Test Bank for International Economics 18th Edition by Pugel

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Correct answers located at the end of the chapter.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) An important feature of the European Union (EU) is that it operates as a customs union, which eliminates tariffs on trade among the EU member countries and imposes a common set of tariffs on imports from outside countries.
   ⊚ true
   ⊚ false

2) The exchange rate is a key price that affects international trade flows of goods and services and international financial flows.
   ⊚ true
   ⊚ false

3) National sovereignty means that no one person or group is in charge of the international economy.
   ⊚ true
   ⊚ false

4) If the dollar per pound exchange rate changes from $1.50 per pound to $2 per pound, it implies that the dollar has appreciated against the pound.
   ⊚ true
   ⊚ false

5) People usually migrate within their own country more readily than they emigrate abroad.
   ⊚ true
   ⊚ false

6) A country cannot set its own policies toward the international movement of productive resources.
   ⊚ true
   ⊚ false

7) Although financial capital is relatively mobile as an input, it is subject to a "home bias" in which people prefer to invest within their own country.
   ⊚ true
   ⊚ false

8) China became a leading exporter of personal protective equipment because China’s government subsidies to Chinese firms overcame China’s comparative disadvantage in these products.
   ⊚ true
   ⊚ false

9) Unusual for a global recession, international trade in services fell by proportionately more than international trade in goods fell during the COVID-19 pandemic.
   ⊚ true
   ⊚ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

10) Which of the following statements is NOT true about COVID-19 and international trade?
   A) The 2020 decline in trade in services was predicted to be 8 percent, but it was actually 25 percent.
   B) The 2020 decline in trade in goods was predicted to be 6 percent, but it was actually 10 percent.
   C) In the first year of the COVID-19 pandemic, imports from China were an important part of how the United States increased its access to and use of personal protective equipment (PPE).
   D) China was one of the top four exporters of medical goods to the United States.

11) Which of the following statements about comparative advantage is false?
   A) It is a reason why countries trade with each other.
   B) It explains why China was the top source of personal protective equipment (PPE) exports to the U.S.
   C) It explains why there was a severe shortage of personal protective equipment during the first months of the COVID-19 pandemic.
   D) It explains why China was not the top source of medical equipment exports to the United States during the COVID-19 pandemic.

12) Which of the following statements about personal protective equipment (PPE) is false.
   A) China has a comparative advantage in the production of PPE.
   B) In the first months of the COVID-19 pandemic, China blocked exports of PPE to the United States.
   C) The shortages of PPE placed upward pressure on the price of PPE
   D) U.S. hospitals had a small stockpile of PPE because the price of PPEs had risen after President Trump's tariffs on U.S. imports

13) Identify the incorrect answer: The U.S. could have prepared for a health emergency like COVID-19 by:

A) Maintaining a stockpile of personal protective equipment (PPE)
B) Subsidizing the domestic production of PPE
C) Closing its border to medical imports for fear of counterfeit PPE
D) Encouraging imports from countries that produced PPE

14) If a country is concerned about developing a particular industry for public health reasons, which of the following policies is most effective from an economic standpoint?

A) Import licensing
B) Protectionist tariffs
C) Targeted government subsidies
D) Voluntary export restraints on countries exporting to the United States

15) Which of the following strategies is NOT used by firms wishing to develop global supply chains?

A) Locate each step of the production process in the country that results in the lowest cost
B) Move most production to the country where the firm is headquartered
C) Contract with other firms located abroad that can produce the good more cheaply
D) Apply the principle of comparative advantage

16) Which of the following is NOT a key economic feature of the European Union (EU)?

A) A common currency, the euro, used by all member countries
B) A single market that promotes free movements of goods, services, financial capital, and people among EU member countries
C) Adoption of common product regulations and standards to reduce nontariff barriers to trade among the member countries
D) A customs union, which imposes common tariffs on imports from non-EU countries

17) Which of the following are myths about immigrants?

A) Immigrants generate losses for the economy of the receiving country.
B) Immigrants are a fiscal burden because they use healthcare.
C) Immigrants are responsible for higher crime rates in the receiving country.
D) All of the above.

