Wilfrid W. Csaplar Jr., Ph.D. Economics 360 Exam #3 2024/11/6

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet 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 10-point question should take 5 minutes.

1) (12 points) For ONE of the events below, set up the double entry bookkeeping for the USA. Briefly explain how you determined the debits and the credits.
A) I donate $1000 worth of cleaning supplies to Valencia, Spain. (I did not do this but should.)
B) An American buys $700 of stock in BP (British Petroleum).

6) (12 points) Answer ONE of the following three questions.
A) Suppose the exchange rate between the Argentine peso and the US dollar is A$ 1000/US$. The exchange rate between the Argentine peso and the euro is A$ 1100/€. What should the exchange rate between the euro and US dollar be?
B) Besides increased trade from eliminating tariffs, there are other economic benefits to a customs union. What is one of these other benefits? Explain how that occurs.
C) Explain why the infant industry argument for restricting trade, is normally a bad argument.

2) (14 points) Find ONE of the following account balances using the table to the right. Briefly explain how you found them.
A) Current Account
B) Capital Financial Account

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	

3) (16 points) For EITHER the quality in Part A OR the quality in Part B. Determine if that quality means the trade creation is likely to be bigger than the trade diversion or vice versa. Explain your logic.
A) The members of the trade union are more competitive than complementary.
B) The countries are geographically close.

5) (20 points) Draw the supply and demand for the euro, €, with the other currency being the Argentinian peso, A$. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. Which currency appreciated? How can you tell.
A) The European GDP increases.
B) Prices in the EU increase.

4) (26 points) Answer EITHER Part A OR Part B.

A) Draw the S/D diagram for a small country importing the good and 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 a S/D diagram for a small country which is importing a good. Show the impact of an import quota. Explain why the curve changed as drawn. Explain how a tariff could achieve the same point.