**Homework #8: Chapter 2, 18, 19 2: Review of Economic Growth and International Trade and Exchange**

**Re-read Chapter 2**

**Chapter 2 Part I:**

1. What is comparative advantage? How is it determined?
2. What is specialization? How is comparative advantage used to determine specialization?
3. What are terms of trade? How is it based on opportunity cost? Why must the terms of trade fall between the opportunity costs of both countries trading?
4. Summarize the problem on 2.3-2.4: explain
   1. Who should import wheat? Explain using comparative advantage.
   2. Who should import cloth? Explain using comparative advantage.
   3. Why would an acceptable terms of trade be 2.5 units of wheat for 1 unit of cloth. Explain.

**Chapter 2 Part II: Graphs: Production Possibility Curves**

* Illustrate a PPC and explain how trade can achieve a point outside the PPC. Why would this be a point outside the PPC and not a shift?

**Chapter 2 Part III: Vocabulary and Formulas**

* Write down both formulas at the end of the chapter

**Read Chapter 20**

**Chapter 18 Part I: Guided Notes: Answer the following questions in at least 2-3 bullet points each**

1. Identify and explain RGDP per capita. How does is it calculated? How does it reflect the standard of living of a nation? What stagflation? Why is it the worst economic situation?
2. Identify and explain the “Rule of 70”
3. Identify and describe the determinants of economic growth and productivity?
4. Over a long period of time how can tax breaks to businesses create long term growth?
5. Over a long period of time how can lower interest rates create long term growth?
6. Copy Table 20.2

**Chapter 18 Part II: Graphs: Production Possibilities Curve Reveiw**

1. Draw a Production Possibilities Curve
   * Explain how this graph is used to illustrate opportunity cost?
   * Why is opportunity cost the slope of the graph?
   * What are the determinants of the graph?
2. Draw three different PPC’s: Constant, Concave and Convex – Explain the difference between the three
3. On a separate graph illustrate the PPC shifting to the right
   * Explain what would cause the graph to shift right?
4. On a separate graph illustrate the PPC shifting to the left
   * Explain what would cause the graph to shift left?
5. On a separate graph draw a point inside the PPC.
   * Explain why that point would illustrate recession/unemployment
6. On a separate graph draw a point outside the graph
   * Explain why that point is unobtainable with current resources
   * Explain how this point might be achievable with trade between nations

**Chapter 18 Part III:** **Vocabulary and Formulas**

* Write down ALL of the vocabulary and formulas at the end of the chapter

**Chapter 18 Part IV: Multiple Choice:**

* Write the Multiple Choice Question and Correct Answer as one simple sentence
* Explain why the correct answer is correct for each answer
* Use formulas and explanations for #6,7,8,9,10, 15
* Write each Free Response Question
* Write each Free Response Question’s answer in your own words. Use graphs and explanations to help with I and II.

**Read Chapter 19**

**Chapter 19: Guided Notes: Answer the following questions in at least 2-3 bullet points each**

1. What is a Nation’s Balance of Trade? How is it calculated?
2. What is trade deficit? Why is it bad?
3. What is trade surplus? Why is it good?
4. Why might nations want to restrict trade? Explain.
5. What is dumping? How does it hurt domestic industries?
6. Why might nations not want to restrict trade?
7. What are tariffs? How do they restrict trade?
8. What are quotas? How do they restrict trade?
9. Why are trade restrictions good for producers but bad for consumers?
10. How do tariffs and quotas affect the balance of trade and Net Exports? Explain.
11. Based on the effect of Net Exports, how would tariffs and quotas affect RGDP? Explain.
12. What is the balance of payments? What does it consist of? Why is it important to calculate?
13. What is the difference between the current and capital account? Identify the components of each. Why should the current + capital account = 0?
14. What is the definition of exchange rate?
15. What does it mean that a currency appreciates compared to other currencies? How is this good for the domestic nation? How is this bad?
16. What does it mean that a currency depreciates compared to other currencies? How is this good for the domestic nation? How is this bad?
17. Copy Table 19.4 and then define and explain how the following factors affect and change the Demand of a currency:
    1. Demand for a nation’s exports (tastes)
    2. Relative Interest Rates
    3. Political Stability
    4. Relative GDP/Relative levels of income
    5. Relative Prices/Price Level
    6. Speculation
18. What was the “Gold Standard?” How did the value of the dollar being attached to the “Gold Standard” provide stability? Instability? Why do you think it was ultimately removed by Richard Nixon?
19. What is the Managed Float Exchange Rate Regime? How does it determine the value of a currency? What are the positives and negatives of this system?
20. How does an expansionary monetary policy worsen the balance of trade? Explain.
21. How does an expansionary fiscal policy worsen the balance of trade? Explain.

**Chapter 19 Part IIa: Graphs: Exchange Rate Graph**

1. Draw an Exchange Rate Graph of Indian Rupee (currency x) per US dollar (currency y).
2. Why is the y-axis price of currency y per currency x.
3. Why is the x-axis the Quantity of the Domestic currency (currency x)? Explain.
4. Why is Supply upward sloping based on the y and x axis?
5. Why is Demand downward sloping based on the y and x axis
6. Draw 4 separate graphs of S shift left; S shift right; D shift left, D shift right,. For each graph fully label:
   1. The change in exchange rate (e), Quantity of currency x (q), equilibrium (e), arrows and dots

**Chapter 19 Part IIb: International Trade Graph**

1. Illustrate the tariff/quota graph and explain:
   1. How did international trade affect the price/quantity from the closed economy to the open economy?
   2. What happened to domestic production graphically? Why did domestic production decrease at the new equilibrium price?
   3. What happened to the equilibrium price/quantity post-tariff? How does this affect consumers? Producers? (also review chapter 5)

**Chapter 19 Part III:** **Vocabulary and Formulas**

* Write down ALL of the vocabulary and formulas at the end of the chapter

**Chapter 19 Part IV: Multiple Choice and Free Response**

* Write the Multiple Choice Question and Correct Answer as one simple sentence
* Explain why the correct answer is correct for each answer
* Use graph and explanation for at least #’s 4,5,12,13,14, 15 (remember to focus on currency in question for exchange rates)
* Write each Free Response Question,
* Write each Free Response Question’s answer in your own words. Use graphs and explanations to help with I and II