Study Questions

Lecture 1
Overview of the World Economy

Part 1: Multiple Choice

Select the **best** answer of those given.

1. How many countries are there in the world?

   a. Fewer than ten
   b. Between 10 and 100
   c. Between 100 and 500
   d. More than 500
   e. The number changes too rapidly to select among these answers.

   Ans: c (There are 164 countries in the WTO, around 240 in the World.)

2. Approximately what percentage of what the United States consumes is produced inside its borders?

   a. 2%
   b. 15%
   c. 50%
   d. 85%
   e. 98%

   Ans: d (87%, according to Gerber.)

3. The less developed countries of the world trade mostly with

   a. Developed countries
   b. Other less developed countries
   c. Former communist countries
   d. Nobody. They do not trade
   e. None of the above

   Ans: a (Illustrated by the data in class, where Latin America trades most with North America and Africa trades most with Europe. Data here are not *helpful for Asia, since it mixes developed Japan with less developed others.)*

4. At what date, approximately did or will the total GDP at market exchange rates of the "emerging economies" (as the term is used by *The Economist*) exceed that of the developed economies.

   a. 1998
   b. 2008
   c. 2018
   d. 2028
   e. Never

   Ans: c

5. Which of the following is **not** an international capital flow?

   a. An American depositing money in a bank account in Zurich, Switzerland.
   b. A German buying a U.S. Treasury bill.
   c. A Canadian purchase of a Japanese-made automobile.
   d. A Brazilian firm borrows from an Argentine bank.
   e. A Korean car company buys a factory in California.

   Ans: c (Purchase of a car is trade, not a capital flow.)

6. Which of the following countries was one of the "notable exceptions" mentioned by the Gerber textbook as not being driven into recession by contagion from the US housing crisis of 2007?

   a. Mexico
   b. Spain
   c. India
   d. Japan
   e. Greece

   Ans: c (See Gerber's first paragraph.)

7. Comparing the extent of globalization today with 50 and 100 years ago, which of the following is *not* true?

   a. Trade as a fraction of GDP is greater today than it was 100 years ago.
   b. Trade as a fraction of GDP declined during the first half the 20^{th} century.
   c. There is greater international movement of financial capital today than there was in 1950.
   d. The fraction of the US population that is foreign born was higher at the end of the 20^{th} century than it was at the end of the 19^{th} century.

e. In the last 50 years, US trade as a fraction of US output of goods has grown from less than 10% to more than 20%.

Ans: d (This fraction was 14.5% in 1890, only 8% in the 1990s, according to Gerber.) (Note for part e that "trade" means exports plus imports, which is why this is much larger than the export/GDP ratio reported in class.)

8. How did US tariffs in 2016 compare to what they were 70 years ago?

a. Tariffs in 2016 had been eliminated; 70 years ago they averaged 100%.
b. Tariffs in 2016 were only one tenth as large, on average, as they were then.
c. Tariffs had been cut in half.
d. Although different products had higher tariffs than before, the average tariff in 2016 was about the same as 70 years ago.
e. Recent concerns over outsourcing have pushed US tariffs about ten percentage points above what they were just after World War II.

Ans: b (As reported in lecture, average US tariffs have fallen from about 40% to about 4%. The question references 2016, which was prior to the tariff increases of the Trump administration)

9. According to the graph of advanced and emerging nation trade shown in class, what happened in 2005 when the curves cross?

a. Advanced nation trade for the first time grew larger than emerging nation trade.
b. Emerging nation trade for the first time grew larger than advanced nation trade.
c. Only in this year were the rates of growth of trade the same in the two groups of nations.
d. World trade became the same as the sum of advanced nation trade and emerging nation trade.
e. Nothing special. The curves cross only because both are measured as indices equal to 100 in 2005, and emerging nation trade grew faster than advanced nation trade in most years.

Ans: e

Part II: Short Answer

Answer in the space provided.

1. Define the following terms:

   a. Openness *Ans: (Exports + Imports) / GDP*

   b. Regional trade agreement *Ans: Agreement between two or more countries offering preferential access to their markets.*

   c. Gross domestic product *Ans: The value of all final goods and services produced inside a nation during some period, usually a year.*

   d. Shallow integration *Ans: Elimination or reduction of tariffs, quotas, and other border-related barriers to trade.*

2. What country's international trade (exports plus imports) is a larger fraction of total world trade than that of any other single country?

   Ans: China. From the table in class for 2018, China's exports+imports were \$2,487b + \$2,136b = \$4,623b. and the US exports+imports were \$1,664b + \$2,614b = \$4,278b. (FYI, four years ago when I taught this course, Winter 2015, China was catching up, but still less than the US.)

3. How do the exports and imports of the European Union, to and from countries outside the EU, compare to those of the United States?

Ans: From the data in class from 2018, EU exports are larger than US exports, but US imports are larger than EU imports.

4. a. Name one industry in which the United States was a major net exporter (that is, it exports more than it imports) in the data from 2011 reported in class.

Ans: Food (or agriculture)

b. Name one in which it was a major net importer.

Ans: Petroleum (or automotive products, textiles and clothing)

5. a. From what country did the state of Michigan import the most in 2016? To what country does Michigan export the most?

Ans: It imported most from Mexico; it exported most to Canada. (From the maps shown in lecture from the unassigned article by Perry and Balliou.)

b. What state had the largest dollar value of trade (exports plus imports) in 2016? What state had the largest trade relative to its state GDP?

Ans: From the table in Perry, California had the largest exports plus imports in dollar value, $573.9 billion. But Michigan had the largest trade relative to GDP: 38.9%.

6. Based on the data reported in lecture for the U.S. investment position at the end of 2018, the U.S. was a net debtor internationally. Of the following three categories of assets, which accounted for the largest part of this net indebtedness? That is, in which category do US assets fall furthest below US liabilities (in dollars)? (Circle one)

   Direct Investment / Portfolio Investment / Other Investment

   Ans: Portfolio Investment *(Subtracting assets from liabilities, the US is a net debtor on portfolio investment by $18.72–11.49= $7.23 trillion. In Direct Investment US assets are not much below liabilities, and in Other Investment US net debt is only $6.14–4.30 = $1.84 trillion.)*

7. What do the following acronyms stand for?

   a. WTO *Ans: World Trade Organization*

   b. FDI *Ans: Foreign Direct Investment*

   c. IMF *Ans: International Monetary Fund*

   d. RTA *Ans: Regional Trade Agreement*

   e. NAFTA *Ans: North American Free Trade Area (or Agreement)*

   f. SDR *Ans: Special Drawing Right (see IMF reading)*