

- Can you say the dollar is getting stronger or weaker in general?
- What is absolute advantage (AA)?  
Absolute advantage: assumes that different countries produce some goods more efficiently than other countries; greater output using the same or fewer resources; more efficient in one area
- What is Comparative Advantage (CA)?  
Comparative advantage: countries produce some products more efficiently than other products (within that country) and that country may be less efficient in producing all products relative to its trading partner; better at all but best at one product
- What is the difference between the two?  
Absolute advantage-more efficient in just one area  
  
Comparative advantage-better at producing all products, but best at one than a different area
- **What is Heckscher-Ohlin Theory?**
- **What is the Leontief Paradox?**
- **What is the Product Life Cycle theory? (p. 182-183)**
- What are the three major non-economic rationales for government intervention in trade?
  1. Maintain “essential” industries (i.e. government subsidizes corn and rice production-protects farmers)
  2. Deal with unfriendly countries (i.e. sanctions against countries as penalties)
  3. Maintain global influence (i.e. pressure countries who exploit workers)
- What are the three major economic rationales for government intervention in trade?
  1. Prevent unemployment-by restricting imports
  2. Protect infant industries-i.e. automobiles in Brazil and South Korea
  3. Promote industrialization-because large manufacturing countries are more affluent
- What is so special about industrialization?  
-surplus workers can more easily increase manufacturing output than agricultural

output

-inflows of foreign investments follow industrialization and can promote sustainable growth

-prices and sales of agricultural products and raw materials fluctuate

- Tariffs and import restrictions (e.g. quotas) both raise domestic prices. How do they affect supply and/or demand for imports?

- How is the European Union structured? The definitions of the 4 governing bodies...

European Union: largest and regional economic group, established common currency (euro)

4 governing bodies:

1. European parliament-EU legislative body whose members are popularly elected from member-nations

2. Council of the European Union-group that is the EU's primary policy-setting institution

3. European Commission-institution that runs the EU's day-to-day operations

4. European Court of Justice (ECJ)-court that rules on issues related to EU policies

- Definitions of:

Quotas: a restriction on imports or exports

subsidiaries: give money to keep them locally competitive, cash; help countries become more competitive

transit tariffs: tariff put on a product as it travels to another country

import tariff: most popular form, defines a country's degree of protectionism

export tariff: tax on things you export, not used much anymore, was used to protect supply

trade diversion: trade shifts to countries in the group at the expense of trade with countries not in the group (Taiwan example)

favorable balance of trade:

unfavorable balance of trade:

- What are the basics of NAFTA? North America Free Trade Agreement
  - established in 1994 by the US, Canada, Mexico
  - covers: market access (tariff and nontariff barriers-no taxes), trade rules (subsidiaries & antidumping), services, investment, intellectual property, dispute resolution
  - good example of trade diversion

- What are the basics of European Union?
  - largest regional economic group
  - established common currency (euro)
- What are the basics of EMU? European Monetary Union
  - group that established use of the euro in the 13 Country euro zone
  - the single currency reduces the cost of doing business across EMU country borders
- What are the basics of ASEAN? Association of South East Asian Nations (know at least 2 countries in ASEAN)
  - organized in 1967
  - member countries are protected in terms of tariff and nontariff barriers
  - holds tremendous potential market opportunities with 500 million consumers
  - large market, .5 billion people
  - 2 countries: Indonesia, Philippines
- What are the basics of MERCOSUR? (know at least 2 countries in MERCOSUR)
  - established in 1991
  - In Latin America, generates 80% of South America's GNP
  - signed free trade agreements with Bolivia and Chile
  - Negotiating with EU for free trade agreements
  - 2 countries: Brazil, Argentina
- What are the basics of OPEC? Organization of Petroleum Exporting countries (know at least 2 countries involved in OPEC)-oil producing countries
  - producer cartel (band of organizations that control the supply and demand)
  - control price by establishing production quotas on member countries
  - member countries produce 78% of the world's crude oil and 50% of its natural gas
  - 2 countries: Iran, Iraq
- What are the 4 basic types of regional economic integrations?

1. Free trade area-the simplest and most common arrangement, in which member countries agree to gradually eliminate formal barriers to trade in products and services within the bloc, while each member country maintains an independent international trade policy with countries outside the bloc (NAFTA, tariffs)

2. Customs union-similar to a free trade area except that the member states harmonize their trade policies toward nonmember countries—common tariff and non tariff barriers on imports fro nonmember countries (MERCOSUR)

3. Common Market-single market, trade barriers are reduced or removed, common external barriers are established and products, services, and factors of production such as capital, labor, and technology are allowed to move freely

among the member countries, common trade policy with nonmember countries (EU)

4. Economic Union-member countries enjoy all the advantages of early stages, but also strive to have common fiscal exchange rates, free convertibility of currencies and the free movement of capital

- What is involved in three-point arbitrage? Review the class example.  
Three point arbitrage: the riskless purchase of money in one market or immediate resale in a second market in order to profit from a price discrepancy
- Using the WSJ handout, be able to convert US dollars to a give foreign currency and convert a foreign currency to US dollars
- What is the most widely traded currency in the world and why?  
THE US DOLLAR  
WHY? Because it serves as...
  - an investment currency in many capital markets
  - a reserve currency held by many central banks
  - a transaction currency in many international commodity markets
  - an invoice currency in many contracts
  - an intervention currency employed by monetary authorities in market operations to influence their own exchange rates
- Definitions:
  - option: an instrument traded both OTC and on exchanges that gives the purchaser the right (but not the obligation) to buy or sell a certain amount of foreign currency at a specified exchange rate within a specified amount of time [more expensive but also more flexible than a forward contract]
  - offer: the price at which a trader is willing to see a foreign currency
  - bid: the price at which a trader is willing to buy a foreign currency
  - spot rate: the rate quotes for transactions that require immediate delivery (i.e. within two days)
  - forward rate: a contractually established exchange rate between a foreign exchange trader and the trader's client for delivery of foreign currency on a specified date (30/60/90 rates that quoted)
  - FX swap: a simultaneous spot and forward transaction, i.e. on currency is swapped for another on one date and then swapped back on a future date
  - forward contract: a contract between a firm or individual and a bank to deliver foreign currency at a specific exchange rate on a future date
  - outright forward: a forward contract that is not connected to a spot transaction, i.e. a contact to deliver foreign currency beyond two days following the date of agreement at the forward rate
  - currency swap: the exchange of principal and interest payments via interest-bearing OTC financial instruments (e.g. bonds)
  - hedging: insure against potential losses from adverse exchange-rate changes

(Dawley did this)

speculation: sequential purchase and sale (or vice versa) of a currency for profit  
arbitrage: instantaneous purchase and sale of a currency in different markets for profit

- Where is the main foreign exchange market located and why?  
London-1. Its proximity toward other capitals  
2. all about time zones
- One general questions about each of the 5 articles:
  - The 98-lb. weakling
  - Some gain from the Dollar's Pain
  - Rise of the Rupee
  - Generation No Logo. Young Japanese consumers embrace local craftsmanship above all else.
  - Under Cover. Giving traditional dress a modern twist, you Muslims make a style statement
- Possible EXTRA CREDIT:  
Female Japanese Names of interest:
  - Moe (Bud)
  - Tora (tiger)
  - Hana (Bloom, Blossom, flower)
  - Haya (quick, nimble)
  - Kai (forgiveness)
  - \*\*Chimari (a thousand balls)
  - Koneko (kitten)