

ECON 462
STUDY GUIDE FOR MIDTERM EXAM

Theoretical Concepts

Trade

Illustrate how trade increases welfare relative to autarky. Consider scenarios with different consumer preferences.

Illustrate how a country may gain when relative prices on traded goods change.

Gains from Trade

Define the concept of absolute advantage. Suppose nation A enjoys absolute advantage at producing everything with respect to nation B. Can nation A benefit from trading with nation B? Can the concept of absolute advantage explain current data on international trade patterns?

Define the concept of comparative advantage. Can the concept of comparative advantage explain current data on international trade patterns?

Sources of Comparative Advantage

Discuss the Factor Proportions Model. How well does the model fit the data on international trade patterns?

Discuss the implications of the Heckscher-Ohlin Theorem with respect to price convergence, trade agreements and outsourcing.

Discuss and illustrate (with a graph) the effect of international trade on domestic labor markets (skilled and unskilled workers).

Trade Policies and their Effects

Discuss the effects of tariffs on international trade. Distinguish between small country and large country effects.

Are barriers to trade efficient? Under what circumstances would it be OK to impose tariffs or quotas?

Balance of Payments

What is the Balance of Payments of a country?

What are the causes and consequences of a current account deficit?

Is it possible for an economy to have sustained growth while experiencing a large current account deficit? Explain.

Discuss the association between government deficits and trade deficits. Make sure you recognize the role of private saving.

Exchange Rate

Derive the demand and supply of currency in the foreign exchange market.

Discuss the various types of exchange rate systems that have prevailed in the world.

Compare/contrast a fixed exchange rate regime versus a flexible exchange rate. Make sure to identify the pros and cons in each case.

Discuss the concept of arbitrage as it applies to foreign exchange rates, prices of goods and services (PPP) and international interest rates.

From Class Discussions and Readings

Be prepared to answer questions related to the topics we discussed in class and the papers I posted on the webpage.

From Stiglitz

Be prepared to answer a question related to the first 5 chapters in the book.