

Chapter 6

■ SHORT ANSWER AND ESSAY QUESTIONS

1. Describe the four major economic flows that link the United States to other nations.
2. In relative and absolute terms, how large is the volume of the international trade of the United States? What has happened to these figures over the past 30 or so years?
3. What are the principal exports and imports of the U.S. economy? What commodities used in the economy come almost entirely from abroad, and what American industries sell large percentages of their outputs abroad?
4. Which nations are the principal trading partners of the United States? How much of this trade is with the industrially advanced nations and how much of it is with the developing nations of the world?
5. Give several factors that have facilitated trade since World War II.
6. Who are the major participants in international trade? Describe the relative influence of the key players.
7. Use an example of two individuals to describe the basic principle of comparative advantage.
8. What is meant by comparative cost and comparative advantage?
9. Explain how comparative advantage determines the terms of trade between nations.
10. What is the gain for a nation that results from specialization in the production of products for which there is a comparative advantage?

- 11.** Describe the characteristics of a foreign exchange market and of exchange rates. Why is an exchange rate an unusual price?
- 12.** Illustrate with a supply and demand graph how equilibrium is determined in a dollar–yen market. Be sure to label axes and curves.
- 13.** Why might an appreciation of the value of the U.S. dollar relative to the Japanese yen depress the U.S. economy and stimulate the Japanese economy? Why might a government intervene in the foreign exchange market and try to increase or decrease the value of its currency?
- 14.** What are the major trade impediments and subsidies? How do they restrict international trade?
- 15.** Why do governments intervene in international trade and develop restrictive trade policies?
- 16.** What is the cost to society from trade protectionism? Who benefits and who is hurt by trade protectionism?
- 17.** What was the Smoot-Hawley Tariff Act of 1930? What international trade problems are illustrated by this act?
- 18.** Explain the basic provisions of the Reciprocal Trade Agreements Act of 1934.
- 19.** What were the cardinal principles contained in the General Agreement on Tariffs and Trade (GATT)?
- 20.** What were the basic provisions and important results of the Uruguay round of GATT negotiations?
- 21.** What is the European Union? What has it achieved?
- 22.** Discuss the potential effects of the European Union on the trade of the United States.
- 23.** What is the North American Free Trade Agreement (NAFTA)?
- 24.** What do its critics and defenders say about the agreement?
- 25.** Evaluate the effects of increased global competition on U.S. firms, workers, and consumers.