

Write your name on the back of this page and nowhere else. Enclose this sheet with the graph paper you used. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 230 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give some extra time but not much.

1) (10 points each) For TWO of the following events, tell me what the debit and credit are. BRIEFLY explain why you made those choices.

A) You buy \$100 dress from Paris.

B) A Canadian student pays \$20,000 to Bethany College for an education.

C) A citizen of the US sends \$500 to Niger to finance a water system in a small town there.

2) (14 points) Answer EITHER Part A OR Part B.

A) In the two parts of your answer to Question #1 combined, what are the balances on the following accounts: Trade in Goods, Trade in Services, Trade in Goods & Services, Current Account, and the Capital-Financial Account? Show all work. If there is no work, briefly explain what you did.

B) Why should the Current Account equal the negative of the Capital-Financial Account? Why are *net factor payments* included in the Current Account rather than the Capital-Financial Account?

3) (10 points) Answer EITHER Part A OR Part B.

A) State the difference between a *free trade area* (FTA) and a *customs union* (CU). Why does that matter?

B) Would you call the European Union a *free trade area* (FTA), *customs union* (CU), *common market* (CM), or *economic union*? Explain your logic.

4) (10 points) Answer EITHER Part A OR Part B.

A) Give an example of a decrease in US owned assets abroad. Is that a financial inflow or a financial outflow? Explain your logic.

B) Give an example of an increase in foreign owned assets in the US. Is that a financial inflow or a financial outflow? Explain your logic.

5) (12 points) For EITHER the situation in Part A OR the situation in Part B, explain whether that situation is more likely to mean a customs union will raise or lower the country's utility. Explain your logic.

A) There are a large number of members in the customs union.

B) There is large volume of trade within the customs union before the union is formed.

6) (12 points) For EITHER converting quotas to tariffs OR reducing agriculture subsidies by 21%, explain why the Uruguay Round of GATT had that as one of its goals.

7) (22 points) Answer EITHER Part A OR Part B. Note the only difference between the two parts is the prices in each country.

A) Draw the supply and demand diagram for a good we import. $P_C = \$10/\text{unit}$, $P_M = \$8/\text{unit}$, our autarky price is $\$12/\text{unit}$, and the tariff rate is $\$3/\text{unit}$. The subscripts M and C refer to Mexico and China respectively. Find the quantity we produce, quantity we consume, and our imports with the tariff applying to all goods. Find the same quantities for when we have a customs union with Mexico. Explain how you found each quantity. Find the trade creation and trade diversion if they exist. Explain how you found them.

B) Draw the supply and demand diagram for a good we import. $P_M = \$10/\text{unit}$, $P_C = \$8/\text{unit}$, our autarky price is $\$12/\text{unit}$, and the tariff rate is $\$3/\text{unit}$. The subscripts M and C refer to Mexico and China respectively. Find the quantity we produce, quantity we consume, and our imports with the tariff applying to all goods. Find the same quantities for when we have a customs union with Mexico. Explain how you found each quantity. Find the trade creation and trade diversion if they exist. Explain how you found them.