Questions for PubPol/Econ 541
Sep 18

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, "A Look at the U.S. International Transactions, First Quarter of 2024," *Survey of Current Business*, Bureau of Economic Analysis, July 10, 2024.

- What mostly happened to current account transactions in the first quarter of 2024 compared to the 4th of 2023?
- 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?

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?

Pettis, Michael, "No, trade surpluses aren't caused by comparative advantage," *Financial Times*, May 28, 2024.
- According to this, what is needed for trade in accordance with comparative advantage to be beneficial to both countries?
- In his 2-good example, why is Germany able to export both goods?
- What, according to him, is the reason for China's trade surplus?
- Does China say that it wants to keep wages and incomes low?

Bradsher, Keith, "China Reaches Record Trade Surplus, Raising Alarm Abroad," *New York Times*, July 12, 2024.
- Did both exports and imports rise in China, producing this record suplus?
- Is China exporting more because other countries are reducing their tariffs on China?
- What has happened in China to account for this change?
- Is it only the US that is concerned about this?
- Why do other countries object to this, if they are getting cheap imports from China?

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?