Wilfrid W. Csaplar Jr. International Trade Review Sheet for Exam 3

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Sunday 5/4.

Chapter 9: Be able to show the effects of an **import quota** in the partial equilibrium analysis (S/D) for a small country. *The D'$_X$ in Figure 9.1 is showing the results of an increase in demand. It is not what I drew. You can draw the diagram and have the distance between S and D be the quota size (the books method) or you can add the quota to the supply and you will get the total supply available for our consumption (the way I did it in class.)* Be able to find the consumer surplus, producer surplus and the area which either goes to the foreign firms or our government depending upon how the quotas are distributed. *Note that the end result of the quota and the tariff are the same providing the curves do not move.* ~~Repeat the above for an **export quota** or **voluntary export restraints (VER)**. *Note that in this case, my method is to add the quota to the demand because the demand from home plus the quota (demand from abroad) is the total demand for our products*~~. Understand how other **non-tariff barriers (NTBs)** restrict trade. Some of these are **technical, administrative,** and **other regulations.** What are **international cartels** and how do they work? What are **persistent dumping, predatory dumping,** and **sporadic dumping**? Why would companies act those ways? Which should the receiving country protect itself from? Why? How does a **trigger-price mechanism** work? Is that good or bad? What are **export subsidies**? How do they hurt and help each country? Ignore FSCs. What are **countervailing duties** and when are they used? Ignore the graph on Page 270. Explain the strengths (if they exist) and weaknesses of the **scientific tariff** and the **infant-industry** arguments. What determines who gets protected? Understand the general idea of **strategic trade policy**. Do not worry about the game theory. What do the following mean: **most-favored-nation principle, bilateral trade agreement, GATT,** and **WTO**? The list of 10 provisions of the **Uruguay Round** on Pages 283 - 284 is important, except for #7 because it failed. However, I will not ask you to list them. I will ask you why some of those provisions are important.

Chapter 10: What are **free trade areas (FTA), customs unions (CU), common markets,** and **economic unions**? Why are the differences important? Be able to show **trade creation** and **trade diversion** on the supply and demand for an import. Understand why each of the nine items in the list of properties which increase the probability of gains in welfare are likely to increase welfare of the country. Understand the benefits of FTA and/or CU. They include **more bargaining power, less resistence to free trade** (my belief)**, more competition, greater economies of scale,** and **tariff factories.** Know what the following are: **EU, NAFTA,** and **Mercosur**. Ignore all other FTA, CU, etc.

For Chapters 13 - 15, you can find old test questions by looking at Test #1 from ECON 365.

Chapter 13: Know what **debits** and **credits** are. Be able to do the **double entry bookkeeping for exports of goods, imports of goods, exports of services, imports of services, sales of assets abroad, purchases of foreign assets,** and **unilateral transfers**. If I gave you a table like **Table 13.1**, be able to calculate the items in the **memoranda**. Know why the **current and capital accounts** should add to zero.

What is the **international investment position**? Why does it matter?

Chapter 14: Be able to tell if an exchange rate **appreciated, depreciated, revalued,** or **devalued.** *The former two are for flexible exchange rates, the latter two are for fixed exchange rates.* Be able to manipulate the **supply/demand diagram for foreign exchange.** *Note that the currency on the horizontal axis is the one being supplied or demanded, so on the vertical axis, it is underneath the other currency. Remember why somebody would demand a currency or supply it. Since the demand for one currency is the supply of the other and most events affect both countries similarly, most events move both lines.* Be able to do **three point arbitrage.** What are **spot** and **forward exchange rates**? Be able to calculate the **forward discount** or **forward premium** and know what they mean. What are the following and how can you use them to reduce exchange rate risk? **Foreign exchange swaps, foreign exchange futures,** and **foreign exchange options.** What is meant by **hedging, long position, short position,** and **speculating**? What are **covered interest arbitrage** and **covered interest arbitrage parity**? Understand why the **diagram on Page 448** for **CIAP** has the band and why below the band is outflow and above it is inflow. Understand the second equation for **CIAM** (14-2) and why it holds. *Note that for the CIAM, the first term is how much more we get at home by having our bonds and we subtract the FP which is what we would gain from the exchange rate if we put the money abroad.* What is meant by **eurocurrency**? (Would a euro denominated account in the US be a euroero account?) What are **eurobonds**?

Chapter 15.1 - 15.2: What are **absolute PPP** and **relative PPP**? Why should they hold? What are problems with them?

Non-graded Homework Assignment #10A to be reviewed with Assignment #10.

1) (10 points) Suppose that the exchange rate started the day at \$2.00/£ and ended the dat at £0.60/\$. Which country's currency appreciated? How can you tell?

2) (10 points) If the exchange rates are \$2.00/£ and ¥100/£, then what is the exchange rate between the dollar and the yen?

3) (15 points) If the interest rate in the USA is 5% and in England it is 3%, and the spot rate is \$2/£, then what forward rate would give a covered interest arbitrage margin of zero?

4) (20 points) Draw the CIAP diagram. Explain why the CIAP line slopes up, why there is a buffer around it, why below that buffer is CIA outflow and above the buffer is CIA inflow.

5) (20 points) What is absolute PPP? Why should it hold? Why doesn't hold?

6) (20 points) What is relative PPP? Why should it hold? What makes it difficult to test?

7) (5 points) What is meant by a eurodollar? Why would somebody want it?