Multiple-Choice Questions for International Economics

by

Dr. Bob Carbaugh
Department of Economics
Central Washington University

Chapter 1: The International Economy and Globalization

A primary reason why nations conduct international trade is because:
- Some nations prefer to produce one thing while others produce another
- Resources are not equally distributed to all trading nations
- Trade enhances opportunities to accumulate profits
- Interest rates are not identical in all trading nations

A main advantage of specialization results from:
- Economics of large scale production
- The specializing country behaving as a monopoly
- Smaller production runs resulting in lower unit costs.
- High wages paid to foreign workers

International trade in goods and services is sometimes used as a substitute for all of the following except:
- International movements of capital.
- International movements of labor.
- International movements of technology
- Domestic production of different goods and services

If a nation has an open economy it means that the nation:
- Allows private ownership of capital.
- Has flexible exchange rates
- Has fixed exchange rates
- Conducts trade with other countries

International trade forces domestic firms to become more competitive in terms of:
- The introduction of new products
- Product design and quality
c. Product price  
*d. All of the above

The movement to free international trade is most likely to generate short-term unemployment in which industries:
  a. Industries in which there are neither imports nor exports  
  *b. Import-competing industries.  
  c. Industries that sell to domestic and foreign buyers  
  d. Industries that sell to only foreign buyers

International trade is based on the idea that:
  a. Exports should exceed imports  
  b. Imports should exceed exports  
  c. Resources are more mobile internationally than are goods  
  *d. Resources are less mobile internationally than are goods

Arguments for free trade are sometimes disregarded by politicians because:
  a. Maximizing domestic efficiency is not considered important  
  *b. Maximizing consumer welfare may not be a chief priority  
  c. There exist sound economic reasons for keeping one’s economy isolated from other economies.  
  d. Economists tend to favor highly protected domestic markets

Which American industry has least been affected by import competition in recent years
  a. Automobiles  
  b. Steel  
  c. Radios and TVs  
  *d. Computer software

The largest amount of trade with the United States in recent years has been conducted by:
  *a. Canada  
  b. Germany  
  c. Mexico  
  d. United Kingdom

Increased foreign competition tend to
  a. Intensify inflationary pressure at home  
  b. Induce falling output per worker-hour for domestic workers  
  *c. Place constraints on the wages of domestic workers  
  d. Increase profits of domestic import-competing industries

For the United States, exports plus imports are about ______ of its gross national product:
  a. 5 percent  
  b. 10 percent  
  *c. 25 percent  
  d. 55 percent

Major trading partners of the United States including all of the following countries except:
  a. Canada  
  b. Mexico  
  c. China  
  *d. North Korea
Free traders maintain that an open economy is advantageous in that it provides all of the following except:

a. Increased competition for world producers  
b. A wider selection of products for consumers  
c. The utilization of the most efficient production methods  
d. Relatively high wages levels for all domestic workers  

Recent pressures for protectionism in the United States have been motivated by all of the following except:

a. U.S. firms shipping component production overseas  
* b. High profit levels for American corporations  
c. Sluggish rates of productivity growth in the United States  
d. High unemployment rates among American workers  

International trade tends to cause welfare losses to at least some groups in a country except:

a. The less mobile the country’s resources  
* b. The more mobile the country’s resources  
c. The lower the country’s initial living standard  
d. The higher the country’s initial living standard  

For the United States, automobiles are:

a. Imported, but not exported  
* b. Exported, but not imported  
c. Exported and imported  
d. Neither imported nor exported  

A feasible effect of international trade is that a (an):

* a. Monopoly in the home market becomes an oligopoly in the world market  
b. Oligopoly in the home market becomes a monopoly in the world market  
c. Purely competitive firm in the home market becomes an oligopolist  
d. Purely competitive firm in the home market becomes a monopolist  

International trade in goods and services tends to:

a. Increase all domestic costs and prices  
b. Keep all domestic costs and prices at the same level  
c. Lessen the amount of competition facing home manufacturers  
* d. Increase the amount of competition facing home manufacturers  

The real income of domestic producers and consumers can be increased by:

a. Technological progress, but not international trade  
b. International trade, but not technological progress  
* c. Technological progress and international trade  
d. Neither technological progress nor international trade  

For the United States, commercial jetliners are:

a. Imported, but not exported  
b. Exported, but not imported  
* c. Imported and exported  
d. Neither exported nor imported
Technological improvements are similar to international trade since they both:

- a. Provide benefits for all producers and consumers
- *b. Increase the nation’s aggregate income
- c. Reduce unemployment for all domestic workers
- d. Ensure that industries can operate at less than full capacity

A sudden shift from import tariffs to free trade may induce short-term unemployment in:

- *a. Import-competing industries
- b. Industries that are only exporters
- c. Industries that sell domestically as well as export
- d. Industries that neither import nor export

A reduced share of the world export market for the United States would be attributed to:

- *a. Decreased productivity in U.S. manufacturing
- b. High incomes of American households
- c. Relatively low interest rates in the United States
- d. High levels of investment by American corporations

The most recent wave of globalization, which began in the 1980s, has emphasized the outsourcing of:

- *a. services and white-collar jobs
- b. manufacturing and blue-collar jobs
- c. natural resource extraction and mining jobs
- d. agriculture and farming jobs

A country’s openness to international trade can be measured by the formula:

- a. Exports + Imports + GDP
- b. Exports – Imports – GDP
- c. (Exports + Imports) / GDP
- d. (Exports + Imports) X GDP

Chapter 2: Foundations of Modern Trade Theory

Use the information in the table below to answer the next six questions.

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons of steel</th>
<th>DVDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>Japan</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

The opportunity cost of one DVD in Japan is:

- *a. One ton of steel
- b. Two tons of steel
- c. Three tons of steel
- d. Four tons of steel
The opportunity cost of one DVD in South Korea is:

a. One-half ton of steel
b. One ton of steel
c. One and one-half tons of steel
d. Two tons of steel

According to the principle of absolute advantage; Japan should:

a. Export steel
b. Export DVDs
c. Export steel and DVDs
d. There is no basis for gainful specialization and trade

According to the principle of comparative advantage:

a. South Korea should export steel
b. South Korea should export steel and DVDs
c. Japan should export steel
d. Japan should export steel and DVDs

With international trade, what would be the maximum amount of steel that South Korea would be willing to export to Japan in exchange for each DVD

a. One-half ton of steel
b. One ton of steel
c. Two tons of steel
d. Two and one-half tons of steel

With international trade, what would be the maximum number of DVDs that Japan would be willing to export to South Korea in exchange for each ton of steel:

a. One DVD
b. Two DVDs
c. Three DVDs
d. Four DVDs

The earliest statement of the principle of comparative advantage is associated with:

a. Adam Smith
b. David Ricardo
* c. Eli Heckscher
d. Bertil Ohlin

If Hong Kong and Taiwan have identical production possibilities curves that are subject to increasing opportunity costs:

a. Trade would depend on differences in demand conditions
b. Trade would depend on economies of large-scale production
c. Trade would depend on the use of different currencies
d. There would be no basis for gainful trade

If the international terms of trade settle at a level that is between each country’s opportunity cost

a. There is no basis for gainful trade for either country
b. Both countries gain from trade
International trade is based on the notion that:

a. Different currencies are an obstacle to international trade
b. Goods are more mobile internationally than are resources
* c. Resources are more mobile internationally than are goods
d. A country’s exports should always exceed its imports

Mercantilism

a. Is the philosophy of free international trade.
* b. Was a system of export promotion and barriers to imports practiced by governments.
c. Was praised by Adam Smith in The Wealth of Nations.
d. Both (a) and (c).

The classical trade theories of Smith and Ricardo predict that

a. Countries will completely specialize in the production of export goods.
b. Considerable trade will occur between countries with different levels of technology
* c. Small countries could obtain all of the gains from trade when trading with large countries
d. All of the above.

The gains from international trade are closely related to:

a. The labor theory of value
* b. How much the autarky price differs from international terms of trade change
c. The fact that a country must lose from trade.
d. All of the above

According to the classical theory of international trade:

a. Only countries with low wages will export
b. Only countries with high wages will import
c. Countries with high wages will have higher prices
* d. All the above are false

In the classical model of Ricardo, the direction of trade is determined by:

a. absolute advantage
* b. comparative advantage
c. physical advantage
d. which way the wind blows

Absolute advantage is determined by:

* a. actual differences in labor productivity between countries.
b. relative differences in labor productivity between countries.
c. both (a) and (b)
d. neither (a) nor (b)

Comparative advantage is determined by:

a. actual differences in labor productivity between countries.
* b. relative differences in labor productivity between countries.
c. both (a) and (b)
d. neither (a) nor (b)

Answer the next five questions based on the production table below.

<table>
<thead>
<tr>
<th>Country: Output per Labor Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Product X</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>Product Y</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>

Country A has an absolute advantage in
a. Product X
*b. Product Y

c. Neither X nor Y
d. Both X and Y

Country B has an absolute advantage in
*a. Product X
b. Product Y
c. Neither X nor Y
d. Both X and Y

If the countries were to trade along the lines of absolute advantage:
a. A would export X to B
*b. B would import Y from A
c. Neither country would want to trade

If countries were to trade along the lines of comparative advantage:
a. A would export X to B
*b. A would export Y to B
c. Neither country would want to trade

In autarky, the relative price of X, in terms of Y, in A would be:
a. 1/2 Y
d. 3/4 Y
* b. 1 Y
d. 4/3 Y

c. 1 Y

Answer the next five questions based on the production table below.

<table>
<thead>
<tr>
<th>Country: Output per Labor Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Beer</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>Wine</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
</tbody>
</table>

Country A has an absolute advantage in:
a. Beer
*b. Wine
c. Both products
d. Neither products
In autarky, the relative price of wine, in terms of beer, in Country A is:

a. \( 1W = 1B \)  
b. \( 1W = 2B \)  
\*c. \( 1W = 3B \)  
d. \( 1W = \frac{1}{3}B \)

In autarky, the relative price of wine, in terms of beer, in Country B is:

a. \( 1W = 3B \)  
\*b. \( 1W = 4 \frac{1}{2} B \)  
c. \( 1W = 5B \)  
d. \( 1W = 6B \)

Country A has the comparative advantage in:

\*a. Wine  
b. Beer  
c. Both wine and beer  
d. Neither wine nor beer

Country B has the comparative advantage in:

a. Wine  
\*b. Beer  
c. Both wine and beer  
d. Neither wine nor beer

Answer the next four questions based on the production possibilities diagram below.

