Econ 340

Lecture 24
Review

Lecture 24 Outline

For each lecture:
- Outline
- Major questions
- Lists of
  – Terms
  – Acronyms
- Clicker questions
  – Especially on graphs

Lecture 1: Overview of the World Economy

Overview of the World Economy
- "Globalization"
- Elements of the World Economy
- Ways that Countries Interact
  – Trade
  – Capital Flows
  – Migration
- Policies that Affect Others
- Institutions

- What are the elements of the world economy?
- How have they changed?
- Who trades the most?
- Who trades with whom?

Lecture 1: Overview of the World Economy

- Terms
  – Globalization
  – Openness
  – Gross domestic product
  – Regional trade agreement
  – Capital flow
  – Shallow integration
  – Supply chain
  – Emerging market
  – Beggar they neighbor
  – Bretton Woods
- Acronyms
  – CIA
  – IMF
  – WTO
  – GATT
  – IBRD
  – FDI
  – RTA
  – NAFTA
  – SDR

Lecture 2: Current Tensions in the International Economy

- NAFTA
- Brexit
- Trade War
  – Metals
  – China
  – Other?
- WTO
- Currencies

- What "tensions" do these refer to?
- What tariffs were levied?
  - On what?
  - On whom?
  - How big?
- What tariffs were threatened but not (yet) levied?

Lecture 2: Current Tensions in the International Economy

- Terms
  – Rules of origin
  – Brexit (& No Deal Brexit)
  – Hard border
  – Irish backstop
  – Trade war
  – Truce
  – National security
  – Developing country
  – Appellate body
  – Currency manipulation
  – Joint venture
  – Section 301
- Acronyms
  – NAFTA
  – ROOs
  – USMCA
  – EU
  – WTO

Lecture 3: Comparative Advantage and the Gains from Trade

- Why Countries Trade
  - Price Differences
  - Supply and Demand
  - Determinants of Prices
- Ricardian Model of Trade
  - Examples
  - Wages and Prices in the Ricardian Model
  - Lessons from the Ricardian Model
- Generality of the Gains from Trade
- Identifying Comparative Advantage
- Critiques of Comparative Advantage

> - How do you define comparative advantage?
> - How does Ricardian theory reassure a low-productivity country?
> - How does Ricardian theory reassure a high-wage country?

Lecture 3: Comparative Advantage and the Gains from Trade

- Terms
  - Absolute advantage
  - Comparative advantage
  - Opportunity cost
  - Consumer surplus
  - Producer surplus
  - Productivity
  - Trade adjustment assistance
  - Autarky
  - Ricardian model
  - Protection
  - Mercantilism

Lecture 4: Modern Theories and Additional Effects of Trade

- Sources of Comparative Advantage
- The Heckscher-Ohlin Model
  - Main Idea
  - Intuition
  - Does the Theory Work?
- Effects of Trade
  - Changes in Production
  - Factor Price Equalization
- The New Trade Theory
  - Assumptions
  - Implications
- The <u>New</u> New Trade Theory

> - Why is comparative advantage a <u>double</u> comparison?
> - How do these theories differ in their assumptions?
> - How do they differ in their implications?

Lecture 4: Modern Theories and Additional Effects of Trade

- Terms
  - Scale economies
  - Factor of production
  - Factor intensity
  - Scarce factor
  - Heckscher-Ohlin Theorem
  - Stolper-Samuelson Theorem
  - Leontief Paradox
  - Imperfect competition
  - Product differentiation
- Terms
  - Intra-industry trade
  - Strategic trade policy
  - Heterogeneous firms
  - Increasing returns to scale
  - Intra-firm trade
  - Capital-intensive industry
- Acronyms
  - IIT

Lecture 5: Tariffs

- What Are They?
- Who Uses Them?
- Effects of Tariffs
  - Small Country Case
    - Effects on quantities and prices
    - Effects on economic welfare
  - Large Country Case
    - Effect on world price
    - Effect on welfare
  - Size of These Effects
- Addenda on Tariffs

> - Who gains and who loses from a tariff?
> - Be able to analyze all of these cases.

