

Chapter 32

Comparative Advantage and the Open Economy

32.1 The Worldwide Importance of International Trade

- 1) Since World War II, world trade has
- A) decreased in importance as nations turn inward due to security concerns.
 - B) increased, but not as dramatically as annual world real GDP has climbed.
 - C) risen sharply, outpacing gains in annual world real GDP.
 - D) increased in relative importance for most nations, but not for the United States.

Answer: C

Diff: 2

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) Today, the share of international trade in U.S. GDP is
- A) almost 0 percent.
 - B) about 10 percent.
 - C) about 27 percent.
 - D) about 99 percent.

Answer: C

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) The importance of international trade in the U.S. economy
- A) has been decreasing and is expected to continue to decrease.
 - B) has been decreasing but is expected to start to increase.
 - C) has been increasing and is expected to continue to increase.
 - D) has been increasing but is expected to decrease in the future.

Answer: C

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) For the United States since 1950, imports as a percentage of GDP has
- A) tripled.
 - B) increased slightly.
 - C) remained constant.
 - D) decreased.

Answer: A

Diff: 2

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) Since 1950, the balance of trade for United States has
- A) gone from a surplus to a deficit.
 - B) gone from a deficit to a surplus.
 - C) remained constant.
 - D) gone from a small deficit to a larger deficit.

Answer: A

Diff: 2

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: New

- 6) Since World War II, the world inflation-adjusted output of goods and services has increased by a multiple of
- A) 2.
 - B) 3.
 - C) 4.
 - D) 9.

Answer: D

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Revised

- 7) Today, in the United States, imports are over
- A) 15 percent of GDP.
 - B) 1 percent of GDP.
 - C) 8 percent of GDP.
 - D) 4 percent of GDP.

Answer: A

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Today, in the United States, exports are over
- A) 15 percent of GDP.
 - B) 12 percent of GDP.
 - C) 28 percent of GDP.
 - D) 4 percent of GDP.

Answer: B

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: New

- 9) Over the past 25 years, commercial services exports from the United States have _____ as a percentage of merchandise exports.
- A) held steady
 - B) dropped sharply
 - C) risen dramatically
 - D) fluctuated wildly

Answer: C

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Revised

- 10) Discuss the relationship between world trade and world Gross Domestic Product (GDP) since the early 1950s.

Answer: Both world trade and world GDP have grown substantially since the early 1950s, but trade has grown much more than has GDP. Both imports and exports as a percent of GDP have increased for the United States as well.

Diff: 1

Topic: 32.1 The Worldwide Importance of International Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

- 1) Assume that U.S. producers can manufacture cookies at a lower opportunity cost than Canadian producers. If this is the case,
- A) it will not be possible for Canada to have an comparative advantage in the production of any other products.
 - B) Canada could still have the comparative advantage in cookie production.
 - C) it would still be possible for Canada to have a comparative advantage in trade for some other products.
 - D) Canada would have the comparative advantage in all products compared to the United States.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) The ability to produce a good or service at a lower opportunity cost than other producers is called
- A) absolute advantage.
 - B) comparative advantage.
 - C) implicit advantage.
 - D) marginal advantage.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 3) Specialization in trade will be economically efficient if it is based upon
- A) national security needs.
 - B) absolute advantage.
 - C) comparative advantage.
 - D) government regulations.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) The principle of comparative advantage essentially states that
- A) there are some goods for which the opportunity costs of production are the same regardless of who produces them.
 - B) some goods have high opportunity costs and low absolute costs.
 - C) specialization can reduce output rather than increase it.
 - D) total output of an economic system is greatest when each good is produced by those who have the lowest opportunity cost of producing the good.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 5) Abdul and Maria each produce two goods. According to the principle of comparative advantage, the total output produced by these individuals will be greatest
- A) if Maria produces both goods and Abdul produces nothing.
 - B) if each good is produced by the individual who has the lower opportunity cost of producing that good.
 - C) if each good is produced by the individual who has the higher absolute cost of producing that good.
 - D) if Abdul produces both goods and Maria produces nothing.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose John can produce 80 rhymes per hour or can produce 1 short story. Zia, on the other hand, can produce 60 rhymes per hour or can produce 1 short story (of equal length and quality to any story written by John). It can be concluded that
- A) John has a comparative advantage in writing short stories.
 - B) Zia has an absolute advantage in writing rhymes.
 - C) Zia has a comparative advantage in writing short stories.
 - D) John has an absolute advantage in writing short stories.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 7) Given two economic systems, A and B, if economy A has a comparative advantage in the production of widgets, then
- A) the inputs necessary to produce widgets in economy A cost less than in economy B.
 - B) economy A must give up less of all other goods to produce widgets than economy B.
 - C) economy A is less efficient in the production of some goods than economy B.
 - D) economy A would not benefit from the specialization of production.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Given two economic systems, A and B, if economy A has a absolute advantage in the production of widgets, then
- A) fewer inputs are necessary to produce widgets in economy A than in economy B.
 - B) economy A must give up less of all other goods to produce widgets than economy B.
 - C) economy A is less efficient in the production of widgets than economy B.
 - D) economy A would not benefit from the specialization of production.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 9) That each individual should engage in economic activities in which he or she is relatively more efficient is an application of the concept of
- A) competition.
 - B) absolute advantage.
 - C) scarcity.
 - D) comparative advantage.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 10) According to the principle of comparative advantage, a nation should specialize in economic activities
- A) that incur lower opportunity costs.
 - B) that incur higher opportunity costs.
 - C) for which it has an absolute advantage.
 - D) for which it has no absolute advantage.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) If Kamilah can produce 4 computers or 3 radios during a month's time, while Sally can produce 1 computer or 2 radios during the same period, then it is correct to state that
- A) Kamilah has a comparative advantage in producing computers.
 - B) Kamilah has a comparative advantage in producing both computers and radios.
 - C) Sally has a comparative advantage in computers.
 - D) Sally has an absolute advantage in computers.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 12) If Kamilah can produce 4 computers or 3 radios during a month's time, while Sally can produce 1 computer or 2 radios during the same period, then it is correct to state that
- A) Kamilah has a comparative advantage in producing radios.
 - B) Kamilah has an absolute advantage in producing computers but not radios.
 - C) Sally has a comparative advantage in radios.
 - D) Sally has an absolute advantage in radios.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

Maximum Feasible Hourly Production Rate		
	Chen	Holly
Units of Good X	50	40
Units of Good Y	25	100

- 13) According to the above table, which assumes that opportunity costs of producing goods X and Y are constant, the opportunity cost of producing one unit of Good X is _____ units of Good Y for Chen and _____ units of Good Y for Holly.
- A) 25; 100
 - B) 0.5; 2.5
 - C) 2; 0.4
 - D) 100; 25

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 14) According to the above table, which assumes that opportunity costs of producing goods X and Y are constant, the opportunity cost of producing one unit of Good Y is _____ units of Good X for Chen and _____ units of Good X for Holly.
- A) 50; 40
 - B) 25; 10
 - C) 2; 2/5
 - D) 1/2; 2 1/2

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 15) According to the above table, which assumes that opportunity costs of producing goods X and Y are constant, Chen has comparative advantage in production of
- A) Good X. B) Good Y. C) both goods. D) neither good.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 16) According to the above table, which assumes that opportunity costs of producing goods X and Y are constant, Holly has comparative advantage in production of
- A) Good X. B) Good Y. C) both goods. D) neither good.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 17) According to the above table, which assumes that opportunity costs of producing goods X and Y are constant, which of the following statements is TRUE?

- A) Chen will be willing to produce only good X and trade units of that good to Holly as long as he receives more than 0.5 units of good Y from her in exchange.
- B) Holly will be willing to produce only good X and trade units of that good to Chen as long as she receives less than 2.5 units of good Y in exchange.
- C) Chen will be willing to produce only good Y and trade units of that good to Holly as long as he receives less than 2 units of good X from her in exchange.
- D) Holly will be willing to produce only good Y and trade units of that good to Chen as long as she receives less than 0.4 unit of good X in exchange.

Answer: A

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 18) Suppose that the opportunity cost of producing goods differs between two nations. We can correctly state that

- A) the two nations should not specialize in the production of goods.
- B) specialization can lead to an increase in the production of all goods.
- C) specialization can lead to an increase in the consumption of all goods.
- D) neither country has a comparative advantage in the production of any good.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Revised

- 19) A country will specialize in the good for which
- A) it has absolute advantage.
 - B) it has moderate production costs.
 - C) it can produce at minimum average cost.
 - D) it has comparative advantage.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) Specialization and international trade lead to
- A) an outward shift in the production possibilities curve.
 - B) an inward shift in the consumption possibilities frontier.
 - C) a lower opportunity cost of domestic production of all goods.
 - D) an enhanced level of consumption.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) Comparative advantage is defined as
- A) producing all goods at lower opportunity costs than other countries can.
 - B) producing more output of all goods than anyone else can.
 - C) producing one good at a lower opportunity cost than another country can.
 - D) the ability to produce more output from given inputs than anyone else can.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 22) Consider a world of two countries producing only wheat and cloth. In one hour, residents of Country A can produce 1 unit of wheat and 0.5 unit of cloth, whereas residents of Country B can produce 0.3 unit of wheat and 0.4 unit of cloth. Country A should export
- A) wheat and cloth; country B should not export anything.
 - B) wheat and country B should export cloth.
 - C) nothing and country B should export both wheat and cloth.
 - D) cloth and country B should export wheat.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Consider a world of two countries facing opportunity costs and producing only wheat and cloth. In one hour, residents of Country A can produce a maximum of either 1 unit of wheat or 0.5 unit of cloth, whereas residents of Country B can produce a maximum of either 0.3 unit of wheat or 0.4 unit of cloth. Country B should export
- A) wheat and cloth; country A should not export anything.
 - B) wheat and country A should export cloth.
 - C) nothing and country A should export both wheat and cloth.
 - D) cloth and country A should export wheat.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Suppose Mexico has a comparative advantage relative to the United States in the manufacture of clothing and the United States has a comparative advantage in producing agricultural products. Which of the following is most likely to occur?
- A) Mexico and the United States will not trade agricultural products or clothing.
 - B) Mexico will sell clothing to the United States and the United States will sell agricultural products to Mexico.
 - C) Mexico will sell agricultural products to the United States and Mexico will buy clothing from the United States.
 - D) Mexico will sell clothing to the United States but not buy any agricultural products from the United States.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) When the principle of comparative advantage determines trade, then a country will
- A) specialize only in that good with the highest opportunity cost.
 - B) specialize only in goods with the lowest opportunity costs.
 - C) specialize only in that good where output is less per worker hour than another country.
 - D) specialize only in that good where production costs are more than average total costs.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Consider the following information, and assume that opportunity costs are constant: On one hand, residents of Country A can produce more corn in a year than residents of Country B, but they can produce computers at a lower opportunity cost than residents of country B. On the other hand, residents of country B can produce more computers in a year than residents of Country A, but they can produce corn at a lower opportunity cost than residents of country A. It can be concluded that residents of
- A) Country A should produce corn and trade it for computers produced in Country B.
 - B) Country B should produce computers and trade them for corn produced in Country B.
 - C) Country A should produce computers and trade them for corn produced in Country B.
 - D) both countries should choose not to trade.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 27) If country X can produce a unit of good 1 at a lower opportunity cost than can country Y, it is correct to state that country X
- A) has a comparative advantage in producing good 1.
 - B) has an absolute advantage in producing good 1.
 - C) will import good 1 from country Y.
 - D) will not produce good 1.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Consider a world with two countries and two goods. Under which of the following conditions does comparative advantage NOT exist?
- A) One country can produce both goods more cheaply than the other country.
 - B) One country has more productive resources or inputs than another country.
 - C) The opportunity cost of producing each good is the same in each country.
 - D) One country has an absolute advantage in producing one good while the other country has an absolute advantage in producing the other good.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Suppose that opportunity costs are constant in both France and Germany. In France, maximum feasible hourly production levels are either 3 units of wheat or 5 units of wine. In Germany, maximum feasible hourly production levels are either 4 units of wheat or 10 units of wine. It is correct to state that
- A) Germany has a comparative advantage in producing both wheat and wine.
 - B) Germany has a comparative advantage in producing wine.
 - C) France has a comparative advantage in producing both wheat and wine.
 - D) France has a comparative advantage in producing wine.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Suppose that opportunity costs in India and Australia are constant. In India, maximum feasible hourly production rates are either 0.3 unit of cloth or 0.2 unit of food. In Australia, maximum feasible hourly production rates are either 0.5 unit of cloth or 0.5 unit of food. It is correct to state that
- A) India has a comparative advantage in producing cloth.
 - B) India has a comparative advantage in producing both cloth and wheat.
 - C) India has no comparative advantage in producing cloth or wheat.
 - D) Australia has a comparative advantage in producing cloth.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