The relative price (MRT) of S in terms of T is:

a. 2  
\*b. \( \frac{1}{2} \)  
c. 0  
d. 1000

The relative price (MRT) of T in terms of S is:

\*a. 2  
b. \( \frac{1}{2} \)  
c. 500  
d. 1000

If the relative price (MRT) of S were to increase, then the price line would:

a. shift out in a parallel fashion.  
b. shift in a parallel fashion.  
\*c. Become steeper.  
d. Become flatter.
If the relative price (MRT) of T were to increase, then the price line would:
a. shift out in a parallel fashion.
b. shift in a parallel fashion.
c. become steeper.
*d. become flatter.

If a country has a bowed out (concave to the origin) production possibility frontier, then production is said to be subject to:
a. constant opportunity costs.
b. decreasing opportunity costs.
c. first increasing and then decreasing opportunity costs.
*d. increasing opportunity costs.

If a country has a linear (downward sloping) production possibilities frontier, then production is said to be subject to:
*a. constant opportunity costs.
b. decreasing opportunity costs.
c. first increasing and then decreasing opportunity costs.
d. increasing opportunity costs.

The terms of trade is given by the prices:
a. Paid for all goods exported by the home country.
b. Received for all goods exported by the home country.
*c. Received for exports and paid for imports.
d. Of primary products as opposed to manufactured products.

Given the terms of trade information in the table below, answer the next three questions:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>100</td>
<td>220</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Sweden</td>
<td>100</td>
<td>160</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Spain</td>
<td>100</td>
<td>155</td>
<td>100</td>
<td>155</td>
</tr>
<tr>
<td>France</td>
<td>100</td>
<td>170</td>
<td>100</td>
<td>230</td>
</tr>
<tr>
<td>Denmark</td>
<td>100</td>
<td>120</td>
<td>100</td>
<td>125</td>
</tr>
</tbody>
</table>

Which countries’ terms of trade improved between 1990 and 2000.
a. Mexico and Denmark
b. Sweden and Denmark
c. Sweden and Spain
*d. Mexico and Sweden

Given free trade, small nations tend to benefit the most from trade since they:
a. Are more productive than their large trading partners.
b. Are less productive than their large trading partners.
c. Have demand preferences and income levels lower than their large trading partners.  
* d. Realize terms of trade lying near the MRTs of their large trading partners.

In autarky, when a community maximizes its standard of living, its production and consumption point is:

a. below the production possibility frontier.
* b. on the production possibility frontier.
c. above the production possibility frontier.
d. can’t tell without more information.

In autarky equilibrium,

a. production equals consumption.
b. exports equal imports.
c. there is no trade.
* d. all of the above.

In autarky, when a community maximizes its standard of living, its production point is:

a. below the production possibility frontier.
* b. on the production possibility frontier.
c. above the production possibility frontier.
d. can’t tell without more information.

If the autarky price of S were lower in country A than in country B, then if trade were allowed:

* a. A would likely export S to B.
b. A would likely import S from B.
c. neither country would want to trade.
d. none of the above.

Under free trade, Canada would not realize any gains from trade with Sweden if Canada:

* a. Trades at Canada’s marginal rate of transformation.
b. Trades at Sweden’s marginal rate of transformation.
c. Specializes completely in the production of its export good.
d. Specializes partially in the production of its export good.

John Stuart Mill was the founder of the

* a. Theory of reciprocal demand
b. Theory of absolute advantage
c. Theory of comparative advantage
d. Theory of mercantilism

Dynamic gains from trade could result from

a. The stimulus of additional investment spending as markets open
b. Economies of large scale production as markets open
c. Additional competition made possible by the opening of markets
* d. All of the above

G. MacDougall compared export ratios and labor productivity ratios for the United States and the United Kingdom in order to test the
*a. Ricardian theory of comparative advantage  
b. Heckscher Ohlin theory of comparative advantage  
c. Linder theory of overlapping demand  
d. all of the above

G. MacDougall showed in his tests that  
a. relatively higher U.S. labor productivity was associated with relatively higher U.K. export ratios  
b. relatively higher U.K. labor productivity was associated with relatively higher U.K. export ratios  
c. labor productivity ratios and export ratios were not associated with each other.  
d. none of the above

G. MacDougall’s empirical results can be interpreted as  
a. evidence against the classical model  
b. evidence against the Heckscher-Ohlin model  
c. support for the Ricardian model  
d. support for the Heckscher-Ohlin model

Chapter 3: Sources of Comparative Advantage

The Heckscher-Ohlin theory explains comparative advantage as the result of differences in countries’:

a. Economies of large-scale production.  
b. Relative abundance of various resources.  
c. Relative costs of labor.  
d. Research and development expenditures.

The factor endowment model of international trade was developed by  
a. Adam Smith  
b. David Ricardo  
c. John Stuart Mill  
d. Eli Heckscher and Bertil Ohlin

Boeing aircraft company was able to cover its production costs of the first “jumbo jet” in the seventies because Boeing could market it to several foreign airlines in addition to domestic airlines. This illustrates:  
a. How economies of scale make possible a larger variety of products in international trade.  
b. A transfer of wealth from domestic consumers to domestic producers as the result of trade  
c. How a natural monopoly is forced to behave more competitively with international trade.  
d. How a natural monopoly is forced to behave less competitively with international trade.

Which trade theory contends that a country that initially develops and exports a new product may eventually become an importer of it, and may no longer manufacture the product:  
a. Theory of factor endowments  
b. Theory of overlapping demands
c. Economies of scale theory
*d. Product life cycle theory

The theory of overlapping demands predicts that trade in manufactured goods is unimportant for countries with very different:
  a. Tastes and preferences
  b. Expectations of future interest rate levels
  *c. Per-capita income levels
  d. Labor productivities

The trade model of the Swedish economists Heckscher and Ohlin maintains that:
  a. Absolute advantage determines the distribution of the gains from trade.
  b. Comparative advantage determines the distribution of the gains from trade.
  c. The division of labor is limited by the size of the world market.
  *d. A country exports goods for which its resource endowments are most suited.

According to the factor endowment model of Heckscher and Ohlin, countries heavily endowed with land will:
  a. Devote excessive amounts of resources to agricultural production.
  b. Devote insufficient amounts of resources to agricultural production.
  *c. Export products that are land-intensive.
  d. Import products that are land-intensive.

According to the ________, the export of the product that embodies large amounts of the relatively cheap, abundant resource results in an increase in its price and income; at the same time, the price and income of the resource used intensively in the import-competing product decreases as its demand falls.
  a. Ricardian equivalence theorem
  b. Smithian equivalence theorem
  c. Stolpher-Samuelson theorem *
  d. Bernanke-Greenspan theorem

For the United States, empirical studies indicate that over the past two hundred years the cost of international transportation relative to the value of U.S. imports has:
  a. Increased
  *b. Decreased
  c. Not changed
  d. Any of the above

According to the trade theory of Staffan Linder, trade tends to be most pronounced in manufactured goods when trading countries have
  a. similar endowments of natural resources
  b. similar levels of technology
  *c. similar per-capita incomes
  d. similar wage levels
1954 study of U.S. trade patterns showed that U.S. exports were labor-intensive compared with U.S. imports, even though the United States was widely regarded as a relatively capital-abundant nation.

a. Paul Samuelson’s  
b. Wolfgang Stolpher’s  
c. Staffan Linder’s  
d. Wassily Leontief’s

Should international transportation costs decrease, the effect on international trade would include:

*a. Increase in the volume of trade  
b. Smaller gain from trade  
c. Decline in the income of home producers.  
d. Decrease in the level of specialization in production.

That the division of labor is limited by the size of the market best applies to which explanation of trade:

a. Factor endowment theory  
b. Product life cycle theory  
c. Economies of scale theory  
d. Overlapping demand theory

Intra-industry trade theory

*a. explains why the United States might export autos and import clothing  
b. explains why the United States might export and import differentiated versions of the same product, such as different types of autos  
c. assumes that transport costs are very low or do not exist  
d. ignores seasonal considerations for agricultural goods

Dynamic comparative advantage theory

*a. helps explain why some nations use industrial policy to support potentially competitive new firms  
b. cannot explain strategic competition between firms such as Boeing and Airbus  
c. is another name for Ricardo’s comparative advantage theory

Differences in environmental standards or other government regulations among nations

*a. have no impact on patterns of international trade  
b. have tended to make U.S. steel companies more competitive internationally  
c. can affect production costs and thus alter comparative advantages and trade patterns  
d. have been eliminated by the nations participating in NAFTA

Declining costs per unit of output results from international trade especially if:

*a. International trade affords producers monopoly power.  
b. National governments levy import tariffs and quotas.  
c. Producing goods entails increasing costs.  
d. economies of scale exist for producers.

According to the Heckscher-Ohlin model, the source of comparative advantage is a country’s:

a. technology  
b. advertising
The Heckscher-Ohlin model rules out the classical model’s basis for trade by assuming that _______ is (are) identical between countries.

a. factor endowments  
   b. factor intensities  
   *c. technology  
   d. opportunity costs

The comparative advantage model of Ricardo was based on

a. intraindustry specialization and trade  
   *b. interindustry specialization and trade  
   c. demand conditions underlying specialization and trade  
   d. income conditions underlying specialization and trade

The product cycle theory of trade is essentially a

a. static, short run trade theory  
   *b. dynamic, long run trade theory  
   c. zero-sum theory of trade  
   d. negative-sum theory of trade

The _______ analyzes the income distribution effects of trade in the short run, when resources are immobile among industries.

a. Stolpher-Samuelson theory  
   *c. specific factors theory  
   b. factor endowment theory  
   d. overlapping demand theory

Industrial policies intended to foster comparative advantage for domestic industries could result in the implementation of

a. research and development subsidies  
   b. loan guarantees  
   c. low interest rate loans  
   *d. all of the above

By reducing the volume of trade, transportation costs tend to

a. stop the process of product price equalization and factor price equalization before they are complete *  
   b. ensure that the process of product price equalization and factor price equalization are complete  
   c. eliminate all of the feasible gains from international trade  
   d. maximize all of the feasible gains from international trade

If tastes are identical between countries, then comparative advantage is determined by:

*a. supply conditions only.  
   b. demand conditions only.  
   c. supply and demand conditions.  
   d. can’t tell without more information.
The Heckscher-Ohlin theorem states that a country will have comparative advantage in the good whose production is relatively intensive in the _______ with which the country is relatively abundant.

a. tastes  b. technology  
*c. factor/resource  d. opportunity cost

One of the predictions of the Heckscher-Ohlin model is that:

a. countries with different factor endowments but similar technologies and preferences will have a strong basis for trade with each other.
b. countries will tend to specialize, but not completely, in their comparative advantage good.
c. reciprocal demand leads to an equilibrium terms of trade by inducing changes in both demand and supply.
*d. all of the above.

