NAME: ____________________________________

Student ID No.: ____________________________

Economics 340
International Economics
Prof. Alan Deardorff
Final Exam

Form (KEY) 0

Answers

December 13, 2019

INSTRUCTIONS: READ CAREFULLY!!!

1. Please do not open the exam until you are told to do so.

2. **PLACE YOUR NAME AND STUDENT ID NO. (THE EIGHT DIGIT NUMBER FROM YOUR M-CARD) ON THE EXAM AND ON THE SCANTRON SHEET.**

3. Find the **FORM NUMBER** above and enter it where it asks for "KEY" on the scantron sheet. Be sure to fill in the bubbles.

4. This exam has 100 points and you have approximately 120 minutes to complete it. Check that you have all 19 pages of the exam, including this cover sheet.

5. **Part 1** consists of 35 multiple choice questions worth 1 point each. Answers to these should be marked on the scantron sheet using a #2 pencil. There are no penalties for guessing.

6. **Part 2** consists of 63 points worth of short-answer questions for which you should provide written answers on these sheets. Point values for questions in Part 2 are indicated in parentheses.

7. That leaves 2 points unaccounted for. You will get these if (and only if) you correctly enter your name and ID number on both this exam booklet and the scantron sheet (so that the computer can read it), **and** if you enter the form number (see above) on the scantron.

8. Good luck!

FORM 0

Economics 340
Final Exam

Part 1: Multiple Choice (1 point each: 35 points)

Select the **best** answer of those given. Answers to this part should be marked on the scantron sheet using a #2 pencil. There is only one correct answer per question, and there is no penalty for guessing.

1. Which of the following statements about the U.S. relative position in the world economy is **not** true?

   a. The U.S. imports more than any other country.
   b. The U.S. exports more than any other country.
   c. The U.S. exports less than the European Union.
   d. The percentage of exports in GDP is smaller in the U.S. than in Germany.
   e. The total of assets in the U.S. that are owned by foreigners (including various forms of loans to us) is greater than the total of assets abroad that are owned by people and companies in the U.S.

   Ans: *b*

2. What do "joint ventures" have to do with the US-China trade war?

   a. The US objects to China's exports of marijuana to US states where it has been legalized
   b. China insists that the US import unwanted goods jointly with those that are in high demand
   c. China requires that companies investing in China use joint ventures, thereby giving their technologies to Chinese companies
   d. The US has responded to unfair trade practices by China by filing complaints in the WTO jointly with the EU and Japan
   e. President Trump is concerned that China's Confucius Institutes in the US are joint ventures that will undermine democracy

   Ans: *c*

3. Was it legal under US law for President Trump to levy tariffs on imports of steel and aluminum, and why or why not?

   a. No. The US constitution reserves all rights to levy tariffs to the Congress.
   b. No. Tariffs are legal only against imports that are dumped or subsidized, but this was not the case for steel and aluminum.
   c. Yes. The US president has always had the power to levy tariffs at will, but previous presidents have seldom used that power.
   d. Yes. Congress passed a law years ago permitting presidents to levy tariff on imports that threaten national security.
   e. Trump did not levy tariffs on steel and aluminum.

   Ans: d

4. Jack can type 60 words a minute and can solve an algebra problem in 10 minutes. With respect to which of the following people does Jack have a comparative advantage in typing?

   a. Janet, who types 120 words a minute and needs 3 minutes to solve the algebra problem.
   b. Jill, who types 40 words a minute and needs 20 minutes to solve the algebra problem.
   c. Jessica, who types 80 words a minute and needs 15 minutes to solve the algebra problem.
   d. All of the above.
   e. None of the above.

   Ans: a

5. According to the Heckscher-Ohlin theory, what good will a country import?

   a. The good that uses relatively intensively its abundant factor.
   b. The good that uses relatively intensively its scarce factor.
   c. The good that requires more labor per unit of output than another country.
   d. The good that generates the smallest profits for producers.
   e. We don't know. The H-O theory only explains exports, not imports.

