFTA
- Brexit
- Trade War
  - Metals
  - China
  - Other?
- WTO
- Currencies

- What "tensions" do these refer to?
- What tariffs were levied?
  - On what?
  - On whom?
  - How big?
- What tariffs were threatened but not (yet) levied?

Lecture 2: Current Tensions in the International Economy

- Terms
  - Rules of origin
  - Brexit (& No Deal Brexit)
  - Hard border
  - Irish backstop
  - Trade war
  - Truce
  - National security
  - Developing country
  - Appellate body
  - Currency manipulation
  - Joint venture
  - Section 301
- Acronyms
  - NAFTA
  - ROOs
  - USMCA
  - EU
  - WTO

Clicker Question

What is a Rule of Origin?

a) A prohibition on employing illegal immigrants
b) A requirement for registering to vote
c) A restriction on who can invest in a country
✓ d) A specification of what qualifies for zero tariff
e) A law against exporting imitations

Clicker Question

What reason is given for Trump's tariffs on China?

a) That imports are hurting US producers
b) National security
✓ c) Unfair acquisition of intellectual property
d) Dumping
e) China's trade surplus

Clicker Question

What reason is given for Trump's threatened tariffs on cars?

a) That imports are hurting US producers
✓ b) National security
c) Unfair acquisition of intellectual property
d) Dumping
e) China's trade surplus

Lecture 3: Comparative Advantage and the Gains from Trade

- Why Countries Trade
  - Price Differences
  - Supply and Demand
  - Determinants of Prices
- Ricardian Model of Trade
  - Examples
  - Wages and Prices in the Ricardian Model
  - Lessons from the Ricardian Model
- Generality of the Gains from Trade
- Identifying Comparative Advantage
- Critiques of Comparative Advantage

- How do you define comparative advantage?
- How does Ricardian theory reassure a low-productivity country?
- How does Ricardian theory reassure a high-wage country?

Lecture 3: Comparative Advantage and the Gains from Trade

- Terms
  - Absolute advantage
  - Comparative advantage
  - Opportunity cost
  - Consumer surplus
  - Producer surplus
  - Productivity
  - Trade adjustment assistance
  - Autarky
  - Ricardian model
  - Protection
  - Mercantilism

Clicker Question

For the countries and technologies in the table below, which country has a comparative advantage in good X?

a) A
✓ b) B
c) Both
d) Neither

Labor per unit output		Country A	Country B
Good	X	2000	3000
	Y	10	20

$$\frac{2000}{10} = 200 > 150 = \frac{3000}{20}$$ Or $$\frac{2000}{3000} = 2/3 > 1/2 = \frac{10}{20}$$

Clicker Question

For the countries and technologies in the table below, which country has a comparative advantage in good X?

a) A
✓ b) B
c) Both
d) Neither

Output per unit labor		Country	
		A	B
Good	X	2.5 <	3.5
	Y	2000 >	1000

Don't need ratios here.
Each has an absolute advnatage.

Clicker Question

For the countries and technologies in the table below, which country has a comparative advantage in good X?

a) A
✓ b) B
c) Both
d) Neither

Output per unit labor		Country	
		A	B
Good	X	2.0	1.5
	Y	2000	1000

$$\frac{1.5}{2.0} = 0.75 > 0.5 = \frac{1000}{2000}$$

Lecture 4: Modern Theories and Additional Effects of Trade

- Sources of Comparative Advantage
- The Heckscher-Ohlin Model
  - Main Idea
  - Intuition
  - Does the Theory Work?
- Effects of Trade
  - Changes in Production
  - Factor Price Equalization
- The New Trade Theory
  - Assumptions
  - Implications
- The <u>New</u> New Trade Theory

- Why is comparative advantage a <u>double</u> comparison?
- How do these theories differ in their assumptions?
- How do they differ in their implications?

Lecture 4: Modern Theories and Additional Effects of Trade

- Terms
  - Scale economies
  - Factor of production
  - Factor intensity
  - Scarce factor
  - Heckscher-Ohlin Theorem
  - Stolper-Samuelson Theorem
  - Leontief Paradox
  - Imperfect competition
  - Product differentiation
- Terms
  - Intra-industry trade
  - Strategic trade policy
  - Heterogeneous firms
  - Increasing returns to scale
  - Intra-firm trade
  - Capital-intensive industry
- Acronyms
  - IIT

Clicker Question

In the Heckscher-Ohlin Model, what would cause a country to export the capital-intensive good?

a) The country is small
b) The country is large
c) The country has relatively little capital
✓ d) The country has relatively a lot of capital

This is the Heckscher – Ohlin Theorem

Clicker Question

If a country has relative little labor compared to other factors and it opens to trade, what will happen to the real wage in the Heckscher-Ohlin Model?

a) Rise

✓ b) Fall

c) Remain unchanged

d) It's not possible to tell

This is the Stolper – Samuelson Theorem

Lecture 5: Tariffs

- What Are They?
- Who Uses Them?
- Effects of Tariffs
  - Small Country Case
    - Effects on quantities and prices
    - Effects on economic welfare
  - Large Country Case
    - Effect on world price
    - Effect on welfare
  - Size of These Effects
- Addenda on Tariffs

- Who gains and who loses from a tariff?
- Be able to analyze all of these cases.

Lecture 5: Tariffs

- Terms
  - Ad valorem
  - Specific tariff
  - Chicken tax
  - Dead-weight loss
  - Large country case
  - Optimal tariff
  - Terms of trade
  - Partial equilibrium
  - Homogeneous product
  - Effective protection
  - Retaliation
- Acronyms
  - DWL
  - ERP

Clicker Question

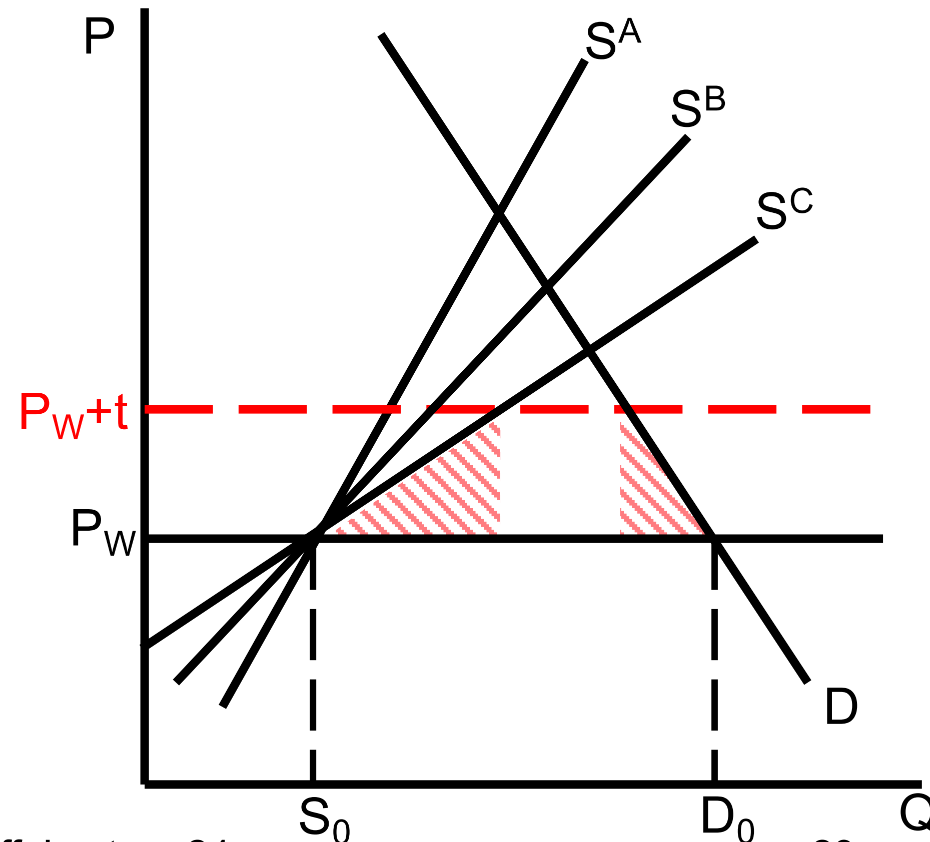
In the graph, initial price is P_W and quantities are S_0 and D_0. A tariff t is then applied to imports. For which supply curve is the dead-weight loss the largest?