Wassily Leontief used an input-output table in order to test the

a. Ricardian theory of comparative advantage  
*b. Heckscher Ohlin theory of comparative advantage  
  c. Linder theory of overlapping demand  
  d. all of the above

The Heckscher-Ohlin assumes that _______ are identical between countries.

a. tastes and preferences  b. technology levels  
*c. factor endowments  d. both (a) and (b)

In his empirical tests, Wassily Leontief used an input-output table to

*a. calculate the capital and labor required to produce $1 million of U.S. exports and imports.  
b. calculate the labor productivity of American workers relative to foreign workers.  
c. calculate the capital productivity of American capital relative to foreign capital.  
d. all of the above

In his empirical test of comparative advantage, Wassily Leontief found that

a. U.S. exports are capital intensive relative to U.S. imports  
b. U.S. imports are labor intensive relative to U.S. exports  
c. U.S. exports are neither labor nor capital intensive  
*d. none of the above

Leontief’s results were considered paradoxical because the United States was believed to be

a. technologically efficient relative to the rest of the world  
*b. capital abundant relative to the rest of the world  
c. labor abundant relative to the rest of the world  
d. all of the above

According to the Heckscher-Ohlin model

a. everyone automatically gains from trade  
*b. the gainers from trade outnumber the losers from trade  
c. the scarce factor necessarily gains from trade  
d. none of the above
Wassily Leontief’s results can be interpreted as
a. evidence against the Ricardian model
*b. evidence against the Heckscher-Ohlin model
c. support for the Ricardian model
d. support for the Heckscher-Ohlin model

Advocates of industrial policy maintain that government should
a. pursue free trade as a policy that leads to maximum global efficiency
*b. grant subsidies to firms offering potential comparative advantage
c. provide loans to domestic workers in exporting industries
d. increase interest rates on loans made to firms in import-competing industries

The factor endowment theory was pioneered by:
 a. Adam Smith
b. David Ricardo
*c. Wassily Leontief
*d. Eli Heckscher and Bertil Ohlin

By adjusting the model of comparative advantage to include transportation costs along with production costs, we would expect
a. the prices of traded goods to be lower than when there are no transportation costs
b. specialization to stop when the production costs of the trading partners equalize
*c. the volume of trade to be less than when there are no transportation costs
d. the gains from trade to be greater than when there are no transportation costs

Assume that Country A is relatively abundant in labor and Country B is relatively abundant in land. Note that wages are the returns to labor and rents are the returns to land. According to the factor price equalization theorem, once Country A begins specializing according to comparative advantage and trading with Country B
a. wages and rents should fall in Country A
b. wages and rents should rise in Country A
*c. wages should rise and rents should fall in Country A
d. wages should fall and rents should rise in Country A

According to the factor price equalization theorem, the ________ factor should oppose free trade policies in any given country,
 a. abundant
*b. scarce
c. neither
d. can’t tell without more information

A product will be traded only if the pretrade price difference between the two countries
a. is less than the cost of transporting it between them
*b. is greater than the cost of transporting it between them
c. equals the cost of transporting it between them
d. more information is needed to answer this question

Intraindustry trade can be explained by all of the following except
a. high transportation costs as a proportion of product value
b. different growing seasons of the year for agricultural products  
c. product differentiation for goods such as automobiles  
*d. high per capita incomes in exporting countries  

**Chapter 4: Tariffs**

A tax of 20 cents per unit of imported cheese would be an example of a (an):

a. Compound tariff  
b. Effective tariff  
c. Ad valorem tariff  
*d. Specific tariff  

A tax of 15 percent per imported item would be an example of a (an):

* a. Ad valorem tariff  
b. Specific tariff  
c. Effective tariff  
d. Compound tariff  

Which type of tariff is expressly forbidden by the U.S. Constitution?

a. Import tariff  
b. Export tariff  
*c. Specific tariff  
d. Ad valorem tariff  

Which trade policy results in the government levying both a specific tariff and an ad-valorem tariff on imported goods:

*a. Compound tariff  
b. Nominal tariff  
c. Effective tariff  
d. Revenue tariff  

For advanced countries such as the United States, tariffs on imported raw materials tend to be

a. equal to tariffs on imported manufactured goods  
*b. lower than tariffs on imported manufactured goods  
c. higher than tariffs on imported manufactured goods  
d. the highest of all tariffs  

If we consider the impact on both consumers and producers, then protection of the steel industry is:

a. In the interest of the U.S. as a whole, but not in the interest of the state of Pennsylvania, where steel mills are located  
b. In the interest of the U.S. as a whole and in the interest of the state of Pennsylvania  
*c. Not in the interest of the U.S. as a whole, but it might be in the interest of the state
If I purchase a stereo from South Korea, I obtain the stereo and South Korea obtains the dollars. But if I purchase a stereo produced in the United States, I obtain the stereo and the dollars remain in America. This line of reasoning is:

- a. valid for stereos, but not for most products imported by the U.S.
- b. valid for most products imported by the U.S., but not for stereos
- c. *deceiving since Koreans eventually spend the dollars on U.S. goods*
- d. deceiving since the dollars spent on a stereo built in the U.S. eventually wind up overseas

Ad valorem tariffs are collected as
- a. fixed amounts of money per unit traded
- b. *a percentage of the price of the product*
- c. a percentage of the quantity of imports
- d. all of the above

Specific tariffs are collected as
- *a. fixed amount of money per unit traded*
- b. a percentage of the price of the product
- c. a percentage of the quantity of imports
- d. all of the above

Most tariffs have
- a. only revenue effects
- b. only protective effects
- *c. both protective and revenue effects*
- d. neither protective or revenue effects

The effective rate of protection
- a. distinguishes between tariffs that are effective and those that are ineffective
- b. is the minimum level at which a tariff becomes effective in limiting imports
- c. shows how effective a tariff is in raising revenue for the government
- *d. shows the increase in value added for domestic production that a particular tariff structure makes possible, in percentage terms*

A foreign-trade zone (FTZ) is
- a. a regional area within which trade with foreign nations is allowed
- b. a free trade agreement among several nations
- c. designed to limit exports of manufactured goods by placing export taxes on goods made within the zone
- *d. designed to promote exports by deferring import duties on intermediate inputs and waving such duties if the final product is re-exported rather than sold domestically

A tariff that prohibits imports has only
- a. a revenue effect and redistribution effect
- b. revenue effect and protection effect
- *c. consumption effect and protection effect*
d. redistribution effect and consumption effect

If a nation fitting the criteria for the small nation model imposes a 10 percent tariff on imports of autos

*a. the price of autos within the nation will rise by 10 percent
b. the price of autos within the nation will rise by less than 10 percent
c. the price of autos within the nation will rise by more than 10 percent
d. the price of autos will not rise because of internal competition

According to the ______ argument for protection, tariffs can shield new industries from import competition until they have grown strong and efficient enough to withstand the competition by foreign producers.

a. scientific tariff argument
*b. infant industry argument
c. beggar they neighbor argument
d. foreign dumping argument

____ represents the difference between what consumers have to pay for a product and what they are willing and able to pay.

a. producer surplus
b. deadweight surplus
c. government surplus
*d. consumer surplus

If a nation fitting the criteria for the large nation model imposes an import tariff

*a. the domestic price of the product will increase by more than the tariff itself
b. the domestic price of the product will increase by the same amount as the tariff
*c. the domestic price of the product will increase by less than the tariff
d. none of the above

The difference between what consumers have to pay for a particular and what they are willing to pay is known as

*a. consumer surplus
b. producer surplus
c. deadweight costs
d. deadweight surplus

A tariff can _______ raise a country’s welfare

a. never
*b. sometimes
c. always

In developed countries, tariffs on raw materials tend to be

a. highest of all
b. higher than on manufactured goods
c. equal to tariffs on manufactured goods
*d. lower than on manufactured goods
Answer the next seven questions based upon the following diagram for Mexico, assumed to be a small country in the world calculator market.

With free trade, the total quantity of imports would equal
a. 10,000 units
*b. 40,000 units
c. 42,000 units
d. 50,000 units

With free trade, the total value of imports would equal
a. $100,000
*b. $400,000.
c. $600,000
d. $800,000.

With the tariff, the quantity of imports falls to
a. 12,000 units
*b. 20,000 units
c. 30,000 units
d. 42,000 units

With the tariff, the government collects
a. $75,000.
*b. $100,000.
c. $125,000.
d. $150,000.
The deadweight cost of the tariff equals
a. $10,000.
b. $25,000.
*c. $50,000.
d. $75,000.

Domestic producers gain ________ because of the tariff.
a. $50,000.
*b. $75,000
 c. $120,000
d. $150,000.

A tariff of ________ would be prohibitive, causing imports to fall to zero.
a. $10
*b. $15
c. $20
d. $25

In today’s world, most countries impose tariffs
*a. only on imports
b. only on exports
c. on both imports and exports
d. on imports, exports and nontraded goods

If a small country imposes a tariff on an imported good, its terms of trade will
a. improve
b. worsen
*c. not change
d. any of the above

If the world price of steel is $500 a ton, a specific tariff of $50 is equivalent to an ad valorem tariff of
a. 5 percent
*b. 10 percent
c. 15 percent
d. 20 percent

If a country an imposes an import tariff, its welfare can improve if
a. the country is a "small country" rather than a "large country"
*b. its terms of trade improve enough
c. the tariff enhances the welfare of its trading partners
d. its government's tax revenue increases because of the tariff

Suppose that the United States imposes a tariff on ballpoint pens of 25 cents per pen plus 12 percent of the pen's value. This is an example of a (an)
a. specific tariff
b. ad valorem tariff
c. compound tariff
d. effective tariff

A tariff ______ increase a country’s overall welfare.
a. will always
b. will never
*c. can sometimes

Suppose that the nominal tariff rate on finished computers is 12 percent and that the weighted average of the nominal tariff rates on the inputs used in producing computers is 18 percent. Thus, the effective rate of protection for the computer industry must
*a. be less than 12 percent, and can be negative
b. be less than 12 percent, but must be greater than zero
c. equal 6 percent
d. exceed 30 percent

Suppose that the offshore assembly provisions (OAP) of the United States are granted to finished computers that are imported and also produced domestically. This policy will tend to
a. cause foreign assemblers of computers to use more computer components that are supplied by countries other than the United States
b. increase the price of computers to consumers in the United States
c. increase the production of computers in the United States
*d. increase the production of computer components in the United States

Concerning a government's trade policy, all of the following generally apply except
*a. economic downturn and recession generally result in greater protectionism
*b. because domestic consumers outnumber domestic producers, policy makers usually enact Free-trade policies to satisfy the consumer majority
b. when domestic exporting companies are organized, policy tends to favor freer trade
d. policy tends to favor freer trade in countries whose imports are inputs into critical industries

If no imported inputs (hard-disk drive) go into the domestic production of a final product (desktop computer), then the
*a. nominal tariff rate on the final product equals the effective tariff rate on the product
b. nominal tariff rate on the final product is greater than the effective tariff rate on the product
c. nominal tariff rate on the final product is less than the effective tariff rate on the final product
d. none of the above

Concerning import tariffs of the United States, empirical studies tend to conclude that these tariffs are
*a. progressive and thus bear down on the wealthy
*b. regressive and thus bear down on the poor
*c. proportional and thus bear down on all consumers in the same manner
d. deflationary and thus result in reductions in the price of imports
The national security argument for protection is more likely to be valid when
a. the purpose is to maintain protection for an indefinite time period
b. the industry is characterized by increasing returns to scale
c. the economy operates during a recession
*d. the protected industry provides invaluable goods during periods of war

The formula for the effective tariff rate is given by the following formula:

\[ e = \frac{(n - ab)}{1 - a} \]

where \( e \) = the effective rate of protection, \( n \) = the nominal tariff rate on the final product, \( a \) = the ratio of the value of the imported input to the value of the final product, and \( b \) = the nominal tariff rate on the imported input. Answer the next 2 questions using this information.