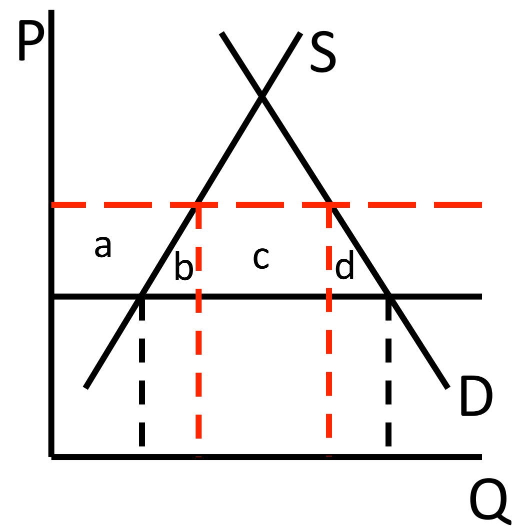
   Ans: b

6. In the discussion of Boeing and Airbus that appeared in the assigned article by Paul Krugman, the main message was that

   a. George Bush was a bad president.
   b. A firm's profits can be increased by a subsidy.
   c. Countries are able to export only if they have comparative advantage.
   d. In the New Trade Theory, a country may be able to benefit by using a subsidy.
   e. Countries that use subsidies only provide benefit to other countries, not to themselves.

   Ans: *d*

7. The figure shows the effects of a tariff in a small country. Using the labeled areas, how much of the loss to consumers, due to the tariff, is a gain to somebody else?



   a. None
   b. b + d
   c. a + c
   d. b + c + d
   e. a + b + c + d

   Ans: *c*

8. When a large country levies a tariff on imports

   a. The world price falls.
   b. Demanders of the good on the domestic market are hurt
   c. Foreigner exporters are hurt.
   d. The domestic price rises by less than the tariff.
   e. All of the above.

   Ans: *e*

9. When is a product standard a nontariff barrier?

    a. When it requires a technology that only foreign firms possess.
    b. When its procedures for certifying compliance are biased against imports.
    c. When it bans all sales of a product that is injurious to health.
    d. When it requires both domestic and foreign producers to pay a fee to the domestic government for certification.
    e. When its only purpose is to make products of different suppliers compatible.

    Ans: *b*

10. The political-economy explanation of why countries have positive tariffs, summarized in the phrase "protection for sale," says that

    a. Legislators provide tariff protection to industries in response to political campaign contributions.
    b. Importers pay bribes to customs officers to let them pay tariffs that are lower than legally required.
    c. Protection is provided by import quotas that are auctioned off to the highest bidder.
    d. Industries seeking protection from imports pay bribes to customs officers to get them to charge tariffs higher than legally required.
    e. Insurance companies sell policies that promise to pay any tariff charges on traded goods when requested.

    Ans: *a*

11. Which of the following is an example of dumping into the United States?

    a. Indonesia, because of its low wages, exports shirts to the US for a price below those produced in the US.
    b. Japan exports cars to the US that are cheaper than we could produce them here because of Japan's superior technology.
    c. France sells wine in the US for a lower price than it charges in France, because France has a tariff on wine.
    d. Argentina sends beef to the US that is inferior to what it sells at home, but is able to charge a higher price for it here because it tastes better than US beef.
    e. All of the above except (d).

    Ans: *c*

12. Trade Adjustment Assistance

a. Is money given by the WTO to developing countries to help them implement their obligations as members.
b. Is assistance provided by the World Bank to countries seeking to subsidize their exports.
c. Is a permanent subsidy given by the U.S. government to firms so that they can avoid closing down in the face of import competition.
d. Includes extended unemployment compensation for workers laid off due to increased imports.
e. Is a popular form of industrial policy, designed to help strong firms become even more competitive on world markets.

Ans: *d*

13. According an assigned article titled "EU and Canada agree on interim alternative to WTO appeal court." Why did the EU and Canada do this?

a. The WTO Appelate Body had decided several cases against them.
b. The WTO Appelate Body was becoming unable to function due to the US blocking new appointments to it.
c. The WTO Appelate Body has no jurisdiction over countries that share a free trade agreement, as the EU and Canada do.
d. The EU and Canada did this only to deal with a single specific case involving trade in softwood lumber.
e. Canada had dropped out of the WTO but wanted to continue to trade with the EU.

Ans: *b*

14. According to the model of supply and demand for labor, used in class to study migration, migration from a low-wage Mexico to high-wage US causes

a. Employers of labor in the US to gain from a lower wage.
b. Employers of labor in Mexico to gain from a higher wage.
c. The migrants themselves to only break even, as migration expands until the costs equal the benefits.
d. Workers who remain in Mexico to lose, as each has to do more work for the same wage.
e. All of the above.