Maximum Feasible Hourly Production Rates for Either Food or Cloth Using All Available Resources

	Food	Cloth
U.S.	4	3
Mexico	12	6

- 31) Using the data in the above table and assuming constant opportunity costs, it is correct to state that
- A) the United States has a comparative advantage in producing cloth.
 - B) Mexico has an absolute advantage in producing both food and cloth.
 - C) the United States has a comparative advantage in producing both food and cloth.
 - D) Mexico has a comparative advantage in producing cloth.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

32) Using the data in the above table and assuming constant opportunity costs, it is correct to state that

- A) the United States has an absolute advantage in producing cloth.
- B) Mexico has a comparative advantage in producing food.
- C) the United States has a comparative advantage in producing both food and cloth.
- D) Mexico has an absolute advantage in producing both food and cloth.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

33) Using the data in the above table, and assuming constant opportunity costs, it is likely that

- A) the United States will import food.
- B) Mexico will export cloth.
- C) the United States will export both cloth and food.
- D) Mexico will export both cloth and food.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

34) Using the data in the above table, and assuming constant opportunity costs, it is likely that

- A) the United States will export food.
- B) Mexico will import cloth.
- C) the United States will import both cloth and food.
- D) Mexico will import both cloth and food.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

35) If country A exports good X to country B and country B exports good Y to country A, it is most likely that

- A) A has an absolute advantage in the production of good X.
- B) B has a comparative advantage in the production of good Y.
- C) the opportunity cost of domestic production of good Y for country A is lowered with trade.
- D) B is producing less of good Y than in the no-trade case.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

36) Comparative advantage is defined as

- A) the ability to produce more output of one good relative to another good than another country can.
- B) the ability to produce more output from given inputs of resources than others can.
- C) the ability to use more input of resources than others can.
- D) having a lower average fixed cost in the production of a good than does someone else.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

Maximum Feasible Hourly Production Rates for either Computers or Bicycles Using All Available Resources		
Product	United States	Mexico
Computers	8	2
Bicycles	6	4

37) Assuming that opportunity costs are constant, which of the following is a correct statement?

(See the above table.)

- A) The United States has a comparative advantage in bicycle production.
- B) The United States has a comparative advantage in producing both goods.
- C) Mexico has a comparative advantage in producing bicycles.
- D) Mexico has a comparative advantage in producing both goods.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

38) According to the above table, if these two countries trade,

- A) Mexico should specialize in computers and the United States in bicycles.
- B) the United States should specialize in both computers and bicycles.
- C) the United States should specialize in computers and Mexico should specialize in bicycles.
- D) we cannot tell which country should specialize in which good without knowing the amount of labor utilized in each country.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 39) According to the above table, if these two countries trade,
- A) Mexico should export computers and the United States export bicycles.
 - B) the United States should import computers and Mexico should import bicycles.
 - C) the United States should export computers and Mexico should export bicycles.
 - D) we cannot tell which country should export which good without knowing the amount of labor utilized in each country.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 40) According to the above table, if these two countries trade,
- A) Mexico should import computers and the United States import bicycles.
 - B) the United States should import computers and Mexico should import bicycles.
 - C) the United States should export bicycles and Mexico should export computers.
 - D) we cannot tell which country should export which good without knowing the amount of labor utilized in each country.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 41) According to economic historians, one result of international trade is that it
- A) aids in the international transmission of ideas.
 - B) reduces the world-wide output of goods.
 - C) reduces the world-wide consumption of goods.
 - D) causes persistent world-wide inflation.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 42) Which of the following is counted as a benefit from international trade?
- A) New production processes developed in one nation are transmitted to others.
 - B) Intellectual property such as music and computer applications is introduced throughout the world.
 - C) New goods have been introduced to other parts of the world.
 - D) All of the above are benefits from international trade.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- A) competitive dominance. B) productive dominance.
C) comparative advantage. D) absolute advantage.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- A) competitive dominance. B) productive dominance.
C) comparative advantage. D) absolute advantage.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: New

- A) the ability to produce more output from given inputs than another producer can.
- B) the ability to produce a good at a lower opportunity cost than other producers.
- C) the ability to produce more output of all goods than anyone else can.
- D) the ability to produce all goods at lower costs than anyone else can.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- A) the ability to produce more output from given inputs than another producer can.
- B) the ability to produce a good at a lower opportunity cost than other producers.
- C) is always a *relative* concept.
- D) the ability to produce all goods at lower costs than anyone else can.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: New

- 47) Mary can clean 20 windows per hour or type 30 pages of paper per hour. Tom can clean 18 windows per hour or he can type 25 pages of paper per hour. Based on this
- A) Mary has comparative advantages in activities.
 - B) Tom has comparative advantages in both activities.
 - C) Tom has a comparative advantage in cleaning windows.
 - D) Mary has a comparative advantage in cleaning windows.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 48) The ability to produce a good or service at a lower opportunity cost than other producers is
- A) absolute advantage.
 - B) the quota system.
 - C) intellectual property.
 - D) comparative advantage.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 49) When nations specialize according to their comparative advantage
- A) Total production and consumption in the world increase.
 - B) Consumption rises in one country but must fall in all others.
 - C) Total world production rises but total consumption in the world declines.
 - D) none of the above

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 50) If there are two goods and two countries, then one country can have
- A) a comparative advantage in only one good.
 - B) a comparative advantage in both goods.
 - C) a higher opportunity cost of producing both goods.
 - D) a lower opportunity cost of producing both goods.

Answer: A

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

51) If there are two goods and two countries, then one country can have

- A) an absolute advantage in only one good.
- B) an absolute advantage in both goods.
- C) a higher opportunity cost of producing both goods.
- D) a lower opportunity cost of producing both goods.

Answer: B

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: New

52) In an hour Jane can solder 50 connections or inspect 20 parts while Jim can solder 25 connections or inspect 20 parts in an hour.

- A) Jane has a comparative advantage over Jim in both soldering and inspecting.
- B) Jane has a comparative advantage over Jim in soldering while Jim has a comparative advantage in inspecting.
- C) Jim has a comparative advantage over Jane in soldering while Jane has a comparative advantage in inspecting.
- D) Jim had a comparative advantage over Jane in both soldering and inspecting.

Answer: B

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

53) Country A can product 100 units of Good X in a day and 40 units of Good Y while Country B can produce 50 units of Good X and 40 units of Good Y.

- A) These countries will not trade since Country A has a comparative advantage in the production of both goods.
- B) These countries will not trade since Country A will always be able to take advantage of Country B.
- C) These countries should trade since Country A has a comparative advantage in the production of Good X and Country B has a comparative advantage in the production of Good Y.
- D) These countries should trade since Country B has a comparative advantage in the production of Good X and Country A has a comparative advantage in the production of Good Y.

Answer: C

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

Maximum Feasible Hourly Production Rates of Either Product A or Product B Using All Available Resources

Product	Country X	Country Y
A	4	8
B	4	4

- 54) Refer to the above table. If opportunity costs are constant, then the opportunity cost of producing good B in country X is _____, and the opportunity cost of producing good B in country Y is _____.

A) 1 unit of A; 2 units of A
 B) 1 unit of A; 0.5 unit of A
 C) 1 unit of B; 2 units of A
 D) 1 unit of A; 0.5 unit of B

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Refer to the above table. If opportunity costs are constant, each nation produces only the one good for which it has a comparative advantage, and trade can occur between the two countries,
- A) country X will produce product A and country Y will produce product B.
 B) country X will produce product B and country Y will produce product A.
 C) country X will refuse to trade with country Y since country X has a comparative advantage in both products.
 D) country Y will refuse to trade with country X since country Y has a comparative advantage in both products.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 56) Refer to the above table. If opportunity costs are constant and both countries produce only the goods for which they have comparative advantages and then trade, hourly world output would equal
- A) 4 units of product A and 4 units of product B.
 B) 8 units of product A and 4 units of product B.
 C) 8 units of product A and 8 units of product B.
 D) 12 units of product A and 8 units of product B.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 57) Refer to the above table. Assuming constant opportunity costs,
- A) Country X has a comparative advantage in the production of both goods.
 - B) Country Y has a comparative advantage in the production of both goods.
 - C) Country X has a comparative advantage in the production of Product A while Country Y has a comparative advantage in the production of Product B.
 - D) Country Y has a comparative advantage in the production of Product A while Country X has a comparative advantage in the production of Product B.

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 58) Refer to the above table. Assuming constant opportunity costs,
- A) neither country will be willing to engage in trade at any rate of exchange of product A for product B.
 - B) both countries will be willing to engage in trade at a rate of exchange of 0.3 unit of product A for 1 unit of product B.
 - C) both countries will be willing to engage in trade at a rate of exchange of 3 units of product A for 1 unit of product B.
 - D) both countries will be willing to engage in trade at a rate of exchange of 1.5 unit of product A for 1 unit of product B.

Answer: D

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

**Maximum Feasible Hourly Production Rates of Either
Computers or Bicycles Using All Available Resources**

Product	United States	Mexico
Computers	8	3
Bicycles	2	6

- 59) Refer to the above table. Assuming that opportunity costs are constant, the opportunity cost of producing a computer in the United States is equal to _____, and the opportunity cost of producing a computer in Mexico is _____.
- A) 4 bicycles; 0.5 bicycles
 - B) 0.25 bicycle; 2 bicycles
 - C) 2.67 computers; 0.33 bicycles
 - D) 0.375 bicycle; 3 computers

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 60) Refer to the above table. Assuming that opportunity costs are constant, the opportunity cost of producing a bicycle in the United States is equal to _____, and the opportunity cost of producing a bicycle in Mexico is _____.

A) 4 computers; 0.5 computer
 B) 0.25 computer; 2 computers
 C) 2.67 bicycles; 0.33 computers
 D) 0.375 computer; 3 bicycles

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Refer to the above table. Assuming that opportunity costs are constant, which of the following is a correct statement?