Suppose that the tariff rate on the final product is 5 percent. If no imported inputs are used in the domestic production of the final product, the effective tariff rate is
a. 3 percent
*b. 5 percent
 c. 8 percent
d. 12 percent

Suppose there is no tariff on imported inputs and the ratio of the value of imported inputs to the value of the final product is 0.5. If the nominal tariff rate on the final product is 10 percent, the effective tariff rate equals
a. 5 percent
b. 10 percent
 c. 15 percent
*d. 20 percent

Chapter 5: Nontariff Trade Barriers

If a tariff and import quota lead to equivalent increases in the domestic price of steel, then:
a. the quota results in efficiency reductions but the tariff does not
b. the tariff results in efficiency reductions but the quota does not
*c. they have different impacts on how much is produced and consumed
d. they have different impacts on how income is distributed

If a tariff and import quota lead to equivalent increases in the domestic price of steel, then:
a. the quota results in efficiency reductions but the tariff does not
b. the tariff results in efficiency reductions but the quota does not
*c. they have identical impacts on how much is produced and consumed
d. they have identical impacts on how income is distributed
Under a tariff-rate quota:

a. the within-quota tariff rate exceeds the over-quota tariff rate
*b. the over-quota tariff rate exceeds the within-quota tariff rate

c. the within-quota tariff rate equals the over-quota tariff rate
d. the within-quota tariff rate plus over-quota tariff rate equal 100 percent

Suppose that the domestic government allows a specific number of goods to be imported each year, but it does not specify from where the product is shipped or who is permitted to import. Such a trade barrier is known as

a. an import tariff
b. a tariff-rate quota
*c. a selective quota
*d. a global quota

Antidumping duties are used to

*a. offset the “margin of dumping”
b. punish domestic consumers for buying high-priced imported goods
c. discourage foreign governments from subsidizing their exporters
d. reduce the tariff revenues of the domestic government

The adjacent table shows the demand and supply conditions for computers in Norway, a small country in the world computer market. Answer the next 3 questions on the basis of this information.

<table>
<thead>
<tr>
<th>Price/$</th>
<th>Qd</th>
<th>Qs</th>
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</thead>
<tbody>
<tr>
<td>1,000</td>
<td>3,200</td>
<td>800</td>
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<td>3,000</td>
<td>1,600</td>
<td>2,400</td>
</tr>
<tr>
<td>3,500</td>
<td>1,200</td>
<td>2,800</td>
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</tbody>
</table>

In the absence of trade, Norway’s equilibrium price and quantity equal

a. $1,500 and 2,800 computers
b. $2,000 and 1,600 computers
*c. $2,500 and 2,000 computers
d. $3,500 and 2,000 computers

With free trade, suppose that the rest of the world can supply computers to Norway at a price of $1,500. Norway’s imports will now equal ______. Compared to what occurred in the absence of trade, Norway’s consumer surplus will _____ and its producer surplus will ______. Can you calculate these amounts? Try plotting the information of this table on a sheet of graph paper.

a. 1,600 computers, decrease, increase
*b. 1,600 computers, increase, decrease
c. 1,200 computers, decrease, increase
d. 1,200 computers, increase, decrease

To reduce imports, suppose that the government of Norway imposes a quota equal to 800 computers. Compared to what occurred under free trade, Norway’s consumer surplus will ______ and its producer surplus will ______. Can you calculate these amounts? Try plotting the information of this table on a sheet of graph paper.

a. increase, increase
From the perspective of the American public as a whole, export subsidies levied by overseas governments on goods sold to the United States:

*a. help more than they hurt
b. hurt more than they help
c. are equivalent to an import quota
d. are equivalent to an export quota

During periods of growing domestic demand, an import quota

*a. is less restrictive on a country’s imports than a tariff
b. is more restrictive on a country’s imports than a tariff
c. has the same restrictive effect on a country’s imports as a tariff
d. will always generate increased tax revenue for the government

The adjacent table shows the supply and demand conditions of Canada, a small pocket calculator market. Answer the next 3 questions on the basis of this information by first plotting this data on a sheet of graph paper.

<table>
<thead>
<tr>
<th>Price/$</th>
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</tr>
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<tbody>
<tr>
<td>70</td>
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<td>40</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>

In the absence of trade, Canada’s equilibrium price and quantity equal

*a. $65 and 40 calculators
b. $55 and 20 calculators
*c. $45 and 25 calculators
d. $30 and 40 calculators

With free trade, suppose that the rest of the world can supply calculators to Canada at a price of $30. Canada’s imports would now equal _______ and its consumer surplus would _______ relative to what occurred in the absence of trade. What is the change in consumer surplus? Refer to the figure that you have plotted.

*a. 20 calculators, increase
b. 25 calculators, decrease
c. 25 calculators, increase
d. 30 calculators, increase

To aid its calculator producers, suppose that the government provides them a subsidy of $10 for each calculator produced. The amount of imports now equals _______ and the deadweight loss of the subsidy to the Canadian economy equals _______.

*a. 20 calculators, $50
b. 20 calculators, $100
c. 25 calculators, $50
d. 25 calculators, $100
Export subsidies levied by foreign governments on products in which the United States has comparative disadvantage:
   a. lower the welfare of all Americans
   *b. lead to increases in U.S. consumer surplus
   c. encourage U.S. production of competing goods
   d. encourage U.S. workers to demand higher wages

If import licenses are auctioned off to domestic importers in a competitive market, their scarcity value (revenue effect) accrues to:
   a. foreign corporations
   b. foreign workers
   c. domestic corporations
   *d. the domestic government

A specification of a maximum amount of a foreign produced good that will be allowed to enter the country over a given time period is referred to as a (an):
   a. domestic subsidy
   b. export subsidy
   *c. import quota
   d. export quota

Import quotas tend to result in all of the following except:
   *a. domestic producers of the imported good being harmed
   b. domestic consumers of the imported good being harmed
   c. prices increasing in the importing country
   d. prices falling in the exporting country

A tariff-rate quota
   a. is a limit on the number of tariffs that a country can place on imports
   b. uses a single tariff along with import quotas to restrict imports
   c. is designed to avoid the price increases caused by simple tariffs
   *d. is a two-tier tariff system intended to restrict imports

To maintain that South Koreans are dumping their DVDs in the United States is to maintain that:
   *a. Koreans are selling DVDs in the U.S. below their production cost
   b. Koreans are selling DVDs in the U.S. above their production cost
   c. the cost of manufacturing DVDs in Korea is lower in Korea than in the U.S. since wages are lower in Korea
   d. the cost of manufacturing DVDs in Korea is higher in Korea than in the U.S. since wages are higher in Korea

If the home country government grants a subsidy on a domestically produced good, domestic producers tend to:
   a. capture the entire subsidy in the form of higher profits
   *b. increase their level of production
   c. reduce wages paid to domestic workers
   d. consider the subsidy as an increase in production cost
Throughout the world, governments tend to auction quota licenses to their highest bidder
a. always b. often
*c. seldom d. never

For years the U.S. government levied quotas on inexpensive oil imported from the Middle East. The quotas led to cost increases for U.S. consumers totaling $3 billion for oil products. An apparent justification for this policy was that:
 a. U.S. oil companies and workers deserved higher incomes
 b. U.S. oil was of superior quality and merited higher prices
*c. one should not be too dependent on foreign suppliers of crucial resources
 d. the U.S. government needed the quota revenue to balance its budget

In certain industries, Japanese employers hesitate to lay off workers. Therefore, they sometimes have excess supplies of goods that they cannot sell on the home market without lowering prices. To hold down losses, they sell goods in overseas markets at prices well beneath those in Japan. This practice is best referred to as:
 a. orderly marketing
 b. trigger pricing
 c. domestic content pricing
*d. dumping

Quotas are government imposed limits on the ________ of goods trade between countries.
a. prices
*b. quantity
 c. revenue
d. costs

________ are quotas that lead to a complete abolishment of trade.
*a. embargoes
 b. voluntary export restraints
c. nontariff barriers
d. orderly marketing agreements

Similar to import tariffs, import quotas tend to result in
*a. higher prices and reduced imports
 b. increased government revenue
 c. increased consumer surplus
d. decreased producer surplus

The welfare effects of a quota depend to a considerable extent upon
 a. who has the quota license
 b. the size of the quota
 c. elasticities of domestic demand and supply
*d. all of the above

_________ are profits that accrue to whomever has the right to import the good that is restricted by the quota.
a. quota license
b. quota rents

c. quota prices

d. none of the above

The home-country government can confiscate the revenue effect of an import quota if

a. quota licenses are given to foreign exporting companies
b. quota licenses are auctioned to the highest-bidding importing company

c. if quota licenses are given to domestic consumers of the good
d. both (a) and (c)

Governments around the world tend to auction quota licenses

a. never
b. seldom
c. often
d. always

A(n) __________ is an example of a quota where foreigners hold quota licenses.