a) S^A

b) S^B

✓ c) S^C

d) They are the same



Clicker Question

Same graph.

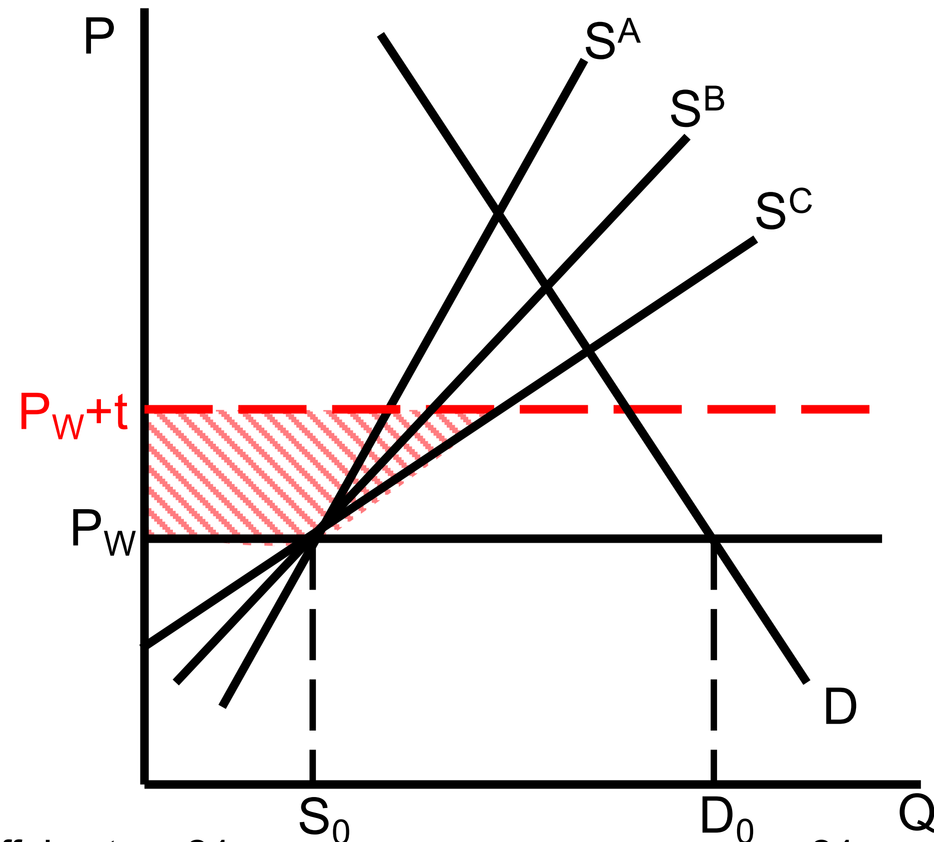
For which supply curve is the gain to suppliers the largest?

a) S^A

b) S^B

✓ c) S^C

d) They are the same



Clicker Question

Same graph.

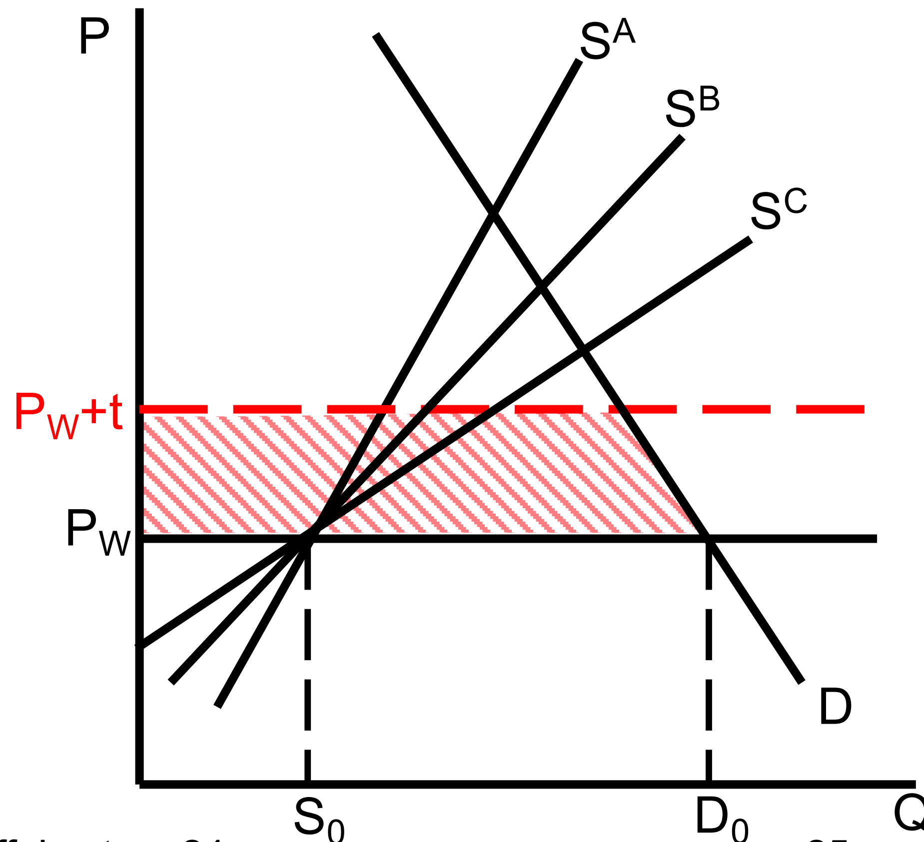
For which supply curve is the loss to demanders the largest?

a) S^A

b) S^B

c) S^C

✓ d) They are the same



Lecture 6: Nontariff Barriers

- What Are NTBs?
- Quotas
  - Effects Equivalent to Tariffs
  - Who Gets the Rents
- Other NTBs
  - Tariff-Rate Quotas
  - Voluntary Export Restraints (VERs)
  - Variable Levies
  - Government Procurement Regulations
  - Customs Procedures
  - Standards
  - Unfair Trade Laws
  - Export taxes
- Subsidies

- What are these?
- How are they like tariffs?
- How are they different?