Lecture 5: Tariffs

- Terms
  - Ad valorem
  - Specific tariff
  - Chicken tax
  - Dead-weight loss
  - Large country case
  - Optimal tariff
  - Terms of trade
  - Partial equilibrium
  - Homogeneous product
  - Effective protection
  - Retaliation
- Acronyms
  - DWL
  - ERP

Lecture 6: Nontariff Barriers

- What Are NTBs?
- Quotas
  - Effects Equivalent to Tariffs
  - Who Gets the Rents
- Other NTBs
  - Tariff-Rate Quotas
  - Voluntary Export Restraints (VERs)
  - Variable Levies
  - Government Procurement Regulations
  - Customs Procedures
  - Standards
  - Unfair Trade Laws
  - Export taxes
- Subsidies

- What are these?
- How are they like tariffs?
- How are they different?

Lecture 6: Nontariff Barriers

- Terms
  - Import quota
  - Quota rent
  - Tariff equivalent
  - Import license
  - Auction of quota
  - Rent seeking
  - Quality upgrading
  - Tariff-rate quota
  - Common Agricultural Policy
  - Buy American
  - Customs procedure
- Terms
  - Variable levy
  - Anti-dumping duty
  - Countervailing duty
  - Export tax
  - Subsidy
  - Procurement regulation
- Acronyms
  - NTB
  - NTM
  - TRQ
  - VER
  - CAP

Lecture 7: Reasons for Protection

- Reasons that DO NOT Make Economic Sense
  - Pauper Labor
  - Fairness
  - Patriotism
  - Retaliation
- Reasons the DO Make Economic Sense, with Counter-Arguments
  - Revenue
  - Optimal Tariff
  - Infant Industry
  - National Security
  - Culture
  - Unfair Trade
  - Protect Favored Industry
  - Retaliation…
- Production Subsidy versus Tariff
- Why Aren't Tariffs Higher?

- What are these reasons?
- Are there counter-arguments for them?

Lecture 7: Reasons for Protection

- Terms
  - Pauper labor
  - Optimal tariff
  - Zero-sum game
  - Infant industry
  - National security
  - Retaliation
  - Protection for Sale
  - Second best
  - Economic sanction
  - Political economy
- Acronyms
  - GATT

Lecture 8: US Trade Policies and Institutions

- Parts of the US Government that Handle Trade
- Main Features of US Trade Policies
  - Tariffs, Quotas, VERs
  - Escape Clause
  - Unfair Trade Laws
  - Trade Adjustment Assistance
  - Fast Track
  - GSP
- Dumping and Anti-Dumping
- Why the US Protects
- Trends in US Trade Policy

- What are these and what do they do?

- What are these?
- Do other countries have them too?

- What are dumping and anti-dumping ?

Lecture 8: US Trade Policies and Institutions

- Terms
  - Trade Commissioner
  - Ways and Means
  - Finance Committee
  - Columns 1 and 2
  - Trade restrictiveness index
  - Escape clause
  - Section 201
  - Unfair trade
  - Trade Adjustment Assistance
  - Predatory dumping
- Terms
  - Wage insurance
  - Fast Track
  - Dumping
  - Countervailing duty
  - Industrial policy
  - Standing
- Acronyms
  - METI
  - USTR
  - ITA
  - USITC
  - VER
  - TAA
  - ATAA
  - TPA
  - TPP
  - GSP
  - CVD
  - MFA

Lecture 9: World Trade Arrangements and the WTO

- International Organizations
- World Trade Organization
  - History, as GATT
  - GATT Rounds
  - WTO Today
  - Functions
- Current Issues
  - Seattle Protests and Beyond
  - Doha Round
  - Disputes
  - Other Issues
- WTO Critiques

- What does the WTO do?
- How successful has it been?