*a. export quota
b. embargo
c. auction quota
d. tariff quota

International dumping may involve

a. selling goods to foreigners at a price below that charged domestic consumers
b. selling goods to foreigners at a price below the cost of production
c. antidumping duties being levied on the imported, dumped goods

d. all of the above

Nontariff trade barriers could include all of the following except

a. domestic content laws
b. government procurement policies
c. health, safety, and environmental standards
d. antidumping/countervailing duties applied to imports

A production subsidy that is granted to a producer of an import-competing good

a. does not require governmental taxes to finance it
b. yields the same deadweight welfare loss as an import tariff or import quota
c. has only a consumption effect deadweight loss
d. has only a protective effect deadweight loss

A tariff-rate quota is essentially a

*a. two-tier tariff applied to a country's imports
b. three-tier tariff applied to a country's imports
c. two-tier quota applied to a country's exports
d. three-tier quota applied to a country's exports

A _____ attempts to limit outsourcing of jobs to foreigners by requiring that a minimum percentage of a product's value must be produced domestically if that good is to be sold in the
domestic market.

a. domestic subsidy
b. voluntary restraint agreement
*c. domestic content requirement
d. tariff-rate quota

The form of international price discrimination (dumping) normally associated with economic recession or excess inventories in the exporting nation is known as

a. predatory dumping
*b. sporadic dumping
c. persistent dumping
d. year-end dumping

The form of dumping that represents the greatest potential net welfare loss to the importing nation is

*a. predatory dumping
b. sporadic dumping
c. persistent dumping
d. year-end dumping

_____ occurs when a firm disposes on foreign markets a temporary increase in inventories caused by unforeseen changes in supply and demand conditions in the home economy

*a. sporadic dumping
b. predatory dumping
c. persistent dumping
d. foreign dumping

According to the cost-based definition of dumping, dumping occurs when a firm sells a product abroad at a price that is less than

*a. average total cost
b. average variable cost
c. average fixed cost
d. marginal cost

What type of trade barrier was used to protect U.S. auto firms from foreign competition during 1981-1984?
*a. export quotas imposed by the Japanese government
b. export tariffs imposed by the Japanese government
c. import quotas imposed by the U.S. government
d. domestic subsidies granted by the U.S. government

A _____ allows a specified number of goods to be imported each year, and it does not specify from where the product is shipped and who is permitted to import

a. import quota
b. export quota
*c. selective quota
d. global quota
Buy national policies
*a. result in government purchase policies favoring domestic over foreign producers
*b. result in government purchase policies favoring foreign over domestic producers
*c. attempt to restrict the number of tourists leaving a nation
*d. are intended to publicize the advantages of the most efficient domestic companies

Which company in the United States would likely be most concerned about Brazil’s dumping of steel in the U.S. market?
*a. General Motors, the manufacturer of automobiles
*b. Tennessee Mining Co., an iron-ore mining company
*c. Caterpillar Corp., the producer of earth-moving equipment
*d. Sneva Construction Co., the builder of skyscrapers

Use the figure above to answer the next 3 questions. The figure shows the demand and marginal revenue schedules of ABC Computer Co. which sells computers in the United States and Japanese markets. Assume that the firm produces under constant-cost conditions, whereby MC = ATC, and the cost per computer equals $400. Also assume that the firm practices international price discrimination (dumping) in order to maximize total profit.

The firm would maximize profit by selling _____ computers in the United States at a price of _____ and _____ computers in Japan at a price of _____.
*a. 200, $2,000; 100, $1,000
b. 300, $1,800; 300, $600

c. 300, $1,800; 400, $800
*d. 500, $1,400; 400, $800

By practicing price discrimination, the firm would realize profits totaling:

a. $160,000
b. $420,000
c. $540,000
*d. $660,000

The reason for dumping is that the demand curve for ABC Co.’s computers is ______ because ______ are available from other nations.

*a. more elastic in Japan; more substitutes are available from other nations
b. more elastic in Japan; fewer substitutes are available from other nations
c. more inelastic in Japan; more substitutes are available from other nations
d. more inelastic in Japan; fewer substitutes are available from other nations

Chapter 6: Trade Regulations and Industrial Policies

In 1980 the U.S. imposed export quotas on grain sold to the Soviet Union in response to its armed invasion of Afghanistan. If other nations do not increase grain exports to the Soviets, all the following would likely occur except:

a. Grain prices would rise in the Soviet Union
b. Consumer surplus would decrease for the Soviets
*c. Grain prices would rise in the United States
d. Export revenues would decrease for U.S. producers

Referring to the above question, the embargo was mainly resisted by:

a. U.S. grain consumers and producers of bread
*b. U.S. farmers and grain companies
c. Grain producers in foreign countries
d. Grain consumers in foreign countries

Concerning economic sanctions, export embargos induce greater losses in consumer surplus for the target country the:

a. lesser its initial dependence on foreign produced goods
b. more elastic the target country demand schedule
c. greater the available output from alternative suppliers
*d. more inelastic the target country supply schedule

Suppose the President eliminates import tariffs on radios as the result of a free trade agreement reached with Japan. Radio producers in the United States can appeal for import protection under the:

*a. escape clause if rising imports substantially injure the U.S. radio industry.
b. escape clause if rising unemployment occurs even though imports remain unchanged

C. infant industry clause if rising imports cause unemployment to rise among U.S. radio workers.

d. infant industry clause if rising imports result in losses for U.S. radio companies

During the post-World War II era:

a. Nontariff barriers (NTBs) and tariffs have increased in relative importance

b. NTBs and tariffs have decreased in relative importance

c. NTBs have increased and tariffs have decreased in relative importance

d. NTBs have decreased and tariffs have increased in relative importance

The strongest political pressure for a trade policy that results in higher protectionism comes from:

* a. domestic workers lobbying for import restrictions

b. domestic workers lobbying for export restrictions

c. domestic consumers lobbying for export restrictions

d. domestic consumers lobbying for import restrictions

The average tariff rate today on dutiable imports into the United States is approximately:

* a. 4 percent of the value of imports

b. 15 percent of the value of imports

c. 20 percent of the value of imports

d. 25 percent of the value of imports

The institutional framework developed in 1947 to promote trade liberalization is known as

* a. the WTO

b. the GATT

c. the IMF

d. the World Bank

When one country provides most favored nation status (normal trade relations) for another, it agrees to

a. charge that nation’s products a lower tariff than any other nation’s

* b. charge that nation’s products a tariff rate no higher than that on any other nation

c. charge that nation’s products a higher tariff than any other nation’s

d. exports to that nation any products that it wants to purchase

Those who argue in favor of import protection generally give the impression that such restricted trade will:

a. decrease the level of national security

b. provide benefits to some particular industry

* c. provide benefits to the entire nation

d. not yield welfare losses for the nation

Countervailing duties levied by the U.S. government are imposed to offset

a. foreign dumping of goods in the U.S.
b. subsidies granted to foreign firms that export to the U.S.
c. "buy national" policies of foreign governments
d. stringent environmental regulations of foreign governments

The adjacent table shows the supply and demand conditions of Mexico, a small country in the world radio market. Answer the next 2 questions on the basis of this information by first plotting the data on a sheet of graph paper.

<table>
<thead>
<tr>
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<tr>
<td>20</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>

Under free trade, suppose that Japan can supply radios to Mexico at the price of $45. Therefore, Mexico’s imports equal
a. 5 radios
b. 10 radios
c. 15 radios
d. zero radios

To help its firms penetrate Mexico’s radio market, suppose the Japanese government provides them a subsidy of $15 for each radio shipped to Mexico. As a result of this trade policy
a. the price of radios in Mexico equals $60 and its imports equal 30 radios
b. the price of radios in Mexico equals $30 and its imports equal 30 radios
c. the price of radios in Mexico equals $40 and its imports equal 20 radios
d. the price of radios in Mexico equals $20 and its imports equal 40 radios

Compared to what occurred under free trade, Mexico’s producer surplus ______ and consumer surplus ______ as a result of the subsidy. Use the figure that you have plotted to calculate the amounts.
a. decreases, decreases
b. decreases, increases
c. increases, decreases
d. increases, increases

All of the following are fundamental to the World Trade Organization except
a. bilateral tariff reductions to promote trade liberalization
b. the use of the most-favored-nation clause (normal trade relations)
c. nondiscrimination in trading relationships
d. the prohibition of import quotas and export quotas

The World Trade Organization is sometimes criticized for all of the following reasons except
a. it reduces the sovereignty of member countries
b. favors free trade over the quality of the environment
c. it has no way to solve trade disputes among member countries
* The World Trade Organization is a "puppet" of multinational corporations
Under the Smoot-Hawley Act of 1930, the United States
a. liberalized trade with most of its trading partners
b. abolished tariff-rate quotas as a trading instrument
c. resulted in the termination of the General Agreement on Tariffs and Trade
*d. increased its import tariffs to an average of 53 percent

Following World War II, the United States and other countries sought to liberalize trade among each other. The first major postwar step toward trade liberalization was the
*a. General Agreement on Tariffs and Trade
b. World Trade Organization
c. Smoot-Hawley Organization
d. McKinley Agreement on Trade Policy

Antidumping duties applied to imported goods
a. are abolished by the World Trade Organization
*b result in decreases in consumer surplus for domestic households
c. are imposed by industrial countries but not developing countries
d. result in lower-priced goods for domestic consumers

According to the United States, ______ is the number one violator of intellectual property rights
a. Canada
b. Australia
c. Japan
*d. China

The trade adjustment assistance program results in the U.S. government
a. imposing tariffs on goods from countries that do not practice fair trade
b. imposing quotas on goods from countries that do not practice fair trade
*c. providing financial assistance and training to workers who lose jobs because of rising imports
d. buying the assets of companies that are driven out of business by foreign competition

Section 301 of the 1974 Trade Act emphasized
*a. unfair trading practices of U.S. trading partners
b. the use of industrial policies
c. wage differentials of developing countries and advanced countries
d. the welfare effects of import quotas

If ______ is/are approved, the President has a limited time period in which to complete trade negotiations, and Congress must vote up-or-down on the negotiated agreement within 90 legislative days of submission
a. the escape clause
b. safeguards
*c. trade promotion authority (fast-track)
d. trade remedy laws
protection, such as the escape clause, provide temporary protection to domestic industries facing competition from fairly traded foreign goods
a. generalized system of preference
b. countervailing duty
c. domestic content
d. safeguards

Suppose that Russia steel firms engage in dumping in the German market. In terms of overall economic welfare, German welfare would ______ as the result of the dumping.
a. increase
b. decrease
c. not change

Concerning dumping, which of the following is true?
a. predatory dumping represents the most common form of dumping by U.S. firms
b. U.S. firms can obtain protection from foreign dumping, even though this protection tends to harm overall U.S. welfare
c. dumping can never be a profit-maximizing strategy for U.S. firms to pursue
d. U.S. firms rarely, if ever, engage in distress dumping or persistent dumping

Concerning U.S. trade law, Section 301 cases involve allegations of
a. foreign export subsidies
b. foreign income taxes on corporations
c. foreign monopoly dumping
d. foreign barriers to American exports

______ are quotas that result in a total prohibition of trade
a. embargoes
b. tariff-rate quotas
c. voluntary export restraints
d. nontariff barriers

Allegations of foreign company dumping in the United States result in investigations by the U.S.
a. Department of Justice
b. Treasury Department
c. Interior Department
d. Commerce Department and the International Trade Commission

The result of antidumping tariffs is to
a. increase consumer surplus in the importing country
b. decrease producer surplus in the importing country
c. impose a price floor on foreign prices in the importing country
d. impose a price ceiling on foreign prices in the importing country

According to U.S. trade law, maintaining "normal trade relations" with another country is also known as providing
a. most favored nation treatment
b. trade remedy treatment
c. safeguard treatment
d. escape clause treatment