Lecture 6: Nontariff Barriers

- Terms
  - Import quota
  - Quota rent
  - Tariff equivalent
  - Import license
  - Auction of quota
  - Rent seeking
  - Quality upgrading
  - Tariff-rate quota
  - Common Agricultural Policy
  - Buy American
  - Customs procedure
- Terms
  - Variable levy
  - Anti-dumping duty
  - Countervailing duty
  - Export tax
  - Subsidy
  - Procurement regulation
- Acronyms
  - NTB
  - NTM
  - TRQ
  - VER
  - CAP

Clicker Question

Suppose that imports of a good are limited by a binding quota. If the quota is now decreased in size, which of the following will fall?

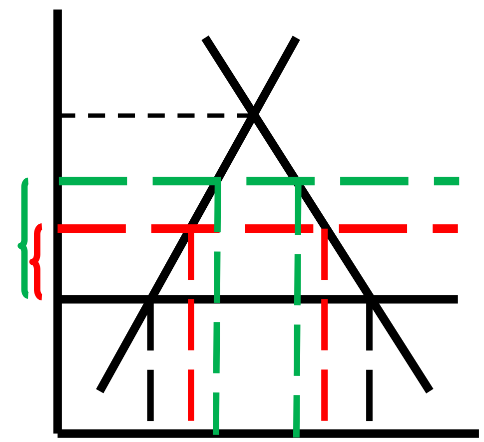
a) Domestic price

b) Quantity supplied domestically

✓ c) Quantity demanded domestically

d) Producer surplus

e) The tariff equivalent of the quota



Clicker Question

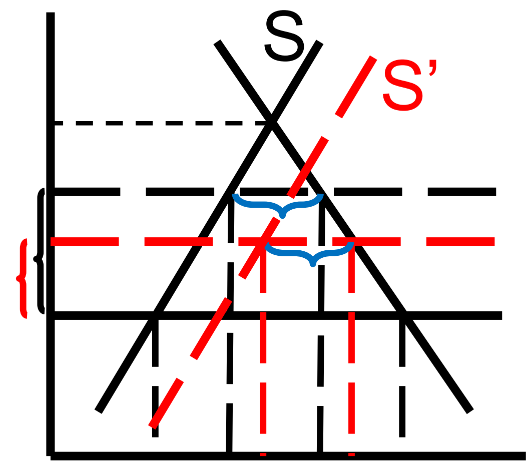
In the presence of a binding quota, which of the following will cause the tariff equivalent of the quota to fall?

a) A fall in the world price

b) A decrease in the size of the quota

c) A rightward shift of the domestic demand curve

✓ d) A rightward shift of the domestic supply curve



Lecture 7: Reasons for Protection

- Reasons that DO NOT Make Economic Sense
  - Pauper Labor
  - Fairness
  - Patriotism
  - Retaliation
- Reasons the DO Make Economic Sense, with Counter-Arguments
  - Revenue
  - Optimal Tariff
  - Infant Industry
  - National Security
  - Culture
  - Unfair Trade
  - Protect Favored Industry
  - Retaliation…
- Production Subsidy versus Tariff
- Why Aren't Tariffs Higher?

- What are these reasons?
- Are there counter-arguments for them?

Lecture 7: Reasons for Protection

- Terms
  - Pauper labor
  - Optimal tariff
  - Zero-sum game
  - Infant industry
  - National security
  - Retaliation
  - Protection for Sale
  - Second best
  - Economic sanction
  - Political economy
- Acronyms
  - GATT

Clicker Question

If another country taxes our exports, how does this change the benefit of our taxing imports from them?

✓ a) It doesn’t change it

b) It increases the benefit from our tax

c) It decreases the benefit from our tax

d) Whether the benefit from our tax rises or falls depends on whether our imports are greater or smaller than our exports

Clicker Question

Why is a tariff a "second best" way to raise revenue for the government?

a) A tariff, like any tax, distorts markets

✓ b) It could raise more revenue at less economic cost with another policy

c) The country would be better off with less revenue and a smaller government

d) An import quota, if auctioned off, would raise more revenue with the same reduction in imports

e) If the country is large, the tariff will reduce the world price

Lecture 8: US Trade Policies and Institutions

- Parts of the US Government that Handle Trade
- Main Features of US Trade Policies
  - Tariffs, Quotas, VERs
  - Escape Clause
  - Unfair Trade Laws
  - Trade Adjustment Assistance
  - Fast Track
  - GSP
- Dumping and Anti-Dumping
- Why the US Protects
- Trends in US Trade Policy

- What are these and what do they do?

- What are these?
- Do other countries have them too?

- What are dumping and anti-dumping ?

Lecture 8: US Trade Policies and Institutions

- Terms
  - Trade Commissioner
  - Ways and Means
  - Finance Committee
  - Columns 1 and 2
  - Trade restrictiveness index
  - Escape clause
  - Section 201
  - Unfair trade
  - Trade Adjustment Assistance
  - Predatory dumping
- Terms
  - Wage insurance
  - Fast Track
  - Dumping
  - Countervailing duty
  - Industrial policy
  - Standing
- Acronyms
  - METI
  - USTR
  - ITA
  - USITC
  - VER
  - TAA
  - ATAA
  - TPA
  - TPP
  - GSP
  - CVD
  - MFA

Clicker Question

If a US industry wants to get higher tariffs on imports, which of the following might allow it to get that?

a) The Anti-Dumping statute
b) The Escape Clause
c) The Countervailing Duty law
✓ d) All of the above
e) None of the above

Clicker Question

Which of the following is considered dumping?

a) The US sends used plastic to be recycled in China
b) The Chinese government keeps prices of raw materials low by taxing their export
c) Canada subsidizes the production of lumber for export
✓ d) A Japanese maker of cameras, protected by a tariff, sells them in the US for less than at home
e) A power plant in Germany releases industrial waste into the Rhine River, which flows into the Netherlands

Lecture 9: World Trade Arrangements and the WTO

- International Organizations
- World Trade Organization
  - History, as GATT
  - GATT Rounds
  - WTO Today
  - Functions
- Current Issues
  - Seattle Protests and Beyond
  - Doha Round
  - Disputes
  - Other Issues
- WTO Critiques

- What does the WTO do?
- How successful has it been?