A) The United States has a comparative advantage in computers.
 B) The United States has a comparative advantage in bicycles.
 C) Mexico has a comparative advantage in computers.
 D) Mexico has a comparative advantage in both goods.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Refer to the above table. If opportunity costs are constant and the two countries trade,

A) the United States should specialize in computers and Mexico in bicycles.
 B) the United States should specialize in bicycles and Mexico in computers.
 C) the United States should specialize in both bicycles and computers, and Mexico should specialize in neither.
 D) there will be no trade because they are so different.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Refer to the above table. If opportunity costs are constant, the two countries will gain from trade at a rate of exchange of

A) 0.1 computer for 1 bicycle
 B) 5 computers for 1 bicycle
 C) 1 computer for 1 bicycle
 D) 8 bicycles for 1 computer

Answer: C

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

**Maximum Feasible Hourly Production Rates of Either
Computers or Bicycles Using All Available Resources**

Product	United States	Mexico
Computers	8	10
Bicycles	4	2

- 64) Refer to the above table. Assuming constant opportunity costs, the opportunity cost of producing a computer in the United States is _____ while the opportunity cost of producing a computer in Mexico is _____.

A) 0.8 bicycle; 2 computers
B) 2.5 computers; 0.25 bicycle
C) 0.5 bicycle; 0.2 bicycle
D) 2 bicycles; 5 bicycles

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 65) Refer to the above table. Assuming constant opportunity costs, the opportunity cost of producing a bicycle in the United States is _____ while the opportunity cost of producing a bicycle in Mexico is _____.

A) 8 computers; 10 computer
B) 4 computers; 10 computers
C) 5 computers; 2 computers
D) 2 computers; 5 computers

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 66) Refer to the above table. It may be concluded that

A) Mexico has a comparative advantage in computer production.
B) Mexico has a comparative advantage in bicycle production.
C) The United States has a comparative advantage in producing both goods.
D) The United States has a comparative advantage in producing neither good.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 67) Refer to the above table. It may be concluded that

A) The United States will exports computers and import bicycles.
B) Mexico will exports computers and import bicycles.
C) The United States will export both goods.
D) The United States will import both goods.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 68) Refer to the above table. If opportunity costs are constant, then the United States and Mexico will produce goods in which they have a comparative advantage and trade at a rate of exchange of

A) 4 computers for 1 bicycle. B) 6 computers for 1 bicycle.
C) 0.1 computer for 1 bicycle. D) 1 computer for 1 bicycle.

Answer: A

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

**Maximum Feasible Hourly Production Rates of Either
Cuckoo Clocks or Movies Using All Available Resources**

Product	United States	Switzerland
Cuckoo Clocks	4	2
Movies	10	4

- 69) Based on the data in the above table, then if opportunity costs are constant, the opportunity cost of producing movies in the United States is _____, and the opportunity cost of producing movies in Switzerland is _____.

A) 2 movies; 2 cuckoo clocks B) 2.5 movies; 0.4 cuckoo clocks
C) 0.4 cuckoo clocks; 0.5 cuckoo clocks D) 2.5 cuckoo clocks; 2 cuckoo clocks

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 70) Refer to the above table. If opportunity costs are constant, residents of the United States will gain from specializing and trading with Switzerland if the

A) produce both clocks and films and export clocks to Switzerland.
B) produce both clocks and films and export both to Switzerland.
C) import films and export clocks to Switzerland.
D) import clocks and export films.

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 71) Assume that maximum feasible hourly productions levels if all resources are utilized in the United States are either 3 yards of fabric or 9 bushels of wheat. Maximum feasible production levels if all resources are utilized in Japan are either 6 yards of fabric or 12 bushels of wheat.

Based on this information

- A) beneficial trade is absolutely impossible between the two countries.
- B) the United States will benefit from trading but Japan will not.
- C) both nations will gain from specialization and trade, with the United States exporting wheat and Japan exporting fabric.
- D) Japan should specialize in both products.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

**The Number of Worker Days to Produce One
Cuckoo Clock or Movie Using All Available Resources**

Product	U.S. (Worker-Days)	Switzerland (Worker-Days)
Cuckoo Clocks	8	6
Movies	12	4

- 72) Based on the data in the above table, then if opportunity costs are constant, the opportunity cost of producing one cuckoo clock in the United States is _____, and the opportunity cost of producing one cuckoo clock in Switzerland is _____.
- A) 3 movies; 1.33 cuckoo clocks
 - B) 0.33 movies; 0.67 cuckoo clocks
 - C) 0.67 movie; 1.5 movies
 - D) 1.5 movies; 0.67 movie

Answer: C

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 73) Refer to the above table. Assuming constant opportunity costs, which of the of the following statements is correct if the rate of exchange is 1 movie for 1 cuckoo clock.
- A) U.S. residents would be willing to export cuckoo clocks, but Swiss residents would not gain from exporting movies at this rate of exchange.
 - B) Swiss residents would be willing to export movies, but U.S. residents would not gain from exporting cuckoo clocks at this rate of exchange.
 - C) U.S. residents will gain from exporting movies and Swiss residents will gain from exporting cuckoo clocks at a rate of exchange.
 - D) U.S. residents will gain from exporting cuckoo clocks and Swiss residents will gain from exporting movies at a rate of exchange.

Answer: D

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 74) Assume that maximum feasible hourly productions levels if all resources are utilized in the United States are either 8 yards of fabric or 4 bushels of wheat. Maximum feasible production levels if all resources are utilized in Japan are either 3 yards of fabric or 6 bushels of wheat.

Based on this information

- A) beneficial trade is absolutely impossible between the two countries.
- B) the United States will benefit from trading but Japan will not.
- C) both nations will gain from specialization and trade, with the United States exporting wheat and Japan exporting fabric.
- D) both nations will gain from specialization and trade, with the United States exporting fabric and Japan exporting wheat.

Answer: D

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 75) Which of the following is a TRUE statement?

- A) Everyone benefits from free trade.
- B) Exporters benefit from trade and importers do not.
- C) Consumers benefit from trade and producers do not.
- D) Free trade harms domestic producers of goods that face import competition.

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 76) In order to obtain an efficient allocation of resources worldwide

- A) countries that have a lot of resources should ship resources to countries that do not have a lot of resources.
- B) countries that have a lot of resources should not trade since poorer countries cannot compete.
- C) each country should produce the good they have a comparative advantage in and then trade.
- D) no trade among countries should occur.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

77) Benefits of free trade include all of the following EXCEPT

- A) increased world production.
- B) higher standards of living.
- C) transmission of new ideas.
- D) increased international mobility of labor.

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

78) According to international trade theory,

- A) trade is based on absolute advantage.
- B) comparative advantage is based on absolute advantage.
- C) every country has a comparative advantage in something.
- D) less developed countries cannot trade successfully with developed countries.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

79) If Bob can produce completed mathematics homework assignments at a lower opportunity cost than Jane can accomplish, then Bob has _____ in completing mathematics homework assignments.

- A) a relative advantage
- B) an absolute advantage
- C) a complete advantage
- D) a comparative disadvantage

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

80) Which of the following is NOT a benefit of international trade?

- A) It increases overall output.
- B) It results in a transmission of ideas.
- C) It promotes self-sufficiency.
- D) It results in the transmission of new processes.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 81) All of the following are reasons that trade between nations is beneficial EXCEPT
- A) gains from specialization.
 - B) exchange of ideas.
 - C) protection of domestic industries.
 - D) gains from trade.

Answer: C

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 82) Comparative advantage is the ability, compared with another producer,
- A) to produce more of a product with the same resources.
 - B) to use fewer inputs to produce the same amount of a product.
 - C) to produce a higher-quality product with fewer resources.
 - D) to produce an additional unit of a product at lower opportunity cost.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 83) The ability to produce a good or service at a lower opportunity cost than other producers is
- A) absolute advantage.
 - B) comparative advantage.
 - C) opportunity advantage.
 - D) special advantage.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 84) International trade is based on the existence of
- A) absolute advantage.
 - B) perfect advantage.
 - C) productivity advantage.
 - D) comparative advantage.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

Individual	Opportunity Cost
Pramilla	2 units of good X to produce 1 unit of good Y
Sam	3 units of good X to produce 1 unit of good Y
George	4 units of good Y to produce 1 unit of good X
Lucas	5 units of good Y to produce 1 unit of good X

- 85) Consider the opportunity costs of producing goods X and Y that are listed for the four individuals above. Which person has a comparative advantage in producing good X?
- A) Pramilla B) Sam C) George D) Lucas

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 86) Consider the opportunity costs of producing goods X and Y that are listed for the four individuals above. Which person has a comparative advantage in producing good Y?
- A) Pramilla B) Sam C) George D) Lucas

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 87) The ability to produce a good at lower opportunity costs than another producer is known as
- A) comparative advantage. B) marginal cost production.
C) economies of scale. D) absolute advantage.

Answer: A

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB:

Question Status: Previous Edition

- 88) Comparative advantage is based on the
- A) concept that some countries are superior to others.
B) concept of absolute advantage of producing goods in different countries.
C) concept of relative opportunity cost of producing goods in different countries.
D) concept that some countries are better endowed with natural resources.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 89) Countries engaged in international trade specialize in production based on
- A) relative price levels.
 - B) relative foreign exchange rates.
 - C) comparative advantage.
 - D) the differences in transportation costs.

Answer: C

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

**Maximum Feasible Hourly Production Rates (in Tons) of Either
Cookies or Coffee Using All Available Resources**

Product	Country Alpha	Country Beta
Cookies	3	8
Coffee	9	4

- 90) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing cookies in country Alpha is _____, and the opportunity cost of producing cookies in country Beta is _____.
- A) 0.33 ton of coffee; 2 tons of coffee
 - B) 3 tons of coffee; 0.5 ton of coffee
 - C) 0.375 ton of cookies; 2.25 tons of coffee
 - D) 2.67 tons of coffee; 0.44 ton of cookies

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 91) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing coffee in country Alpha is _____, and the opportunity cost of producing coffee in country Beta is _____.
- A) 0.33 ton of cookies; 2 tons of cookies
 - B) 3 tons of cookies; 0.5 ton of cookies
 - C) 0.375 ton of coffee; 2.25 tons of cookies
 - D) 2.67 tons of cookies; 0.44 ton of coffee

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 92) Use the above table. If these two countries, Alpha and Beta, specialize based on comparative advantage
- A) Alpha will specialize in cookies, and Beta will specialize in coffee production.
 - B) Alpha will specialize in producing both items.
 - C) Beta will specialize in producing both items.
 - D) Alpha will specialize in coffee, and Beta will specialize in cookies.

Answer: D

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

Maximum Feasible Hourly Production Rates (in Tons) of Either Knives or Forks Using All Available Resources

Product	Country Alpha	Country Beta
Knives	9	3
Forks	6	12

- 93) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing knives in country Alpha is _____, and the opportunity cost of producing knives in country Beta is _____.