18) Economic analysis of the effect of immigrants on the receiving countries does NOT show that:

A) The cost of immigration outweighs the benefits of immigration for receiving countries.
B) Immigrants who immigrate in search of better jobs benefit the receiving country's economy
C) Consumers who purchase goods produced by immigrants benefit
D) A group that loses is workers who compete for jobs that immigrants do

19) Which of the following was NOT an argument in favor of the United Kingdom (UK) leaving the European Union (EU)?

A) Proponents of leaving wanted greater access to markets in the other EU member countries.
B) Proponents of leaving stressed that the UK needed to reestablish British sovereignty.
C) Proponents of leaving wanted greater control over immigration.
D) Proponents of leaving objected to the EU process of "ever closer union."

20) Which of the following is included in the Trade and Cooperation Agreement between the European Union and the United Kingdom?

A) There are no non-tariff barriers to the trade of goods.
B) There are no tariff barriers to the trade of goods
C) Trade in financial services can continue freely between the EU and the UK
D) There are no limitations on immigration between the EU and the UK

21) "Job-seeking immigration brings net economic benefits not only to the immigrants, but also to the receiving country overall." But there are winners and losers within the receiving country. Who among the following can be considered as a winner within the receiving country?

A) The workers who compete with the immigrants for jobs
B) The households who want to rent the same kinds of apartments the immigrants want to rent.
C) The consumers who buy the products that the immigrants help to produce
D) None of these options are correct.

22) The value of a country's currency, in terms of some other country's currency, is called

A) the nominal interest rate.
B) dollarization.
C) the exchange rate.
D) the stock exchange.

23) Which of the following actions was undertaken by the Swiss government in 2011, during the Euro crisis?

A) The Swiss government shifted to allowing a more flexible exchange rate between the Swiss franc and the euro.
B) The Swiss monetary authority sold U.S. dollars and bought euros.
C) The Swiss monetary authority bought euros and sold Swiss francs.
D) The Swiss government imposed strict limits on Swiss investments in euro-denominated financial assets.

24) Which of the following was NOT a result of foreign investors moving to Swiss franc investments in mid-2011?

A) There was a rise in Swiss imports
B) There was a rise in Swiss exports
C) There was a rise in demand for Swiss francs
D) The Swiss franc went from 1.20 to 1.03 Swiss francs per euro

25) Which of the following statements is false:

A) Each year the U.S. government names the foreign country that it considers to be the largest currency manipulator.
B) The U.S. is concerned about countries that manipulate their exchange rates.
C) The U.S. has named Vietnam a currency manipulator.
D) The U.S. is concerned about currency manipulators if the country is a major trading partner.

26) Which of the following arguments was NOT used by Switzerland to defend its exchange rate policy in 2020?

A) In times of economic crisis, investors from many countries buy Swiss francs.
B) The Swiss government also took actions to increase Swiss interest rates.
C) In response to the economic crisis that followed the COVID-19 pandemic, the Swiss monetary authority added euros to their foreign reserves.
D) The goal of the Swiss currency intervention was to avoid an unfair economic disadvantage for Switzerland.

27) Which of the following did NOT happen as a result of the Swiss Central Bank's 2015 announcement that they would no longer maintain the peg at 1.20 Swiss francs per euro?

A) European investors holding Swiss franc-denominated investments experienced gains.
B) The value of the Swiss franc experienced gains (appreciation).
C) Swiss manufacturers that rely on imports for raw materials experienced gains.
D) Swiss manufacturers that rely on exports for their finished goods experienced gains.

28) Which of the following is most likely to happen when the dollar appreciates against the euro?

A) The prices of American goods in the European countries will decline.
B) There will be a huge inflow of "hot money" to the European nations.
C) The prices of European goods in the U.S. markets will decline.
D) The rate of inflation in the United States will increase.

29) The Hong Kong dollar is pegged to the U.S. dollar at a rate of 7.8 Hong Kong dollars to 1 U.S. dollar. Suppose the central bank of Hong Kong changes the exchange value to 7.3 Hong Kong dollars to one U.S. dollar. Which of the following is most likely to be true in this context?