Ans: *a*

15. To the extent that foreign direct investment causes capital to be located in the host country instead of the source country, FDI causes

    a. Wages to rise in the host country.
    b. Wages to fall in the source country.
    c. The return to capital to rise in the source country.
    d. The return to capital to fall in the host country.
    e. All of the above.

    Ans: *e*

16. In class you saw pie charts showing shares of foreign direct investment received by several countries and groups of countries. Out of the following choices, which was host to the smallest share of FDI?

    a. United States.
    b. Europe
    c. Japan
    d. Other Asia
    e. Latin America

    Ans: *c*

17. If a country has a surplus in its balance on current account, that means that

    a. It is spending less than its income.
    b. It is subsidizing exports.
    c. Its tariffs on imports are higher than its taxes on exports.
    d. Its currency is undervalued.
    e. It is experiencing an economic boom.

    Ans: *a*

18. Suppose that the 90-day forward exchange rate is 1.2 $/€. If I buy €1,000 on the 90-day forward market, that means that I

    a. Pay $1,200 today and receive €1,000 90 days from now.
    b. Receive €1,000 now and pay $1,200 90 days from now.
    c. Pay $1,200 and receive €1,000, both 90 days from now.
    d. Pay $1,000 and receive €1,000 both today, but pay an extra $200 90 days from now.
    e. Receive $200 90 days from now if the spot exchange rate then is 1.0 $/€.

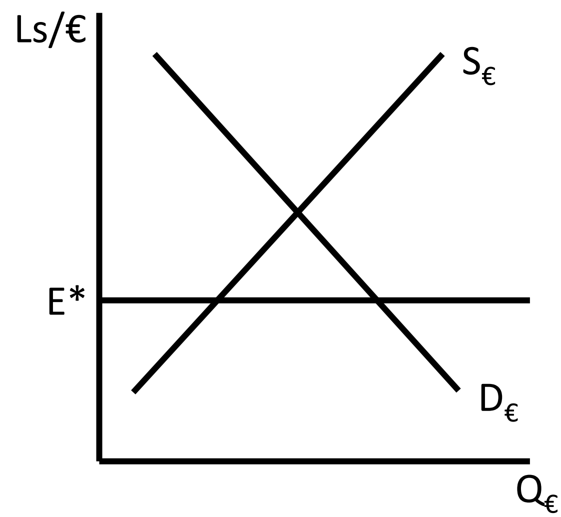
    Ans: *c*

19. In class you saw graphs of the "Trade-Weighted Dollar Index (Nominal)" and the "Trade-Weighted Dollar Index (Real)" from 1973 to the present. Which of the following describes how they compared from the beginning to the end of that period?

    a. The nominal value of the dollar fell while the real value ended about where it began.
    b. The nominal value of the dollar rose while the real value ended about where it began.
    c. The nominal and real values both rose.
    d. The nominal and real values both fell.
    e. Neither value changed over the whole period, but both rose and fell during the intervening years.

    Ans: *b*

20. The figure shows the foreign exchange market for Latvia, whose own currency, the lats (Ls), is pegged to the euro (€) at the rate shown as E*. Assuming that the Latvian central bank does <u>not</u> sterilize,



    a. Latvia's international reserves are increasing.
    b. Latvia's central bank is buying bonds.
    c. Latvia's central bank is selling bonds
    d. Latvia's money supply is decreasing.
    e. Latvia's central bank is buying euros.

    Ans: *d*

21. If your country's currency depreciates, you will suffer the largest fall in wealth, or even bankruptcy, if you

    a. Have borrowed in foreign currency to finance assets valued in domestic currency.
    b. Have borrowed in foreign currency to finance assets valued in foreign currency.
    c. Have borrowed in domestic currency to finance assets valued in foreign currency.
    d. Have borrowed in domestic currency to finance assets valued in domestic currency.
    e. Have never borrowed, and you hold only domestic currency.

    Ans: *a*

22. If the U.S. economy moves into recession due to a decline in consumer confidence, which of the following do we ***not*** expect?

    a. The U.S. dollar will depreciate.
    b. The U.S. interest rate will fall.
    c. GDP in other countries will expand.
    d. Aggregate demand abroad will decline.
    e. U.S. imports will shrink.