A) 2 forks; 0.33 knife
 B) 0.5 knife; 3 forks
 C) 1.5 forks; 0.25 fork
 D) 0.67 fork; 4 forks

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 94) Use the above table. Assuming constant opportunity costs, if countries Alpha and Beta specialize based on comparative advantage, then

A) Alpha should specialize in knives and Beta should specialize in forks.
 B) Alpha should specialize in forks and Beta should specialize in knives.
 C) Alpha should specialize in producing both items.
 D) Beta should produce both items.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 95) Use the above table. Assuming constant opportunity costs, if countries Alpha and Beta specialize based on comparative advantage, then they will trade if the rate of exchange is

A) 5 knives for 1 fork, and Alpha imports forks.
 B) 0.5 knives for 1 fork, and Alpha imports forks.
 C) 0.5 fork for 1 knife, and Beta imports knives.
 D) 6 forks for 1 knife, and Beta imports knives.

Answer: B

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

Maximum Feasible Hourly Production Rates (in Tons) of Either Pizzas or Donuts Using All Available Resources

Product	Country Alpha	Country Beta
Pizzas	10	2
Donuts	10	12

- 96) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing donuts in country Alpha is _____, and the opportunity cost of producing donuts in country Beta is _____.

A) 1 donut; 0.17 donut
C) 10 donuts; 12 pizzas

B) 1 donut; 6 donuts
D) 0.2 pizza; 1.67 donuts

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 97) According to the above table, Alpha has comparative advantage in producing

A) pizzas.
C) both pizzas and donuts.

B) donuts.
D) neither pizzas nor donuts.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

Maximum Feasible Hourly Production Rates (in Tons) of Either Wine or Beef Using All Available Resources

Product	Argentina	France
Wine (gallons)	30	60
Beef (pounds)	10	30

- 98) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing a gallon of wine in Argentina is

A) 0.33 pound of beef.
C) 2 pounds of beef.

B) 0.5 pound of beef.
D) 3 pounds of beef.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 99) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing a pound of beef in Argentina is

A) 2 gallons of wine.
B) 3 gallons of wine.
C) 0.5 gallons of wine.
D) 0.33 gallons of wine.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 100) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing a pound of beef in France is

A) 2 gallons of wine.
B) 3 gallons of wine.
C) 0.5 gallons of wine.
D) 0.33 gallons of wine.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 101) Use the above table. Assuming constant opportunity costs, the opportunity cost of producing a gallon of wine in France is

A) 0.33 pound of beef.
B) 0.5 pound of beef.
C) 2 pounds of beef.
D) 3 pounds of beef.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Revised

- 102) Use the above table. Assuming constant opportunity costs, a comparative advantage in producing wine is possessed by

A) neither Argentina or France.
B) both Argentina and France.
C) Argentina.
D) France.

Answer: C

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 103) Use the above table. Assuming constant opportunity costs, a comparative advantage in producing beef is possessed by

A) neither Argentina or France.
B) both Argentina and France.
C) Argentina.
D) France.

Answer: D

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 104) Use the above table. Assuming constant opportunity costs, if Argentina and France specialize based on comparative advantage, then they will trade if the rate of exchange
- A) is 2.5 gallons of wine for 1 pound of beef, and Argentina imports beef.
 - B) 4 gallons of wine for 1 pound of beef, and France imports beef.
 - C) 0.2 pound of beef for 1 gallon of wine, and Argentina imports wine.
 - D) 8 pounds of beef for 1 gallon of wine, and France imports wine.

Answer: A

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 105) Use the above table. Assuming constant opportunity costs, if Argentina and France specialize based on comparative advantage, then they will trade if the rate of exchange
- A) is 7 gallons of wine for 1 pound of beef, and Argentina imports beef.
 - B) 0.25 gallons of wine for 1 pound of beef, and France imports beef.
 - C) 0.25 pounds of beef for 1 gallon of wine, and Argentina imports wine.
 - D) 0.4 pounds of beef for 1 gallon of wine, and France imports wine.

Answer: D

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 106) Specialization allows for
- A) more consumption for all trading partners.
 - B) more consumption for the trading partner with the comparative advantage.
 - C) more consumption for the trading partner with the absolute advantage.
 - D) equal consumption among trading partners.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 107) An effect of international trade is
- A) the increase in the average price of goods as the cost of transportation has to be included.
 - B) the transmission of ideas around the world.
 - C) that only countries that have absolute advantage in producing a good can participate.
 - D) that the United States has a trade surplus.

Answer: B

Diff: 1

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 108) If the residents of a country specialize in a good in which they have a comparative advantage and trade with residents in another nation, the residents in the first country

A) can consume more than they could without trade.
B) can produce more than they could without trade.
C) will have a lower standard of living.
D) will be exploited by the second nation.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 109) Suppose that opportunity costs are constant and that Fred can either bake a maximum of six pies or three cakes in a day. Ethel can either produce a maximum of eight pies or two cakes in a day. Fred's opportunity cost to produce one cake is

A) one-half pie. B) two pies. C) six pies. D) four pies.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 110) Suppose that opportunity costs are constant and that Fred can either bake a maximum of six pies or three cakes in a day. Ethel can either produce a maximum of eight pies or two cakes in a day. Ethel's opportunity cost to produce one cake is

A) one-half pie. B) two pies. C) six pies. D) four pies.

Answer: D

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 111) Suppose that opportunity costs are constant and that Fred can either bake a maximum of six pies or three cakes in a day. Ethel can produce a maximum of eight pies or two cakes in a day. Ethel has a comparative advantage in the production of

A) cakes. B) pies.
C) both cakes and pies. D) neither cakes nor pies.

Answer: B

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 112) Suppose that opportunity costs are constant and that Fred can either bake a maximum of six pies or three cakes in a day. Ethel can produce a maximum of eight pies or two cakes in a day. Fred has a comparative advantage in the production of

A) cakes.

B) pies.

C) both cakes and pies.

D) neither cakes nor pies.

Answer: A

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: New

- 113) Why is trade based on comparative advantage?

Answer: The relevant cost of producing a good is how much of other goods must be sacrificed.

The opportunity cost of a good is the economically important cost, and comparative advantage is based on opportunity costs. World output can be greater when countries specialize based on comparative advantage.

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 114) How can comparative advantage yield gains from trade?

Answer: Comparative advantage refers to the ability to produce a good or service at lower opportunity cost compared to other producers. If nations specialize in producing goods in which they have a comparative advantage and trade at rates of exchange that are more favorable than the opportunity costs they would have faced without trade, then they can obtain more goods for consumption with trade than they could have obtained for consumption without trade. These consumption gains are the gains from trade.

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 115) "Everybody has a comparative advantage in something." Do you agree or disagree? Why?

Answer: Agree. Since comparative advantage is based on relative abilities, everyone has a comparative advantage in something. If A is better at B at everything, but A is 50 percent better than B in activity X while only 20 percent better than B in activity Y, B has a comparative advantage in Y because B must give up less X to produce another Y than A. The relativity of the concept implies that everyone has a comparative advantage in something.

Diff: 3

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Analytic skills

Question Status: Previous Edition

- 116) "International trade bestows benefits on countries through the international transmission of ideas." Do you agree or disagree? Explain.

Answer: Agree. Ideas developed in one place can be transferred to other places, benefiting people in both places. Often the idea is originally embodied in goods, but eventually the idea itself usually gets transferred as well.

Diff: 2

Topic: 32.2 Why We Trade: Comparative Advantage and Mutual Gains from Exchange

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.3 The Relationship Between Imports and Exports

- 1) In the long run, imports will most likely be paid for with
- | | |
|-----------------------------|---|
| A) exports. | B) the sale of real and financial assets. |
| C) the extension of credit. | D) higher domestic unemployment. |

Answer: A

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) In the long run, if imports increase, then exports
- | | |
|------------------------|----------------------|
| A) will not change. | B) will decrease. |
| C) will also increase. | D) will become zero. |

Answer: C

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Goods that are produced domestically and then sold in other countries are called
- | | | | |
|-------------|-------------|-------------|------------|
| A) exports. | B) imports. | C) tariffs. | D) quotas. |
|-------------|-------------|-------------|------------|

Answer: A

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Goods that are produced in other countries and then sold domestically are called
- | | | | |
|-------------|-------------|-------------|------------|
| A) exports. | B) imports. | C) tariffs. | D) quotas. |
|-------------|-------------|-------------|------------|

Answer: B

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: New

- 5) Restricting imports usually leads to
- A) a country producing beyond its production possibilities frontier.
 - B) a country consuming even further beyond its production possibilities frontier.
 - C) a reduction in exports and employment.
 - D) a higher per capita level of real consumption.

Answer: C

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) Restrictions on imports
- A) eventually reduce exports, too.
 - B) enhance economic welfare by encouraging more exports.
 - C) are the quickest way for a country in recession to start on a path of economic recovery.
 - D) usually have no long-run effects on an economy.

Answer: A

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) One economic truism is that any nation's restriction of imports will ultimately lead to
- A) an increase in exports.
 - B) a reduction in exports.
 - C) an economic upswing.
 - D) an increase in GDP.

Answer: B

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) The basic proposition in international trade is that
- A) trade is determined by absolute advantage.
 - B) in the long run, imports are paid for by exports.
 - C) everyone is made better off by free trade.
 - D) fair trade is more important than free trade.

Answer: B

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) In the long run, imports are paid for by
- A) investment.
 - B) exports.
 - C) dollars.
 - D) gold or other universally accepted monies.

Answer: B

Diff: 1

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) One way to reduce exports is to
- A) base trade on comparative advantage.
 - B) base trade on opportunity costs.
 - C) trade with poor countries.
 - D) restrict imports.

Answer: D

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Restrictions on imports
- A) usually have no permanent effects on an economy.
 - B) is the best way to increase exports.
 - C) protect United States jobs.
 - D) eventually reduce exports.

Answer: D

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) Import restrictions
- A) can protect United States jobs in the protected industry, which increases economic welfare of the country as a whole.
 - B) can protect United States jobs in the protected industry but will also lead to job reductions in other export industries.
 - C) hurt people who work in importing companies, but makes consumers better off.
 - D) cannot protect American jobs in any sector of the economy.

Answer: B

Diff: 3

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

13) Restricting imports

- A) can protect United States jobs in the protected industry, which increases economic welfare of the country as a whole.
- B) can protect United States final goods and services in the protected industry and makes consumers better off.
- C) can protect United States final goods and services in the protected industry and increase economic welfare of the country as a whole.
- D) can protect United States jobs in the protected industry but will also lead to reductions in U.S. output and income.

Answer: D

Diff: 3

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: New

14) When U.S. residents buy products that were made in Japan, then ultimately the Japanese want

- A) yen.
- B) dollars.
- C) Japanese goods.
- D) goods, including U.S.-made goods.

Answer: D

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

15) During the Great Depression, many industrial countries tried protecting domestic jobs by raising tariffs. Economic theory would suggest that the result would be

- A) success for only the countries that raised tariffs first.
- B) success for firms that had a comparative advantage in manufactured goods rather than agricultural goods.
- C) reduced exports and volume of trade for everyone.
- D) increased incomes in the countries that pursued this policy.

Answer: C

Diff: 3

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) It has been suggested that in order to protect U.S. jobs we need to restrict foreign competition by restricting imports.
- A) This is a sound economic statement since the U.S. will still export protecting U.S. jobs.
 - B) This is a sound economic statement since U.S. firms will have to increase output to make up for the lack of imports leading to increase employment in the U.S.
 - C) This is not a sound economic statement since employment in the U.S. does not depend on imports and exports.
 - D) This is not a sound economic statement since import restrictions lead to a reduction in employment in the export industries of the U.S.