Lecture 9: World Trade Arrangements and the WTO

- Terms
  - Smoot-Hawley
  - Ministerial meeting
  - Rounds (Kennedy, Tokyo, Uruguay, Doha)
  - Swiss Formula
  - National treatment
  - Consensus
  - Dispute settlement
  - Tariff binding
  - Panel
  - Appellate Body
- Terms
  - Plurilateral agreement
  - Market-economy status
  - Shrimp-turtle dispute
  - Principal supplier and demander
  - World Bank
  - Trade facilitation
- Acronyms
  - GATT
  - WTO
  - OECD
  - EU
  - NAFTA
  - USMCA
  - UNCTAD
  - ILO
  - WIPO
  - NGO
  - ITO
  - GATS
  - TRIPs
  - MFN

Lecture 10: Migration

- Why People Migrate
- Why Wages Differ across Countries
- Effects of Migration
  - On Payments to Factors
    - Labor
    - Other
  - Other Effects
- Policies to Affect Migration
- Facts about Migration

- How is migration like trade?
- How is it not like trade?

Lecture 10: Migration

- Terms
  - Intangible wealth
  - Infrastructure
  - Property rights
  - Remittances
  - Population pyramid
  - Guest worker program
  - South-south migration
  - Balkanization
  - Brain drain
  - Demand-pull vs. supply-push

Lecture 11: Multinationals and International Capital Movements

- Terminology
  - FDI, DFI, MNEs, MNCs
  - Real Versus Financial Capital
- History
- Purposes Served by FDI
  - Local Market versus Export
  - Reasons for FDI
- Who Gains and Who Loses?
  - Effects that are Similar to Trade
  - Effects that are Similar to Migration
  - Other Effects

- How is FDI like trade?
- How is it not like trade?
- How is FDI like migration?
- How is it not like migration?
- Who are mostly sources?
- Who are mostly hosts?

Lecture 11: Multinationals and International Capital Movements

- Terms
  - Foreign direct investment
  - Capital flow
  - Source country
  - Host country
  - Export platform
  - Tariff jumping
  - Transplants
- Acronyms
  - DFI
  - FDI
  - MNE
  - MNC
  - TNC
  - MOFA *=Majority-owned foreign affiliate*

Lecture 12: The Balance of Trade and International Transactions

- What Is the Balance of Trade?
- What the Balance of Trade Does **Not** Mean
- International Transactions
  - Current Account
  - Financial Account
- What the Balance of Trade **Does** Mean
  - From Balance of Payments Accounting
  - From National Income Accounting

- How do transactions enter the accounts?
- What does a deficit really mean?

Lecture 12: The Balance of Trade and International Transactions

- Terms
  - Trade balance
  - Current account
  - Financial Account
  - Transfer payments
  - Credits
  - Debits
  - Primary income
  - Secondary income
  - Statistical discrepancy
  - Recession
- Terms
  - Investment position
  - Plaza Accord
  - Official reserve assets
  - Odious debt

Lecture 13: Exchange Rates

- In What Forms Are Exchange Rates Reported?
  - Bilateral Nominal Rates
  - Multilateral (Trade-Weighted) Rates
  - Real Rates
  - Forward Rates
- What Determines Exchange Rates?
  - Markets
  - Governments/Central Banks
- Theories of Exchange Rates
  - Purchasing Power Parity
  - Asset Theory
  - Supply and Demand Model

- In what forms are exchange rates reported?
- How are they determined?
  - Three theories

Lecture 13: Exchange Rates

- Terms
  - Bilateral rate
  - Multilateral rate
  - Real rate
  - Forward rate
  - Overvalued/undervalued
  - Big Mac Index
  - Appreciate/depreciate
  - Arbitrage
  - Law of one price
  - Dirty float
  - Devaluation

Lecture 14: Pegging the Exchange Rate

- How It's Done
  - Market Intervention
  - Bands of Fluctuation
  - Hybrids of Pegged and Floating
  - The Gold Standard
- Who Pegs?
- Mechanics of Intervention
  - Reserves
  - Money Supply
  - Sterilization
- Effects of Pegging
- Chinese Currency Manipulation

- How are exchange rates pegged?
- What, why, and how is sterilization?

