Section I. Multiple Choice

1. The gravity model offers a logical explanation for the fact that
A) trade between Asia and the U.S. has grown faster than NAFTA trade.
B) trade in services has grown faster than trade in goods.
C) trade in manufactures has grown faster than in agricultural products.
D) Intra-European Union trade exceeds International Trade of the European Union.
E) None of the above.
Answer: D

2. Why does the gravity model work?
A) Large economies became large because they were engaged in international trade.
B) Large economies have relatively large incomes, and hence spend more on government promotion of trade and investment.
C) Large economies have relatively larger areas which raises the probability that a productive activity will take place within the borders of that country.
D) Large economies tend to have large incomes and tend to spend more on imports.
E) None of the above.
Answer: D

3. Since World War II, the likelihood that any single item in the typical consumption basket of a consumer in the U.S. originated outside of the U.S.
A) remained constant.
B) increased.
C) decreased.
D) fluctuated widely with no clear trend.
E) both A and D above.
Answer: B

4. In the current Post-Industrial economy, international trade in services (including banking and financial services)
A) dominates world trade.
B) does not exist.
C) is relatively small.
D) is relatively stagnant.
E) None of the above.
Answer: C
Section II. Short Answer/Essay

5. In the past half century, the developing countries have experienced major compositional shifts from exports of primary products (including agricultural and raw materials) to exports of manufactures. How might you explain this in terms of broad historical developments during this period?

Answer: The compositional changes in world trade from the early 20th century to the early 21st century can be attributed to the changes in the composition of world production, brought about mainly due to technological progress. Focusing on today’s Industrialized Countries (primarily members of the OECD), the industrial-employment composition was focused primarily on agriculture. Most value was in land. The predominant single consumption category was food. Since then, technological progress in these economies shifted resources from the agricultural to the manufacturing sectors. Incomes rose, and consumption shifted in favor of (increasingly affordable) manufactures. At the same time, there was a steady tendency for synthetic (manufactured) inputs (e.g. plastic) to replace agricultural based raw materials (e.g. jute) and industrial inputs. In the developing world, the post World War II period also witnessed a major shift towards industrialization, which consequently led to steady declines in their agricultural sectors. Finally, the advent of the MNC (Multinational Corporation) further boosted the shift in resources towards manufacturing. All these phenomena contributed to the decline in trade in primary products (like agriculture and minerals) and the rise in trade in manufactured goods.

6. The Services sector has been steadily rising in relative importance in GDP of the United States, as well as elsewhere around the world. Since “services” have been identified as “non-tradables” (e.g. it is difficult to export haircuts), it may be argued that this trend will likely slow the rapid growth in international trade. Discuss.

Answer: This argument stands on questionable logical foundations. The past half century has seen a steady growth in the absolute and relative importance of international trade. This trend has been reversed only by global conflicts, i.e. the two World Wars. This trend has remained steady and robust despite major compositional shifts (e.g. from primary to manufacturing), and location shifts (e.g., the sudden rise of NICs as significant group of exporters). The trend will probably continue into the reasonable future, fueled by both super-regional preferential trade regions and a growing impact of the multilateral forces, represented institutionally by the World Trade Organization (WTO)-as illustrated by the recent abolishment of the epitome cartelized trade, the world trade in textiles. Driven by technology-especially in the areas of communication and transportation—a reversal of the growing trade trend is not likely in the near future. In any case, many ‧ services ‧ are in fact quite tradable. Examples would be financial services, long-distance teaching, ‧ help-desk ‧ outsourcing, consulting and management services and others. In fact, when a tourist gets a haircut, we see that even haircuts become a “tradable” service.