Answer: D

Diff: 3

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) If in the long run, imports are paid for by exports, then
- A) any restriction of imports ultimately reduces exports.
 - B) any restriction of imports ultimately expands exports.
 - C) any restriction of imports has no impact on exports.
 - D) any restriction of exports has no impact on imports.

Answer: A

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) If in the long run, any government policy that increases exports
- A) also increases imports.
 - B) decreases imports.
 - C) has no impact on imports.
 - D) makes imports become negative.

Answer: A

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) Why is it impossible to make everyone better off in the long run by imposing import restrictions?

Answer: In the long run, any import restriction in one nation ultimately reduces its exports because foreign residents will be less able to purchase goods shipped from that nation. Fewer exports from that nation lead to a decline in employment in its export industry.

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) "It is possible to restrict imports and still maintain a fixed level of exports." Do you agree or disagree? Why?

Answer: Disagree. If people sell fewer imports to the United States they have less dollars with which to buy United States exports. Since imports ultimately are paid for by exports, a restriction on imports will reduce exports, at least in the long run.

Diff: 2

Topic: 32.3 The Relationship Between Imports and Exports

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.4 International Competitiveness

- 1) Which of the following statements is FALSE?

- A) When it comes to overall productive efficiency, compared to Japan, Germany and the rest of the European Union, the United States lags far behind.
- B) Sophisticated financial systems have given U.S. productive efficiency a boost.
- C) The United States' international competitive position has been helped by its long history of widespread entrepreneurship.
- D) Economic restructuring and investments in information technology have added to productive efficiency in the United States.

Answer: A

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) The standard of living in a nation depends on

- A) how well its economy functions relative to other countries.
- B) the size of the country, with larger nations always doing better than smaller ones.
- C) how well the economy functions within that country.
- D) whether or not its currency is adopted as the world's monetary standard.

Answer: C

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) One reason that U.S. exports of commercial services have increased steadily over the past twenty-five years is that

- A) European and Asian nations have shown little interest in developing their own commercial services sectors.
- B) the United States has made significant investments in new information technologies.
- C) the U.S. government owns and operates most of the economy's service sector.
- D) the U.S. economy operates like one big corporation.

Answer: B

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Which of the following is consistent with international trade theory?
- A) The United States needs trade restrictions to stay competitive.
 - B) The United States has been falling behind Europe and Japan because its economy is too open.
 - C) The standard of living within a country is a function of the economic strength of the economy and not of its relative position.
 - D) A country should strive for comparative advantage in manufacturing.

Answer: C

Diff: 2

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) According to the Swiss Institute for Management Development, the top country in terms of productive efficiency is
- A) Germany.
 - B) Japan.
 - C) Switzerland.
 - D) the United States.

Answer: D

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) The United States is considered by the Institute for Management Development to be the most competitive economy because
- A) U.S. residents are willing to work harder than anyone else is.
 - B) of widespread entrepreneurship.
 - C) of a high saving rate.
 - D) of selected restrictions on imports from Japan and Europe.

Answer: B

Diff: 2

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) All of the following are cited as factors in explaining U.S. competitiveness EXCEPT
- A) large investments in scientific research.
 - B) economic restructuring.
 - C) widespread entrepreneurship.
 - D) reducing the federal deficit.

Answer: D

Diff: 2

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) All of the following are cited as factors in explaining U.S. competitiveness EXCEPT
- A) the open U.S. financial system.
 - B) economic restructuring.
 - C) investments in information technology.
 - D) the decline of entrepreneurship.

Answer: D

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: New

- 9) The concept of "global competitiveness"
- A) is not practical because economic well-being is evaluated within each country.
 - B) means that the economic well-being of each nation must be compared with nations with same size population.
 - C) means that the economic well-being of each nation must be compared with nations on the same continent.
 - D) means that the export-import ratio of each nation must be compared.

Answer: A

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) People who focus on the "competitiveness" of the United States are
- A) focusing on the right thing if the United States is to stay a leading economic power.
 - B) treating the United States as if it is a business firm.
 - C) also focusing on the importance of education.
 - D) correctly recognizing that trade is a zero-sum game.

Answer: B

Diff: 2

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Discuss the relationship between U.S. competitiveness relative to other countries and standards of living in the United States.

Answer: There is very little relationship between U.S. competitiveness and the American standard of living. First, the United States is not in competition with other countries even though U.S. firms may compete with firms in other countries. Second, trade is mutually beneficial, so improvements in productivity in one country can make people better off in another country. The standard of living in the United States is a function of how well the U.S. economy functions within the country and not relative to other countries.

Diff: 2

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 12) "The United States has fallen behind Japan and most of Europe in terms of competitiveness." Do you agree or disagree? Why?

Answer: Disagree. According to the Institute for Management Development, the United States leads the industrial countries in international competitiveness.

Diff: 1

Topic: 32.4 International Competitiveness

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.5 Arguments Against Free Trade

- 1) A new industry develops, and our government wants to protect it from foreign competition. Which one of the following arguments would appropriately describe this type of protection?

- | | |
|----------------------|-----------------------------|
| A) National security | B) Cartelization |
| C) Infant industry | D) Protecting American jobs |

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) Which of the following is an argument against free trade?

- | | |
|---------------------------------|-------------------------------|
| A) Protecting infant industries | B) Protecting against dumping |
| C) Protecting domestic jobs | D) All of the above |

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Selling a good abroad below the price charged in the home market, or at a price below the cost of production is called

- | | |
|-------------|-------------------------|
| A) dumping. | B) import substitution. |
| C) a quota. | D) a tariff. |

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) One problem with the infant industry argument is that

- | |
|---|
| A) the protection is typically never removed, creating a domestic monopoly. |
| B) it fails to protect domestic industries from foreign competition. |
| C) it must be approved by the IMF and the World Bank. |
| D) it must be approved by the Federal Reserve Board. |

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) The infant industry argument suggests that
- A) a country requires tariff protection when it has no comparative advantage in the production of any good.
 - B) a country requires protection against unfair trade practices.
 - C) an industry may require temporary tariff protection until the industry matures.
 - D) the industry has no potential and must be protected to survive.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) The infant industry argument has a normative economic basis because
- A) clearly, all industries need to be protected.
 - B) protected industries are selected on a factual basis.
 - C) the government must decide which industries should be protected.
 - D) political corruption is the only deciding factor.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) An assumption behind the infant industry argument for tariff protection is that
- A) foreign competitors are selling output below average cost.
 - B) the domestic industry will be facing an upward adjustment in its average cost.
 - C) the domestic industry will eventually gain comparative advantage in producing the good.
 - D) the market needs additional competition to satisfy consumer demand.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) For infant industry tariff protection to be valid requires that
- A) the tariff must be allowed to last forever.
 - B) only industries that currently are producing efficiently should be protected.
 - C) government officials must predict which industries will eventually be able to compete with more established foreign producers.
 - D) the industries protected must have substantial monopoly power in the absence of foreign competition.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) When one country "dumps" some of its products in another country, it
- A) increases the aggregate level of employment in the importing country, thereby depressing that nation's market wages.
 - B) also exports new technology to the importing nation and thereby indirectly boosts the importing nation's real GDP.
 - C) sells its products abroad at a price lower than the price in the home market or lower than the cost of production.
 - D) also exports pollution-causing technologies and thereby creates environmental hazards in the receiving country.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) Dumping occurs when, in a foreign market, a good is sold
- A) below its cost of production or below the price in that market.
 - B) at a discount below the list price.
 - C) below its nominal price.
 - D) at a price above the equilibrium price.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Dumping typically occurs as long as the foreign producer sells its output at a price
- A) above its total costs.
 - B) below its average total costs but above its average variable costs.
 - C) below its average variable costs.
 - D) above its average fixed costs but below its total variable costs.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 12) Dumping typically occurs because
- A) the exporting country raises its prices to increase profits.
 - B) the exporting country usually is experiencing a recession and has excess production.
 - C) the importing country is experiencing a recession.
 - D) the importing country has assessed significant tariffs.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) Dumping is considered a practice that seriously harms domestic producers because
- A) the quality of the dumped good is superior to that of the importing country.
 - B) it allows the exporting country to use poor quality materials.
 - C) it establishes a price that cannot be met by domestic producers.
 - D) it discriminates between wealthy and poor countries.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Dumping is defined as
- A) selling a good abroad at prices above the costs of the firms in the foreign countries.
 - B) exporting goods that are of inferior quality.
 - C) selling a good abroad at prices below its cost of production or below the price charged in the home market.
 - D) exporting goods that are sources of pollution.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) Governments sometimes subsidize domestic industries. When this occurs,
- A) the governments also impose tariffs on imports to protect the industries even more.
 - B) the subsidized industries have an advantage in international markets relative to non-subsidized industries.
 - C) firms cannot be guilty of dumping because their prices are not below their costs.
 - D) the subsidized industries sell less in international markets because it is more profitable to sell domestically.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) Which of the following is NOT a true statement regarding free trade?
- A) Free trade promotes specialization and efficient production.
 - B) Free trade generally reduces the domestic prices of imports.
 - C) Free trade may stimulate economic growth through export sales.
 - D) Every individual in a country gains short-term benefits from free trade.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) Free trade policies may lead to
- A) a decrease in world output.
 - B) price increases in world markets.
 - C) some labor sectors experiencing some short-term job loss.
 - D) none of the above.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 18) U.S. job losses cited by anti-trade critics
- A) are mostly a short-term problem in isolated industries.
 - B) are non-existent.
 - C) affect only capital-intensive U.S. industries.
 - D) are mostly due to poor training by U.S. firms.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) Using trade restrictions to protect special interests such as the U.S. auto industry
- A) results in lower prices for U.S. auto consumers.
 - B) raises the prices that U.S. consumers must pay for autos.
 - C) is a very cost-efficient way of dealing with trade problems.
 - D) is the best long-term solution for threatened U.S. jobs.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) When economists David Gould, G.L. Woodbridge, and Roy Ruffin examined the data on the relationship between increases in imports and the rate of unemployment, they concluded that
- A) free trade leads to increased unemployment.
 - B) there is not a causal link between increases in imports and the rate of unemployment.
 - C) increases in imports always precede increases in unemployment by a period of 6 months to one year.
 - D) increases in unemployment always precede increases in imports by a period of 6 months to one year.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

21) The infant industry argument says that

- A) tariffs should be imposed to allow a new industry in a country to get established.
- B) dumping should be allowed in order to establish a presence of an industry that has previously not had a presence in another country.
- C) countries should produce and trade goods according to their comparative advantage.
- D) imports should target new products from other countries to take advantage of the transmission of new ideas.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

22) The contention that tariffs should be imposed to protect from import competition an industry that is trying to get started is

- A) a basic argument for free trade.
- B) the infant industry argument.
- C) dumping.
- D) a voluntary restraint agreement.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

23) The contention that tariffs should be imposed to when a foreign government provides financial assistance its producers is

- A) a national defense concern.
- B) the infant industry argument.
- C) dumping.
- D) to counter foreign subsidies.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

24) The argument a tariff on imported goods produced by an unlimited industry could benefit the members of the domestic union is

- A) the national defense argument.
- B) the protect domestic jobs argument.
- C) the infant industry argument.
- D) the dumping argument.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

25) The contention that domestic unions tend to want to restrict foreign competition with tariffs is