Lecture 14: Pegging the Exchange Rate

- Terms
  - Pegging
  - Intervention
  - Par value
  - Managed float
  - Leaning against the wind
  - Crawling peg
  - Gold standard
  - International reserves
  - Sterilization
  - Overvalued/undervalued
- Terms
  - Exchange-rate crisis
  - Currency manipulation
  - Dollarization

Lecture 15: International Macroeconomics

- Recall Macro from Econ 102
  - Aggregate Supply and Demand
  - Policies
- Effects ON the Exchange Market
  - Expansion
  - Interest Rate
- Effects OF the Exchange Market
  - Depreciation effects via Trade
  - Depreciation effects via Net Wealth
- Effects THOUGH the Exchange Market

- How do macro policies affect exchange rate?
- How do exchange rate changes affect macro economy?
- How do macro changes in one country affect others?

Lecture 15: International Macroeconomics

- Terms
  - Aggregate supply
  - Aggregate demand
  - Natural rate of output
  - Monetary expansions/contraction
  - Non-monetary expansion/contraction
  - Fiscal policy
  - Trade effect of depreciation
  - Wealth effect of depreciation
  - Pass-through
- Acronyms
  - LRAS
  - SRAS
  - AD

Lecture 16: Currency Manipulation and Currency Wars

- Currency Manipulation
  - What it is
  - Chinese currency manipulation
  - Other currency manipulation
- Currency Wars
  - History
  - Currency war today?
  - Currency war effects

- How is currency manipulation identified?
- When has, and has not, China manipulated its currency?
- What happens in a currency war?

Lecture 16: Currency Manipulation and Currency Wars

- Terms
  - Currency manipulation
  - One-sided intervention
  - Current account surplus
  - Reserves
  - Renminbi
  - Yuan
  - Watch list
  - Stimulus
  - Key threshold
  - Currency war
  - Gold standard
- Terms
  - Silver Purchase Act
  - Nixon Shock
  - Plaza Accord
  - Great Recession
  - Flight to safety
- Acronyms
  - ECB

Lecture 17: European Monetary Unification and the Euro

- What Is It?
- History of the EMU
- Need for Convergence
- Pros and Cons of Unification
  - Why Adjustment Is Hard
  - Winners and Losers under EMU
- What Happened?
- The Eurozone Crisis

- When was the euro created, and for whom?
- What is needed for the single currency to work?
- What initiated and what terminated the eurozone crisis?

Lecture 17: European Monetary Unification and the Euro

- Terms
  - Eurozone
  - Snake in the tunnel and floating snake
  - Maastricht Treaty
  - Convergence
  - Fiscal restraint
  - Asymmetric shock
  - Parity
  - Quantitative easing
  - Troika
- Terms
  - Spread
  - Banking union
  - Haircut
  - Bail-in
  - Doom loop
  - Perverse loop
  - Sudden stop
- Acronyms
  - ECB
  - EMU
  - EMS
  - ERM
  - ECU
  - CPI
  - SGP
  - PIGS
  - PIIGS
  - EZ
  - PSI

Lecture 18: Preferential Trading Arrangements and the NAFTA

- What Are PTAs?
- Examples
  - European Union (EU)
  - North American Free Trade Agreement (NAFTA)
- Effects of PTAs
  - Not the Same as Free Trade
    - Trade Creation
    - Trade Diversion
  - Market Diagram Illustration
- NAFTA
  - History
  - Analysis
  - What Happened?
- NAFTA Renegotiation and USMCA

- What and where are PTAs?
- What is trade diversion, and how does it hurt?
- What happened with NAFTA?
- How does USMCA differ from NAFTA?

Lecture 18: Preferential Trading Arrangements and the NAFTA

- Terms
  - Free trade area
  - Customs union
  - Common market
  - Anti-dumping duty
  - Countervailing duty
  - Rules of origin
  - Mercosur
  - Trade creation
  - Trade diversion
  - Chapters 11 and 19
  - Sunset clause
- Acronyms
  - PTA
  - FTA
  - RTA
  - GSP
  - GATT
  - MFN
  - ROO
  - EEC
  - CAFTA
  - TPP
- Acronyms
  - NAFTA
  - ISDS
  - USMCA
  - BIT

Lecture 19: International Policies for Economic Development: Trade

- The Main Issues of Development
- The Washington Consensus
- Special Problems of Developing Countries
- Pros and Cons of Tariffs Used by Developing Countries
  - The Infant Industry Argument
  - Primary-Product Specialization
  - Growth and Exports / Import Substitution
- Pros and Cons of Subsidies Used by Developed Countries
- Policy Recommendations

- What policies are recommended for developing countries?
- Are these different than for developed countries, and why?
- How should developed countries behave differently?

