QUESTIONS - CHAPTER 1 THE WORLD ECONOMY

Question 1.1
Imagine you work at the Statistical Bureau of Singapore and have to record the value changes in GDP, GNI, exports and imports. What value changes do you record when:

1.1A A shipload of 1,000 trousers arrives from India that has cost the Singapore importer 5 Singapore dollars per piece. This shipload is immediately re-exported to the USA for 6 Singapore dollars per piece.

1.1B A bundle of 1,000 trousers has been purchased from a Singapore producer for 5 Singapore dollars per piece. This bundle is exported to the USA for 6 Singapore dollars per piece.

1.1C The same transaction is executed as in 1.1A but this time the Indian producer of trousers has to pay 1 Singapore dollar per trouser to a Singapore investor who has helped to establish the Indian trouser factory.

1.1D An Indonesian nanny returns home after babysitting in Singapore for four months. She takes her total wage of 1,000 Singapore dollars with her.

1.1E An Indonesian woman, married to a Singapore man, returns home and gives her parents 1,000 Singapore dollars.

Question 1.2
The difference between GDP converted by the current and the PPP exchange rate can be illustrated with a simple example. Assume that Germany and Poland both produce every year a thousand machines (to remove oil remains) and five hundred pedicure treatments. Machines can be traded between both countries while pedicure treatments cannot be traded. Further assume that the current exchange rate is one euro for four Polish zloty, the hourly wage in Germany is 10 euro and the number of hours it takes to produce one machine or to give one pedicure treatment in both countries is given in the following table:

<table>
<thead>
<tr>
<th>Number of hours to produce one unit</th>
<th>Germany</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Pedicure treatment</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
1.2A If machine producers do not make any profit, what is the price of a machine in Germany (in euro) and in Poland (in zloty)?

1.2B What is the hourly wage rate in Poland?

1.2C If also pedicures do not make any profit, what is the price of a pedicure treatment in Germany (in euro) and in Poland (in zloty)?

1.2D What is the GDP figure in Germany (in euro) and in Poland (in zloty)?

1.2E What is the PPP exchange rate between the euro and the zloty?

1.2F Convert the Polish GDP figure to euro with the current exchange rate and the PPP exchange rate. Explain the difference between these two figures.

**Question 1.3**

Trade statistics are not always reliable. It is a well-known fact that there is a discrepancy between figures on the value and number of products leaving a country and the figures on the value and number of products entering another country as reported by the national statistical agencies. The table below gives a striking example.

Indonesian sawnwood exports to major trading partners in thousand m3 according to Indonesian statistics (EX) and statistics of importers (IM)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EX</td>
<td>IM</td>
<td>Difference %</td>
</tr>
<tr>
<td>Japan</td>
<td>148</td>
<td>336</td>
<td>127</td>
</tr>
<tr>
<td>China</td>
<td>52</td>
<td>317</td>
<td>510</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>335</td>
<td>8275</td>
</tr>
</tbody>
</table>


1.3A Why do statistics on exports and imports differ between different national statistical agencies?

1.3B What do you think is the main source of discrepancy in the case of Indonesian sawnwood?

**Question 1.4**

Try to locate the working paper “When did globalisation begin?” written by K.H. O'Rourke
and J.G. Williamson on the internet at the National Bureau of Economic Research (NBER) website (http://www.nber.org). Licensed persons may download the working paper from this site.

1.4A What do O'Rourke and Williamson test in their paper?

1.4B How do the authors measure the degree of globalisation?

1.4C What is the general conclusion of the paper?

**Question 1.5**

1.5A Search the internet for data on the land area, population, GNP in current US$, GNP in PPP US$, and export and import in current US$. Try to find data for 2010 so that you can compare your results with the tables in Chapter 1. Go for example to the statistical agency of your country or the website of the World Bank (http://www.worldbank.org). Other sources are of course also acceptable as long as you give a clear reference.

1.5B Explain the difference between GNP in current US$ and GNP in PPP US$.

1.5C Compare your data with the tables in chapter 1 and comment whether your country is relatively large or relatively small in comparison to the other countries in the world.

1.5D Is your country relatively rich or poor?

1.5E Is your country relatively open to trade or not?