- A) a national defense concern.
- B) the infant industry argument.
- C) dumping.
- D) to protect domestic jobs.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 26) The contention that specific sensitive domestic technologies must not be traded freely is
- A) a national defense concern.
 - B) the infant industry argument.
 - C) dumping.
 - D) to protect domestic jobs.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 27) All of the following are arguments against free trade EXCEPT
- A) the infant industry argument.
 - B) dumping.
 - C) comparative advantage.
 - D) the need to protect American jobs.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 28) The infant-industry argument for tariff protection is that tariffs should be imposed to protect from competition
- A) industries that are essential if a country is to become an industrial nation.
 - B) industries needed for national defense.
 - C) industries that cannot compete with foreign competitors at this point in time, but will be able to once they gain some size and experience.
 - D) industries that can compete with foreign competitors at this point in time and are deemed essential by the government.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 29) One argument against free trade is the
- A) comparative advantage argument.
 - B) absolute advantage argument.
 - C) considerate advantage argument.
 - D) infant industry argument.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 30) If the infant industry argument is used to protect an industry that has already matured, then
- A) consumers lose because they will pay a price for a product that is above the world price.
 - B) consumers lose because they will pay a price for a product, which is less than the world price.
 - C) stockholders lose because the firm cannot compete with other firms.
 - D) no one loses.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 31) For the infant-industry argument for tariffs to be appropriate, it is necessary that
- A) the industry be deemed essential by the government.
 - B) the government can identify which industries will eventually be able to compete with more established foreign producers.
 - C) only industries that currently are operating efficiently will be protected.
 - D) the country has access to the most modern production techniques.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 32) During the 1960s, U.S. steel firms argued they needed tariff protection because Germany and Japan were using new mills to make steel since their old mills were destroyed in World War II. Essentially, this argument is a form of the
- A) infant-industry argument.
 - B) anti-dumping argument.
 - C) countering foreign subsidies argument.
 - D) national defense argument.

Answer: A

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 33) A rationale used for tariff protection by some is that
- A) the country wants to practice international price discrimination.
 - B) the country finds its cost of producing their products higher than in other countries.
 - C) imports are produced by firms that received subsidies from their governments.
 - D) imports are produced by firms that are more efficient than domestic producers are.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

34) Dumping is

- A) selling a good abroad in huge quantities at a very low price.
- B) exporting goods that are sources of pollution.
- C) exporting goods that are of inferior quality relative to the goods sold in the domestic market.
- D) selling a good abroad at a price below cost or below the price charged in the domestic market.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

35) Selling a good abroad below the price charged in the home market is

- A) a basic argument for free trade.
- B) the infant industry argument.
- C) dumping.
- D) a voluntary restraint agreement.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

36) When a firm sells its good abroad below the cost of producing the good the firm is

- A) using the concept of comparative advantage.
- B) dumping.
- C) taking advantage of the infant industry argument.
- D) taking advantage of absolute advantage.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

37) Dumping is

- A) international price discrimination.
- B) international monopolistic pricing.
- C) collusive behavior among producers in different countries.
- D) selling goods produced with government approval.

Answer: A

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 38) Country X subsidizes industry A. A worldwide recession has hit and Country X has decided to export Good A worldwide, selling the product for less than it costs to produce it. This is
- A) the infant industry argument.
 - B) comparative advantage argument.
 - C) dumping.
 - D) a regional trade bloc.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 39) Governments sometimes subsidize domestic industries. When this occurs,
- A) the governments will not impose tariffs.
 - B) the subsidized sell less in international markets because it is more profitable to sell at home.
 - C) the subsidized industries have an advantage on international markets relative to non-subsidized firms. For this reason, other countries often impose tariffs on the subsidized imports.
 - D) the subsidized industries have an advantage on international markets relative to nonsubsidized firms. However, this is not an argument for imposing tariffs and tariffs would violate international agreements.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 40) Some argue that U.S. workers cannot compete with cheap labor from many developing nations. This
- A) is true and is a justification for tariffs to protect domestic jobs.
 - B) is true and it has been found that tariffs in these cases can save thousands of jobs and benefit the economy.
 - C) is true but the benefits of free trade are still such that tariffs should not be placed on these industries.
 - D) is not true, as evidenced by the fact that the United States carries on a lot of trade with countries that have lower wages.

Answer: D

Diff: 3

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

41) Which of the reasons given for tariff protection make consumers better off by generating lower prices?

- A) infant industry argument
- B) protecting U.S. jobs argument
- C) anti-dumping argument
- D) None provides lower prices for domestic consumers.

Answer: D

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

42) Suppose an industry receives protection from the government in the form of tariffs. A number of years later, it is observed that the quantity supplied by domestic firms had decreased and that the domestic price was substantially greater than the world price. We could conclude that

- A) the tariff had been imposed to counteract dumping and had been successful.
- B) removal of the tariff would actually cause domestic output to increase and price to fall.
- C) the tariff had been imposed to protect an infant industry and that the industry still needed protection.
- D) removal of the tariff would cause domestic output to fall even further and the price to fall to consumers.

Answer: D

Diff: 3

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

43) The idea that tariffs should be imposed to protect new and developing industries is referred to as

- A) the start-up argument.
- B) the infant industry argument.
- C) the incubator business theory.
- D) the new markets theory.

Answer: B

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

44) The argument that with initial protection an industry will eventually become competitive is called the

- A) national security argument.
- B) strategic bargaining argument.
- C) the trade adjustment assistance argument.
- D) infant industry argument.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 45) The argument that a tariff has to be imposed in order to protect any industry just getting started until it gets large enough to be competitive internationally is the

A) start-up industry argument. B) infant industry argument.
C) baby industry argument. D) fledgling industry argument.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) The argument that trade in high-tech equipment can facilitate the implementation of advanced military technology in countries that may become strategic opponents later on is the

A) national security argument. B) infant industry argument.
C) protecting domestic jobs argument. D) environmental and safety argument.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 47) The argument that many critics of free trade have suggested that genetic engineering of plants and animals could lead to accidental production of new diseases is the

A) national security argument. B) infant industry argument.
C) protecting domestic jobs argument. D) environmental and safety argument.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 48) A problem with the infant industry argument is that

A) it is too restrictive in targeting new industries to protect.
B) it does not protect the most important new industries in a country.
C) it is almost impossible to eliminate the tariff once the industry matures.
D) it allows infant industries to mature so that tariffs can be eliminated.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 49) According to the infant-industry argument, protection should be withdrawn from an infant industry when the companies in the industry
- A) are listed on the domestic stock exchange.
 - B) become profitable.
 - C) double their sales revenues.
 - D) reach a sufficient size to compete with foreign firms.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 50) Protection of a new industry until it becomes strong enough to compete is called
- A) the national defense argument.
 - B) the government indirect tax argument.
 - C) the leveling-the-playing-field argument.
 - D) the infant-industry argument.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 51) The infant-industry argument is often criticized because
- A) it is difficult to determine which industry merits protection.
 - B) it reduces government revenues in the short term.
 - C) it reduces the employment rate.
 - D) it reduces labor productivity in the short term.

Answer: A

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 52) Protection of new products from global competition is known as
- A) the infant-industry argument.
 - B) dumping.
 - C) a quota.
 - D) protection of domestic jobs.

Answer: A

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 53) The selling of a good or service abroad at a price below what is charged in the home market or below the cost of production is referred to as
- A) recycling.
 - B) a quota.
 - C) dumping.
 - D) a tariff.

Answer: C

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 54) The selling of a good or service abroad at a price below production costs is
- A) marginal cost selling.
 - B) price discrimination.
 - C) price differentiation.
 - D) dumping.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) If a good sells for \$10 domestically and the same good sells for \$7 abroad, then this firm is engaging in
- A) marginal cost selling.
 - B) price discrimination.
 - C) price differentiation.
 - D) dumping.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 56) If costs a firm \$10 to produce a good and the same good sells for \$7 abroad, then this firm is engaging in
- A) profit maximization.
 - B) price discrimination.
 - C) price differentiation.
 - D) dumping.

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: New

- 57) In international trade the term "dumping" means
- A) price discrimination by domestic producers.
 - B) selling goods in a foreign market for a price less than on the home market.
 - C) selling goods in a home market for a price less than on the foreign market.
 - D) selling goods on the black market to avoid paying taxes.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 58) Arguments in support of protectionism (and against free trade) include all of the following EXCEPT
- A) new and troubled industries need to be protected until they acquire sufficient strength to compete equally against their foreign counterparts.
 - B) jobs at home should be protected from cheap foreign labor.
 - C) protectionism increase total domestic consumption possibilities.
 - D) national security interests require that nations retain the ability to produce vital materials at home and avoid dependence upon potential enemies.

Answer: C

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 59) Which of the following is NOT an argument against free trade?
- A) infant-industry argument
 - B) protecting domestic job argument
 - C) countering foreign subsidies argument
 - D) comparative advantage argument

Answer: D

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 60) All of the following are arguments in favor of restricting trade EXCEPT
- A) comparative advantage.
 - B) protecting domestic jobs.
 - C) protecting emerging industries.
 - D) dumping.

Answer: A

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 61) When a good is put onto the global market at a price below the cost to produce it, this is known as
- A) the infant-industry argument.
 - B) dumping.
 - C) a quota.
 - D) protection of domestic jobs.

Answer: B

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Revised

62) Explain the infant industry argument.

Answer: The infant industry argument is an argument for tariff protection for a domestic industry that is relatively new. If there are economies of scale or benefits from experience, the industry may not have a chance to develop and secure either experience or economies of scale if they face competition from established foreign firms. The argument is that after a period of time, the industry would be able to compete without tariff protection.

Diff: 1

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

63) What is the relationship between imports and employment?

Answer: There is no causal link between imports and unemployment. In many cases unemployment falls when imports increase. Industries that have lost the most employment over the last forty years have been industries that were protected by tariffs and quotas. Protecting one industry usually means some export industry will see a decline.

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

64) What must a government know for the infant industry argument to be a valid reason for imposing tariffs?

Answer: The government must be able to determine what industries will eventually be able to survive without protection, but cannot survive initially without protection. Hence, they would need to know a great deal about technology in the industry, input prices, world demand for the good, and many other things.

Diff: 2

Topic: 32.5 Arguments Against Free Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.6 Ways to Restrict Foreign Trade

1) Import restrictions due to the imposition of tariffs by the U.S. government

- A) will ultimately cause inefficient resource allocation in the United States.
- B) will lead to lower incomes in the economy of U.S. trade partners.
- C) will lead to a decline in the quantity of the product consumed in the United States.
- D) all of the above are likely to occur

Answer: D

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Revised

- 2) One way tariffs differ from quotas is that
- A) tariffs produce revenues for the importing country's government.
 - B) quotas produce revenues for the exporting country's government.
 - C) tariffs produce no revenues but set limits on the imported items.
 - D) tariffs are applied only on raw materials.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) In general, who will benefit as the result of a tariff?
- I. Domestic producers
 - II. Domestic consumers
 - III. The domestic government
- A) I only
 - B) II only
 - C) both I and III
 - D) both II and III
 - E) All of the above are correct

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Quotas and tariffs both serve the purpose of
- A) increasing foreign trade.
 - B) restricting foreign trade.
 - C) causing domestic producers to lose revenues.
 - D) lowering prices on imported goods.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) A quota is
- A) a tariff imposed on goods that are dumped in the country.
 - B) a law that prevents ecologically damaging goods from being imported into a country.
 - C) a market-imposed balancing factor that keeps prices of imports and exports in equilibrium.
 - D) a government-imposed restriction on the quantity of a specific good that can be imported.