Lecture 9: World Trade Arrangements and the WTO

- Terms
  - Smoot-Hawley Tariff
  - Ministerial meeting
  - Rounds (Kennedy, Tokyo, Uruguay, Doha)
  - Swiss Formula
  - National treatment
  - Consensus
  - Dispute settlement
  - Tariff binding
  - Panel
  - Appellate Body
- Terms
  - Plurilateral agreement
  - Market-economy status
  - Shrimp-turtle dispute
  - Principal supplier and demander
  - World Bank
  - Trade facilitation
- Acronyms
  - GATT
  - WTO
  - OECD
  - EU
  - NAFTA
  - USMCA
  - UNCTAD
  - ILO
  - WIPO
  - NGO
  - ITO
  - GATS
  - TRIPs
  - MFN

Clicker Question

What is a tariff binding?

a) A tax on imports of adhesives
✓ b) A commitment not to raise a tariff above some maximum
c) A commitment not to lower a tariff below some minimum
d) A promise by two countries to reduce tariffs on each others' exports
e) The WTO rule that countries must not charge higher tariffs on some members than on others

Clicker Question

Why does China want to be treated as a market economy?

a) This would make it exempt from other countries' tariffs
b) It's a matter of national pride, as this was an objective of Chairman Mao
c) Market-economy status would allow it to subsidize exports
✓ d) Market-economy status would lead to smaller anti-dumping duties against it
e) International banks refuse to lend to firms in a non-market economy

Lecture 10: Migration

- Why People Migrate
- Why Wages Differ across Countries
- Effects of Migration
  - On Payments to Factors
    - Labor
    - Other
  - Other Effects
- Policies to Affect Migration
- Facts about Migration

- How is migration like trade?
- How is it not like trade?

Lecture 10: Migration

- Terms
  - Intangible wealth
  - Infrastructure
  - Property rights
  - Remittances
  - Population pyramid
  - Guest worker
  - South-south migration
  - Brain drain
  - Demand-pull vs. supply-push

Clicker Question

In the graph below, showing migration from Mexico to the U.S., which area shows the gain to Mexican workers who don't migrate?

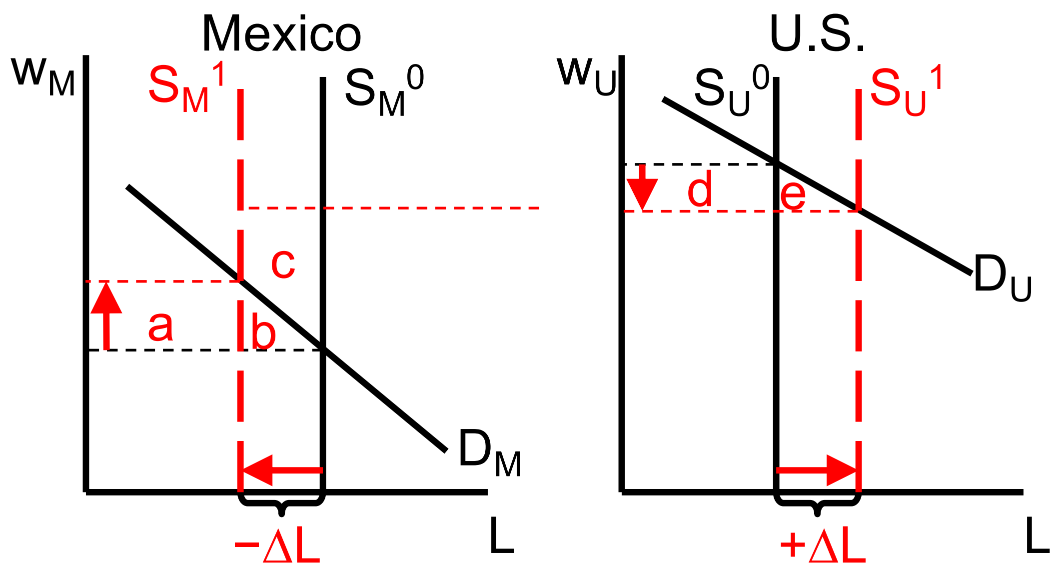
✓ a) a

b) b

c) c

d) d

e) e



Clicker Question

Same graph. Which areas show the gain to US factors other than labor?

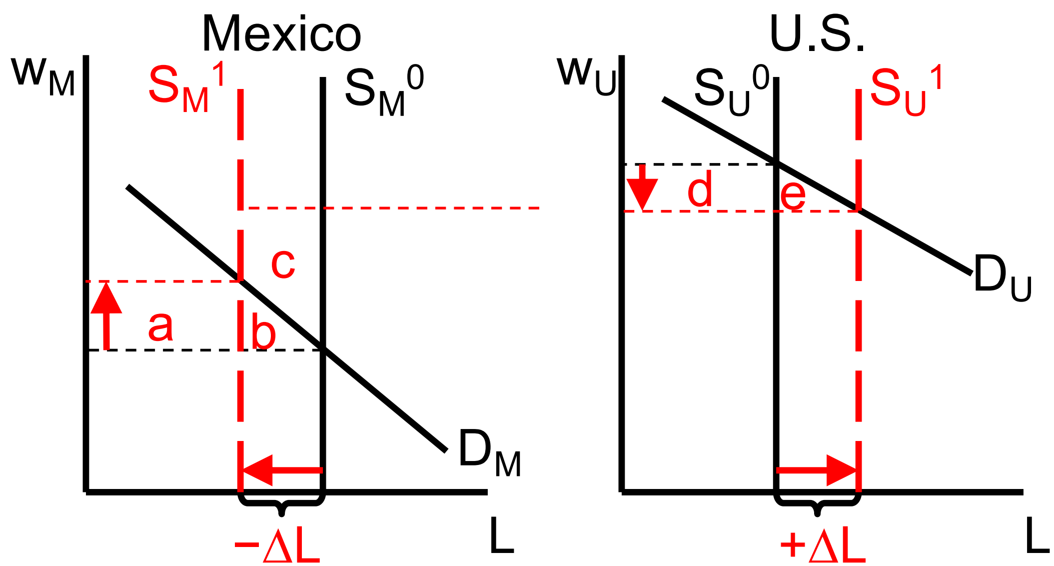
a) a+b

b) b+c

c) c+d

✓ d) d+e

e) e+a



Lecture 11: Multinationals and International Capital Movements

- Terminology
  - FDI, DFI, MNEs, MNCs
  - Real Versus Financial Capital
- History
- Purposes Served by FDI
  - Local Market versus Export
  - Reasons for FDI
- Who Gains and Who Loses?
  - Effects that are Similar to Trade
  - Effects that are Similar to Migration
  - Other Effects

- How is FDI like trade?
- How is it not like trade?
- How is FDI like migration?
- How is it not like migration?
- Who are mostly sources?
- Who are mostly hosts?