A) The exchange rate value of the Hong Kong dollar has depreciated by 6.2 percent.
B) The exchange rate value of the Hong Kong dollar has appreciated by 0.5 percent.
C) The exchange rate value of the Hong Kong dollar has depreciated by 0.5 percent.
D) The exchange rate value of the Hong Kong dollar has appreciated by 6.4 percent.

30) Which of the following is an impact of increased immigration on an economy?

A) The wage rate of local workers increases.
B) The country's demand for labor declines.
C) The rate of inflation in the receiving country increases.
D) The demand for government services like education and health care increases.

31) According to classical economists, what is true about labor as a factor of production?

A) Labor is mobile both within and across countries
B) Labor is mobile within, but not across countries
C) Labor is mobile across, but not within countries
D) Labor is not mobile

32) Sam lives in Portugal and Alex live in Iceland. They have the same set of skills and background and do the same work for upscale toy manufacturers. If classical economists are correct about the mobility of factors of production, which statement is false?

A) Sam could get a higher wage if she got a job at a car manufacturer in Portugal.
B) Alex could get a higher wage if he took courses to increase his skills.
C) Sam could get a higher wage if she instead lived in another country (like Germany) that has higher pay scales, on average.
D) None of the above are false.

33) Which of the following does NOT reduce economic activity across national borders:

A) Raising the tax on imports
B) Making quality standards for import goods more stringent
C) Removing administrative fees assessed on immigration applicants
D) Increasing the payroll tax imposed on immigrant workers

34) Which of the following factors is most likely to lead to a decline in a country's exports?

A) A decline in the country's nominal interest rate
B) An appreciation of the country's currency vis-à-vis foreign currencies
C) A decline in the country's input prices
D) A decrease in the country's corporate taxes

35) Which of the following is an example of monetary policy?

A) Changes in income tax rates
B) Changes in government spending on public works projects
C) The central bank buying government bonds
D) Raising social security payments in response to increased inflation

36) What is the proper characterization of the European Union (EU), and what is its primary accomplishment?

A) The EU is a regional trade bloc which controls the money supply in each member country.
B) The EU is a regional trade agreement that has eliminated most trade barriers among its member countries.
C) The EU is a trade treaty that provides a forum where member countries can resolve their trade disputes.
D) The EU is a trading cooperative that protects member countries from unfair trade tactics by non-member countries.

37) A computer programmer working in India relocates to the United States. This is an example of

A) a global supply chain.
B) factor mobility.
C) quantitative easing.
D) cross-border trade.

38) __________ is considered to be the least mobile factor internationally.

A) Capital
B) Labor
C) Land
D) Entrepreneurship

39) Which of the following is NOT a fiscal policy?

A) Increasing the money supply to expand aggregate demand
B) Lowering personal tax rates to influence labor supply
C) Increasing tariffs to reduce imports
D) Offering subsidies to export firms

40) The supply of money in a country like Sweden is controlled by the

A) political party in charge of the government of the country.
B) International Monetary Fund.
C) central bank of the country.
D) World Bank.

41) Most immigration is the result of people migrating to

A) take advantage of welfare programs in the destination country.
B) avoid political persecution in their home countries.
C) flee civil unrest in their home countries.
D) obtain jobs at a higher rate of pay than they can receive in their home countries.

42) One of the successes of the European Union (EU) is that banks have "passporting rights," which means that

A) banks in the EU are not required to follow the policies of a central monetary authority.
B) banks in the EU have the authority to issue EU passports and travel visas to any citizen of a member country.
C) banks in the EU have unlimited access to foreign financial capital.
D) banks in the EU can sell financial services to any EU country without regulatory barriers.

43) Export subsidies are an example of

A) a quantitative limit on foreign exports.
B) monetary policy.
C) fiscal policy.
D) a non-tariff barrier (NTB).

44) The European Central Bank is responsible for

A) implementing monetary policy for the countries that use the euro.
B) assuring full employment in the European Union.
C) the bailout of European Union countries in financial trouble.
D) protecting European Union member countries from unfair foreign financial practices.

45) The supply of a kind of money is controlled by the
- A) monetary authority or central bank for that kind of money.
- B) fiscal authority in the country.
- C) International Monetary Fund.
- D) World Trade Organization.