Answer: D

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) An import quota specifies
- A) the amount of funds that can be paid for any imported good.
 - B) the amount of taxes that must be paid on any imported good.
 - C) the maximum amount of an item that may be imported during a specified period.
 - D) the minimum amount of an item that may be imported during a specified period.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) If a country voluntarily agrees to have its companies import more goods from another country, the country has
- A) a voluntary import expansion (VIE) agreement.
 - B) a voluntary restraint agreement (VRA).
 - C) a mandated tariff.
 - D) a mandated agreement.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Tariffs to limit imports to "protect U.S. jobs" will also
- A) stimulate exports.
 - B) limit exports.
 - C) decrease import prices.
 - D) reduce domestic production of import-threatened products.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) The Uruguay round of GATT (1993) talks
- A) reduced trade barriers and tariffs.
 - B) increased trade barriers and tariffs.
 - C) lowered some trade barriers but increased tariffs.
 - D) left tariffs and trade barriers unchanged.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

10) Since the 1930s, overall tariff rates in the United States have

- A) increased.
- B) decreased.
- C) remained unchanged.
- D) become very unstable, changing week to week.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

11) A tariff is

- A) a subsidy on domestically produced goods.
- B) the difference between the world market price and the domestic price when a group of firms in an industry collude successfully.
- C) a tax on imported goods.
- D) a government imposed restriction on the quantity of a specific good that can be imported into the country and sold.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

12) The General Agreement on Tariffs and Trade is an international agreement

- A) to establish the North American continent as a free trade area.
- B) to encourage peaceful settlements of trade disputes, but has no particular point of view about the desirability of higher or lower tariffs.
- C) to encourage world trade by lowering tariffs and other trade barriers.
- D) to make all tariffs illegal.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

13) If protective import-restricting tariffs are imposed by a country, in the majority of cases that nation's consumers end up

- A) paying a higher price for the good than they otherwise would.
- B) paying a lower price for the good than they otherwise would.
- C) consuming more of the good than they otherwise would.
- D) having a higher standard of living than they otherwise would.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) If protective import-restricting tariffs are imposed by a country, in the majority of cases that nation's producers end up
- A) receiving a higher price for the good than they otherwise would.
 - B) receiving a lower price for the good than they otherwise would.
 - C) producing less of the good than they otherwise would.
 - D) receiving a lower profit for the domestic good than they otherwise would.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: New

- 15) If protective import-restricting quota are imposed by a country, in the majority of cases that nation's consumers end up
- A) paying a lower price for the good than they otherwise would.
 - B) consuming more of the good than they otherwise would.
 - C) having more consumption choices than they otherwise would.
 - D) consuming less of the good than they otherwise would.

Answer: D

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: New

- 16) If protective import-restricting quota are imposed by a country, all of the following groups benefit EXCEPT
- A) domestic producers in the affected industry.
 - B) domestic consumers in the affected industry.
 - C) employees of domestic producers in the affected industry.
 - D) importers that are able to obtain the rights to sell imported items in the affected industry.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: New

- 17) If protective import-restricting tariff are imposed by a country, in the majority of cases that nation's consumers end up
- A) paying a lower price and consuming more of the good than they otherwise would.
 - B) paying a lower price and consuming less of the good than they otherwise would.
 - C) paying a higher price and consuming less of the good than they otherwise would.
 - D) paying a higher price and consuming more of the good than they otherwise would.

Answer: C

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: New

- 18) A quota is
- A) a government-imposed restriction on the quantity of a specific good that can be imported into a country.
 - B) a tariff imposed on goods that are dumped into the home country.
 - C) a tariff imposed on goods that are subsidized by their domestic governments and exported to other countries.
 - D) a tariff based on the value of the imported good.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 19) A government-imposed restriction on the quantity of a specific good that another country is allowed to sell in the U.S. is
- A) a regional trade bloc.
 - B) an import quota.
 - C) a voluntary import expansion.
 - D) a voluntary restraint agreement.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 20) The maximum amount of a good that may be imported during a specified period of time is
- A) an infant industry agreement.
 - B) an import quota.
 - C) dumping.
 - D) comparative advantage.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 21) The effect of an import quota is
- A) to shift the supply curve up by the amount of the quota.
 - B) to lead to a decrease in demand.
 - C) to make the supply curve vertical at the amount of the quota.
 - D) to make the supply curve horizontal at the amount of the quota.

Answer: C

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 22) The effect of a quota is to
- A) increase quantity supplied and lower price.
 - B) increase quantity supplied and increase price.
 - C) increase demand for the good and increase price.
 - D) reduce quantity supplied and raise price.

Answer: D

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) Voluntary restraint agreements are
- A) a type of tariff in which the tax is a fixed amount per unit of good imported.
 - B) a type of tariff in which the tax is based on the value of the good.
 - C) a type of quota that actually benefits the firms facing the restrictions.
 - D) a type of quota agreed to "voluntarily" in order to prevent more severe protection of another type.

Answer: D

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 24) An official agreement with another country to restrict the quantity of its exports to the U.S. is
- A) a regional trade bloc.
 - B) the quota system.
 - C) a voluntary import expansion.
 - D) a voluntary restraint agreement.

Answer: D

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) A voluntary import expansion involves a
- A) country agreeing to import more from another country.
 - B) country agreeing to reduce its trade barriers.
 - C) country agreeing to an import quota.
 - D) firm agreeing to expand output.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

26) An official agreement with another country in which it agrees to import more from the United States is

- A) a regional trade bloc.
- B) the quota system.
- C) a voluntary import expansion.
- D) a voluntary restraint agreement.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

27) A tariff is

- A) a government-imposed restriction on the quantity of a specific good that can be imported into the country.
- B) a tax on imported goods.
- C) a subsidy on domestically produced goods.
- D) a voluntary agreement to restrict exports.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

28) The effects of a tariff are

- A) reduced quantity supplied overall, reduced quantity supplied by domestic producers, and a lower price.
- B) reduced quantity supplied overall, increased quantity supplied by domestic producers, and a higher price.
- C) reduced quantity supplied overall, decreased quantity supplied by domestic producers, and a lower price.
- D) identical to the effects of a quota, except that the price of the good is higher.

Answer: B

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

29) A difference between a quota and a tariff is that

- A) a tariff generates a higher price than a quota does.
- B) a tariff generates a greater reduction in exports.
- C) a quota increases profits of domestic producers more than a tariff does.
- D) the government collects revenues from a tariff, which does not happen with a quota.

Answer: D

Diff: 3

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

30) A tariff placed on a foreign good will

- A) reduce the price of a competing domestic good.
- B) increase the price of a competing domestic good.
- C) increase the quantity sold of both the foreign and competing domestic good.
- D) reduce the quantity sold of both the foreign and competing domestic good.

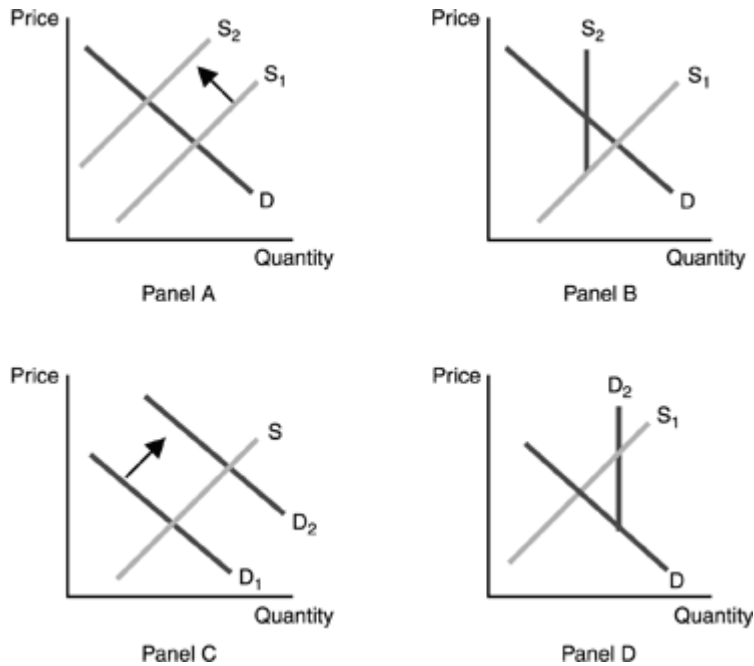
Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition



31) Refer to the above figures. A tariff is placed on a foreign good. Which figure represents the situation in the domestic market for the foreign good?

- A) Panel A
- B) Panel B
- C) Panel C
- D) Panel D

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Analytic skills

Question Status: Previous Edition

32) Refer to the above figures. A tariff is placed on a foreign good. Which figures represents the situation in the domestic market for a competing domestic good?

- A) Panel A
- B) Panel B
- C) Panel C
- D) Panel D

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Refer to the above figures. A quota is placed on a foreign good. Which figure represents the situation in the domestic market for a competing domestic good?

A) Panel A B) Panel B C) Panel C D) Panel D

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Analytic skills

Question Status: New

- 34) The General Agreement on Tariffs and Trade is an international agreement

A) that outlaws all tariffs but permits quotas.
B) to encourage world trade by lowering tariffs and other trade barriers.
C) to encourage world trade by lending resources to developing countries.
D) between the United States and Japan that has never been ratified, resulting in several trade wars with Japan.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 35) An international agreement established in 1947 to further world trade by reducing barriers and tariffs is the

A) World Trade Organization.
B) European Union.
C) General Agreement on Tariffs and Trade.
D) North American Free Trade Agreement.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 36) The trend in current tariff laws is to

A) raise tariffs on foreign goods. B) keep tariffs the same.
C) lower tariffs on foreign goods. D) abolish tariffs all together.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 37) A tariff is a
- A) legal limit on sales of a foreign product in the domestic market.
 - B) regulation of the quality of a foreign product sold in the domestic market.
 - C) tax on sales of a foreign product in the domestic market.
 - D) voluntary limit on sales of a foreign product in the domestic market.

Answer: C

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 38) A legal limit on the amount of sugar imported into the United States is
- A) a tariff.
 - B) a subsidy.
 - C) a quota.
 - D) a voluntary import restriction.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 39) A government imposed restriction on the quantity of a good that can be imported is
- A) an embargo.
 - B) a protective tariff.
 - C) a quota.
 - D) a health restriction.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 40) An import quota will make the supply curve for the imported good
- A) perfectly inelastic.
 - B) perfectly elastic.
 - C) unitary elastic.
 - D) negatively sloped.

Answer: A

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 41) A legal restriction on the amount of a good that can be imported into a country is known as a
- A) voluntary restraint agreement.
 - B) tariff.
 - C) quota.
 - D) Domestic Protection Restraint (DPR).

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 42) A government-imposed restriction on the quantity of a specific good that may be imported to and sold in the United States is called a
- A) tariff system.
 - B) quota system.
 - C) reverse-trade system.
 - D) union trade system.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 43) A VRA is an example of
- A) a "voluntary" quota.
 - B) a tariff.
 - C) an illegal foreign good.
 - D) an illegal foreign tariff.

