



# Solutions Manual to End-of-Chapter Questions



## Trade in the Global Economy

1. Figures 1-2 and 1-6 rely on data from 2010, and Figure 1-5 relies on data from 2005, to map worldwide trade, migration, and FDI. Updated data for migration and FDI were not available at the time this chapter was written, but it is available for worldwide trade. In this question, you are asked to update the numbers for world trade shown in Table 1-1.
  - a. Go to the World Trade Organization's website at <http://www.wto.org>, and look for its trade data under "Documents and resources" then "International trade statistics." Look for the most recent edition of its *International Trade Statistics* publication, then go to "Trade by region," and find the Excel spreadsheet with "Intra- and interregional merchandise trade." Print out this table. If you cannot find the website or spreadsheet, use the 2011 table for "Intra- and Inter-Regional Merchandise Trade" that appears below to answer the following questions.<sup>12</sup>

Origin	Destination							
	North America	South and Central America	Europe	CIS*	Africa	Middle East	Asia	World
<b>World</b>	<b>\$2,923</b>	<b>\$749</b>	<b>\$6,881</b>	<b>\$530</b>	<b>\$538</b>	<b>\$672</b>	<b>\$5,133</b>	<b>\$17,816</b>
North America	1,103	201	382	15	37	63	476	2,282
South and Central America	181	200	138	8	21	18	169	750
Europe	480	119	4,667	234	199	194	639	6,612
Commonwealth of Independent States (CIS)	43	11	409	154	12	24	117	789
Africa	102	19	205	2	77	21	146	594
Middle East	107	10	158	6	38	110	660	1,251
Asia	906	189	922	110	152	242	2,926	5,538

Source: WTO, *International Trade Statistics 2012*

- b. From this table, what is the total amount of trade within Europe? What percentage is this of total world trade?

**Answer:** The total amount of trade within Europe is \$4,667 billion. This is 26.2% of the world total trade. (The total world trade is \$17,816 billion. Share =  $\$4,667 / \$17,816 = 26.2\%$ .)

<sup>12</sup> The trade statistics for 2011 were obtained from Table I-4 at: [http://www.wto.org/english/res\\_e/statis\\_e/its2012\\_e/its12\\_world\\_trade\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2012_e/its12_world_trade_e.htm).

- c. What is the total amount of trade (in either direction) between Europe and North America? Add that to the total trade within Europe, and calculate the percentage of this to the world total.

**Answer:**  $$(480 + 382) = $862$  billion. Adding that to intra-European trade, we obtain 31% of the world total [ $$(862 + 4667)/$17,816 = 31%$ ].

- d. What is the total amount of trade within the Americas (i.e., between North America, Central America, South America, and within each of these regions)? What percentage of total world trade is this?

**Answer:**  $$(1,103 + 201 + 181 + 200) = $1,685$  billion, or 9.5% of the world total ( $1,685/17,816 = 9.5%$ ).

- e. What is the total value of exports from Europe and the Americas, and what percentage of the world total is this?

**Answer:**  $$(2,282 + 750 + 6,612) = $9,644$  billion, or 54.1% of the world total ( $9,645/17,816 = 54.1%$ ).

- f. What is the total value of exports from Asia, and what percentage of the world total is this?

**Answer:** \$5,583 billion, which is 31.1% of the world total.

- g. What is the total value of exports from the Middle East and the Commonwealth of Independent States,<sup>13</sup> and what percentage of the world total is this?

**Answer:**  $$(789 + 1,251) = $2,040$  billion, which is 11.45% of the world total ( $2,039/17,816 = 11.45%$ ).

- h. What is the total value of exports from Africa, and what percentage of the world total is this?

**Answer:** \$594 billion, which is 3.3% of the world total

- i. How do your answers to (b) through (h) compare with the shares of worldwide trade shown in Table 1-1?

**Answer:** The shares computed in (b) through (h) are quite similar to Table 1-1. The numbers won't change much as they are one year apart.

2. The quotation from Federal Reserve Chairman Ben Bernanke at the beginning of the chapter is from a speech that he presented in Jackson Hole, Wyoming, on August 25, 2006, entitled "Global Economic Integration: What's New and What's Not?" The full transcript of the speech is available at <http://www.federalreserve.gov/newsevents/speech/bernanke20060825a.htm>. Read this speech and answer the following questions:

- a. List three ways in which international trade today does not differ from the trade that occurred before World War I.

**Answer:**

- i) Physical distance is the same.
- ii) New transportation methods allow for more trade.
- iii) Governments foster open trade, as well as financial flows.
- iv) Some groups are opposed to free trade.
- v) The range of goods that are tradable has broadened.

<sup>13</sup> The Commonwealth of Independent States consists of: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine.

- b. List three ways in which international trade today does differ from the trade that occurred before World War I.

**Answer:**

- i) Intra-industry trade has increased.
- ii) Information and communication technologies permit trade in services.
- iii) Scale and pace of growth in trade is faster.
- iv) Core-periphery pattern is no longer relevant.
- v) Fragmentation of production processes has occurred.
- vi) Capital markets are more mature, and gross flows are larger.

