Office Hours

Jen Hardy  December 12, 8 – 10 PM, location TBA
Pramod Singh Khadka  December 15, 2 – 4 PM, location TBA
Prof Rogers  ICC 577:  Tuesday, December 13, 10 am – noon and 2 pm – 4 pm.  Friday, December 16, 10 am – noon and 2 pm – 4 pm.  No appointments.

Exam Rules (same as for the mid-term)

1. Please bring a calculator with you to the exam.

2. Use pen only, except for graphs, where pencil is ok.  Think about your answer before you write it down.

3. All answers must appear in the spaces provided.  Answers written outside of the spaces will not be read or graded, except in one circumstance:  if you cross out your original answer and don’t have any space to write your new answer, then you may write your answer on the back of the page.  You nevertheless will still be limited to the amount of space provided in the exam.

This is another good reason for you to think about your answer before you write it down.

4. Please make every effort to write legibly.  If I can’t make out what you wrote, you won’t get credit for it (not even if you stop by and decipher it for me later on).

5. When a follow-up question is given after a multiple choice question, you must answer the follow-up correctly to get any credit for answering the question.

6. When a space is provided that indicates that a calculation is required, you must show the correct calculation in the space in order to get any credit for answering the question.

Exam Coverage/Format

Approximately 42% will cover pre-mid-term material, 58% will cover post-mid-term material.

Expect the format to be similar to that of the mid-term exam.
All syllabus readings are fair game for the exam. I design my lectures around the topics I think are the most important. Naturally, I design my exams around these topics as well. Since time is limited, you should focus first on your lecture notes and on quizzes. After that, you can turn your attention to the textbook. Topics that got a lot of coverage in lecture will get a lot of coverage on the exam. Approximate point totals per unit are listed after unit titles in the checklist below.

It goes without saying that any questions or topics that have appeared on quizzes or on the mid-term exam are fair game for the final exam. **Important Note:** questions from the mid-term exam that were missed by a large number of students are very likely to reappear (albeit in another form) on the final exam. Which questions are these? You should assume that if you got questions wrong, then other students did, too. Pay particular attention to these questions, and make sure you understand the answers as you prepare for the final exam.

### Checklist

Total points may add up to more than 100, because some questions cover more than one topic. For example, there is considerable overlap between the topic of Economies of Scale and the topic of Trade and Economic Development (question for you: what is the overlap?).

#### The Ricardian Model (8 points)

- □ If you see a Table listing unit labor requirements or marginal products of labor, can you
  - □ Determine which country has the absolute advantage in an industry?
  - □ Determine which country has the comparative advantage in an industry?
  - □ Explain under what circumstances the RD curve might intersect the RS curve in any one of the three RS segments?
  - □ Convert unit labor requirements into marginal products, and vice versa?

#### The Standard Trade Model, Part I, and the Heckscher-Ohlin Model (26 points)

It was not possible to separate these topics for the final exam.

- □ What are three differences between countries that can be a basis for trade?
Do you know how to use graphs to show how countries gain from trade with bowed-out pffs? Can you use graphs to identify imports and exports? Equilibrium with free trade and under autarky?

Do you understand (you should be able to define each item, and also explain the underlying reasoning behind the effect or theorem):
- The Heckscher-Ohlin Theorem?
- The Stolper-Samuelson Theorem?
- The Magnification Effect?
- The Rybczynski Theorem?
- Factor Price Equalization?

Do you know the definitions of factor abundance and factor intensity, and can you apply them in a numerical example?

Do you know how to use the RS and RD curves to show world trade equilibrium?

What is the Leontief paradox? Can you list and explain four different explanations for the Leontief paradox?

**The Standard Trade Model, Part II** (6 points)

- Can you explain (in words and with graphs) why countries gain from trade, even when there are losers from trade?

- Can you explain (in words and with graphs) what kinds of growth will cause a country’s relative export price to rise or fall?

- Can you explain (in words and with graphs) the “transfer problem:” i.e., taste bias causes a donor country’s terms of trade to deteriorate?

**Trade and American Workers** (4 points)

- Why is it hard to determine whether trade costs American workers jobs?

