

ECONOMICS 30513
Perspectives in International Economics
Study Questions
Summer 2017

INSTRUCTIONS: You will find below study questions designed to guide your studying. **A subset of these exact questions will appear on your exams.** You are under no obligation to complete them but there is, not surprisingly, a high correlation between doing these and earning a high grade! Please bear the following in mind:

General issues

- The exams are weighted such that a perfect score on all the questions from the list below earns you at least a low B. A's are reserved for those who also answer the "hell" questions correctly. That said, data from previous classes show that there is a high correlation between doing well on the non-hell portion of exams and scoring highly on the hell portions.
- I am also happy to check over your answers to make sure they are correct. Just send a copy to j.harvey@tcu.edu. Please see below for the dates by which I'll need to receive your answers.
- You are free to reword any lecture or reading question however you like. However, always be sure to send it to me on your study question list so that you can be sure that I agree it includes all the important information—don't wait until the exam to find out!
- If I check your study questions and accidentally approve an incorrect answer that you then give on an exam, you get full credit. If I initially subtract points, just let me know and I'll fix it. That's the John Harvey Guarantee!
- If you are resending questions to me, please let me know which ones are new and/or adjusted from last time so I don't have to check the entire list all over again.
- Studying involves taking this list and a blank piece of paper and writing out the answers until, according to your list of answers, you don't make any mistakes. **THERE IS SIMPLY NO SUBSTITUTE FOR DOING THIS!**

Reading questions

- The place where the study questions are the most helpful is on the readings (I write the lecture answers on the board). As a rule, I don't go over these in class and the study question list prevents you from having to guess which parts of "The Blessings of Free Trade" I expect you to remember for the exam. I tell you up front!
- Be sure to actually read the articles and not simply harvest them for the study question answers. If you do the latter, you won't really understand the context and you'll end up having to memorize. There's too much material to do that. Those who use someone else's study question answers face the same problem. I don't actually want you to just know what's on the list, I hope you learn much more than that. However, I'm only going to test you over the list.

Using someone else's answers

- There is no rule against this. The study questions are not an assignment.
- If you and a friend (or enemy or bystander) worked on the questions together, please let me know when you send the questions to me so that I can be sure you both get the John Harvey Guarantee.
- If you did not work together but choose to use someone else's already-corrected study questions, please do not send them to me unedited. In other words, if I indicated on their answers that they needed to make adjustments, make these first. In addition, let me know which ones have been adjusted so I don't have to check the entire list all over again. If you already know they are perfect, please don't send them at all. Just email me saying, "I'm using Victor Boschini's study question answers!" and then you'll get the John Harvey Guarantee based on their answers. (FYI, he's never take this course so you should probably use someone else's. That was just an example.)
- If you choose to use someone else's study questions from a previous semester, all of the above apply plus one more: please see if the questions are the same as in the previous semester (I add and subtract whole questions and change the wording on others). I'm pretty laid back but this one really bothers me.

Study question organization

- Questions are grouped by their source. For examples, questions based on lecture material have *Lecture* before them, and then appear without spaces between them. For questions where answers can be found in the reading, the specific link is given and the questions are then grouped without spaces.
- Questions are color-coded with respect to school of thought. Those in black are (with one exception—#1) Neoclassical, those in red are **Marxist**, and those in blue are **Post Keynesian/Institutionalist**.
- Exam one questions starting with a * may also appear on the final exam.

Study question deadlines

- Anyone wanting their study questions checked for exam one must have submitted them to me by midnight, Sunday, May 21.
- Anyone wanting their final exam study questions checked must have submitted them to me by 6:00pm, Wednesday, May 25.
- I do not recheck the * questions on the final exam list since they were subject to the two deadline.
- As students from previous years can confirm, the deadlines are firm.