Lecture 11: Multinationals and International Capital Movements

- Terms
  - Foreign direct investment
  - Capital flow
  - Source country
  - Host country
  - Export platform
  - Tariff jumping
  - Transplants
- Acronyms
  - DFI
  - FDI
  - MNE
  - MNC
  - TNC
  - MOFA *=Majority-owned foreign affiliate*

Clicker Question

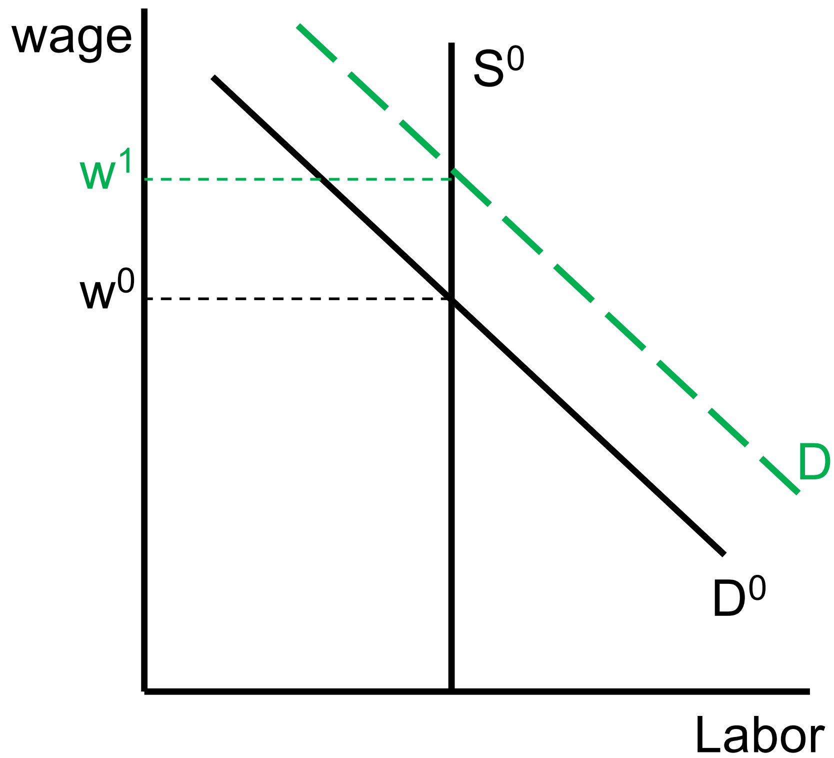
The diagram shows supply and demand for labor in a country. Which of these curves will shift, and in which direction, if there is FDI into the country?

a) Supply shifts right

b) Supply shifts left

✓ c) Demand shifts right

d) Demand shifts left



Lecture 12: The Balance of Trade and International Transactions

- What Is the Balance of Trade?
- What the Balance of Trade Does **Not** Mean
- International Transactions
  - Current Account
  - Financial Account
- What the Balance of Trade **Does** Mean
  - From Balance of Payments Accounting
  - From National Income Accounting

- How do transactions enter the accounts?
- What does a deficit really mean?

Lecture 12: The Balance of Trade and International Transactions

- Terms
  - Trade balance
  - Current account
  - Financial Account
  - Transfer payments
  - Credits
  - Debits
  - Primary income
  - Secondary income
  - Statistical discrepancy
  - Recession
- Terms
  - Investment position
  - Plaza Accord
  - Official reserve assets
  - Odious debt

Clicker Question

Which of the following transactions would appear as a debit in the financial account of the US balance of payments?

a)	A German imports a Ford from the US	Current; credit
b)	An American takes out a loan from a Canadian bank	Financial; credit
c)	An American philanthropist gives money to refugees in Greece	Current; debit
d)	A US corporation pays dividends to a British shareholder	Current; debit
✓ e)	An American buys stock in the Japanese company, Toyota	Financial; debit

Clicker Question

If our Financial Account is in surplus, that means that

a) The trade balance is positive

b) We are lending more than we are borrowing

c) The US is adding to its holding of assets abroad

d) The rest of the world is giving us money

✓ e) Our net debt to the world is rising

Lecture 13: Exchange Rates

- In What Forms Are Exchange Rates Reported?
  - Bilateral Nominal Rates
  - Multilateral (Trade-Weighted) Rates
  - Real Rates
  - Forward Rates
- What Determines Exchange Rates?
  - Markets
  - Governments/Central Banks
- Theories of Exchange Rates
  - Purchasing Power Parity
  - Asset Theory
  - Supply and Demand Model

- In what forms are exchange rates reported?
- How are they determined?
  - Three theories

Lecture 13: Exchange Rates

- Terms
  - Bilateral rate
  - Multilateral rate
  - Real exchange rate
  - Forward rate
  - Overvalued/undervalued
  - Big Mac Index
  - Appreciate/depreciate
  - Arbitrage
  - Law of one price
  - Dirty float
  - Devaluation

Clicker Question

Which of the following would cause the Mexican peso to depreciate?

a) A US tariff on Mexican exports
b) A decrease in remittances from US to Mexico by immigrants from Mexico
c) A rise in the US interest rate
✓ d) All of the above
e) None of the above

Lecture 14: Pegging the Exchange Rate

- How It's Done
  - Market Intervention
  - Bands of Fluctuation
  - Hybrids of Pegged and Floating
  - The Gold Standard
- Who Pegs?
- Mechanics of Intervention
  - Reserves
  - Money Supply
  - Sterilization
- Effects of Pegging
- Chinese Currency Manipulation

- How are exchange rates pegged?
- What, why, and how is sterilization?

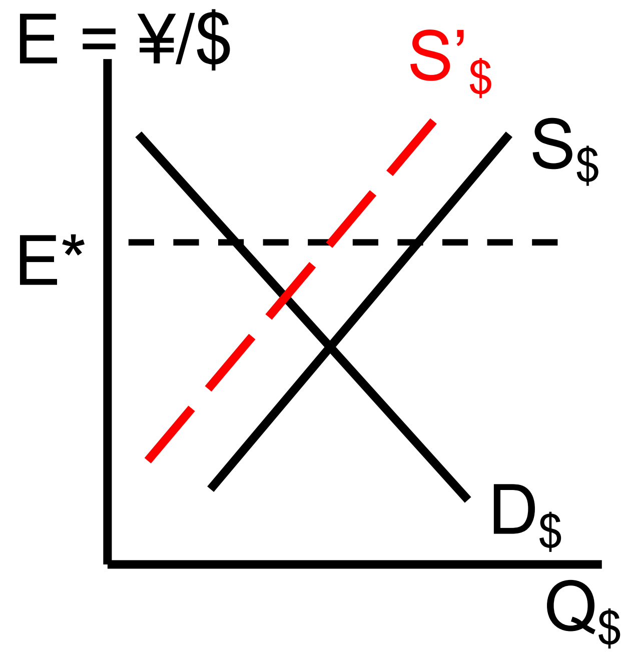
Lecture 14: Pegging the Exchange Rate

- Terms
  - Pegging
  - Intervention
  - Par value
  - Managed float
  - Leaning against the wind
  - Crawling peg
  - Gold standard
  - International reserves
  - Sterilization
  - Overvalued/undervalued
- Terms
  - Exchange-rate crisis
  - Currency manipulation
  - Dollarization

Clicker Question

In the graph, China is pegging its currency, ¥, to the dollar, $, at the rate E*. The supply curve for foreign exchange shifts left, as shown. What could have caused this?

a) Capital inflow into China
b) Expectation of ¥ appreciation
✓ c) Reduced Chinese exports
d) Chinese currency manipulation
e) Increased interest paid on Chinese assets abroad



Clicker Question

Same graph and situation, and China's Central Bank, CB, is sterilizing. What happens?

