

**Questions for PubPol/Econ 541**  
**Sep 20**

## **International Transactions and the Trade Balance**

**KOM, Ch 13:**

- Why does GNP only include consumption of final goods, not firms' purchases of intermediate inputs?
- What are "reparation payments," mentioned in the text as an example of unilateral transfers but not explained?
- What's the difference between GNP and GDP?
- Why are imports subtracted from C+I+G+EX in calculating GDP? Is it because imports cause unemployment?
- The book defines a country's current account surplus as its exports minus its imports. Why is this also said to equal "net foreign investment"?
- What distinguishes credits and debits in the balance of payments?
- What distinguishes the current account from the financial account?
- Why must credits and debits exactly offset if measured accurately?
- For which categories of transactions did credits exceed debits for the United States in 2019 (the year reported in KOM)?
  - Trade in goods
  - Trade in services
  - Investment (i.e., "primary income")
  - Transfer payments (i.e., "secondary income")
  - Changes in asset holdings
- What are, and what are not, the implications of a trade deficit?
  - Jobs?
  - Debt?
  - Trade barriers at home and/or abroad?
  - Competitiveness or lack thereof?

**Berg, Elliot, Jr., "A Look at the U.S. International Transactions Fourth Quarter and Year 2022," *Survey of Current Business*, Bureau of Economic Analysis, April 11, 2023.**

- What mostly happened to current account transactions in the fourth quarter of 2022 compared to the third?
- What happened to the financial transactions?

**Obstfeld, Maurice, "Targeting specific trade deficits is a game of whack-a-mole," *Financial Times*, April 22, 2018.**

- Is a country with a trade deficit losing from trade?
- What does a country's overall trade balance reflect?
- Why does the author mention what the IMF says?
- What determines a country's bilateral deficits and surpluses?
- What does he say will happen if the US reduces its imports of aluminum?

- Why does the fact that the US is at full employment matter for this discussion?

**Scott, Robert E., “U.S. trade deficits hits record highs in 2021,” Working Economics Blog, Economic Policy Institute, February 15, 2022.**

- Which has risen most, the US trade deficit in goods or in manufacturing? Why is this important, according to Scott?
- On what basis does he connect the trade deficit to jobs?
- What does he blame for the high and rising US trade deficits?
- What US policy changes does he call for?

**Krugman, Paul, “Of Dictators and Trade Surpluses,” *New York Times*, August 23, 2022.**

- What does he say is the source of Russia’s trade surplus?
- What does he say is the source of China’s trade surplus? ?
- Why does he say that the surpluses are good for other countries?
- Why are dictators more likely to have these problems?

### **Optional to Read:**

**Scott, Robert E. and Zane Mokhiber, “Growing China trade deficit cost 3.7 million American jobs between 2001 and 2018,” Report, Economic Policy Institute, January 30, 2020. [pp. 1-9]**

- How do these authors calculate the US job effects of trade?
- With this method, is there any way that a trade deficit could not be associated with lost jobs?
- Why, according to this, did the US deficit with China grow after it joined the WTO?
- Might the workers who lost jobs due to trade have found jobs in other sectors?
- How do the authors relate their results to the US overall rate of unemployment during this period?
- Did Trump’s policies reverse this?

**Buffett, Warren E., “America’s Growing Trade Deficit Is Selling the Nation Out From Under Us. Here’s a Way to Fix the Problem—And We Need to Do It Now,” *Fortune*, November 10, 2003.**

- Why wouldn’t the citizens of Thriftville be willing simply to hold the IOUs of Squanderville?
- Is the U.S. trade deficit quantitatively important?
- What policy solution does Buffett propose for ending the trade deficit?