BACKGROUND

Lecture

1. *Distinguish between validity and cogency. [25 words]

FOUNDATIONS

Neoclassical

Lecture

2. *Neoclassicism evolved from Natural Law, Cartesian Deductivism, and Political Individualism. Please explain each. [67 words]
3. *Modern Neoclassicism is characterized by Axiomatic Modeling, Marginal Analysis, General Equilibrium Framework, Free markets as Natural and Benevolent, and Rationality. Please explain each. [116 words]

Marxist

Lecture

4. *From what intellectual traditions did Marxism evolve? [46 words]
5. *In what sense did Marx believe that capitalism was exploitative (but not unfair!)? [48 words]
6. *How did Karl Marx argue that capitalism was a necessary stage in the evolution of human history? Be sure to define each stage of history in your answer. [69 words]
7. *How did Marx predict that capitalism would sow the seeds of its own destruction? [109 words]
8. What do modern Marxists say about the fact that capitalist countries appear to have strong support from their workers? [32 words]

Post Keynesian/Institutionalist

Lecture

9. *Post Keynesian/Institutionalism evolved from Anthropology, Evolution, and Pragmatism. Please explain each. [95 words]
10. *Modern Post Keynesian/Institutionalist economics is characterized by Frequent Use of Observation and Description, Evolutionary Systems, Ceremonial/Instrumental Dichotomy, and a particular form of economic policy. Please explain each. [109 words]
11. *Explain Say's Law (both pro and con). [99 words]

TRADE THEORY

Neoclassical

Lecture

12. *Explain comparative advantage (output per unit of labor; must include an example). Be sure you mention the assumptions, absolute advantage, and why both parties will be happy. An example is essential. [90 words]
13. How is the Heckscher-Ohlin theorem related to comparative advantage? [7 words]
14. *Explain the Heckscher-Ohlin theorem. [18 words]
15. *Explain comparative advantage using currency units. Explain how prices will adjust to make trade mutually beneficial. Be sure to mention the assumptions, absolute advantage, and how the end result compares to the nations' comparative advantages. An example is essential. [136 words]

Griswold, Daniel. "Seven Moral Arguments for Free Trade." Cato Institute.

<https://www.cato.org/publications/commentary/seven-moral-arguments-free-trade>

16. Griswold offers seven moral arguments in favor of free trade. Pick the one you find most convincing (or, if you don't like any of them, the one you find least unconvincing) and explain it in three sentences. [item and three sentences]
17. Griswold offers seven moral arguments in favor of free trade. Pick the one you find least convincing and explain why in two sentences. [item and two sentences]

Marxist

Lecture

18. What do Marxists think ultimately drives trade flows and how? [9 words]
19. *Explain how absolute advantage can drive trade flows if we allow for less-than-full employment. Be sure to mention the assumptions and absolute advantage. An example is essential and sketch the comparison on the supply and demand diagram (no need to explain the latter so long as it is labeled clearly). [79 words]

Encyclopedia of Marxism

<http://www.marxists.org/glossary/terms/f/r.htm>

20. According to Marxists, where do workers fit into the struggle over free trade and protectionism and how will they fare? [22 words]

Engels, Frederick, "On the Question of Free Trade"

<https://www.marxists.org/archive/marx/works/1888/free-trade/>

21. Perhaps surprisingly, Marx was in favor of free trade. However, if you think about how he thought capitalism was a necessary but temporary stage of history, it makes sense. What two main reasons to prefer free trade are discussed in the paragraph starting with, "To him, Free Trade is the normal condition of modern capitalist production" (one is kind of positive, the other negative)? [50 words]

Post Keynesian/Institutionalist

Lecture

22. If we drop the assumption of "no externalities" in the comparative advantage model, how can trade not be beneficial to a community (be sure to define externality)? [62 words]
23. If we drop the assumption of "free mobility of capital and labor within a country" in the comparative advantage model, how can trade not be beneficial to a community? [59 words]
24. How is less-than-full employment problematical for the *theory* of comparative advantage? [16 words]