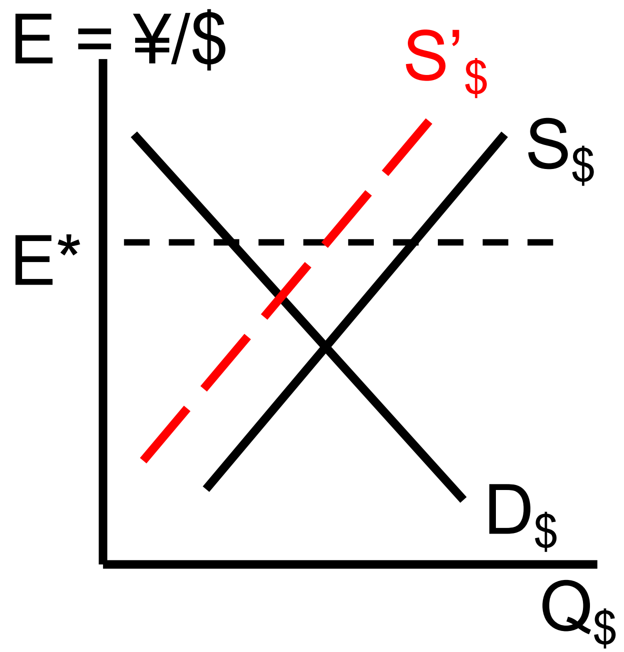
a) CB increases its purchases of dollars

b) CB decreases its sales of dollars

c) CB increases its purchases of bonds

✓ d) CB decreases its sales of bonds

e) CB does nothing, as exchange rate does not change



To maintain the peg, CB must buy \$. To sterilize it must therefore sell bonds. Shift of $S_\$$ causes it to do less of each.

Lecture 15: International Macroeconomics

- Recall Macro from Econ 102
  - Aggregate Supply and Demand
  - Policies
- Effects ON the Exchange Market
  - Expansion
  - Interest Rate
- Effects OF the Exchange Market
  - Depreciation effects via Trade
  - Depreciation effects via Net Wealth
- Effects THOUGH the Exchange Market

- How do macro policies affect exchange rate?
- How do exchange rate changes affect macro economy?
- How do macro changes in one country affect others?

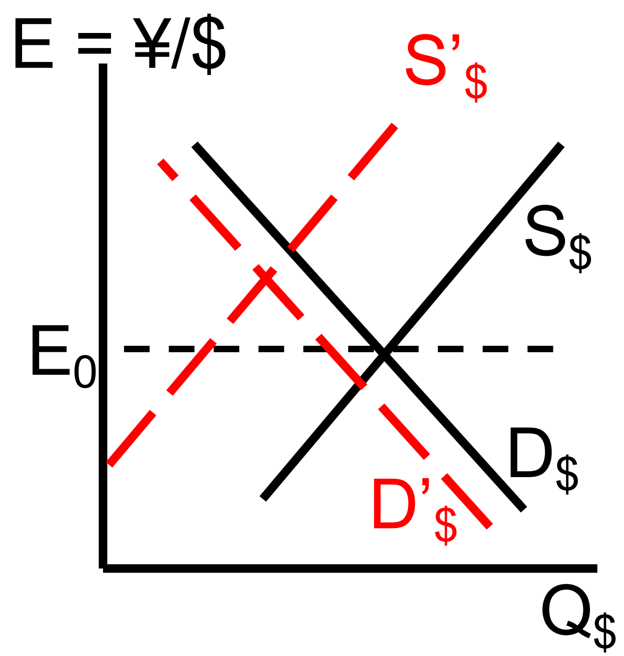
Lecture 15: International Macroeconomics

- Terms
  - Aggregate supply
  - Aggregate demand
  - Natural rate of output
  - Monetary expansions/contraction
  - Non-monetary expansion/contraction
  - Fiscal policy
  - Trade effect of depreciation
  - Wealth effect of depreciation
  - Pass-through
- Acronyms
  - LRAS
  - SRAS
  - AD

Clicker Question

In the graph, China's currency is floating. Which of the following macro changes by China would cause the curves to shift as shown?

a) Monetary expansion
b) Non-monetary expansion
c) Monetary contraction
✓ d) Non-monetary contraction
e) Currency appreciation



Opposite of the non-monetary expansion shown in class. Contraction causes income and imports to fall, reducing $D_{\$}$. Fiscal contraction reduces interest rate, reducing capital inflow and $S_{\$}$.

Lecture 16: Currency Manipulation and Currency Wars

- Currency Manipulation
  - What it is
  - Chinese currency manipulation
  - Other currency manipulation
- Currency Wars
  - History
  - Currency war today?
  - Currency war effects

- How is currency manipulation identified?
- When has, and has not, China manipulated its currency?
- What happens in a currency war?

Lecture 16: Currency Manipulation and Currency Wars

- Terms
  - Currency manipulation
  - One-sided intervention
  - Current account surplus
  - Reserves
  - Renminbi
  - Yuan
  - Watch list
  - Stimulus
  - Currency war
  - Gold standard
- Terms
  - Silver Purchase Act
  - Nixon Shock
  - Plaza Accord
  - Great Recession
  - Flight to safety
- Acronyms
  - ECB

Clicker Question

Which of the following is <u>not</u> required for a country to be named a currency manipulator by the US Treasury Department?

a) It conducts substantial trade with the US
b) It has a bilateral trade surplus with the US
✓ c) It holds large amounts of US dollar assets
d) It has a current account surplus
e) It repeatedly purchases foreign exchange

Clicker Question

When has the dollar value of the Chinese currency fallen over time at the same time that China was adding to its reserves?

a) 2000-2005
b) 2005-2008
c) 2008-2014
d) 20014-2019
✓ e) Never (within 2000-2019)

Clicker Question

What harm will it do if all countries depreciate their currencies by, say 20%?

a) Countries will cease to import

b) Consumers will prefer domestic products

c) World wealth will fall by 20%

d) Stock markets will crash

✓ e) No harm.

Lecture 17: European Monetary Unification and the Euro

- What Is It?
- History of the EMU
- Need for Convergence
- Pros and Cons of Unification
  - Why Adjustment Is Hard
  - Winners and Losers under EMU
- What Happened?
- The Eurozone Crisis

- When was the euro created, and for whom?
- What is needed for the single currency to work?
- What initiated and what terminated the eurozone crisis?