46) The United Kingdom (UK) is composed of the following individual countries
- A) England, Scotland, Ireland, and Northern Ireland
- B) England, Scotland, Wales, and Northern Ireland
- C) England, Scotland, and Wales
- D) England, Scotland, Wales, and Ireland

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

47) Use the example of personal protective equipment (PPE) to describe how President Trump's trade war with China affected the U.S. response to the COVID-19 pandemic.

48) In June 2016, the citizens of the United Kingdom (UK) voted in favor of leaving the European Union (EU). The decision to leave is now commonly referred to as "Brexit." Briefly summarize both the arguments used for the UK remaining in the EU and the arguments used for the UK leaving the EU.

49) Briefly describe the key economic features of the European Union.

50) "Job-seeking immigration brings net economic benefits not only to the immigrants, but also to the receiving country overall." Justify the statement.

51) Briefly discuss why the degree to which labor and capital are mobile within a nation may differ from the degree to which labor and capital are mobile internationally.

52) From 2011 to 2015 the Swiss government pegged the exchange-rate value of the Swiss franc to the euro, to prevent the Swiss franc from appreciating in value. Briefly explain the effects of the pegged rate and Swiss government intervention to defend the pegged rate on Swiss exports and imports. Then, starting in early 2015, the Swiss government allowed the franc to appreciate relative to the euro. Briefly explain the effects of the changed exchange rate policy on Swiss exports and imports.

53) The time is 2019. The United Kingdom (UK) was committed to leave the European Union (EU). What are the issues that the UK and the EU had to resolve for Brexit to be relatively smooth and orderly?

Answer Key

Test name: Chapter 01

1) TRUE
2) TRUE
3) TRUE
4) FALSE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) TRUE
10) B
11) C
12) B
13) C
14) C
15) B
16) A
17) D
18) A
19) A
20) B
21) C
22) C
23) C
24) B
25) A
26) B
27) D
28) C
29) D
30) D
31) B
32) A
33) C
34) B
35) C
36) B
37) B
38) C
39) A
40) C
41) D
42) D
43) C
44) A
45) A
46) B
47) Essay
48) Essay
49) Essay
50) Essay
51) Essay
52) Essay
53) Essay

Chapter 1

International Economics Is Different

Overview

The introduction to the subject of international economics has three major purposes:
1. Show that international economics addresses important and interesting current events and issues.
2. Show why international economics is special.
3. Provide a broad overview of the book.

We begin with four controversial developments that show the importance of current issues addressed by international economics.

The first controversy examines the economic effects of the global COVID-19 pandemic. The pandemic led to great harm to global health and millions of deaths. The global pandemic crisis also had global economic effects, including a swift, deep global recession in the first half of 2020. With the effects of the pandemic and the recession, international trade also collapsed, declining by 8% in 2020.

A surprising development was the difference in the declines of good trade and services trade globally. In previous global recessions, the trade decline was large for goods, especially durable goods, and small for services. But in 2020, the decline in good trade was smaller than the decline in services trade. Economists usually examine trade drivers through the demand for imports and focus on the roles of relative product prices and changes in real income. For goods, these drivers predicted a decline of 10%, but it was only 6%. For services, these drivers predicted a decline of 8%, but it was 25%.

The COVID-19 recession was different from previous recessions in many ways. Two help us to understand why the predictions from the standard demand drivers were so wrong.

Why did goods trade fall by less, even though lockdowns limited goods production and created problems for international transport of goods? The pandemic recession led to a shift in demand, away from services and toward goods, especially durable goods like electronics, furniture, and appliances. Trade in goods did not decline by as much as the standard drivers would predict. Why did services trade fall so much? Much of the shift in demand was a very large decrease in international travel and tourism, which declined by 80% in the second quarter of 2020 and remained at that much lower level through 2021.

In a pandemic, access to medical goods is crucial. In the United States, access to imports from China became controversial. Of the four main types of medical goods, the United States was dependent on China for a large part of its total supply of personal protective equipment (PPE). China has a comparative advantage in producing PPE, based on its relative abundance of medium-skill workers.