25. *Say there is a country whose technology is such that the only industries it has which would be competitive in world markets are producers of primary products (agricultural and mining) and they must trade with a nation that exports manufactured goods. How might they be hurt by free trade? Be sure to mention Returns to Scale, Costs/Unit After Trade, Relative Comparative Advantage, Ability to Continue Exporting, and Workers in Non-Comparative Advantage Industry After Trade. How is neoclassical theory insulated from such a result? [chart and sentence]

Milberg, William. "Technology Gap." in Arestis, Philip, and Malcolm C. Sawyer, eds. *The Elgar companion to radical political economy*. Edward Elgar Publishing, 1994.

<http://personal.tcu.edu/jharvey/30513/Technology-Gap.pdf>

26. *If technology gaps are not simply a function of market failure, then technology must be viewed as more than what (and what)? Instead, what must economists study and what becomes the driving force for growth, international competitiveness, and industrial policy?[78 words]
27. In a scarcity-drive world, what is the role of the state (which is what)? In a world of endogenous technical change and technology gaps, what must economic policy include? [64 words]
28. Milberg says that while national differences in innovation activity are necessary to explain technology gaps, they are not sufficient. The additional reason is related to the fact that the diffusion of technology also requires what? [1 word]

Adams, John. "Trade and Payments as Instituted Process: The Institutional Theory of the External Sector." *Journal of Economic Issues* (December 1987).

<http://www.econ.tcu.edu/harvey/5443/adams.pdf>

29. What must the institutional theory of trade and payments explain (in terms of its coverage)? [31 words]
30. A society's external relations must stem from and be consistent with what? [19 words]
31. *According to Adams, "free trade" is not the situation that arises when individuals are allowed to exchange goods and services with no external restriction of their activities. Explain. [36 words]
32. List the five hypothesis derived from institutional theory of trade and payments. [103 words]

ECONOMIC DEVELOPMENT

Neoclassical

Lecture

33. *According to neoclassicism, how will economic development occur? [49 words]

IMF. *Global Trade Liberalization and the Developing Countries*

<http://www.imf.org/external/np/exr/ib/2001/110801.htm>

34. In section one of the article, on what does it appear to be blamed that some developing nations have progressed while others have not? [67 words]

35. Industrial countries tend to maintain high protection against what category of goods (in terms of which sector produces them)? [1 word]
36. Industrial countries tend to maintain high protection against which kind of goods: labor-intensive or capital-intensive? [2 words]

Marxist

Lecture

37. *What do Marxists say about economic development? [55 words]

Brar, Harpal. *"The analysis of the deepening of the various economic, political and social contradictions of the imperialist world such as those described in V I Lenin's Imperialism, the highest stage of capitalism," International Communist Seminar, Brussels, May 2-4, 2001.*
<http://www.econ.tcu.edu/harvey/5443/HarpalBrar.pdf>

38. What, according to Lenin, is the deepest economic foundation of imperialism? [1 word]
39. What are the five key points of Lenin's definition of imperialism? [93 words]
40. What can be said about the largest 100 economies in the world? [4 words]
41. By what is the latest stage of capitalism characterized? [56 words]
42. How does the rate of return on FDI (foreign direct investment) in third-world countries compare to that in imperialist ones? [3 words]
43. How does third world debt service compare to the amount of aid they receive? [21 words]
44. Does the author believe that the former colonies received real independence after World War Two? Explain. [51 words]
45. What, according to the author, is the only means of improving the lot of the third world? [1 word]

Post Keynesian/Institutionalist

Harvey, John T. *"The Stock Market: Individual Firm Issues." On Post-Keynesian Observations blog, posted January 10, 2009.*
<http://wp.me/ppv69-k>

46. What are the several reasons that ROCK cares about the stock price, even though sales do not directly affect them (be sure to break the first one down into new sales vs. bank)? [90 words]

Harvey, John T. *"The Stock Market: Macroeconomic and Psychological Issues." On Post-Keynesian Observations blog, posted January 14, 2009.*
<http://wp.me/ppv69-r>

47. *Show the series of links between more efficiency and faster growth. Where is the link broken as it becomes easier to dump bad decisions? How?