Lecture 17: European Monetary Unification and the Euro

- Terms
  - Eurozone
  - Snake in the tunnel and floating snake
  - Maastricht Treaty
  - Convergence
  - Fiscal restraint
  - Asymmetric shock
  - Parity
  - Quantitative easing
  - Troika
- Terms
  - Spread
  - Banking union
  - Haircut
  - Bail-in
  - Doom loop
  - Perverse loop
  - Sudden stop
- Acronyms
  - ECB
  - EMU
  - EMS
  - ERM
  - ECU
  - CPI
  - SGP
  - PIGS
  - PIIGS
  - EZ
  - PSI

Clicker Question

Which of the following was not one of the Maastricht Convergence Criteria?

a) Budget deficit < 3% of GDP
b) Government debt < 60% of GDP
c) Inflation < 1.5% above average of lowest 3
✓ d) Growth rate of per capita GDP above 1%
e) Long-term interest rates < 2% above average of lowest 3

Clicker Question

Which of the following is **<u>not</u>** a reason why adjustment in the euro zone is difficult?

a) No mechanism for fiscal transfers
b) Countries cannot individually depreciate their currencies
c) Countries are constrained from using fiscal expansion
d) Labor market policies impede wage adjustment
✓ e) Labor is too mobile among countries

Lecture 18: Preferential Trading Arrangements and the NAFTA

- What Are PTAs?
- Examples
  - European Union (EU)
  - North American Free Trade Agreement (NAFTA)
- Effects of PTAs
  - Not the Same as Free Trade
    - Trade Creation
    - Trade Diversion
  - Market Diagram Illustration
- NAFTA
  - History
  - Analysis
  - What Happened?
- NAFTA Renegotiation and USMCA

- What and where are PTAs?
- What is trade diversion, and how does it hurt?
- What happened with NAFTA?
- How does USMCA differ from NAFTA?

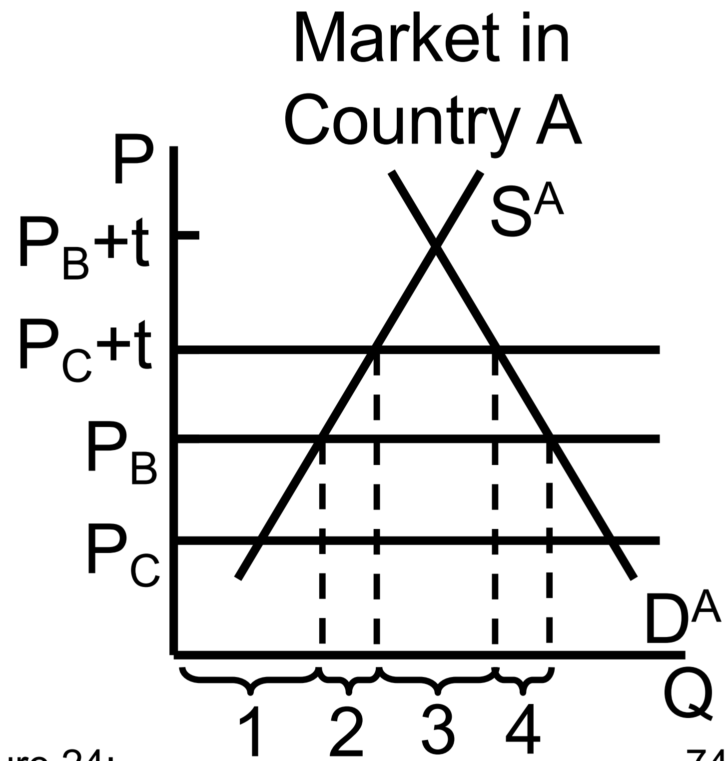
Lecture 18: Preferential Trading Arrangements and the NAFTA

- Terms
  - Free trade area
  - Customs union
  - Common market
  - Anti-dumping duty
  - Countervailing duty
  - Rules of origin
  - Mercosur
  - Trade creation
  - Trade diversion
  - Chapters 11 and 19
  - Sunset clause
- Acronyms
  - PTA
  - FTA
  - RTA
  - GSP
  - GATT
  - MFN
  - ROO
  - EEC
  - CAFTA
  - TPP
- Acronyms
  - NAFTA
  - ISDS
  - USMCA
  - BIT

Clicker Question

In the graph, country A initially levies tariff t on both countries B and C. Then it forms a FTA with only country B. Using the numbered quantities at the bottom, how much is trade diversion?

a) 1
b) 2
✓ c) 3
d) 4
e) 2+4



The amount 3 was imported from C before the FTA and is imported from B after. Trade creation is 2+4.

Clicker Question

Same graph and situation. Using the areas labeled with letters, what is the net welfare effect on country A?

a) +a+b+c+d

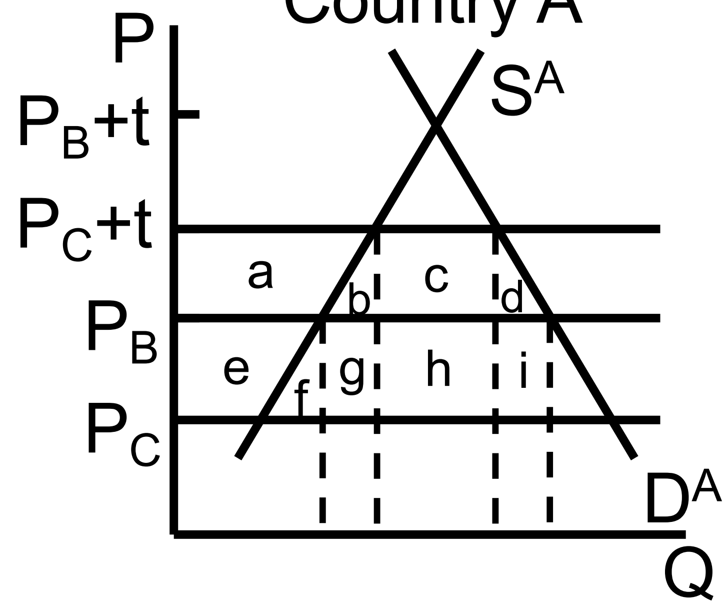
b) +b+d

c) –b–c–d+h

✓ d) +b+d–h

e) +(b+c+d)–(g+h+i)

Market in Country A



Price falls from P_C+t to P_B

Demanders gain +(a+b+c+d)

Suppliers lose –a

Gov't loses –(c+h)

Lecture 19: International Policies for Economic Development: Trade

- The Main Issues of Development
- The Washington Consensus
- Special Problems of Developing Countries
- Pros and Cons of Tariffs Used by Developing Countries
  - The Infant Industry Argument
  - Primary-Product Specialization
  - Growth and Exports / Import Substitution
- Pros and Cons of Subsidies Used by Developed Countries
- Policy Recommendations

- What policies are recommended for developing countries?
- Are these different than for developed countries, and why?
- How should developed countries behave differently?

Lecture 19: International Policies for Economic Development: Trade

- Terms
  - Washington Consensus
  - Copenhagen Consensus
  - Fiscal discipline
  - Tax reform
  - Privatization
  - Third world
  - Human capital
  - Economic freedoms
  - Intangible capital
  - Infant industry
  - Second best
- Terms
  - Primary product
  - Terms of trade
  - Import substitution
  - Export promotion
  - Four Tigers
  - Subsidy
  - Demographic transition
- Acronyms
  - LDC
  - LIC
  - MIC
  - HIC
  - GSP
  - METI

Clicker Question

What was the message of the graph below?