How did the United States end up short of PPE as the pandemic hit in March 2020? First, the pandemic had hit China in January, and Chinese exports fell off as demand within China increased. Second, U.S. stockpiles of PPE were low, in part because U.S. tariffs imposed on imports from China in 2019 reduced U.S. buying.

With strong U.S. demand and limited supply, prices rose dramatically. That incentivized additional supply. For U.S. production, the U.S. government added subsidies to the incentives. But, increased U.S. production was not enough. The higher prices also incentivized Chinese and other foreign export producers, and U.S. imports increased. By early to mid-2021, the global shortage of PPE was resolved.

Concerns about the availability of imports spread to other goods, especially those produced through sometimes complex global supply chains (GSCs). At their core, GSCs are also based on comparative advantage. To lower the cost of producing a final product, site each production step in its lowest cost location. The COVID-19 pandemic exposed GSCs to a range of risks including lockdowns and restrictions that cut access to components. How could production of the final products be made more resilient? Should all or most of the production steps be brought back ("reshored") to a firm's main country? Each business manages its supply chain risks, and most GSCs turned out to be more resilient than many initially feared. (An exception was automobiles, because the auto firms could not regain their access to enough semiconductors.) Reshoring sounds like a way to reduce risk, but it would actually concentrate risks in a single country. And, in eliminating international trade within the GSC, the gains from trade (discussed in Chapters 2–6) would be lost.

The economic effects of the global COVID-19 pandemic crisis appear throughout the rest of the book:

- The trade collapse (Chapter 2)
- Export restrictions on PPE and other goods (Chapter 8)
- The decline and rebound of migrant remittances (Chapter 15)
- The increases in the U.S. trade and current account deficits (Chapter 16)
- Financial disruptions and increased deviations from covered interest parity (Chapter 18)
- A large new allocation of SDRs and expanded emergency lending by the IMF (Chapters 20 and 21)
- U.S. inflation rates first declined then went much higher (Chapter 22)
- The U.S. fiscal response and the effects on private saving and government dissaving (Chapter 24)
- Investors' "dash for cash" in March 2020 and the expansion of central bank liquidity swaps (Chapter 24)
- The EU suspension of national fiscal policy rules and its first large unionwide fiscal policy (Chapter 25)

The second controversy arises from international migration, especially the increasingly vehement complaints about immigrants in many of the major receiving countries. In these countries, a rather large (10% or more) and rising percentage of the population is foreign-born, including many who are undocumented. Opponents accuse immigrants of causing general economic harm, imposing fiscal costs as immigrants use government services, and increasing crime. International economics is often about emotional issues like immigration, yet we do our best to use economic analysis to think objectively about actual economic effects. In a preview of the analysis of Chapter 15, we highlight two key conclusions about the effects of immigration on the receiving country. First, as with many issues in international economics, there are both winners and losers in the receiving country. Second, we can determine the net effect on the receiving country. As we often conclude when we examine freer international exchange, the net national effect of immigration is positive according to the basic economic model, in this case even if we ignore the gains to the immigrants themselves.

The third controversy is about Britain's exit from the European Union (EU). A slim majority of U.K. voters in 2016 voted to leave the EU. While proponents of "remain" stressed the economic benefits of being part of the EU, proponents of "leave" stressed the need to reassert national control in such areas as business regulation and control of immigration. After the controversial vote, the process of leaving (Brexit) brought new controversies, because the vote itself said nothing about the relationship that Britain would have with the EU after Britain separated. A "hard Brexit" would reassert British sovereignty but would be very disruptive to businesses and markets. A "soft Brexit" would be less disruptive but would mean that Britain would remain subject to many EU laws and regulations. Britain formally withdrew from EU the in early 2020, and on January 1, 2021, the EU-UK Trade and Cooperation Agreement established a free trade area for goods. Britain had pursued a hard Brexit, and the EU had agreed. One feature has continued to be controversial. To prevent a hard border on the Irish island, Northern Ireland remains part of the EU's single market. Instead, there is a customs border "in the Irish Sea," dividing the United Kingdom.

Chapter 12 presents the economics of a free trade area, as well as the evolution of the EU from a customs union toward a single market and increasing economic union. Nontariff barriers, which remain and are important in the new EU-UK free trade area, are discussed in Chapter 9.

