

Exercise Questions

Chapter 1 - The Global Economy

1. Do the countries with the largest population also have the largest economies? Why(not)? Are these countries also the richest? Why(not)?
2. Which continent has the youngest population and which the oldest?
3. Why are 'big' developments such as population growth, decline and demographic structure of importance for firms? Can you give examples of how this works in practice?
4. When we refer to a country having a large economy, we talk about national incomes. What is the difference between GDP and GNP?
5. A haircut in the Netherlands would cost you on average 25 euros in 2013, at the current exchange rate about 30\$. Is this a lot? How is the discussion on PPP related to this question?
6. This book is on globalization? What is this? Is this a one dimensional construct?
7. Can you give an example for each of the different dimensions of globalization and how it has affected you personally?
8. Is economic globalization new?
9. The US is generally seen as the economically most powerful nation of the world. Has it always been like this? What is leapfrogging?
10. What is a price wedge? How is it related to the discussion on globalization? What does an increase in the price wedge tell you?

Chapter 2 – Getting the numbers right

1. What different types of trade exist? Where do they come from?
2. What types of multinational activity exist?
3. Are trade and multinational activity substitutes or complements?
4. How do we report the total amount that is exported and imported by firms in a year?
5. How do we report the total amount of capital flows that flow in and out of a country?
6. How can multinationals fund their activities abroad?
7. What do FDI data tell us and what does it not tell us?
8. What is the difference between sales, value added, and FDI? What is the ideal indicator to measure the activity of firms abroad?
9. Can you compare firms and countries in terms of size?
10. How has the composition of international capital flows changed in the first wave of globalization and in the current one?

Chapter 3 - Trade, comparative advantage, and competition

1. Explain why trade theory is about relative efficiency and not about absolute efficiency?
2. Why is it difficult to treat countries and firms alike in discussions about competitiveness?
3. Why is Ricardo's model one that is based on exogenous differences?
4. What is the key difference between Ricardo and the Heckscher-Ohlin model?
5. What does it mean – explain in your own words – if firms in a country are on average more productive than firms in another country?
6. Could you think of a reason (or more than one) why Vietnam is more productive in producing coffee for the world market than Germany?

In the book it is assumed that the production of steel is more capital intensive than the production of cloth. Now explain in your own words:

7. What is the price of labour? And what is the price of capital? Why?
8. If labour becomes scarcer, how does this affect the price of labour? And how does it affect the price of capital? And how does it affect the price of cloth?
9. Now suppose the production of steel is frustrated for example because of a major earthquake affecting factories. Does the wage/rental ratio go up or down? Why?
10. How does factor price equalization work? What does it mean?

Chapter 4 - Modern trade theory: the role of the firm

1. What is the difference between inter and intra-industry trade? Can you give an example?
2. What is the difference between imperfect and perfect competition, and which one is more realistic? What is the assumption of the Ricardo and Heckscher-Ohlin models?
3. Use a figure to explain intra-industry trade in the case of imperfect competition
4. Are there alternative explanations why intra-industry exists?
5. What is monopolistic competition? Can you give an example?
6. How does monopolistic competition help us understand intra-industry trade?
7. What is the Grubel-Lloyd index? Explain the index in your own words.
8. What is the firm heterogeneity argument? Can you explain why trade theory has developed in terms of levels of analysis the last decades? From country to industry to firm?
9. The firm heterogeneity literature is sometimes referred to as a pecking order hypothesis. What does that mean? Can you explain why this term is used?
10. What is the overlap between international business, the notion of firm competitiveness and the firm heterogeneity argument?

Chapter 5 - Trade restrictions and trade policy

1. How does the World Trade Organization fit in the economic trade theory?
2. What is the difference between tariff barriers and non-tariff barriers? Can you give examples of both?
3. Use a figure to explain how tariffs affect the various actors involved in trade? Who benefits from tariffs? Who loses from trade restrictions? What is the overall net welfare effect?
4. In the aftermath of the Great recession (see chapter 12 for more details), the WTO expressed its fear that protectionism would increase again. What are the incentives for protectionism?
5. Have trade barriers decreased, increased or stabilized the last decades?
6. What is the MFN rule? Are there exceptions to this rule?
7. Why do you think do these trade negotiations take so long?
8. Can you think of an example of an industry in your country that is known for being in favor of protectionist measures?
9. Explain the meaning of the Airbus-Boeing example that is often used as a textbook example.
10. How is lobbying related to the discussion on protectionism? Do economists see lobbying as an efficient activity from an overall welfare perspective? Why (not)?