    Ans: *c*

23. Which of the following is required for a country to be named a currency manipulator by the US Treasury Department?

    a. Its GDP is growing faster than that of the US.
    b. Its exports are cheaper than its imports.
    c. It exports goods to the US for prices lower than it charges in its domestic market.
    d. Its currency is worth less than the US dollar.
    e. It repeatedly purchases foreign exchange.

    Ans: *e*

24. Which of the following did ***not*** happen when the euro was launched in January 1999?

    a. The value of the euro was set at the value of the European Currency Unit at the end of 1998.
    b. Separate national monetary policies were replaced by a single monetary policy conducted by the European Central Bank.
    c. Governments ceased issuing new debt denominated in their own currencies and issued it instead in euros.
    d. Financial markets started using the euro to denominate transactions.
    e. National notes and coins were retired and replaced by euro notes and coins.

    Ans: *e*

25. What is a "haircut" and what does it have to do with the Eurozone crisis?

a. An across-the-board reduction in tariffs on imports; required of Greece and Portugal on their imports from other Eurozone countries in return for assistance.
b. A mild form of austerity; being asked of Greece instead of the more severe budget cuts that would be called "scalping".
c. A severe form of austerity; insisted on by Germany in order to reassure German voters for the cost of bailing out Greece.
d. A write-down in the value of a debt, so that lenders take a substantial loss; used as a way to reduce the government debt of Greece closer to its GDP.
e. A negotiated reduction in the interest rate on government bonds; used to ease the debt burden on Greece.

Ans: *d*

26. Suppose that when NAFTA was formed, the US ceased buying softwood lumber from Finland and bought it instead from Canada. Which of the following statements about gains and losses from this change is ***false***?

a. US consumers gained because they paid less for wood.
b. Finland lost because it exported less wood.
c. Canada gained because it exported more wood.
d. The US as a whole lost because it was importing more costly wood.
e. None of the above; that is, all of the above statements are true.

Ans: *e*

27. The Infant Industry Argument for protection is "second best" because

a. A direct subsidy to production would achieve the same benefit at lower economic cost.
b. Protection of a country's infant industries can only make the country worse off.
c. Protection can be successful only if firms are readily able to borrow, and in developing countries that is not the case.
d. The argument requires that firms become more productive over time as a result of producing.
e. The most it can offer is to create a viable firm or industry, but it will never be the best in the world.

Ans: *a*

28. Krueger and Srinivasan, in the assigned article "Harsh Consequences of Forgiveness," argue that cancellation of the debts of poor countries should not be done because

    a. This will only encourage the countries to borrow more in the future.
    b. This will push other, currently rich countries into poverty.
    c. It will discourage future lending to poor countries.
    d. The poor countries got into debt because of their own errors, and they should bear the consequences.
    e. The resulting contraction in the world money supply would cause a global recession.

    Ans: c

29. What country or countries, relative to their national incomes, gave the most Official Development Assistance to developing countries in 2005 (the year for which data were graphed in lecture)?

    a. The United States
    b. Japan
    c. Southern European countries: Italy, Spain, and Greece.
    d. Northern European countries: Norway, Sweden, Netherlands and Denmark.
    e. Australia and New Zealand

    Ans: d

30. The World Bank's "Doing Business" indicators

    a. Record the industries in which countries have comparative advantage.
    b. Rank countries by the size of their foreign direct investment as host countries.
    c. Rank countries by the size of their foreign direct investment as source countries.
    d. Measure the ease of starting and running a business in many countries.
    e. Measure the sizes of countries' corporate sectors.

    Ans: d

31. It has been argued, correctly, that offshoring can be harmful to rich countries because

    a. They may lose a technological advantage in their export sectors.
    b. Production will shift to countries that are less productive, lowering world GDP.
    c. Prices of goods will rise due to transport costs.
    d. The multinational firms who engage in offshoring pay lower wages than domestic firms in poor countries.
    e. The resulting imported goods will be subject to tariffs, which are harmful.