Grabel, Ilene. "Emerging Stock Markets and Third World Development: The Post Keynesian Case for Pessimism." In Foundations of International Economics: Post Keynesian Perspectives, edited by Johan Deprez and John T. Harvey, London: Routledge, 1999.
<http://www.econ.tcu.edu/harvey/5443/grabel.html>

48. In what three ways have most developing and former socialist country policymakers and (foreign) policy consultants viewed portfolio investment inflows as an unambiguous benefit to the recipient economies? [51 words]
49. *Under constrained policy autonomy, what does the necessity of creating an attractive climate for portfolio investment force host-country governments to do (in general) and how might that be a problem? [41 words]
50. The increased risk potential of portfolio investment is an outcome of what? [21 words]

James, Dilmus. "Technology and Third World Development." In John Adams and Anthony Scaperlanda's The Institutional Economics of the International Economy (1996).
<http://www.econ.tcu.edu/harvey/5443/james.pdf>

51. For institutionalists, what has always been viewed as a core element in economic development? [12 words]
52. Among the recent events that have spurred research into technology, James mentions "Recognition of Technological Capacity in the South." Explain what he has to say there. [52 words]
53. What is it that paves the way for the fruitful absorption of technology? [19 words]
54. List the problems with innovation systems in the South. [pick the five you believe to be most important and list them—107 words]
55. *In James' conclusion, what does he list as the two main points of his paper? [47 words]

*****PROBABLY TO HERE FOR EXAM ONE *****

EXCHANGE RATE THEORY

Neoclassical

Lecture

56. Explain purchasing power parity. An example is essential, as is the clear explanation of the effect of PPP on currency prices. [111 words]
57. Show the effect of a rise/fall (both) in the money supply in the monetary model. Be sure to point out exactly what caused the exchange rate to move. [22 words]
58. Explain uncovered interest-rate parity (especially how it affects exchange rates). [123 words]

Marxist

Lecture

59. Compare the Neoclassical view of how exchange rates relate to trade flows to the Marxist one. Assume sticky domestic prices in both but only full employment in the former. No need to mention the assumptions or who has the absolute advantage. An example is essential. [190 words]

60. What is it in the Marxist view that is really driving trade flows and what can make it appear as if Purchasing Power Parity holds even though it does not? [129 words]

Shaikh, Anwar. "Explaining Long Term Exchange Rate Behavior in the United States and Japan," Working Paper #250, Levy Institute.

<http://www.levy.org/pubs/wp250.pdf>

61. Conventional exchange rate models are based on what fundamental hypothesis? [30 words]
62. Supporters of purchasing power parity who have suggested that it may take a long time for it to act have what time frame in mind? [5 words]
63. Under what circumstances does purchasing power parity appear to hold? [7 words]

Anwar Shaikh, "The Trade Deficit: Beyond the Myth of Currency Manipulation" Public Seminar, vol.1, no.1, Fall 2013.

<http://www.publicseminar.org/2013/10/the-trade-deficit-beyond-the-myth-of-currency-manipulation/>

64. Many say that the US problem with chronic trade deficits stems not from our reduced international competitiveness, but what (note that Shaikh disagrees with this!)? [12 words]

Post Keynesian/Institutionalist

Lecture

65. Be able to manipulate the exchange rate graph (be sure you can label the actual exchange rate, the balanced-trade exchange rate, imports, exports, capital inflows, capital outflows, the trade balance, and the capital account balance). [zero words]
You can find examples here, but in this class you only need to know the first two (the others are for International Monetary Economics):
http://www.econ.tcu.edu/harvey/5133/FX_Graph_Examples.pdf
66. If one goal of an international payments system is a tendency for exchange rates to move toward balanced trade, then what issue is most important? [34 words]
67. What does it mean to say that an international monetary system has a deflationary bias? [53 words]

Harvey, John T. "The institution of foreign exchange trading." Journal of Economic Issues 27.3 (1993): 679-698.

