

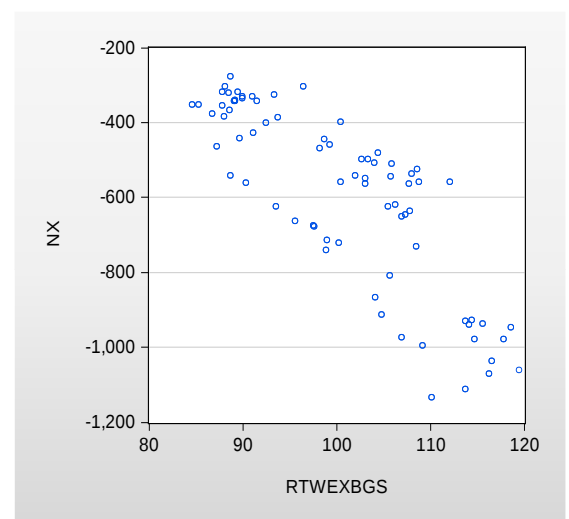
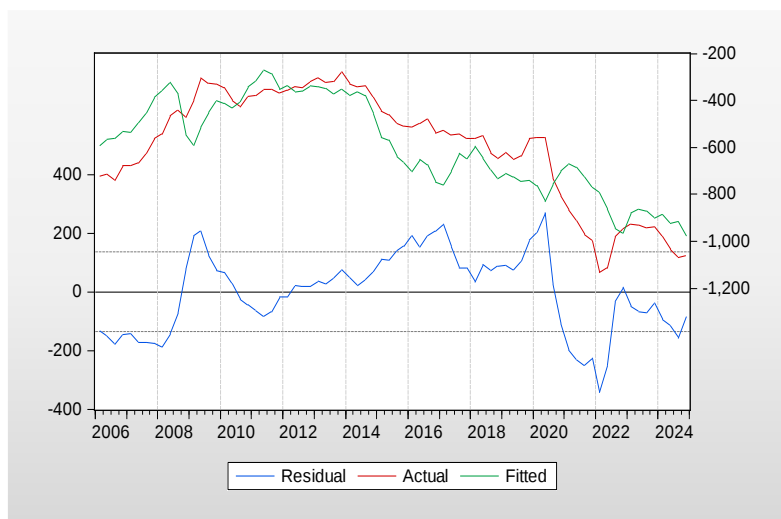
Assignment 1

- The median grade is 93.5 (see below). So, an answer sheet is somewhat unnecessary. Nonetheless, here are some suggestions/comments.
1. [14 points + 5 bonus] Some of the factors that affect U.S. net exports are as follows. U.S. net exports to its major trading partners might increase if, *ceteris paribus*, the U.S. dollar depreciates (in relation to the currencies of its trading partners), the real GDP per capita in partner countries increases, the real GDP per capita in the U.S. decreases. Then there are other factors such as tariffs, sanctions, pandemics, etc. Think about providing **economic explanations** for the above relationships. Also, apart from omitted variables, there are some other issues regarding the estimated equation below. We will discuss them in class.

Dependent Variable: NX
Method: Least Squares

Sample: 2006Q1 2024Q4
Included observations: 76

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1453.770	162.1729	8.964324	0.0000
RTWEXBGS	-20.36583	1.606990	-12.67328	0.0000
R-squared	0.684586	Mean dependent var		-591.9062
Adjusted R-squared	0.680323	S.D. dependent var		241.2218
S.E. of regression	136.3867	Akaike info criterion		12.69483
Sum squared resid	1376499.	Schwarz criterion		12.75616
Log likelihood	-480.4035	Hannan-Quinn criter.		12.71934
F-statistic	160.6120	Durbin-Watson stat		0.206099
Prob(F-statistic)	0.000000			



2. [22 points] You need to address **the three specific questions** posed, by **primarily** referencing the five attached papers.

3. [17 points]

Equilibrium 1: Intersection of *RD1* and *RS*: $Q_x = 6.00$, $Q_y = 28.84$; ratio = 0.21.

Equilibrium 2: Intersection of *RD2* and *RS*: $Q_x = 7.80$, $Q_y = 19.87$; ratio = 0.39.

4. [20 points]

c and d. Note the sections highlighted in red in the text of the question.

e. Very simply, the calculations in c and d show that a country in whose favor the terms of trade have moved, is better off than before. The reverse is true of the other country. In this case Germany has gained at the expense of Spain. Nonetheless both are still better off trading than not.

5. [8 points] The most important point here is the fact that in recent years East Asian economies (in particular China and Vietnam) have grown **much faster** than other economies elsewhere in the world. So, using the Gravity

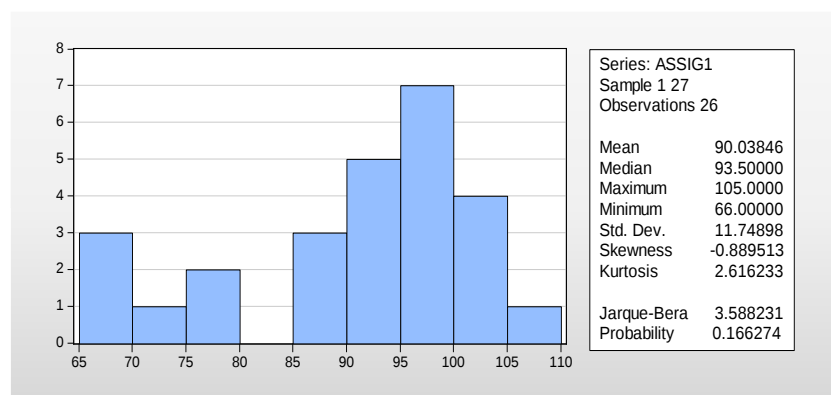
Model $T_{ij} = A \frac{Y_i Y_j}{D_{ij}}$, what matters most **in this particular case** is not primarily A , or D_{ij} , rather the GDPs of

the East Asian economies.

6. [19 points] Almost all did very well on this question. Note that you must draw the *RD* curve accurately (you need at least four points to draw the *RD*). Also, you *must* be consistent in your axis designation. That is, if you measure, say, bananas on the horizontal axis for your *PPF*'s (as you were asked to do), then in your *RD/RS* graph you *must* measure Q_b/Q_a on the horizontal axis of *RD/RS*, **not** Q_a/Q_b . Also, you must measure pb/pa on the vertical axis, **not** pa/pb . I went over this matter several times in class.

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Statistical Report for Assignment 1 Grades



105	96	87
103	96	86
101	96	78
101	94	78
101	93	72
99	92	68
99	91	66
99	90	66
96	88	