    Ans: a

32. Which of the following Fundamental Conventions of the International Labor Organization has the United States ***not*** ratified?

    a. Right to Organize
    b. Right to Collective Bargaining
    c. Discrimination
    d. Minimum Age
    e. All of the above; that is, the US has ratified none of the above conventions
    Ans: e

33. Which of the following appeared in the news during the course?

    a. India blocks all exports of onions
    b. Saudi Arabia blocks exports
    c. US blocks imports of seafood from Thailand
    d. China blocks imports of beef and pork from Canada
    e. Hong Kong blocks exports of watches to Switzerland
    Ans: a

34. In September of this year, the United States became a net exporter, for the first time in seven decades, of

    a. Cars
    b. Soybeans
    c. Aircraft
    d. Chicken feet
    e. Oil
    Ans: e

35. In October of this year, the US and China planned to sign a trade agreement at a meeting of APEC in Santiago, Chile, that was scheduled for November 15-17. That did not happen. Why?

    a. The President of Chile objected to the agreement.
    b. The APEC meeting was cancelled due to disruption in Chile.
    c. China refused to sign the agreement.
    d. The US refused to sign the agreement.
    e. China and the US reached agreement late in October and signed it then, in order to upstage the European Unioin.

    Ans: b

Part II: Short Answer (63 points)

Answer on these sheets in the space provided.

1. (10 points) What do the following acronyms stand for in international economics, and/or what do they mean? (You need only answer either what they stand for or what they mean, but if you give both and get either correct, you'll get full credit.)

   a. ILO *Ans.:* *International Labor (or Labour) Organization: The United Nations organization that promotes labor standards.*

   b. NGO *Ans.:* *Non-governmental (or non-government) organization: A not-for-profit organization that pursues issues of interest to its members.*

   c. GSP *Ans.:* *Generalized (or General) System of Preferences: Tariff preferences for developing countries,*

   d. NTB *Ans.:* *Nontariff barrier: Any policy that interferes with exports or imports other than a simple tariff.*

   e. DAC *Ans.:* *Development Assistance Committee: The group of rich OECD countries that deal with issues relating to developing countries.*

   f. EMU *Ans.:* *Economic and Monetary Union: The group of countries that use the common currency, the euro.*

   g. USMCA *Ans.:* *United States Mexico Canada (Trade) Agreement: The renegotiated NAFTA.*

   h. ODA *Ans.:* *Official Development Assistance: Foreign aid to developing countries provided by governments.*

   i. MFN *Ans.:* *Most favored nation: The principle, in GATT and WTO, of treating imports from any member country on the same basis as the most favored other nation.*

   j. ATAA *Ans.:* *Alternative Trade Adjustment Assistance: The program of wage insurance that was added to TAA.*

2. (8 points) Each of the tables below shows ***either*** the amounts of labor required to produce one unit of each of two goods in two countries, ***or*** the outputs per unit of labor in each industry and country, as stated above the table. In each case, there are only two goods and only two countries in the world. Fill in the blanks with the name of a **good** or **country**, or with one of the words "**both**" or "**neither**," as appropriate.

a. ___*Germany*___ (country) has an absolute advantage in producing wine.

___*France*___ (country) has a comparative advantage in producing beer.

Labor needed per unit of output

Good	Country: Germany	France
Wine	100	300
Beer	50	100

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b. ___*Iran*___ (country) has an absolute advantage in producing nails.

___*Iraq*___ (country) has a comparative advantage in producing screws.

Output per unit of labor

Good	Country: Iran	Iraq
Nails	120	100
Screws	22	20

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c. Paraguay will import (good) ___*beans*___

Uruguay will import (good) ___*corn*___

Output per unit of labor

Good	Country: Paraguay	Uruguay
Beans	1000	800
Corn	400	300

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d. Peru will export (good) ___*Iron*___

