

- b. Representatives of several large exporters oppose the policy. Why might that be the case?

The representatives will oppose this policy as there will be a decrease in exports and they will lose profit as the policy will be made.

2. The chapter notes that the rise in the U.S. trade deficit during the 1980s was due largely to the rise in the U.S. budget deficit. On the other hand, the popular press sometimes claims that the increased trade deficit resulted from a decline in the quality of U.S. products relative to foreign products.

- a. Assume that U.S. products did decline in relative quality during the 1980s. How did this affect net exports at any given exchange rate?

If US products decline in quality, there will be a negative impact on demand for US goods. Less demand for US products will lead to a reduced demand in US dollars.

This causes the exchange rate to depreciate. As a result of the decline in quality, net exports will decrease. Since net exports represent the demand for dollars, a fall in net exports shift the demand curve for dollars to the left.

- b. Draw a three-panel diagram to show the effect of this shift in net exports on the U.S. real exchange rate and trade balance.