Answer: A

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 44) A tariff is a tax on
- A) all exported goods imposed by the WTO.
 - B) imported goods.
 - C) shipping containers.
 - D) foreign exchange transactions.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 45) When a tariff is imposed, the supply curve for the imported good
- A) shifts downward and to the right.
 - B) shifts upward and to the left.
 - C) does not change.
 - D) becomes perfectly inelastic.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 46) When a tariff is imposed, the demand curve for the domestic good
- A) shifts downward and to the right.
 - B) shifts upward and to the left.
 - C) shifts upward and to the right.
 - D) shifts downward and to the left.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: New

47) A tax placed on imports is known as

- A) voluntary restraint agreement.
- B) tariff.
- C) quota.
- D) infant industry.

Answer: B

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

48) Trade restrictions tend to make domestic products

- A) cheaper because they do not have to compete with foreign goods.
- B) cheaper because they do have to compete with foreign goods.
- C) more expensive because they have to compete with foreign goods.
- D) more expensive because they do not have to compete with foreign goods.

Answer: D

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

49) An agreement with another country in which it agrees to import more from the United States is called a

- A) VRA.
- B) VIE.
- C) VAR.
- D) VAT.

Answer: B

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

50) The highest tariff rates of the twentieth century in the United States arose as a result of which law?

- A) the Robinson-Patman Act
- B) the Tariff of Abominations Act
- C) the Wheeler-Lea Act
- D) the Smoot-Hawley Act

Answer: D

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Revised

51) The law that created the high level of tariffs in United States in the 1930s is

- A) the GATT Act.
- B) the World Trade Act.
- C) the Smoot-Hawley Act.
- D) the Tariffs Agreement Act.

Answer: C

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Revised

- 52) In comparing tariffs and quotas, we know that
- A) neither raises revenues for the federal government.
 - B) both raise revenues for the federal government.
 - C) tariffs raise revenues for the federal government, while quotas do not.
 - D) quotas raise revenues for the federal government, while tariffs do not.

Answer: C

Diff: 1

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 53) The two groups that benefit the most from quotas are
- A) the importers who have the right to import the restricted good and the domestic producers of the restricted good.
 - B) the domestic consumers of the restricted good and the domestic producers of the restricted good.
 - C) the domestic consumers of the restricted good and the foreign producers of the restricted good.
 - D) the importers who have the right to import the restricted good and the domestic consumers of the restricted good.

Answer: A

Diff: 3

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 54) What is GATT and what happened to tariff rates as a result of GATT?

Answer: GATT is the General Agreement on Tariffs and Trade. It is an international agreement established after World War II to encourage world trade by reducing barriers and tariffs. U.S. tariff rates have fallen from over 30 percent on average to around 5 percent, although this may overstate the reduction of trade barriers since voluntary export restraints have been used in recent years.

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 55) What are the effects of a tariff on a good?

Answer: A tariff taxes the imports of a good, which tends to reduce the quantity of imports and raise price. Due to the higher price, the domestic quantity supplied of the good increases and the domestic quantity demanded decreases. The increase in quantity supplied will be less than the decrease in quantity supplied by imports because of the reduction in quantity demanded. Consumers are worse off while domestic suppliers of this good are better off.

Diff: 2

Topic: 32.6 Ways to Restrict Foreign Trade

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32.7 International Trade Organizations

- 1) The World Trade Organization is a successor organization to the
- A) United Nations.
 - B) World Bank.
 - C) International Court of Justice.
 - D) GATT.

Answer: D

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) According to the text, approximately how many countries are members of the WTO?
- A) 100
 - B) 135
 - C) 150
 - D) 180

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Which of the following is NOT an example of a regional trade bloc?
- A) The North American Free Trade Agreement
 - B) The European Union
 - C) The Asian-Pacific Trade Agreement
 - D) Mercosur

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) The most important international trade organization is
- A) the World Bank
 - B) the World Trade Organization
 - C) the International Monetary Fund
 - D) the European Union

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New

- 5) The North American Free Trade Agreement and the European Union are examples of
- A) defense treaties.
 - B) regional trade blocs.
 - C) labor agreements designed only for industrialized countries.
 - D) agriculturally based economies.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) A significant advantage to being a member of a trade bloc is
- A) higher tariff collections from member countries.
 - B) reduced or eliminated tariffs among member countries.
 - C) reduced tariff rates only for the largest member countries.
 - D) None of the above; there is no economic advantage to a trade bloc.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) Which of the following is the situation in which a nation shifts its international trade from nations outside a regional trade bloc to nations within the bloc?
- A) trade diversion
 - B) trade deflection
 - C) trade retention
 - D) protectionism

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) Which of the following is the situation in which firms outside a trade bloc shift the final assembling process of partially assembled products into a member nation of the bloc and then export the finished products to other nations within the bloc?
- A) trade diversion
 - B) trade deflection
 - C) trade retention
 - D) rules of origin

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) Which of the following would increase the total amount of trade in the world?
- A) trade diversion
 - B) trade deflection
 - C) trade retention
 - D) rules of origin

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

10) Trade diversion results in

- A) an increase in the total amount of trade in the world.
- B) a decrease in the total amount of trade in the world.
- C) no change in the total amount of trade in the world.
- D) either an increase or decrease in the amount of trade in the world, depending on where trade takes place.

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

11) The net effect of regional trade agreements has been

- A) an increase in the total amount of trade in the world.
- B) a decrease in the total amount of trade in the world.
- C) no change in the total amount of trade in the world.
- D) either an increase or decrease in the amount of trade in the world, depending on where trade takes place.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New

12) Which of the following are regulations that nations in regional trade blocs establish to delineate product categories eligible for trading preferences?

- A) trade quotas
- B) trade tariffs
- C) rules of law
- D) rules of origin

Answer: D

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

13) The World Trade Organization

- A) was set up to increase tariffs among nations.
- B) was set up to negotiate exchange rates between countries.
- C) was set up to decrease tariffs among nations.
- D) handles trade disputes among its member nations.

Answer: D

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) The successor organization to GATT that handles trade disputes among its member nations is the

- A) World Trade Organization.
- B) European Union.
- C) General Agreement on Tariffs and Trade.
- D) North American Free Trade Agreement.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) A group of nations that grants member special trade privileges is

- A) World Trade Organization.
- B) European Union.
- C) General Agreement on Tariffs and Trade.
- D) North American Free Trade Agreement.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) The European Union started out as a

- A) regional trade agreement.
- B) union of nations with identical currency.
- C) union of nations where the same language was spoken.
- D) union of nations with identical tariffs.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 17) Because of NAFTA, the U.S. shifts some of its imports from Europe to Mexico (a member of NAFTA). This is an example of

- A) trade deflection.
- B) trade diversion.
- C) protectionism.
- D) rules of origin.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

18) To avoid tariffs, a Japanese firm moves its final assembly line to Mexico and then ships the final products to Canada. This is an example of

- | | |
|----------------------|---------------------|
| A) trade deflection. | B) trade diversion. |
| C) protectionism. | D) rules of origin. |

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

19) To avoid trade restrictions, a U.S. firm moves its final production process to Ireland and then ships the final products to Germany. This is an example of

- | | |
|----------------------|---------------------|
| A) trade deflection. | B) trade diversion. |
| C) protectionism. | D) rules of origin. |

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New

20) Some nations avoid the effects of trade deflection in a trade bloc by enforcing

- | | |
|----------------------|---------------------|
| A) trade deflection. | B) trade diversion. |
| C) quotas. | D) rules of origin. |

Answer: D

Diff: 2

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

21) U.S. automakers have an interest to make it more difficult for European competitors to locate assembly plants in Canada or Mexico and thereby ship finished automobiles to the United States duty-free. This is an example of

- | | |
|----------------------|---------------------|
| A) trade deflection. | B) trade diversion. |
| C) quotas. | D) rules of origin. |

Answer: D

Diff: 2

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New

22) The international agreement signed in 1947 to promote world trade by reducing tariffs and other barriers to international trade was called

- | | |
|----------|-----------------------------|
| A) GATT. | B) NAFTA. |
| C) WTO. | D) Bretton-Woods agreement. |

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 23) The successor organization to GATT, created in 1995, is the
A) WTO. B) EU. C) NAFTA. D) FDIC.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 24) The WTO replaced the GATT in
A) 1900. B) 1945. C) 1960. D) 1995.

Answer: D

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 25) An international agreement from 1947 designed to lower tariffs was
A) the General Agreement on Tariffs and Trade.
B) the World Trade Organization.
C) the World Agreement on Tariffs and Trade.
D) the Trade and Tariff Agreement.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 26) The successor to GATT in 1995 is
A) the World Agreement on Tariff and Trade.
B) the World Trade Organization.
C) the World Trade Agreement.
D) the World Trade and Tariff Organization.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 27) The organization that settles trade disputes between countries is the
A) World Bank. B) World Trade Organization.
C) International Monetary Fund. D) United Nations.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Revised

28) The WTO

- A) is an affiliate of the World Bank.
- B) is an organization created to oversee NAFTA.
- C) was established to resolve trade disputes among member nations.
- D) provides low interest loans to member nations to help develop their export industries.

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

29) The World Trade Organization

- A) was established to settle trade disputes within the European Union.
- B) is another name for the IMF.
- C) was established to resolve disputes arising under world trade rules.
- D) increases world trade by providing interest rate subsidies to foreign borrowers who buy U.S. exports on credit.

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

30) Groups of nations that grants members trade privileges are called

- A) local trade protectionists.
- B) trade settlements.
- C) regional trade blocs.
- D) allies.

Answer: C

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

31) Mercosur is a trade agreement between nations

- A) in Southeast Asia.
- B) in South America.
- C) in South Africa.
- D) in Southern Europe.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

32) In 1990, there were 50 bilateral agreements and regional trade agreements between countries. Today there are

- A) more than 230 of these agreements.
- B) 30 of these agreements.
- C) none of these agreements remaining.
- D) more than 10,000 of these agreements.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 33) Suppose a new EU member begins substituting its imports from non-EU members to other EU members. This is an example of
- A) trade diversion.
 - B) trade deflection.
 - C) free trade.
 - D) trade detection.

Answer: A

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 34) Suppose a Middle Eastern firm moves its final assembly line to Germany and then ships the final products to other members of the EU trading bloc. This is an example of
- A) trade diversion.
 - B) trade deflection.
 - C) trade restriction.
 - D) trade detection.

Answer: B

Diff: 1

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 35) Trade deflection is an act that
- A) decreases the amount of international trade in the world.
 - B) increases the amount of international trade in the world.
 - C) has no impact on the amount of international trade in the world.
 - D) is illegal among all countries in the world.

Answer: B

Diff: 2

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 36) Why do free trade proponents applaud successful trade deflection?
- A) It circumvents trade restrictions within regional trade blocs.
 - B) It increases trade restrictions within regional trade blocs.
 - C) It promotes more rules of origin laws.
 - D) It decreases incentives for trade diversion.

Answer: A

Diff: 2

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New

37) Why do free trade proponents dislike rules of origin in trade agreements?

- A) It decreases the amount of international trade in the world.
- B) It increases the amount of international trade in the world.
- C) It decreases incentives for trade diversion.
- D) It increases incentives for trade deflection.

Answer: A

Diff: 2

Topic: 32.7 International Trade Organizations

AACSB: Dynamics of the global economy

Question Status: New