Chile will export (good) ___*Copper*___

Labor needed per unit of output

Good	Country: Peru	Chile
Copper	0.3	0.2
Iron	80	100

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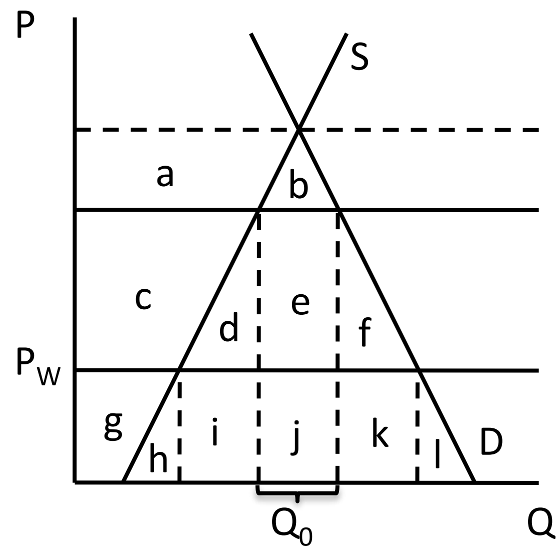
3. (10 Points) The graph at the right shows the domestic market for an imported good in a small country facing a world price P_W. Initially it is restricting imports to the quantity Q_0 using a quota, with the rights to import under the quota allocated to foreign governments. It now removes the quota completely. Using the labeled areas in the figure, fill in the blanks below indicating who gains and who loses **from removing** the quota, and how much they gain or lose. (Be sure to say either "gain" or "lose", as well as indicating the amount.)



As a result of **removing** the quota…

a. Domestic producers of this good: *Lose c*

b. Domestic demanders of this good: *Gain (c+d+e+f)*

c. The domestic government *No change*

d. The country as a whole *Gains (d+e+f)*

e. The foreign country government *Loses e*

4. (10 Points) Suppose that, a few years ago, China announced that it would tax exports of apparel. Assuming that the tax is large enough to matter, and treating the world as though it consists only of China and the United States, indicate below what you would expect the effects of this tax to be. For this purpose you should assume
   - that China is relatively well endowed with labor (compared to capital),
   - that apparel is a relatively labor-intensive good,
   - that both China and the U.S. are large enough to matter for world prices, and
   - that neither country (contrary to fact) has previously been using any policy to limit trade.

   Hint: In this two-country context, a tax on an export by one of the countries has all the same effects as a tax on imports of the same good by the other country, *except* for which country's government gets the revenue from the tax.

   Answer the questions by circling the correct option provided in brackets ([ ]).

   China's export tax on apparel would cause…

   a. The price of apparel to consumers in China to [rise / fall / stay the same / unsure]. (fall)

   b. The price of apparel to consumers in the U.S. to [rise / fall / stay the same / unsure]. (rise)

   c. Production of apparel in the U.S. to [rise / fall / stay the same / unsure]. (rise)

   d. Production of apparel in China to [rise / fall / stay the same / unsure]. (fall)

   e. Welfare of China as a whole to [rise / fall / stay the same / unsure]. (unsure)

   f. Welfare of the U.S. as a whole to [rise / fall / stay the same / unsure]. (fall)

   g. The wage of labor in the U.S. to [rise / fall / stay the same / unsure]. (rise)

   h. The wage of labor in China to [rise / fall / stay the same / unsure]. (fall)

   i. Employment in the U.S. *outside* the apparel sector to [rise / fall / stay the same / unsure]. (fall)

   j. Employment in China *outside* the apparel sector to [rise / fall / stay the same / unsure]. (rise)

5. (7 Points) In each case below you are first told about a country's exchange rate regime – whether its exchange rate is floating or pegged, and also whether it is or is not sterilizing the effects of any exchange-market intervention that it may (or may not) do. You are then given an **event** that might occur. Indicate the requested effects of that event by circling the appropriate answer from among those provided in brackets ([ ]).

   a. The UK is allowing its currency, the pound, to float against the US dollar. It does NOT sterilize.

      Event: The interest rate in the UK rises. As a result:

      The pound [appreciates / depreciates / does not change] (appreciates)

      US exports [increase / decrease / do not change] (increase)

   b. China is pegging its currency, the yuan, to the US dollar, but initially the yuan is neither over-valued nor under-valued. China DOES sterilize.

      Event: A new type of Chinese clothing, made of Chinese rice, becomes popular in the US, and trade in it is not restricted. As a result:

      The yuan [appreciates / depreciates / does not change] (does not change)

      Chinese foreign exchange reserves [increase / decrease / do not change] (increase)

      The Chinese money supply [increases / decreases / does not change] (does not change)

   c. Venezuela is pegging its currency, the bolivar, to the US dollar, and its currency is initially over-valued, so that its foreign exchange reserves are falling over time. It does NOT sterilize.

