

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet and any graph paper used, with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 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 cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) Explain why the world has a lot of free trade areas (FTAs) but few customs unions (CUs).

B) Explain why FTAs may have trade deflection, but CUs do not.

23) (10 points each) For TWO of the events below, set up the double entry bookkeeping. Briefly explain how you determined the debits and the credits.

A) A company pays a firm in India to run its computer system.

B) A Canadian buys a \$40 hat from USA.

C) A Swiss bank pays you \$50 interest.

D) You buy \$70 of stock in BP.

3) (12 points each) Find TWO of the following account balances using the table to the right. Briefly explain how you found them.

A) Current Account

B) Capital Financial Account

C) Short-term Financial Account

4) (16 points) For EITHER the quality in Part A OR the quality in Part B. Explain why that quality means the trade creation is likely to be bigger than the trade diversion. What does that mean about the trade creation and diversion for the TPP proposal which may include the USA and Vietnam? Explain your logic. (Ignore the fact that those are not the only countries in it.)

A) The members of the trade union are more competitive than complementary.

B) The countries are geographically close.

5) (30 points) Answer EITHER Part A OR Part B.

A) Draw the S/D diagram for a small country entering a customs union which creates trade diversion and showing trade creation larger than the trade diversion.

Explain how you know where the price lines go. Explain how your graph shows more trade creation than trade diversion including how you found the areas of trade creation and trade diversion.

B) Draw the S/D diagram for a small country entering a customs union which creates trade diversion.

Explain how you know where the price lines go. Find consumer surplus, producer surplus, tariff revenue, and dead weight loss both before and after the customs union. Also find the trade diversion and trade creation.

Account	Credit (+)	Debit (-)
Exports of goods	\$300	
Exports of services	\$100	
Income from abroad	\$50	
Imports of goods		\$400
Imports of services		\$150
Income paid to foreigners		\$30
Unilateral transfers net		\$17
Capital account, net		\$5
Exports of stocks and bonds	\$330	
Imports of stocks and bonds		\$220
Bank liabilities to foreigners		\$15
US owned accounts abroad	\$22	
Statistical discrepancy	\$35	