<http://personal.tcu.edu/jharvey/30513/InstitutionofFXTrading.pdf>

68. Markets, like democracy and marriage, are social institutions that serve to organize and guide human behavior in what manner? [14 words; 126 words]
69. What is the overall theme of this research (include the stuff about the symbiotic relationship)? [67 words; 301 words]
70. In what event could the habits of currency dealers be safely ignored? [26 words; 224 words]
71. The role of FXers has changed dramatically since the early days of their guild. What was true in the past (and in those days)? [33 words; 203 words]

72. Once wampum values were no longer fixed, merchants sought out the services of FXers more often. What has become the more important service? [6 words]
73. What risk is run by merchants choosing to ignore the possibility of large, rapid changes in wampum value and how do villagers feel about them? [19 words]
74. With some of the risk removed from the trading of trinkets, what do those involved assume will occur? [4 words]
75. Why is it important to offer “good” rates to other FXers (both sides of the issue)? [58 words]
76. What separates successful FXers from the unsuccessful? [10 words]
77. In the struggle for achieved status, how does the FXer view himself? [3 words]
78. What is it that FXers think determines wampum values and what phrase is used to remind initiates that this entity cannot be challenged? [8 words]
79. What is radical group that has been slowly gaining favor and why are non-believers outraged at the implications of their beliefs? [17 words]
80. In the analytical portion of the paper, Harvey argues that international trade and investment can be a positive force. What is it that discourages trade and investment and what has the post-Bretton Woods system done to that factor? [7 words]
81. Give the three forces Harvey says have contributed to the factor that discourages trade and investment (list each force then explain it in about a sentence; actually, there’s not much to say about the third one, but the first could use two sentences). [73 words]

Harvey, John. “Chapter Five: Post Keynesian Exchange Rate Modeling.” *Currencies, Capital Flows, and Crises: A Post Keynesian Analysis of Exchange Rate Determination*, London: Routledge, 2009.

<http://www.econ.tcu.edu/harvey/book/BookCh5.pdf>

82. Draw the complete Mental Model diagram as shown in the reading, but you may omit "desire to cash in FX" and "forecast confidence." [drawing]

Harvey, John T. "Exchange Rate Behavior During the Great Recession." *Journal of Economic Issues* 46.2 (2012): 313-322.

http://www.econ.tcu.edu/harvey/5133/Exchange_Rate_Behavior_Great_Recession.pdf

83. Neoclassical economics argues that the economy is self-regulating and automatically seeks the growth rate associated with the optimum allocation of resources and zero cyclical unemployment. Within that context, what do they say about financial markets? [32 words]
84. In the Post Keynesian/Institutionalist approach, exchange rates are modeled as a function of what? [2 words]
85. What factors have played a key role in the formation of agents’ exchange rates forecasts in the post-Bretton Woods era? [11 words]
86. From 2006 through the midpoint of 2011, the dollar collapsed three times and recovered twice. What would the Neoclassical view have indicated should have happened and due in particular to what? [13 words]

87. As one would expect, the dollar collapsed leading up to and coincident with the Financial Crisis (by almost 30%). However, it very quickly recovered, gaining nearly 20% in what was the worst part of the downturn. Of what was it a function and to what did this lead? [26 words]
88. What European event dominated headlines from December 2009 to June 2010, causing the dollar to appreciate? [3 words]
89. A table in Harvey's paper shows the magnitude of US dollar movements from 2006 through 2011. The smallest fluctuation was still larger than that during what period? Why do we accept this? [12 words]