      In this situation, Venezuela's money supply is [rising / falling / not changing] over time. (falling)

      Event: Political instability in Venezuela now causes international investors to fear a Venezuelan devaluation. As a result:

      Venezuela's foreign exchange reserves [fall more rapidly / fall less rapidly / do not change their rate of decline] (fall more rapidly)

6. (7 Points) Circle the correct choices in brackets ([ ]) in the following paragraph to make it a valid description of how developing countries experience financial crises. For those answers that should follow from the preceding answer (marked by →), you will be graded on whether your answer is correct given your preceding answer.

   Developing countries that experience financial crises have, prior to the crisis, a

   pegged
   [floating / pegged] exchange rate. They also have accumulated large amounts of debt

   low
   that they owe to foreigners, motivated by the **[high / low]** foreign interest rates compared to interest rates and returns to capital at home. As the crisis approaches in a

   fall
   country, its international reserves **[rises / fall]** for any of a variety of reasons, and this in turn makes international investors nervous about holding the country's currency. As they pull out of the country, the change in reserves accelerates, until the current exchange regime becomes unsustainable. At that point the crisis hits, and the country's currency

   depreciates
   →[appreciates / depreciates], often by a large amount. This change in the exchange rate causes those who have borrowed from abroad to find that the value of their debt is

   increased
   →[increased / decreased] relative to the value of their assets. This in turn, by changing their wealth, causes them also to change their spending, and as a result aggregate demand

   decreases
   in the country **→[increases / decreases]**, pushing the country into

   recession
   →[inflation / recession].

7. (5 Points) The table below shows exchange-rate data from an issue of the *Wall Street Journal*, back when it still reported forward exchange rates. Note from the column headings that the *WSJ* reports rates for the most recent day to the left of the day before. Answer the questions below the table based on these data.

Exchange Rates December 14, 2012

	IN US $		PER US $	
Country	**Fri**	**Thu**	**Fri**	**Thu**
Argentina (Peso)	0.2050	0.2052	4.8790	4.8736
Bahrain (Dinar)	2.6519	2.6522	0.3771	0.3770
Australia (Dollar)	1.0565	1.0528	0.9465	0.9499
1-month forward	1.0541	1.0503	0.9487	0.9521
3-months forward	1.0494	1.0457	0.9529	0.9563

a. Which currency (or currencies) of the three listed, appreciated from Thursday to Friday relative to the US dollar?

Only the Australian dollar

b. Suppose that on Friday Dec. 14, 2012, an Australian exporter (who has only Australian dollars, A$) sells a shipment of office equipment to a firm in the U.S., with a contract to be paid US$80,000 (that's U.S dollars) when it is delivered on Jan 13, 2013. If the exporter wants to avoid uncertainty about what this will be worth in her own Australian dollars, what should she do?

i. Which currency should she buy, which should she sell, and on what market?

She should sell US dollars and buy Australian dollars on the 1-month forward market

ii. How much, as a result, will she get in Australian dollars? Assume that she can actually transact at exactly the exchange rates listed in the table. If you don't have a calculator, just show the arithmetic that you would use to get the answer.

Since she sells US$80,000 on the one-month forward market, the relevant exchange rate is 0.9487 A$/US$, so she gets 80,000 × 0.9487 = A$75,896 one month from now, on Jan 13, 2013. (Equivalently, she will be buying A$75,896, for which she will pay US$80,000 one month from now.)

iii. When does she pay one currency, and when does she receive the other currency?

Both on Jan 13, 2013

8. (6 points) Define these terms, as used in the context of international economics:

a. Montreal Protocol

Ans. An international agreement reducing the production of CFCs – chemicals that destroy the ozone.

b. Race to the bottom

Ans. The tendency for regulations on environmental and/or labor standards to be made progressively weaker as countries compete with one another to attract and support their industries.

c. Contagion

Ans. Speculative attacks on currencies, prompted by crises in similar countries or currencies.

d. Countervailing duty

Ans. A tariff levied on imports to offset the effect of a foreign subsidy.

e. Trade diversion

Ans. In a preferential trading arrangement, the move to import from a partner or favored country goods that were previously imported from a country outside the arrangement.

f. Watch list

Ans: A list of countries that the US Treasury identifies as satisfying some, but not all, of its criteria for being a currency manipulator, and therefore that it will pay close attention to.