- What have economists found about the size of the effects of trade on the labor market? What are factor content studies?

- What is offshoring? Based on currently-available data, is offshoring responsible for the slow post-recession job growth in the US since 2001?

- What point does Catherine Mann make about globalization of the IT industry
Trade with Scale Economies (12 points)

☐ What is Intra-Industry Trade? How is it measured and how important is it?

☐ What are Internal Economies of scale?

☐ Do you know how to draw the graph that shows the equilibrium number of varieties of differentiated products? What is this graph useful for? What does it fail to show?

☐ Do you know how to draw the graph that shows the autarky and trade equilibria when there are external economies of scale? What is this graph useful for? What does it fail to show?

☐ What are External economies of scale? What are the three reasons why they occur?

☐ Who are the likely winners and losers from trade based on internal economies of scale?

☐ Who are the likely winners and losers from trade based on external economies of scale? Can trade make a country worse off? When and how?

☐ How are external economies of scale related to the Infant Industry argument (later)?

Toolkit/Tools of Trade Policy (20 points)

There will be a question that asks you to identify the welfare effects of a trade policy (the likes of which you have not seen before) on a graph. When you see this question on the exam, **DO NOT PANIC**. Figure out the “old price” (before the trade policy) and the “new price” (after the trade policy). Then figure out what happens to Consumer Surplus and to Producer Surplus. Finally, figure out whether there is positive government revenue or negative government revenue (in the latter case, the government has to pay for the policy). Add up the gains and subtract the costs to determine the net welfare effect.

☐ Do you know how to derive (graphically) the Import Demand and Export Supply Curves?

☐ Can you use this framework to show that countries gain from trade (compared to autarky)?

☐ For each of the following trade policies, can you explain (using graphs and in words) how the policy affects producers, consumers, and the government, both in the (large) country that imposes the policy and in its (large) trading partner?

   ☐ Tariff

   ☐ Export Subsidy
For each of these policies, can you explain why the world as a whole is worse off when there is government interference with free trade? Can you show the World’s net loss on a graph?

Can you show the effects of these policies in a “small” country?

Can you list and explain five differences between quotas and tariffs?

Do you know the definition of Domestic Content Requirements, Rules of Origin, Procurement Standards, Countervailing Duty, Cost-Based Dumping, Price-Based Dumping?

Can you explain why Anti-Dumping investigations are sometimes regarded as a restraint of free trade?

Do you know how anti-dumping cases are prosecuted in the United States (which agencies are involved)? What is the name of the law that lays down the framework for anti-dumping prosecutions?

**International Political Economy** (20 points)

Can you list and explain five commonly-given rationales for imposing trade protection?

Can you explain the flaws in each of these rationales?

As regards the “externality” rationale: can you think of trade policies that would encourage or discourage consumption (encourage or discourage production) of a good? Do you understand why non-trade policies are often better than trade policies at dealing with externalities?

Can you list and explain five reasons why trade protection is observed in practice, even though countries would be better off under free trade?

How has the United States conducted its commercial policy since 1789? Can you describe the Tariff of Abominations, the Smoot-Hawley Tariff, and the Reciprocal Trade Agreements Act of 1934?

What is the GATT and what (roughly) has it accomplished?

How did negotiations in the Kennedy Round and afterwards differ from earlier negotiations?

What were the main accomplishments of the Uruguay Round?
What is the WTO and how is it different from the GATT?

What are trade creation and trade diversion? Can you illustrate these concepts in a graph? In connection with this topic: I am not going to test you on the differences between the different forms of RTA, but I will assume you know what a free-trade area (FTA) is.

**Trade and Economic Development** (4 – 8 points)

Disregard slides 11 and 12 in this unit (the two final slides)

- What is Import-Substituting Industrialization?
- Can you list and explain four reasons why countries have adopted the Import Substitution strategy for economic development?
- Do you understand what is meant by a dual economy? How could a dual economy emerge? Why is output inefficiently low in a dual economy? Can you explain this with a graph?
- Can you list and explain five reasons why Import Substituting Industrialization failed?
- What are the HPAEs? Does evidence support the claim that their rapid growth was due to free trade or industrial policy? Why or why not?