Economics 448W – Current Macroeconomic Issues   **Prof. Steven Fazzari**
Midterm Essay #1   **Spring, 2019**
First Draft Due: Thursday, March 7
Revision Due: Wednesday, April 3

This assignment is the first of three independent midterm essays. You will submit a first draft before spring break. The first draft will be graded (accounting for 30 percent of the grade for essay #1). Soon after spring break you will receive comments on your first draft. You will submit your revised version of essay #1, along with essays #2 and #3, by April 3. Please e-mail your answers to Professor Fazzari (fazz@wustl.edu) using a file name with your course ID number followed by -mt1-1.

Pay careful attention to the sentence structure, clarity, precision, and logical coherence of your writing. Polish your writing carefully before you hand in your assignment (even on the first draft that you will have the opportunity to revise later). As you learned from the classical model assignment, careful editing can significantly increase the efficiency of communication. Redundancy or discussion of irrelevant details will lower your grade. You demonstrate you have learned an idea well when you explain it clearly with focus on the central issues.

The target audience is other students in the class. Therefore, you may use common terms or notation from our class discussions without detailed definitions. Make sure, however, that you present the logic of your analysis in enough detail that your peers could easily follow and fully understand what you write.

Your primary source for material to complete this assignment is our analysis of the classical model along with the in-class analysis of international trade, trade deficits, and foreign saving in the context of the classical model. The assignment also asks you to read two news articles that are relevant to the topic. A few choice quotations from the articles could surely provide helpful support for arguments in your essay.

There is no strict length limit for this essay, but I expect good answers to range from about 1,000 to 1,500 words.

Candidate Donald Trump campaigned on strong opposition to typical international trade patterns that have arisen in an increasingly globalized economy. He argued that US bilateral trade deficits with China and other countries indicate the US is "losing" in the international economic competition. He also claimed that US trading partners "steal our jobs" when domestic production is replaced by imports (including when American countries outsource production formerly located in the US). After taking office, President Trump has pursued policies that work against past understanding of free trade policy, including tariffs and threats to withdraw from international trade agreements.

Many, likely most, economists disagree with the policy direction of the Trump administration on international trade. Consider these two news articles by Gregory Mankiw and Veronique de Rugy:

https://www.nytimes.com/2018/02/16/business/trump-economists-trade-tariffs.html

https://www.nytimes.com/2018/04/10/opinion/trump-china-trade-deficit.html

These articles point out the benefits of international trade.

In your essay, assess the effect of rising globalization and greater international trade flows from the perspective of the classical macroeconomic model. Questions you should consider in your essay include:

- In the classical model, does an increase in imports lead to a loss in jobs? Why or why not? Ground your analysis in the classical loanable funds model with international trade discussed in class. (You do not need to include a loanable funds graph, but you may do so if you believe it clarifies your argument.)
- What are the consequences of a trade deficit in the model? How does your analysis compare with President Trump's rhetoric that trade deficits imply "losing" in the international economic competition.
- How might international trade affect the supply side of the classical model?
- What possible social problems could arise from globalization and rising trade even if the basic mechanisms of the classical model work as we have discussed in class?

End your essay with a brief assessment of the Trump administration trade policy, again, from the perspective of the classical macro model.