Chapter 6 – Firms, location and distance

1. Why do most firms have trade relationships with firms in countries close to their own country? Does this hold for all types of firms in the same way?
2. Why does the ‘rooted cosmopolitanism’ argument contradict the ‘world is flat’-hypothesis? Which one is right do you think or with whom do you agree?
3. How does geographic distance affect trade and market seeking and efficiency seeking multinational activity? Use figures to illustrate your argument.
4. What does the gravity model predict? What is the unit of analysis of the gravity model?
5. What other types of distance are generally used in international economics and business?
6. Are all types of distance equally important? Which one do you think is most important? When traveling yourself, have you ever been ‘affected by distance’?
7. How does the illusion of spatial homogeneity relate to the locational difference between New York NY and Des Moines Iowa, or between Munich and Hamburg?
8. How can you use Porter’s diamond model to explain the dominant global market position of Dutch flower and flower bulb producers?
9. What is the commonality between Porter’s model and Dunning’s model? What is the crucial difference?
10. What do the capital letters in the OLI abbreviation mean?

Chapter 7 – Managing across borders

1. What is the difference between international business and international management?
2. What is the resource based view of the firm?
3. Explain why the international version of the resource based view focuses on the importance of mobility and transferability?
4. What is a firm specific advantage?
5. Can you explain the link between a firm specific advantage and the liability of foreignness?
6. Explain how cultural and institutional differences between home and host countries are related the integration-responsiveness tension that is omnipresent international management?
7. Explain how each entry mode is related to the degree of control, the dissemination risk and the level of resource commitment
8. How does real option theory differ from the Uppsala internationalization theory?
9. Suppose the cultural differences to a host country are very high. Would this – all else equal – lead you to choose a greenfield or a joint venture? Why?
10. Use institutional theory to explain why and how foreign firms try to increase their legitimacy in a host country.

Chapter 8 – Exchange Rates

1. What risks are associated with exchange rates? Do all internationalizing firms experience the same risks?
2. What is arbitrage, and explain how it affects exchange rates?
3. Why does it take time for arbitrage to be effective?
4. Can you explain why spot and forward rates are almost similar? What does it mean when 'a country sells at discount'?
5. Can you explain why in Figure 8.6 the relation between exchange rates and prices has a 45 degree slope?
6. Can you explain why the difference between C and D in Figure 8.7 is equal to the required degree of intervention by the Central Bank?
7. What is the difference between the nominal and real interest rate? Can the real interest rate be negative? Can you explain why?
8. Explain in your own words the difference between the Covered and the Uncovered Interest Parity
9. What does it mean when the term structure of interest rates rises?
10. Can you relate the UIP to the interest rate differentials in the EURO area during the crisis years?

Chapter 9 – Currency crisis and exchange rate policy

1. Explain the 'logic' of a currency crisis. Include the role of the Central Bank in your answer.
2. Why is a currency crisis particularly relevant in the case of fixed exchange rates?
3. Why are emerging markets more prone to currency crisis?
4. The authors of the book argue that the increased frequency of financial crises can be attributed to the increased capital mobility (see Figure 9.2). Why? How does increased capital mobility lead to higher frequency of currency crises?
5. Can you explain in your own words why a devaluation has a similar impact on the real debt burden as a fall in the domestic price level?
6. Explain with the basic insights of a first generation model of currency crisis how a government that spends too much may trigger a currency crisis
7. What are bad fundamentals? Can you think of a list of bad fundamentals?
8. What is herd behavior? Why does it matter for understanding currency crises?
9. What is the crucial difference between first and second generation models of currency crises?
10. What is contagion? What is fundamental based contagion? Can you give an example?

Chapter 10 – Gains from international capital mobility

1. Can you explain why it can be argued that international capital mobility makes countries better off? Please use a figure to illustrate your argument.
2. What is the Feldstein Horioka puzzle?
3. What does a low correlation between national savings and national investment mean?
4. Would you expect a high or a low correlation between national savings and investment when international capital mobility is high?
5. What is the difference in the nature of capital mobility between the first wave of globalization and the current one?
6. Can you explain why a macro economic model is useful, but does not tell the whole picture regarding investment and savings opportunities of individual firms?
7. What is the home bias? And a foreign bias? If you are a shareholder yourself, do you suffer from a home or foreign bias?
8. Why is a home (or foreign bias) sub-optimal from an investment allocation perspective?
9. Why is the first part of the supply curve in Figure 10.3 horizontal?
10. How can international capital mobility have increased, but capital market integration not?

