

Solutions Manual to End-of-Chapter Questions

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 world-wide 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.¹²

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

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 = $\$4,667 / \$17,816 = 26.2\%$.)

¹² 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,¹³ 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. Visit the U.S. Bureau of Economic Analysis at bea.gov to find information for the latest full calendar year (or for the last four quarters). What is the latest estimate of the size of the annual U.S. current account deficit in billions of dollars?

Answer: The data can be found in Table 1—US International transactions. Based on the data available as of September 2013, the second and third quarter of 2012 and the first and second quarter of 2013 had current account balances of -106.7 , -102.3 , -104.9 , and -98.9 billion U.S. dollars, respectively. Thus, the one-year estimate is a deficit of 412.8 billion dollars, which is about 61 billion dollars less than for the year 2011 as shown in Table 1-1(12-1).

3. Visit oanda.com (or another site with daily exchange rate data) and download data on the same exchange rates (yuan per dollar and dollar per euro) for the past 12 months. What are the rates today? What were they a year ago? By what percentage amount did the rates change? Do you think the rates are floating or fixed? Why?

Answer: Answers will depend on the latest data update. The yuan per dollar exchange rate is fixed (with only occasional changes in its value) and the euro-dollar exchange rate is floating as evident from its wide fluctuations over time.

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

As of September 2013, the weekly average for yuan per U.S. dollar was about 6.14; one year ago it was about 6.34. The yuan has appreciated by about 3.2%. On September 22, 2013, the weekly average was 1.34 dollars per euro; one year ago it was 1.29. Thus, dollar depreciated by about 3.8%.

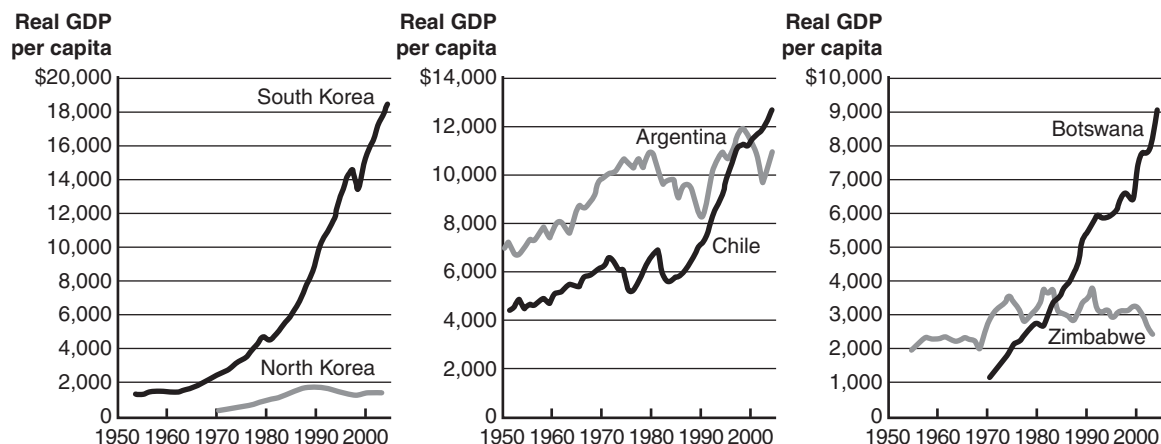
4. The data in Figure 1-6 end in the year 2011. Find the IMF's World Economic Outlook Databases. (*Hint:* Try searching "world economic outlook databases.") Use this full data set to obtain the latest data on current accounts in U.S. dollars for all countries (actual data or IMF estimates). Which countries had the 10 largest deficits last year? Which countries had the 10 largest surpluses last year?

Answer: Answers will depend on the latest data update. As of October 2013, the 10 countries with the largest current account deficits were:

Country	2011	2012	2013
United States	-457.726	-440.417	-451.458
India	-78.154	-88.163	-77.601
Brazil	-52.473	-54.231	-74.012
United Kingdom	-36.041	-93.866	-69.096
Turkey	-75.092	-47.75	-60.661
Canada	-48.98	-62.266	-57.092
Australia	-34.089	-56.901	-50.34
France	-48.996	-57.142	-43.414
Indonesia	1.685	-24.074	-29.578
South Africa	-13.62	-24.068	-21.477

The 10 economies with the largest current account surpluses were:

Country	2011	2012	2013
United Arab Emirates	50.949	66.553	59.448
Norway	62.705	70.817	60.773
Japan	119.304	60.446	61.064
Russia	97.274	74.799	61.18
Switzerland	59.082	70.756	68.101
Kuwait	67.175	79.768	72.092
Netherlands	84.86	77.839	86.993
Saudi Arabia	158.582	164.693	138.875
Germany	224.29	238.493	214.596
China	136.097	193.139	223.743



	Control of Corruption	Government Effectiveness	Political Stability and Absence of Violence	Rule of Law	Regulatory Quality	Voice and Accountability
South Korea	0.37	0.63	0.49	0.64	0.47	0.76
North Korea	-0.93	-1.10	-0.66	-1.08	-1.70	-2.02
Chile	1.56	1.34	0.85	1.31	1.38	0.56
Argentina	-0.34	0.28	0.48	0.17	0.45	0.44
Botswana	1.02	0.98	0.90	0.67	0.79	0.78
Zimbabwe	-0.87	-1.13	-1.21	-0.74	-1.61	-0.97

5. The charts on page 27 show the growth of real GDP per capita in three pairs of geographically adjacent countries: North and South Korea, Argentina and Chile, Zimbabwe and Botswana (using data from the Penn World Table).

- a. Which country in each pair experienced faster growth in GDP per capita? Which one is now richest?

Answer: South Korea experienced faster growth than North Korea. Argentina experienced faster growth than Chile between 1970 and 1980, but Chile's growth rate was higher than Argentina's between 1980 and 2000. Botswana has grown faster than Zimbabwe since 1970. As of 2006, the richest countries are: South Korea, Chile, and Botswana. Of the three, South Korea is the richest.

- b. The World Bank's World Governance Indicators for each country in 2000 were as shown in the table above (higher is better):

Based on these data, do you think institutions can explain the divergent outcomes in these countries? Explain. Why do you think it helps to compare countries that are physically contiguous?

Answer: South Korea has consistently higher governance ratings than North Korea. Similarly, Chile's are higher than Argentina's ratings, and Botswana's are higher than Zimbabwe's. Based on the information for these six countries, it appears as though quality governance is associated with higher economic growth.