This study guide is part 1. Part II will be distributed closer to the exam. All key terms and questions on the exam will come from one of these two study guides.

The midterm exam will include 4-6 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 2-3 mini-essay questions requiring answers of 3-4 sentences and 5-6 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-scare 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.
No trick questions. No surprises. The midterm is on Monday, October 8. Good Luck!

**Key Terms**
- Complement
- Substitute
- Normal Good
- Inferior Good
- Autarky
- Mercantilism
- Absolute Advantage
- Comparative Advantage
- Factor of Production
- Commodities
- Terms of Trade
- Marginal Rate of Transformation
- Race to the Bottom
- Importance of Being Unimportant

Law of One Price
- Arbitrage
- Most Favored Nation

**Short Answer Questions:**
Any questions from the homework are also fair game for the midterm. I will change the questions slightly, but if you're comfortable with the homework questions, you'll be fine on the midterm. In particular, be ready to describe the effects of tariffs, quotas, or subsidies on domestic consumption, domestic production, prices, and imports. I guarantee a set of questions on this topic.

Name two things that would cause the demand curve for apples to shift (specify the cause and the direction of the shift).

*Note: I may ask this question about supply curves or demand curves for any product.

Name two things that would cause the quantity of apples demanded to shift (specify the cause and direction of the shift).

*Note: I may ask this question about supply curves or demand curves for any product.

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?

**Mini-Essay Questions:**
1. What is the difference between the Ricardo-Viner model and the Stolper-Samuelson model?

2. 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?

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

4. 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?

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

6. Why did Latin American countries move away from ISI (Note: This is lecture 10).