Solutions Manual to End-of-Chapter Questions

1 Trade in the Global Economy

1. In this question, you are asked to update the numbers for world trade that are 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, data and resources: Publications" for the most recent edition of its *International Trade Statistics.* Find the Excel spreadsheet or PDF document with "Intra- and interregional merchandise trade," and print out this table. **Answer:** 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.[11]

Intra- and Inter-regional Merchandise Trade, 2011 (Billions of U.S. Dollars)

Origin	Destination							
	North America	South and Central America	Europe	CIS*	Africa	Middle East	Asia	World
World	**$2,923**	**$749**	**$6,881**	**$530**	**$538**	**$672**	**$5,133**	**$17,816**
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

Data from: WTO, International Trade Statistics 2012.

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

---

* 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.

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,[12] 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. Explain what each of the following terms means, and describe one example from this chapter where each of these terms is used.

a. Bilateral trade balance
    Answer: Bilateral trade balance is the difference between exports and imports between two countries. For example, the U.S. bilateral trade balance with China has a deficit of more than $200 billion, which means that the value of exports from the United States to China is less than the value imported from China by more than $200 billion.

---

[12] The Commonwealth of Independent States consists of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

b. Trade embargo

Answer: A trade embargo involves eliminating trade with a particular country or a group of countries. For example, Cuba has been completely cut off from trade with the United States since the embargo was placed in 1961.

c. Free trade area

Answer: A free trade area is a group of countries that do not have any import tariffs or quotas for trade between them. Some examples of free trade areas include the North American Free Trade Agreement (NAFTA), Trans-Pacific Partnership (TPP), and Transatlantic Trade and Investment Partnership (TTIP).

d. Import quota

Answer: An import quota is a type of trade restriction that limits the quantity of a good that can be imported. For example, the Multifibre Arrangement (MFA) restricted the amount of nearly every textile and apparel product that was imported to Canada, the European countries, and the United States from China. MFA began in 1974 and was abolished 2005.

e. Offshoring

Answer: Offshoring refers to relocating a business process, such as a manufacturing process and service process, from one country to another. For example, the increased trade share of capital and consumer goods could be related with offshoring production process overseas in nowadays.

3. Find online press reports dealing with immigration issues in Europe and in the United States. Summarize the issues being discussed in each case.

Answer: This is an open question. See below for one example of immigration issues in Europe and the United States.

Given that the number of asylum seekers is sharply increasing and the aging population in the European Union (EU), a hot discussion among politicians and scholars is whether government should return to selective immigration. Compared to Europe, the United States has tended to take only small numbers of asylum seekers, relative to each area's population. But the United States has a more liberal immigration regime. Immigration in the United States is embraced more warmly by the free market right than trade union left. Immigrants contribute to innovation, and do many jobs that native workers refuse.

(OECD Observer: http://www.oecdobserver.org/news/archivestory.php/aid/337/Immigration_in_the_European_Union:_problem_or_solution_.html)

Work It Out

The quotation from Federal Reserve Chairman Ben Bernanke at the beginning of the chapter is from a speech that he delivered in Jackson Hole, Wyoming, on August 25, 2006, titled "Global Economic Integration: What's New and What's Not?" The full transcript of the speech is available at https://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.

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.