The fourth controversy is the exchange rate value of the Swiss franc. Many countries are skeptical of the exchange rate policies used by other countries, because exchange rates have effects that cross national boundaries, especially effects on relative prices that influence imports and exports. The United States has two laws, one more qualitative and one more quantitative, that direct the U.S. Department of the Treasury to monitor the exchange rate practices of other countries. These laws have seldom been used, but in late 2020 the Treasury Department concluded that the Swiss government was a currency manipulator. How did Switzerland, a well-regarded high-income, low-risk country, come to be so labeled?

Before September 2011, Switzerland's exchange rate policy was managed floating, and the exchange rate with the euro was key to Swiss international price competitiveness. With the beginning of euro crisis in March 2010, international investors shifted their investments to safe havens, including Switzerland. The Swiss franc appreciated against the euro, with the Swiss central bank sometimes intervening in the foreign exchange market to resist this appreciation. When the euro crisis intensified in mid-2011, the Swiss government shifted to a one-sided pegged exchange, in which the franc could not appreciate past 1.2 Swiss francs per euro. This worked well until early 2015. Under renewed pressure for appreciation, the Swiss government decided to shift back to a managed float (a very messy exit from the pegged rate). The Swiss central bank then intervened, sometimes in large amounts, to stabilize the franc–euro exchange rate, including in 2020, when again international investors sought safe havens as the global COVID-19 pandemic crisis hit. The large Swiss interventions to prevent the franc from appreciating were part of the evidence cited by the U.S. Treasury Department.

In the controversy over the Switzerland's exchange rate policy, we can see many issues that we will examine in the second half of the book, including a country's balance of payments (Chapter 16), foreign financial investment (Chapters 18 and 19), exchange rate policy (Chapters 20 and 25), and exchange rates in macroeconomic analysis (Chapters 22–24).

These four controversies show that international economics addresses important current issues. They also can be used to show why international economics is special—why national boundaries matter in economics. The first reason that international economics is special is that some resources do not move freely between countries. Land is essentially immobile. There are substantial impediments to the movement of labor internationally, as we see in the analysis of international migration, because of the personal and economic costs to people of moving from one country to another, and because of restrictive government policies. Financial capital moves more freely, but there still seems to be a home bias to many people's financial investments.

The second reason that international economics is special is that national government policies matter—in fact, they matter in two ways. One way is that national governments can adopt and change policies toward international transactions, as we see in in the decision by the UK government to leave the EU. The other way is that national governments adopt different economic policies. These national policies usually are designed to serve national interests, but they often have international effects. We see the tension between national interests and international effects in the discussion of Switzerland's exchange rate policy.

Tips for teaching

One good way to begin the first class session is with a look at current events, even before the mechanics and requirements of the course are presented. The instructor might use the day's newspaper (for instance, the *Financial Times* or *Wall Street Journal*) or the week's magazine (for instance, the *Economist* or *Business Week*) to highlight a few stories related to the content of the course. We have found that this is a good way to get the students' attention and interest. Another good beginning would be to provide a discussion that updates one or more of the four controversies in Chapter 1. For example, the instructor could look at the most recent information about the effects of the COVID-19 pandemic and its aftermath or about the effects of Brexit.

You may want to consider beginning other class sessions of the course (not only the first class session) with a look at one or two stories in that day's newspaper. The stories should relate in some way to the material covered in the course, but they do not necessarily have to relate to the specific material covered in that day's session. We have found that this look at current events reinforces the relevance of international economic analysis. It also encourages students to read good news sources and to keep up with current events. In addition, we can model critical reading, if we both summarize the article's information and offer our own opinion or analysis (or ask the students for their opinions).

The instructor may also point out that there is a lot of information on international issues available on the Web. In additional to good newspapers, magazines, and journals that are available online, Appendix A provides a list of some important sources and sites.