Chapter 11 – Financial crises, firms and the open economy

1. What is the difference between a currency crisis, a capital account crisis, a banking crisis, a financial crisis, and a sovereign debt crisis? What is a twin crisis?
2. Why is a twin crisis so devastating?
3. Explain how each of the events listed on page 314 can lead to a crisis.
4. What does a current account deficit mean in the context of a financial crisis? Is a current account deficit always bad? Use Table 11.3 to answer this question.
5. How does the international dimension affect a financial crisis? In other words, explain how international channels affect the crisis framework you used to answer question 3.
6. Explain how overinvestment can occur in this context, and what role moral hazard plays.
7. What are 'perverse savings'? How does it relate to our understanding of financial crises?
8. What is order in which a twin crisis often occurs?
9. See Table 11.3. What is the best predictor of a banking crisis? And of a currency crisis?
10. What is the difference between the proponents of the so called 'fundamentalists' and the 'self-fulfillers'? Can these two views be integrated at all?

Chapter 12 – The Great Recession

1. If possible at all to give one single explanation for the Great Recession, what was a main trigger of the Great Recession? Explain this.
2. What is the importance of the bankruptcy of the Lehman Brothers from a financial-economic point of view?
3. What is the Great Moderation? How has it affected our understanding of the Great Recession?
4. Throughout the textbook, the authors have repeatedly stressed the relation between the real economy and the financial economy. How has the financial crisis affected the real economy? Can you give examples?
5. Explain in your words how the financial crisis has led to the fall in production. Is this just a one year reduction?
6. What is the bullwhip effect? How can you observe it? And explain in your own words how the bullwhip effect provides a potential explanation for the relation between the financial crisis and the trade collapse.
7. What have many governments done to stabilize their economies during the financial crisis? Some commentators have argued that the crisis has led to a massive transfer of private debt to public debt. Can you explain this statement? Do you think these commentators are right?
8. What is the danger of a high public debt? How does this relate to the Euro crisis?
9. Which countries have been particularly hard hit in Europe? Can you give some reasons why exactly these countries have been hit so hard and other countries not that hard?
10. In the aftermath of the financial and economic crisis many commentators have argued that tighter regulation is required. Why? Can you give examples of ways to regulate the financial markets more? What are the pros and cons of these measures?

Chapter 13 – Globalization and growth

1. Which three main factors jointly determine the economic growth of a country?
2. Can you think of more factors? How are they related to these three main drivers of growth?
3. Which one is ultimately most important?
4. What is Total Factor Productivity (TFP)? Is this observable?
5. What does 'catching-up' growth mean? How does this relate to China?
6. What are endogenous R&D efforts?
7. What does it mean when we say that knowledge is a non-rival good? Can you give an example?
8. Give six reasons why open economies might potentially grow faster?
9. What does the Japanese example tell you?
10. What does the Chinese example tell you?

Chapter 14 – Globalization and inequality

1. What is the difference between an open and a closed economy? Would you consider your home country a closed or an open economy?
2. What observation was made for low skilled workers in the 1980s in many countries of the world? How has this affected the globalization debate?
3. How does the Stolper-Samuelson theorem explain that globalization will have winners and losers?
4. Explain in your words what skill biased technological change is. How is this related to the discussion on winners and losers in the globalization debate?
5. How do you think globalization could affect your future job? Do you expect that you will benefit from globalization?
6. Of people are negatively affected by globalization, the theoretical assumption is they will move to find a job elsewhere. If globalization hurts many people, why don't we observe massive migration in the world?
7. Explain why any discussion on globalization and who benefits and who loses should take the income distribution *within* countries into account?
8. How do you study income inequality *between* countries? And how *within* countries? Are the two related? If so, how?
9. What economic arguments have been put forward to explain why globalization does not always yield the economic benefits it theoretically is supposed to do?
10. On balance, would you say that globalization has – overall – had mainly positive or negative effects? Does your answer change once you do not only focus on economic benefits, but take other aspects into account as well? If so why? If not, why not?