Lecture 19: International Policies for Economic Development: Trade

- Terms
  - Washington Consensus
  - Copenhagen Consensus
  - Fiscal discipline
  - Tax reform
  - Privatization
  - Third world
  - Human capital
  - Economic freedoms
  - Intangible capital
  - Infant industry
  - Second best
- Terms
  - Primary product
  - Terms of trade
  - Import substitution
  - Export promotion
  - Four Tigers
  - Subsidy
  - Demographic transition
- Acronyms
  - LDC
  - LIC
  - MIC
  - HIC
  - GSP
  - METI

Lecture 20: International Policies for Economic Development: Financial

- The Issues
- Choice of Exchange Rate Regime
- Pros and Cons of Free Capital Movements
  - Debt Problem of the 1980s
  - The Asian Crisis of 1997
  - Capital Controls
- (How) Should Others Help?
- The World Financial Crisis and Developing Countries

- Are floating exchange rates worse for developing countries?
- Why should, or should not, developing countries restrict capital flows?
- Are bailouts and debt forgiveness good for developing countries?

Lecture 20: International Policies for Economic Development: Financial

- Terms
  - Bailout
  - Debt forgiveness
  - Exchange-rate anchor
  - Leverage
  - Currency risk
  - Liquid capital
  - Latin American debt problems
  - Petrodollars
  - Loan rescheduling
  - Lost decade
- Terms
  - Asian Crisis
  - Speculative attack
  - Capital controls
  - Contagion
  - Moral hazard
  - Technical assistance
  - Economic populism
- Acronyms
  - OPEC
  - HPAE
  - HIPC

Lecture 21: International Policies for Economic Development: Aid

- Why Should We Care?
- Who Gives Aid?
- Does Aid Work?
- Pros and Cons of Aid
- Policy Recommendations
- Where We Stand in Development

- Who gives aid?
- Does aid help growth?
- Does aid reduce poverty?
- How can aid be made more effective?
- What are/were the MDGs and SDGs?

Lecture 21: International Policies for Economic Development: Aid

- Terms
  - Live Aid / Live 8
  - Private aid
  - Connectivity
  - Triple transformation
  - Scalability
  - Accountability
  - Tied aid
  - Food aid
  - Doing Business
- Acronyms
  - USAID
  - ODA
  - DAC
  - CIAO
  - MCA
  - MDG
  - SDG

Lecture 22: Outsourcing and Offshoring

- Definitions of OS
- Causes of OS
- Effects of OS
- Facts about OS
- Policies

- What are the causes and effects of offshoring?
- Is offshoring expected to increase or decrease over time?

Lecture 22: Outsourcing and Offshoring

- Terms
  - Offshoring
  - Outsourcing
  - Offshorable vs. not offshorable
  - Made in the world
  - Logistics
  - Reshoring
  - Adjustment assistance

Lecture 23: Environment, Labor Standards, and Trade

- The Issues
- Environment
  - Examples
  - Policies
  - International Problems
  - Role of the WTO
- Labor Standards
  - Fundamental ILO Conventions
  - United States Role
  - Issues

- What environmental problems are related to trade?
- Why might trade and the WTO be harmful for environmental and labor standards?
- Does the US support strong labor standards?

Lecture 23: Environment, Labor Standards, and Trade

- Terms
  - Externality
  - Maquiladoras
  - Tuna-dolphin
  - Shrimp-turtle
  - Cap and trade
  - Optimal externality
  - Montreal Protocol
  - Pollution tax
  - Pollution haven
  - Race to the bottom
- Terms
  - Produce-more-pollute-more model
  - Harmonization
  - Fundamental labor standard
  - Income elastic
  - Carbon tariff
  - Carbon leakage
  - ILO Conventions
- Acronyms
  - NAFTA
  - TPP
  - USMCA
  - CFC
  - ILO
  - MNE
  - NGO
  - WTO
  - TRIPs
  - FTA