One issue in teaching is to get students to "take ownership" of the learning of the material. One good way to accomplish this is to get them to teach some of the material. In doing so they gain greater understanding as well as appreciation for the applicability of what sometimes sound like dry concepts and abstract issues. You may want to consider an assignment like the one that Pugel (and others at New York University) have been using successfully. It asks students working in groups to choose a topic based on current and recent events or developments and prepare and make a brief presentation to the rest of the class, during the second half of the course term. The accompanying pages under the heading "Sample Assignment" show a version of this assignment. It is good to get such an assignment set up early in the term, so that students have enough time to gather information and prepare the talk. One more thought—in evaluating each presentation, you may want to get the students in the audience involved by asking each to complete a brief evaluation form for each presentation.

Sample assignment

NEW YORK UNIVERSITY
Stern School of Business

The Global Economy

Group Presentations

Each group will make a presentation to the class about one of the topics listed below. Your presentation is an opportunity to hone your research and presentation skills, to apply concepts from this course (and possibly from other courses), to attack a real issue, and to show off your creativity.

The formal presentation should last no longer than 15 min. In addition, after the presentation, you will have 5 min to take and answer questions from the class. I suggest you plan a talk that fills about 14 min to ensure that you finish within time. Going over the time limit for the presentation will result in a lower evaluation score for "style" and overall assessment.

For the oral part of the presentation, all group members must be involved in speaking. One aspect of the presentation is the ability to transition from one group member to the next as each in turn makes part of the presentation.

Evaluation will be based on three criteria:

- Informativeness: Information and data—how much did we learn from your presentation?
- Analysis and interpretation: Did you effectively use concepts and relationships from the course (and possibly from other courses) to analyze and/or interpret the information that you have? Were your conclusions sound? Did we gain novel insights into the topic?
- Style: Was your presentation logically structured, clear, and compelling? Were the slides effective? Did you keep within the time limit?

Above all, keep your classmates interested. If you use PowerPoint or similar slides, you should bring your presentation file to class on a USB memory stick.

Presentation Topics

Choose your topic from the list below. Topics will be allocated on a first-come, first-served basis. Each topic comes with a set of indicative questions. There is some scope to modify the questions, if you think it would lead to a more interesting presentation. Just ask me first.

After you know your topic, the group should search for information and start to plan the presentation. For many topics you can find much information on the Web. With Web research, it is up to you to verify that a source is credible and accurate.

Here are the possible topics.

International Outsourcing/Offshoring of Services

Beginning in the 1990s, firms in the United States and other industrialized countries increasingly shifted service activities and jobs to developing countries, especially India. How large is this type of offshoring? How large could it be in the future? Why has it been controversial in the United States? Is it different from regular international trade? Should the U.S. government limit the ability of U.S. firms to send these jobs to other countries?

Do African Countries Trade Too Little With Each Other?

Countries that are closer to each other geographically tend to trade more with each other. Does this pattern hold as strongly across Africa as it does in other areas of the world? What do the data show? To the extent that African countries tend to trade less with each other than might otherwise be expected, how large is the "shortfall"? Why is there less international trade within Africa? Is the problem mostly a lack of free trade areas and similar bilateral and multilateral governmental agreements? Would African countries benefit from trading more with each other? What is the outlook for growing international trade within Africa during the next decade or so?

Locating a New Business Processing Center: India or Ghana?

A major firm in the business processing industry is looking to expand its capacity for providing call center and data entry services for its clients. It is considering locating a new facility in India, where it already has other facilities, or in Ghana, a country in which it does not currently operate. What are the strengths and weaknesses of Ghana, relative to India, as a location for this facility? What could the company request from Ghana's government if the company were to decide to locate the facility in Ghana? What would Ghana's government agree to provide to the company? Overall, would you recommend that the company locate its new facility in India or in Ghana?

U.S.-China Phase One Agreement

In an effort to begin to resolve the U.S.-China trade war that began in 2018, a phase one agreement between the two countries entered into effect in early 2020. What was the U.S. government trying to accomplish with the agreement? What was the Chinese government trying to accomplish? What was included in this agreement? How successful was the agreement in moving toward resolution of the trade war? Do you think the United States should pursue a follow-on phase two agreement?