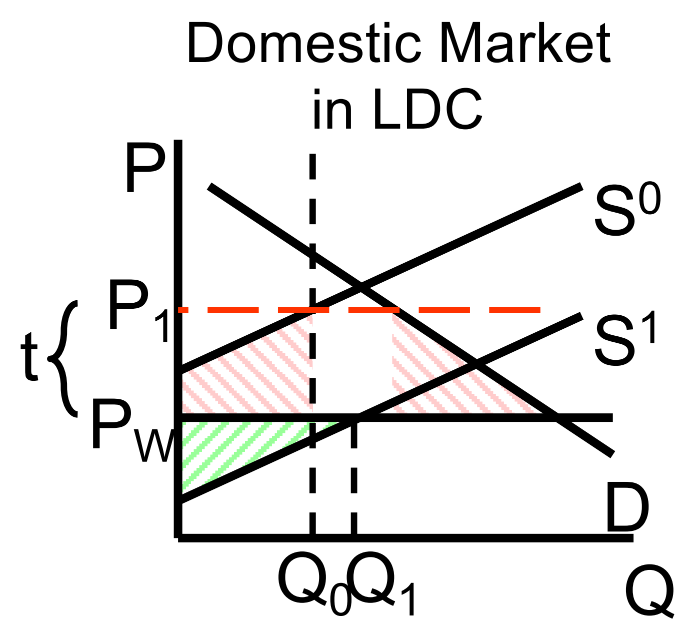
✓ a) If there is learning by doing, a temporary tariff can be beneficial

b) A temporary tariff causes greater harm in the short run than benefit in the long run

c) A tariff on imports is harmful

d) A tariff shifts the supply curve upward

e) A tariff shifts the supply curve downward



Lecture 20: International Policies for Economic Development: Financial

- The Issues
- Choice of Exchange Rate Regime
- Pros and Cons of Free Capital Movements
  - Debt Problem of the 1980s
  - The Asian Crisis of 1997
  - Capital Controls
- (How) Should Others Help?
- The World Financial Crisis and Developing Countries

- Are floating exchange rates worse for developing countries?
- Why should, or should not, developing countries restrict capital flows?
- Are bailouts and debt forgiveness good for developing countries?

Lecture 20: International Policies for Economic Development: Financial

- Terms
  - Bailout
  - Debt forgiveness
  - Exchange-rate anchor
  - Leverage
  - Currency risk
  - Liquid capital
  - Latin American debt problems
  - Petrodollars
  - Loan rescheduling
  - Lost decade
- Terms
  - Asian Crisis
  - Speculative attack
  - Capital controls
  - Contagion
  - Moral hazard
  - Technical assistance
  - Economic populism
- Acronyms
  - OPEC
  - HIPC

Clicker Question

What role did oil play in the contributing to the debt problems of developing countries in the 1980s?

a) They had to borrow in order to afford the oil they needed
b) Oil contributed to global warming, which reduced their incomes
c) Profits from oil were lent through rich country banks to governments of developing countries
d) Borrowers in the private sector used oil as collateral for loans
e) The drop in the price of oil impoverished many developing-country oil producers

Lecture 21: International Policies for Economic Development: Aid

- Why Should We Care?
- Who Gives Aid?
- Does Aid Work?
- Pros and Cons of Aid
- Policy Recommendations
- Where We Stand in Development

- Who gives aid?
- Does aid help growth?
- Does aid reduce poverty?
- How can aid be made more effective?
- What are/were the MDGs and SDGs?

Lecture 21: International Policies for Economic Development: Aid

- Terms
  - Live Aid / Live 8
  - Private aid
  - Connectivity
  - Triple transformation
  - Scalability
  - Accountability
  - Tied aid
  - Food aid
  - Doing Business
- Acronyms
  - USAID
  - ODA
  - DAC
  - CIAO
  - MCA
  - MDG
  - SDG

Clicker Question

According to the Economist article, “Size Matters,” which of the following types of countries tend to get the most aid per capita?

a) Countries with large populations
b) Countries with small populations
c) Poor countries
d) Countries with few natural resources
e) Countries with good governance

Lecture 22: Outsourcing and Offshoring

- Definitions of OS
- Causes of OS
- Effects of OS
- Facts about OS
- Policies

- What are the causes and effects of offshoring?
- Is offshoring expected to increase or decrease over time?

Lecture 22: Outsourcing and Offshoring

- Terms
  - Offshoring
  - Outsourcing
  - Offshorable vs. not offshorable
  - Made in the world
  - Logistics
  - Reshoring
  - Adjustment assistance

Clicker Question

Why might one expect offshoring to increase profits relative to wages?

a) Offshoring permits sellers to increase the markup of price over cost.
b) Governments of countries that attract offshoring provide subsidies to firms.
c) Employers can threaten to move abroad when negotiating with workers.
d) Companies that offshore become monopolies.
e) Offshoring reduces wages in developing countries.

Lecture 23: Environment, Labor Standards, and Trade

- The Issues
- Environment
  - Examples
  - Policies
  - International Problems
  - Role of the WTO
- Labor Standards
  - Fundamental ILO Conventions
  - United States Role
  - Issues

- What environmental problems are related to trade?
- Why might trade and the WTO be harmful for environmental and labor standards?
- Does the US support strong labor standards?

Lecture 23: Environment, Labor Standards, and Trade

- Terms
  - Externality
  - Maquiladoras
  - Tuna-dolphin
  - Shrimp-turtle
  - Cap and trade
  - Optimal externality
  - Montreal Protocol
  - Pollution tax
  - Pollution haven
  - Race to the bottom
- Terms
  - Harmonization
  - Fundamental labor standard
  - Income elastic
  - Carbon tariff
  - Carbon leakage
  - ILO Conventions
- Acronyms
  - NAFTA
  - TPP
  - USMCA
  - CFC
  - ILO
  - MNE
  - NGO
  - WTO
  - TRIPs
  - FTA

Clicker Question

Which of the following might the graph below represent?

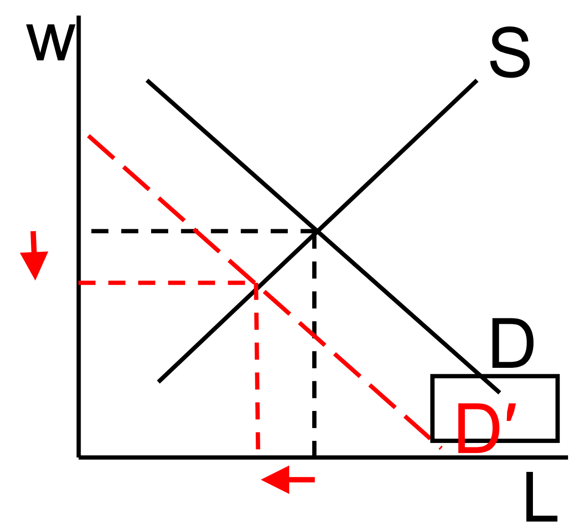
a) A minimum wage

b) An incentive for more workers to seek jobs

✓ c) A rise in employers' the cost of making the workplace safe

d) Union negotiation of a wage agreement

e) Migration of workers out of the country



- Hans Rosling's 200 Countries, 200 Years, 4 Minutes - The Joy of Stats - BBC Four