This study guide is part 1. A (very small) supplement may be issued covering the last few lectures. All key terms and questions on the exam will come from one of these two study guides.

The final is cumulative, but I have included on this study guide only a subset of the material from the midterm study guides. This should make studying easier.

The final exam will include 10 key terms, for which you will be asked to define the term, state its significance, and give an example. The terms on the exam will be drawn from this study guide and part II. Terms not on these lists will not be on the exam.

**Definition:** 1 sentence. Self-explanatory. Make sure this is sufficiently detailed to distinguish the term from other similar terms on the list.

**Significance:** How does this term relate to the core material we are covering? i.e. how does trade create wealth, how are the gains from trade distributed, who wins and who loses from trade openness, etc. It is also correct to relate this term to similar terms, or opposite terms covered in the course.

**Example:** Give me an example of the term. This does not need to come from lecture or the book, but those are the easiest place to look for examples. There is no specific example we are looking for – any appropriate example will be considered correct.

Sample correct exam answer:

**Term:** Autarky

**Definition:** The complete absence of trade.

**Significance:** Autarkic states do not engage in any international trade, and therefore cannot exploit comparative advantage or reap the gains from trade. Bargaining under threat of war is called crisis bargaining or coercive bargaining.

**Example:** North Korea, in addition to being communist, also does not permit trade of most products, making their economy almost entirely autarkic.

There will also be 3-4 mini-essay questions requiring answers of 3-4 sentences and 6-10 short answer questions. As with the key terms, I will only ask questions that come directly off of the study guide.

Sample correct exam answer:

**Short-Answer Question:** According to the factor-endowment model, if a country is labor-abundant and capital-scarce and land-scarce, who benefits from trade?

**Answer:** Unskilled workers (i.e. owners of labor)

Note: On exam day, bring your bluebook, several pens/pencils, and not much else. Everything except writing instruments and bluebooks will need to be placed down at the front of the class. This includes bags, books, etc. and especially PHONES. No
phones at your seat, so if you have a fancy smartphone, you might want to leave it at home, along with your laptop and other valuables.

**Key Terms (new for the final)**
Gresham’s Law
Fiat currency
Real interest rate
Portfolio investment
Foreign Direct Investment
Sovereign Debt
Conditionality (with regard to IMF loans)
Counter-cyclical fiscal policy
Contagion (Re: Financial Crises)

Horizontal diversification
Vertical diversification
Obsolescing bargain
Creeping expropriation

policy risk
bureaucratic risk
spillovers (re: FDI and development)

Dutch Disease
Resource Curse
Brain Drain
Remittances
Transnational motherhood

**Key Terms (from the 1st half of the course)**
Complement
Substitute
Absolute Advantage
Comparative Advantage
Race to the Bottom

Law of One Price
Arbitrage
Most Favored Nation

Dumping
Countervailing duties (re: WTO)
Import-Substituting Industrialization
Export-Oriented Industrialization
Washington Consensus
Short Answer Questions (New For the Final):

What does it mean that the dollar was an “international reserve currency” under the Bretton Woods system?

If the Fed increases the interest rate, what happens to the money supply? What happens to inflation? What happens to employment and economic growth?

What is the Federal Reserve’s dual mandate?

How does exchange rate depreciation (i.e. inflation) affect a country’s exports? How about its imports?

How long can a country keep borrowing from abroad to cover a current account deficit?

What is the goal of the IMF?

What is the goal of the World Bank?

What are the three functions of the IMF?

How can governments use large foreign currency reserves to keep the value of their currency high?

In a speculative attack, do speculators want other investors to duplicate their tactics? Why or why not?

What percentage of U.S. government expenditures go to foreign aid? (any answer within 3% is fine)

How is foreign aid like dumping?

Give two pros and two cons for the World Bank choosing to deliver aid through host country governments instead of providing services directly to the poor.

Name two groups that would benefit from increased migration of unskilled labor from poor country A to rich country B. (hint: this is a factors of production question).

List three ways that free outward migration is good for poor countries.
Which of the following account for the majority of permanent, legal, immigrants to the U.S. each year:

A. Family Reunification  
B. Refugees and Asylees  
C. Employment-based (i.e. skill-based) visas  
D. Diversity lottery winners

Why is it that foreign household workers are particularly vulnerable to exploitation and abuse?

**Short Answer Questions: From Previous Study Guides**

As with the midterm, be ready to describe the effects of tariffs, quotas, or subsidies on domestic consumption, domestic production, prices, and imports.

For each of the following groups, who wins and who loses from a tariff on the import of lumber from Canada to the US? (Note: I may ask a question like this about any product).

1. An owner of timberland in Canada  
2. An owner of timberland in the US  
3. Loggers in Canada  
4. Loggers in the US  
5. Furniture manufacturers in the US  
6. Consumers in the US  
7. Manufacturers of faux-wood flooring in the US

What type of countries tend to export commodities, poor countries or rich countries? What is the problem with being economically dependent on commodity exports?

Name the two major interest groups involved in the anti-WTO protests in 1999.

Who loses from the imposition of a subsidy? Who loses from the imposition of a tariff?

List one benefit and one cost for each of the following strategies:

- Total trade openness
- Subsidizing/protecting key industries
- Big government safety net

Why do rich countries that are more open to trade have larger government safety nets than rich countries that are more closed to trade?

What was the purpose of the GATT?

In 2012, what type of products have higher tariffs globally, agricultural products or manufactured goods?
Did global tariff levels increase or decrease during the great depression? Did this increase or decrease the severity of the great depression?

List two policies associated with the Washington Consensus.

**Mini-Essay Questions (NEW):**
Walk me through how a speculative attack on a currency works. List each step.

How does printing money help reduce/eliminate a current account deficit?

If a country has a fixed exchange rate (e.g. it has a currency peg or is a member of the EU), how can that country address a current account deficit? Why are these policies difficult/painful to implement?

Compare and contrast the Sachs and Easterly arguments on foreign aid.

**Mini-Essay Questions (From the Midterm Study Guides)**

Why do rich countries that are more open to trade tend to have larger welfare states (i.e. more government spending) than rich countries that are more closed to trade?

Why does volatility have more negative effects on poor countries (and poor individuals) than on rich countries (and rich individuals)?

Sometimes countries pass laws requiring imported goods to meet certain environmental or labor standards in order to be imported. Sometimes they do this because they want to protect foreign workers and the environment. Why else might a country do this? How does the WTO get involved in this?

How do political institutions determine the areas in which a country enjoys comparative advantage?

What are main similarities and differences between important-substituting industrialization and export-oriented industrialization?

What are the key factors that prevent an agreement in the Doha round of trade negotiations?

Please address the following three questions in 1-2 sentences each. How do agricultural subsidies in the US affect American consumers and taxpayers? How do they affect farmers in developing countries? Why does the US continue to subsidize agriculture?

How does trade liberalization promote environmental protection? How does it promote environmental destruction?