Which round of international trade negotiations resulted in the creation of the World Trade Organization?
*c. Uruguay Round of 1986-1993

The effect of the most-favored-nation (normal trade relations) clause is to
a. eliminate all tariffs between countries
b. increase all tariff rates between countries
*c. maintain a nondiscriminatory structure of tariffs
d. maintain a discriminatory structure of tariffs

The organization that currently establishes rules of conduct for firms engaging in international trade is the
a. World Bank
b. International Trade Commission
c. Department of Justice
*d. World Trade Organization

The theory of ______ suggests that government can assist domestic companies in capturing economic profits from foreign competitors
a. international dumping
b. countervailing duties
*c. strategic trade policy
d. export promotion policy

The U.S. has granted China permanent most-favored-nation treatment (normal trade relations). This means that the tariff schedules which apply to U.S. imports from China
a. have tariff rates equal to zero, suggesting a free trade policy for the United States
b. have lower tariff rates than the rates that apply to any other country sending goods to the United States
*c. have tariff rates that are identical to the rates that apply to other countries to which the U.S. grants most-favored-nation treatment
d. have lower tariff rates than the rates that apply to other countries to which the U.S. grants most-favored-nation treatment

Economic sanctions
a. are prohibited by the World Trade Organization
b. affect international trade but not international financial flows
c. involve restrictions on imports, but not exports
*d. involve restrictions in imports, exports, and or financial flows

Following the levying of the Smoot Hawley tariff of 1930 by the United States
a. employment in the United States increased rapidly
many other countries imposed retaliatory tariffs against the United States
c. global trade continued to increase
d. employment in foreign countries increased rapidly

Chapter 7: Trade Policies for the Developing Nations

Which industrialization policy have developing countries used which places emphasis on the comparative advantage principle as a guide to resource allocation:
*a. export promotion  
  b. import substitution  
  c. international commodity agreements  
  d. multilateral contracts

A widely used indicator to differentiate developed countries from developing countries is:
a. international trade per capita  
  *b. real income per capita  
  c. unemployment per capita  
  d. calories per capita

Concerning the hypothesis that there has occurred a long-run deterioration in the developing countries’ terms of trade, empirical studies provide:
*a. mixed evidence that does not substantiate the deterioration hypothesis  
  b. overwhelming support for the deterioration hypothesis  
  c. overwhelming opposition to the deterioration hypothesis  
  *d. any of the above

For the oil-importing countries, the increases in oil prices in 1970s and early 2000s contributed to all of the following except:
a. balance of trade deficits  
  b. price inflation  
  c. constrained economic growth  
  *d. improving terms of trade

The arrangement where goods imported from trading partners in the developing world are subject to lower tariff rates than goods from other countries is referred to as
*a. normal trade relation status  
  b. most favored nation status  
  c. offshore assembly provisions  
  *d. Generalized System of Preferences

Hong Kong and South Korea are examples of developing nations that have recently pursued __________ industrialization policies:
a. import substitution
b. export promotion  
c. commercial dumping  
d. multilateral contract

To be considered a good candidate for an export cartel, a commodity should:  
a. be a manufactured good  
b. be a primary product  
c. have a high price elasticity of supply  
d. have a low price elasticity of demand

To be considered a good candidate for an export cartel, a commodity should:  
a. be a manufactured good  
b. be a primary product  
c. have a low price elasticity of supply  
d. have a high price elasticity of demand

To help developing nations strengthen their international competitiveness, many industrial nations have granted non-reciprocal tariff reductions to developing nations under the:  
a. international commodity agreements program  
b. multilateral contract program  
c. generalized system of preferences program  
d. export-led growth program

All of the following are trade problems of developing countries except  
a. unstable export markets  
b. improving terms of trade  
c. limited access to the markets of industrial countries  
d. highly elastic demand curves for their products

To stabilize the prices of primary products, international commodity agreements have utilized all of the following except  
a. tariff-rate quotas applied to imported goods  
b. production and export controls  
c. buffer stocks  
d. multilateral contracts

The ability of the Organization of Petroleum Exporting Countries (OPEC) to maximize profits is hampered by  
a. a lack of substitutes for oil  
b. similar cost schedules for member countries  
c. highly inelastic world demand curve for oil  
d. economic recession for oil importing nations

Among the institutions and policies that have been created to support developing countries are  
a. the World Bank  
b. the International Monetary Fund  
c. the Generalized System of Preferences  
d. all of the above
Which of the following strategies have developing countries not used to deal with the problem of unstable export markets?

a. multilateral contracts
b. production and export controls
c. buffer stock arrangements
*d. tariff-rate quotas

Concerning tariff policy, the United States does not charge

a. lower tariff rates on goods from nations with normal trade relation status
b. lower tariff rates on goods from nations with most favored nation status
c. low or zero tariffs on goods from certain developing countries
*d. identical tariff rates in products from all countries of the world

Because supply and demand conditions for primary products are very price inelastic, their prices

a. have been steadily rising in recent decades
b. have been more stable than the prices of manufactured goods
c. fluctuate about as much as the prices of manufactured goods
*d. tend to be very unstable from year to year

Most of developing-country exports consist of

*a. primary products such as tin and bauxite
b. intermediate products
c. labor-intensive agricultural products
d. labor-intensive manufacturing products

Import substitution is an example of

a. the principle of comparative advantage
b. the principle of absolute advantage
*c. an outward-looking growth strategy
*d. an inward-looking growth strategy

Tariff levels in advanced countries tend to be ______ tariff levels in developing countries.

a. higher than
b. equal to
*c. lower than
d. there is no general pattern

Export-led growth strategies tend to emphasize

a. resource allocation based on the principle of absolute advantage
*b. resource allocation based on the principle of comparative advantage
c. trade protection for import-competing firms
*d. trade protection for exporting-competing firms

Developing countries that emphasize the production of raw materials or agricultural goods may realize a long-run deterioration in the international terms of trade because of

a. relatively low import tariffs maintained by advanced countries
b. highly elastic demand for these products in advanced countries
c. declines in the supplies of these products on world markets
*d. sluggish demand for these products in advanced countries

_____ policies attempt to foster industrialization by establishing high barriers to imports of foreign goods to promote local production
a. absolute advantage
b. comparative advantage
c. export-led growth
*d. import substitution

The Generalized System of Preferences (GSP) program allows
*a. developing country exports to advanced countries to receive preferential tariff treatment
b. developing country imports from advanced countries to receive preferential tariff treatment
c. any developing country to ignore the most-favored-nation clause
d. any advanced country to ignore the most-favored-nation clause

In this question, \( P_x = \) export price index, \( P_m = \) import price index, \( Q_x = \) export quantity index, and \( Q_m = \) import quantity index. Developing countries tend to maintain that their commodity terms of trade have declined over the long run, suggesting that _____ has declined
*a. \( P_x/P_m \)
b. \( P_m/P_x \)
c. \( (P_m/P_x)Q_m \)
d. \( (P_x/P_m)Q_x \)

Suppose that the world price of tin is above the target (ceiling) price that is defined by an international commodity agreement. To move the world price toward the target price, a buffer stock agreement would require its buffer stock manager to _____ tin, and an export quota agreement would require that member countries _____ their exports of tin
a. purchase; decrease
b. purchase; increase
*c. sell; increase
d. sell; decrease

21. Suppose that the demand curve for tin is highly inelastic. If the supply curve of tin decreases and increases cyclically along the demand curve for tin, then in this market the size of the price fluctuations will be ______ the size of the quantity fluctuations.
*a. relatively greater than
b. relatively less than
c. the same as
d. any of the above

Suppose that the supply curve of tin is highly inelastic. If the demand curve of tin decreases and increases cyclically along the supply curve of tin, then in this market the size of the quantity fluctuations will be ______ the size of the price fluctuations.
*a. relatively greater than
*b. relatively less than
c. the same as
d. any of the above
An export quota agreement to stabilize the price of bauxite tends to be more successful when the member producer countries as a percentage of the world's producer countries is ______, and the ______ it is for the member producer countries to store/stockpile bauxite.

a. relatively small; more difficult  
b. relatively small; easier  
c. relatively large; more difficult  
d. relatively large; easier

Economic growth occurs because

a. labor forces increase  
b. capital stocks increase  
c. new inventions increase productivity  
d. all of the above

Developing countries that concentrate production in agricultural products or raw materials may face a long-run decline in their international terms of trade because of

a. inelastic demand for these products in advanced countries  
b. large increases in the supplies of these products on world markets because of export expansion policies  
c. sluggish demand for these products in advanced countries  
d. all of the above

The OPEC oil cartel

a. has shown that is easy to achieve cooperation among cartel members  
b. was successful in raising oil prices in the 1970s, but was disbanded in the 1980s  
c. has shown greater success in realizing profits during periods of global recession  
d. has had a level of success in raising oil prices that other developing countries are unlikely to achieve with other primary commodities

The ______ pattern of economic growth describes the phenomenon of countries moving up in technological development by following the patterns of countries ahead of them in the development process.

a. flying geese  
b. import substitution  
c. export orientation  
d. commodity expansion

The People’s Republic of China

a. is the first of the East Asian countries to be recognized for a successful outward-oriented development strategy  
b. has retained to the present time its strategy of import substitution as a source of economic growth  
c. has always accounted for a significant share of international trade, given its very large population  
d. has significantly increased its openness to international trade and foreign investment in recent decades

Membership in the World Trade Organization for China
a. has been a matter of low priority for the Chinese government
b. was achieved in the early 1950s
*c has been opposed by a number of labor and human rights organizations in other countries
d. has had negligible effect on trade between China and the United States

Which of the following organizations primarily provides long-term loans to developing countries to help them develop their infrastructure such as schools, hospitals, and roads?
*a. World Bank
b. International Monetary Fund
c. Council on Foreign Relations
d. Organization of Petroleum Exporting Countries

Poor developing countries typically impose ______ tariffs than rich advanced nations on imports.
a. lower
*b. higher
c. about the same height
d. none of the above

The adjacent table shows the demand and revenue conditions in the world oil market. Assume that firms produce under constant-cost conditions, in which MC = ATC. Quantities are in millions of barrels per day. Plot this data on a sheet of graph paper. Answer the next 2 questions on the basis of this information.

