Final Econ 2260 Driskill 2018

Essays (short) 60 points total. Do three (3) of the following five (5).

1. 20 points. Whe we describe the causes of trade, we say that the proximate causes are differences in autarkic equilibrium relative prices. Explain what are the fundamental reasons that these relative prices may differ in autarky. Hint: tastes, resources, technology, comparative advantage, property rights, and so on.

2. 20 points. From an economist's point of view, what are the issues raised by immigration? Make sure you address among other things: who benefits, who loses, and is there a PPI? Use any rhetorical devices, e.g., graphs, that you think might help your exposition.

3. 20 points. The author of "Travels" started her investigation because of concerns by her students about working conditions in the textile and apparel industries around the world. Based on your readings in "Travels," respond to the notion that rich-country consumers should boycott clothing made in less-developed countries because of working conditions in those locations.

4. 20 points. Trace the history of the "Chicken wars," making sure you discuss among other things the unintended consequences of the war.

5. 20 points. One argument that appears to be used by the Trump Administration to justify its trade war with China is that China steals our intellectual property rights. Address this argument (it may help to consider the following quote form TT):

"Using his significant mathematical aptitude, Lowell memorized the critical details of Edmund Cartright's power loom and returned home to Massachusetts. While Lowell's act was exceptional in securing for America the crown-jewel technology of the power loom, complementary technology also leaked into the United States during this period, most often in the minds of skilled artisans from Britain who had managed to evade emigration restrictions. By 1812, virtually all of the important technology related to cotton textile production had been transferred to New England."

True-false. 40 points total

1. 20 points (5 points each). On page 156, the author of "Travels" poses the following question:

"How did the United States–as the self-anointed free trade champion of the universe–end up with such a dauntingly complex and downright silly mass of barriers to the import of T-shirts? Why, in an era of progressive trade liberalization and increasing deference to the market mechanism, has the role of politics remained so pervasive in this industry?" According to

Rivoli in TT, this is

a. _____in part because the RTAA gave bargaining power to importers.

b. _____in part because of geographic concentration among textile and apparel producers.

c. _____in part because t-shirt retailers are a diffuse group.

d. _____in part because other manufacturing industries worried that they could be next sector suffering from low-cost import competition.

2. 20 points (5 points each). The idea of "gains from trade" might *at best* be viewed as concerning the **long-run** prosperity of a country because

a. _____in the long run, a society that embraces changes in economic circumsances that satisfy the compensation principle might likely have most people in the society at some future time better off than they would have been if the status quo had been enforced.

b. _____in the short run there are almost surely some losers.

c. _____whether in the long run or short run, more people gain from trade than lose.

d. _____whether in the long run or short run, voluntary trade must make a country better off than aurarky, other wise it wouldn't do it.acro

Money and nominal prices. 50 points.

1. 30 points. Consider the monetary side of two real economies. Money demand is given as (we normalize real income to one (1)):

$$L^d = \frac{1}{2}P_I;\ L^{*d} = \frac{1}{2}P^*_{I^*},$$

where the price indices are given as a weighted average of the three nominal prices:

$$P_I = \frac{1}{3}P_X + \frac{1}{3}P_M + \frac{1}{3}P_N;$$
$$P^*_{I^*} = \frac{1}{3}P^*_X + \frac{1}{3}P^*_M + \frac{1}{3}P^*_{N^*};$$

Money supplies are exogenous and given as $\overline{L}$, $\overline{L}^*$, respectively:

$$\overline{L} = \overline{L}^* = 1.$$

In equilibrium, money demand equals money supply. Relative prices are given as

$$\frac{P_X}{P_N} = \frac{P^*_X}{P^*_N} = \frac{P_M}{P_N} = \frac{P^*_M}{P^*_N} = 1.$$

Solve for P_N and P^*_N.

2. 20 points. Assume nothing in the above analysis changes except that the relative price $\frac{P_M}{P_N}$ increases. Make the argument that at least one nominal price, i.e., either P_N, P_M, or P_X, must fall.