Carbon Border Tax

Carbon border taxes have been proposed as a way to address concerns of countries that have strict policies toward greenhouse gas emissions. What is a carbon border tax? Consider the economics and environmental effects of such a tax, as well as the trade rules that member countries of the World Trade Organization have agreed to. What are the strengths (or advantages) of countries' use of carbon border taxes? What are the weaknesses (or disadvantages) of countries' use of carbon border taxes? Should the United States be in favor of countries' use of carbon border taxes?

USMCA

The North American Free Trade Area (NAFTA) came into existence in 1994. As a candidate for president in 2016, Donald Trump called it the worst trade deal ever. Negotiations that began in 2017 and the process of U.S. ratification in late 2019 led to the U.S.-Mexico-Canada Agreement (USMCA). What were the objectives of each of the countries in the negotiations? What are the major changes to NAFTA as it becomes the USMCA? From the point of view of economic efficiency, which of the changes increase U.S. national economic well-being? Which probably harm U.S. national well-being? Overall, what will be the net economic impact on the United States? Did the U.S. government achieve its economic and political objectives?

Trans-Pacific Partnership (TPP)

In October 2015, the United States and 11 other countries announced an agreement to form the Trans-Pacific Partnership, a new regional trade agreement, and the agreement was signed (but not ratified) in February 2016. What was the TPP? What were its key elements and features? What would have been the economics of the agreement for each of: the United States, Malaysia or Vietnam (an emerging country signatory), and a country like China (an emerging country that would not be a member)? In January 2017, President Trump withdrew the United States from the TPP. In late 2018, a slightly modified version of TPP began to operate without the United States. From the point of view of the U.S. national interest, was Trump correct to withdraw from the TPP?

Ecuador

Ecuador dollarized in 2000. Why did the Ecuadorian government choose this policy? In what ways does it seem to have helped the Ecuadorian economy? In what ways has it hurt or caused problems or costs? Do you think that it was a good or bad idea for Ecuador to dollarize?

Argentina and IMF

In 2018, the IMF agreed to lend Argentina's government \$50 billion. Why did Argentina seek this loan from the IMF? What terms did the IMF set for this "exceptional access" arrangement? By most reckonings the loan was a failure. What went wrong? Why did the lending program fail to meet its goals and purposes? What changes (if any) should the IMF make for its future lending to a country in a similar situation?

Sovereign Wealth Funds

Some national governments use sovereign wealth funds to invest in a wide range of international financial assets. How large are these funds? What are their funding sources? Are they like other international investors? Should countries receiving their investments be concerned? How should sovereign wealth funds be regulated?

Should Hong Kong Alter Its Fixed Exchange Rate Policy?

The Hong Kong government has maintained a fixed exchange rate between the Hong Kong dollar and the U.S. dollar for more than three decades. What are the advantages and disadvantages for Hong Kong of having this exchange rate policy? If the Hong Kong government is now considering changing its policy, what are two most likely alternative exchange rate policies that the Hong Kong government could adopt in place of the current fixed value to the U.S. dollar? What are the advantages and disadvantages of each of these? What is the case for Hong Kong to continue to fix at the current value to the U.S. dollar? What is the case for Hong Kong to switch to the next best alternative policy (one of the two you have examined)? What do think will actually happen during the next 5 years or so?

Internationalization of the RMB

Until about 2010, the Chinese yuan (or renminbi) was not much used internationally. In what ways, and to what extent, has this changed? Why? What are the benefits and costs to China from greater international use of the yuan? How could China promote greater international use? Should China do so? What do you think will happen in the next 5–10 years? When will the yuan become the equal of the U.S. dollar in international uses?

Sweden to Join the Euro Area?

Sweden could be the next country to adopt the euro and join the euro area. Does Sweden qualify to join? What are the economic and political advantages to Sweden of joining? What are the economic and political disadvantages of joining? Should Sweden join the euro area in the next few years? Do you think that Sweden actually will join the euro area in the next few years?

What Country Is Ripe for a Speculative Attack on Its Currency?

Identify a country that you think has a substantial probability of a speculative attack on the exchange rate value of its currency, sometime during the next several years. Why do think that a speculative attack may be imminent? If a speculative attack does not occur in the next several years, what do think will be the most likely explanation for why the attack did not occur? What do you think is the probability that a speculative attack on this currency will actually occur during the next several years?