<table>
<thead>
<tr>
<th>Q oil/Price/MC</th>
<th>$120</th>
<th>$100</th>
<th>$80</th>
<th>$40</th>
</tr>
</thead>
<tbody>
<tr>
<td>barrels</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>barrel</td>
<td>2</td>
<td>100</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>MR</td>
<td>--</td>
<td>80</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>ATC</td>
<td>$40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>

Assume that the firms operate as purely competitive sellers (a purely competitive industry). In the long run, equilibrium price equals ______, quantity equals _____, and profits total ______.
*a. $100, 2 million barrels per day, $60 million
b. $80, 4 million barrels per day, $70 million
c. $60, 6 million barrels per day, $20 million
d. $40, 8 million barrels per day, $0 million

Suppose that the firms collude and become a cartel. The best level of output for the cartel as a whole is _____, the price equals _____, and profits total _____.
*a. 2 million barrels per day, $100, $60 million
b. 4 million barrels per day, $80, $160 million
c. 6 million barrels per day, $60, $60 million
d. 8 million barrels per day, $40, $20 million

The adjacent table shows the world tin market. Assume that the equilibrium price of tin is $6. As manager of the buffer stock of the International Tin Agreement, suppose that you set the target price of tin at $6.

<table>
<thead>
<tr>
<th>Price</th>
<th>Qs</th>
<th>Qd</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>$10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>$8</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>$6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>$2</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>
Assume that global recession causes the quantity of tin demanded to decrease by 4 million pounds at each price. To maintain the price of tin at the target price, you would
a. sell 4 million pounds of tin
b. sell 8 million pounds of tin
*c. buy 4 million pounds of tin
d. buy 8 million pounds of tin

Instead, assume that global economic expansion causes the quantity of tin demanded to increase by 4 million pounds at each price. To maintain the price of tin at the target price, you would
*a. sell 4 million pounds of tin
b. sell 8 million pounds of tin
c. buy 4 million pounds of tin
d. buy 8 million pounds of tin

Chapter 8: Regional Trading Arrangements

The NAFTA is a:
a. monetary union
*b. free trade area
c. common market
d. customs union

Under the EU’s Common Agricultural Policy, a variable import levy equals the:
*a. amount by which the EU’s support price exceeds the world price
b. amount by which the world price exceeds the EU’s support price
c. support price of the EU
d. world price

Members of the EU find that “trade creation” is fostered when their economies are:
*a. highly competitive
b. highly noncompetitive
c. small in economic importance
d. geographically distant

The European Union has achieved all of the following except:
*a. adopted a common fiscal policy for member nations
b. established a common system of agricultural price supports
c. disbanded all tariffs between its member countries
d. levied common tariffs on products imported from nonmembers

Which country is not a member of the European Union:
a. Spain
b. Germany  
c. France  
*d. Iceland

The European Union is an example of a/an  
a. customs union  
b. economic union  
*c. common market  
d. free trade area

Which factor of production in the United States is most likely to be made worse off (its factor payment will decrease) because of the North American Free Trade Agreement?  
a. capital  
b. land  
c. skilled labor  
*d. unskilled labor

The implementation of the European Union has:  
*a. made it harder for Americans to compete against the Germans in the British market  
b. made it easier for Americans to compete against the Germans in the British market  
c. made it harder for Americans to compete against the Japanese in the British market  
d. made it easier for Americans to compete against the Japanese in the British market

The Common Agricultural Policy of the European Union has:  
a. increased American farm exports to the EU  
*b. decreased American farm exports to the EU  
c. lowered the price of American farm exports to the EU  
d. not affected the price of American farm exports to the EU

As of 2002, the _____ became the official currency union of the European Monetary System:  
a. dollar  
b. mark  
c. franc  
*d. euro

When several countries jointly impose common external tariffs, eliminate tariffs on each other, and eliminate barriers to the movement of labor and capital among themselves, they have formed a/an  
a. free trade area  
b. customs union  
*c. common market  
d. economic union

The implementation of a common market involves all of the following except:  
a. elimination of trade restrictions among member countries  
*b. a common tax system and monetary union  
c. prohibition of restrictions on factor movements  
d. a common tariff levied in imports from nonmembers
Under the Common Agricultural Policy, exports of any surplus quantities of EU produce are encouraged through the usage of:

a. variable levies
b. export subsidies
b. trigger prices
d. countertrade

Answer the next four questions based upon the following diagram which depicts country A’s market for its importable.

In free trade, A will import

a. 700 units from country C.
b. 700 units from country C and 600 units from country B.
* c. 600 units from country C.
d. 600 units from country C and 400 units from country B.

If A imposes a per unit tariff of $10 on imports from both B and C, A will import

a. 400 units from B.
* b. 200 units from C.
c. 200 units from each
d. 400 units from B and 200 units from C.

If A forms a customs union with B, A will import

* a. 400 units from B.
b. 200 units from C.
c. 200 units from each.
d. 400 units from B and 200 units from C.

If A forms a customs union with C, the value of trade diversion will be
*a. $0
b. $10,000.
c. $20,000.
d. $40,000.

The European Monetary Union is an example of a
a. customs union
b. free trade area
c. reciprocal trade agreement
*d. monetary union

_______ is said to exist when the formation of a regional trading group leads to the reduction of trade with nonmember countries in favor of member countries.
a. trade creation
*b. trade diversion
c. trade exclusion
d. trade distortion

_______ is said to exist when the formation of a regional trading group leads to an expansion of trade above pregroup levels.
*a. trade creation
b. trade diversion
c. trade exclusion
d. trade distortion

A ______ is a regional trading bloc in which member countries eliminate internal trade barriers but maintain existing barriers against countries that are not members
*a. free trade area
b. customs union
*c. common market
*d. monetary union

Which level of economic integration best applies to the U.S. economy?
a. free trade area
b. customs union
*c. common market
*d. monetary union

A positive, dynamic effect of economic integration is illustrated by
*a. trade diversion effect
b. increased monopoly power of firms
c. decreased customs costs
*d. economy-of-scale effect

Suppose that tomatoes from Mexico face a 20 percent tariff in the United States and a 25 percent tariff in Canada. If the United States and Canada maintain free trade between each other, the
these two countries belong to a
- a. free-trade area
- b. customs union
- c. common market
- d. monetary union

Trade creation will more likely outweigh trade diversion for Country X that forms a customs union if the level of tariffs in Country X prior to the customs union is ________ and the total number of countries forming the customs union is ________.
- a. relatively high; relatively large
- b. relatively high; relatively small
- c. relatively low; relatively large
- d. relatively low; relatively small

When imports from a higher-cost supplier within a customs union replace imports from a lower-cost supplier outside the customs union, there exists
- a. trade creation
- b. trade diversion
- c. dynamic welfare effects
- d. comprehensive welfare effects

Criticisms against the North American Free Trade Agreement include all of the following except
- a. wages in the United States will rise relative to Mexican wages
- b. American jobs will be lost to workers in Mexico
- c. the environment is not adequately protected by NAFTA
- d. none of the above

Trade creation takes place when
- a. a country moves from autarky to free trade
- b. a movement to a customs union reduces the costs of trade through standardization
- c. economic integration results in a movement in product origin to a lower-cost member country
- d. economic integration results in a shift in product origin from a lower-cost, nonmember country to a member country having higher costs

Trade diversion takes place when
- a. a country moves from autarky to free trade
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Chapter 9: International Factor Movements and Multinational Corporations
The market power effect of an international joint venture can lead to welfare losses for the domestic economy unless offset by cost reductions. Which type of cost reduction would not lead to offsetting welfare gains for the overall economy:

a. R&D generating welfare improved technology
b. development of more productive machinery
c. new work rules promoting worker efficiency
*d. lower wages extracted from workers

All of the following are potential advantages of an international joint venture except:

a. sharing research and development costs among corporations
b. forestalling protectionism against imports
c. establishing work rules promoting higher labor productivity
*d. operating at diseconomy-of-scale output levels

The migration of employable workers from low-paying nations to high-paying nations tends to decrease:

a. total wage income in the world
*b. wage disparities
c. business or capitalist income in the world
d. the productivity of labor

Multinational corporations:
*a. increase the transfer of technology between nations
b. make it harder to nations to foster activities of comparative advantage
c. always enjoy political harmony in nations where their subsidiaries operate
d. require governmental subsidies in order to conduct worldwide operations

Firms undertake multinational operations in order to:

a. hire low-income workers
b. manufacture in nations they have difficulty exporting to
c. obtain necessary factor inputs
*d. all of the above

Multinational corporations face problems since they:

a. cannot benefit from the advantage of comparative advantage
*b. may raise political problems in countries where their subsidiaries operate
c. can only invest at home, but not overseas
d. can only invest overseas, but not at home

American labor unions have maintained that U.S. multinational corporations have been:
*a. exporting American jobs by investing overseas
b. exporting American jobs by keeping investment in the U.S.
c. importing cheap foreign workers by shifting U.S. investment overseas
d. importing cheap foreign workers by keeping U.S. investment at home

Accusations of American labor unions against U.S. multinational firms include all of the following except:

a. enjoy unfair advantage in taxation
b. export jobs by shifting technology overseas
   c. export jobs by shifting investment overseas
   *d. operating at output levels where scale economies occur

Which business device involves the creation of a new business by two or more companies, often for a limited period of time:
   a. multinational corporation
   *b. international joint venture
   c. horizontal merger
   d. vertical merger

International joint ventures can lead to welfare losses when the newly established firm:
   a. adds to the pre-existing productive capacity
   b. enters markets neither parent could have entered individually
   c. yields cost reductions unavailable to parent firms
   *d. gives rise to increased amounts of market power

Multinational corporations:
   a. always produce primary goods
   b. always produce manufactured goods
   *c. produce primary goods or manufactured goods
   d. none of the above

The migration of employable workers from low-paying nations to high-paying nations will
   a. decrease wage rates in the low-paying nations
   b. decrease productivity and real output in the world
   *c. increase business or capitalist incomes in the high-paying nations
   d. increase business or capitalist incomes in the low-paying nations

The migration of electricians from low-paying nations to high-paying nations is most likely to be challenged by
   *a. electrician unions in the high-paying nations
   b. electrician unions in the low-paying nations
   c. electrician employers in the high-paying nations
   d. electricians who stay in the low-paying nations

______ refers to the price charged for products sold to a subsidiary to a multinational corporation by another subsidiary in another country
   a. marginal cost pricing
   b. full cost pricing
   c. price discrimination
   *d. transfer pricing

"Guest worker" programs usually result in temporary migration of workers from
   a. impoverished countries to impoverished countries
   *b. impoverished countries to wealthy countries
   c. wealthy countries to wealthy countries
   d. wealthy countries to impoverished countries
Which of the following is not an example of foreign direct investment?

a. the construction of a new auto assembly plant overseas
b. the acquisition of an existing steel mill overseas
*  c. the purchase of bonds or stock issued by a textile company overseas
d. the creation of a wholly owned business firm overseas

_____ was a strategy for industrial development, popular in Latin America in the 1950s-1960s, for promoting domestic production by erecting high protective tariffs on imports of manufactured goods.

a. export led growth  *b. import substitution
  c. dynamic hedging     d. countervailing duties

Chapter 10: The Balance of Payments

International Investment Position of the U.S., 2009

<table>
<thead>
<tr>
<th>U.S. Assets Abroad</th>
<th>Foreign Assets in the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government assets</td>
<td>Foreign official assets</td>
</tr>
<tr>
<td>$800 billion</td>
<td>600</td>
</tr>
<tr>
<td>U.S. private assets</td>
<td>Foreign private assets</td>
</tr>
<tr>
<td>200</td>
<td>300</td>
</tr>
</tbody>
</table>

Referring to the above table, the U.S. balance of international indebtedness suggests that the U.S. is a net:

a. debtor  *b. creditor
  c. spender  d. exporter

For the first time since World War I, in the mid 1980s the United States became a net international:

a. exporter  b. importer  *c. debtor
d. creditor

A country that is a net international debtor initially experiences a (an):

*  a. larger savings pool available to finance domestic spending
  b. higher interest rate which leads to lower domestic investment
  c. loss of funds to trading partners overseas
  d. decrease in its services exports to other countries

Credit (+) items in the balance of payments correspond to anything that:

*  a. involves receipts from foreigners
b. involves payments to foreigners

c. increases the domestic money supply

d. decreases the demand for foreign exchange

Debit (-) items in the balance of payments correspond to anything that:

a. involves receipts from foreigners

*b. involves payments to foreigners

c. increases the domestic money supply

d. decreases the demand for foreign exchange

When all of the debit or credit items in the balance of payments are combined:

a. merchandise imports equal merchandise exports

b. capital imports equal capital exports

c. services exports equal services imports

*d. the total surplus or deficit equals zero

In the balance of payments, the statistical discrepancy is used to:

*a. insure that the sum of all debits matches the sum of all credits

b. insure that trade imports equal the value of trade exports

c. obtain an accurate account of a balance-of-payments deficit

d. obtain an accurate account of a balance-of-payments surplus

A country’s transactions with the rest of the world are recorded in the

a. balance of international indebtedness

b. balance of financial transactions

*c. balance of payments

d. income statement

All of the following are credit items in the balance of payments, except:

a. investment inflows

b. merchandise exports

c. payments for American services to foreigners

*d. private gifts to foreign residents

All of the following are debit items in the balance of payments, except:

a. capital outflows

*b. merchandise exports

c. private gifts to foreigners

d. foreign aid granted to other nations

A capital account surplus might be expected to cause a current account deficit because the associated

a. capital outflow would cause the nation’s currency to depreciate, contributing to a trade deficit

b. capital inflow would cause the nation’s currency to depreciate, contributing to a trade deficit

*c. capital inflow would cause the nation’s currency to appreciate, contributing to a trade deficit
d. capital outflow would cause the nation’s currency to appreciate, contributing to a trade deficit

The role of ____________ is to direct one nation’s savings into investments of another nation:

a. merchandise trade flows  
b. services flows  
c. current account flows  
*d. capital flows

The current account includes

a. the value of trade in merchandise  
b. services  
c. unilateral transfers  
*d. all of the above

The U.S. balance of payments is constructed by

a. the U.S. Department of Labor  
b. the U.S. Department of Agriculture  
*c. the U.S. Department of Commerce  
d. the Council of Economic Advisers to the President

Debit entries on the balance of payments are the entries that would

*a. mean a loss of foreign exchange  
b. bring foreign exchange into the country  
c. indicate a surplus exists  
d. exist at the bottom line after all accounts are totaled

In the balance of payments, travel and tourism are included in the category of

a. unilateral transfers  
b. capital account  
c. merchandise account  
*d. services account

Current account deficits are offset by

a. merchandise trade deficits  
b. merchandise trade surpluses  
*c. capital/financial account surpluses  
d. capital/financial account deficits

The difference between a country’s balance of payments and its balance of international indebtedness

a. is equal to official reserve transactions  
b. occurs because of foreign exchange fluctuations  
c. reflects statistical discrepancies  
*d. reflects the difference between flow and stock concepts

A nation wishing to reduce its current account deficit would be advised to

a. engage in more government spending  
b. reduce government taxes  
c. increase private investment spending  
*d. decrease domestic consumption spending
A nation with a current account deficit will be
a. lending more money to other nations  
b. experiencing a surplus in exports of goods and services  
c. reducing its indebtedness to other nations  
*d. going further into debt with other nations

In the calculation of gross domestic product, net exports are
* a. the sum of merchandise trade and services  
b. the current account plus long-term capital  
c. the value of merchandise exports minus imports  
d. short-term capital plus the basic balance

A current account surplus implies that
* a. the country is a net lender to the rest of the world  
b. the country is running a net capital account surplus  
c. foreign investment in domestic securities is at very low levels  
d. all of the above

Purchases of government securities in the United States by foreigners is
a. a credit item in the current account  
b. a debit item in the capital account  
*c. a credit item in the capital account  
d. a debit item in the current account

When a country has a trade deficit, it
a. purchases more stocks and bonds from the rest of the world than it sells  
*b. purchases more goods from the rest of the world than it sells  
c. sells more good to the rest of the world than it purchases  
d. sells more stocks and bonds to the rest of the world than it purchases

In balance-of-payments accounting, tourism and travel are classified in the
a. merchandise trade account  
*b. services account  
c. unilateral transfers account  
d. capital account

Historically, countries at early stages of rapid economic development have tended to experience
* a. trade deficits and an excess of investment over domestic saving  
b. trade surpluses and an excess of investment over domestic saving  
c. trade deficits and an excess of domestic saving over investment  
d. trade surpluses and an excess of domestic saving over investment

The argument that U.S. current account deficits cause net job losses for Americans
a. is true by definition in all possible circumstances  
b. is supported by recent U.S. history  
c. focuses only on the overall economy and is thus always true  
*d. fails to recognize that a current account deficit is matched by an equal inflow of foreign
funds which finances employment increasing investment spending

The "balance of trade" is a record of
a. exports and imports of financial assets
b. the current account plus capital account
c. the net export of goods and services
* d. the value of merchandise exports minus imports

Direct investment and security purchases are classified as
* a. capital account transactions
b. current account transactions
c. unilateral transfer transactions
d. merchandise trade transactions

________ is needed to “balance” the balance of payments statement.
 a. credit transactions
 b. debit transactions
 c. unilateral transfers
 * d. statistical discrepancy

Chapter 11: Foreign Exchange

The most widely traded currency in the foreign exchange market is the
a. euro
b. Chinese yuan
c. British pound
* d. U.S. dollar

The supply of foreign currency tends to be:
* a. upward sloping
b. downward sloping
c. vertical
d. any of the above

Suppose that a Swiss television set that costs 400 francs in Switzerland costs $200 in the United States. The exchange rate between the franc and the dollar is:
* a. 2 francs per dollar
b. 1 franc per dollar
c. $2 per franc
d. $3 per franc

In the early eighties, the Federal Reserve pursued a tight monetary policy. All else being equal, the impact of that policy was to ____________ interest rates in the United States relative to
those in Europe and cause the dollar to __________ against European currencies.

a. decreases, depreciate  
b. decreases, appreciate  
c. increases, depreciate  
*d. increases, appreciate

Under a system of floating exchange rates, the pound would depreciate in value if there occurs:

a. price inflation in the United States  
b. an increase in U.S. real income  
c. a decrease in the British money supply  
*d. falling interest rates in Britain

A depreciation of the dollar will have its most pronounced impact on imports if the demand for imports is:

a. constant  
b. inelastic  
*c. elastic  
d. unitary elastic

During the era of dollar appreciation, from 1981 to 1985, a main reason why the dollar did not fall in value was:

*a. flows of foreign investment into the United States  
b. rising price inflation in the United States  
c. a substantial decrease in U.S. imports  
d. a substantial increase in U.S. exports

Which financial instrument provides a buyer the right to purchase or sell a fixed amount of currency at a prearranged price, within a few days to a couple of years:

a. letter of credit  
*b. foreign currency option  
c. cable transfer  
d. bill of exchange

The largest volume of foreign exchange trading takes place in

a. China  
b. Germany  
*c. the United Kingdom  
d. the United States

Given the foreign currency market for the Swiss franc, the supply of francs slopes upward, because as the dollar price of the franc rises:

a. America’s demand for Swiss merchandise rises  
b. America’s demand for Swiss merchandise falls  
*c. Switzerland’s demand for American merchandise rises  
d. Switzerland’s demand for American merchandise falls

In a supply-and-demand diagram for Japanese yen, with the exchange rate in dollars per yen on the vertical axis, the demand schedule for yen is drawn sloping:

a. upward  
b. vertical  
*c. downward  
d. horizontal
Suppose there occurs an increase in the Canadian demand for Japanese computers. This results in a (an):

*a. increase in the demand for yen
b. decrease in the demand for yen
c. increase in the supply of yen
d. decrease in the supply of yen

The exchange rate is kept the same across geographically-separate markets by

*a. hedging
b. speculation
c. government regulation
d. arbitrage

The reduction or covering of foreign exchange risk is called

*a. hedging
b. speculation
c. intervention
d. arbitrage

An important feature of a __________ is that the holder has the right, but not the obligation, to buy or sell currency.

*a. swap
b. foreign exchange arbitrage
c. foreign exchange option
d. futures market contract

The least common type of transaction in the foreign exchange is a

*a. forward transaction
b. spot transaction
c. swap transaction
d. none of the above

If the bank is selling francs for $0.45, then what is the implied franc price of the dollar?

*a. 2.0
b. 1.999
c. 2.323
*d. 2.222

The difference between bid (buying) rates and ask (selling) rates is called the

*a. profit
b. arbitrage
c. spread
d. forward transaction

Riskless transactions to take advantage of profit opportunities due to a price differential or a yield differential in excess of transaction costs are called

*a. differential actions
b. cash transactions
*c. arbitrage
d. forward transactions

The essential feature of a __________ is that it immediately fixed the rate at which a specified amount of one currency is to be delivered in exchange for a specific amount of another at a future date.
*a. forward contract
b. spot contract
c. money contract
d. bid contract

The franc is said to be selling at a __________ if the spot dollar price is $0.48 and the nine-month forward rate is $0.42.
*a. forward discount
b. forward premium
c. forward spread
d. none of the above

Suppose that Boeing is to receive payment in euros in 6 months and wants to engage in hedging. The firm would ______ euros on the 6-month forward market in order to protect itself from a/an ______ of the euro.
a. sell; appreciation
*b. sell; depreciation
c. buy; depreciation
d. buy; appreciation

If Sweden's currency depreciates relative to Norway's currency
a. Norway's export goods become more expensive to Norway's residents
*b. Norway's exports goods become cheaper to Sweden's residents
*c. Sweden's export goods become cheaper to Norway's residents
d. Sweden's export goods become cheaper to Sweden's residents

If the exchange rate is 11 Mexican pesos per U.S. dollar, then it takes ______ to buy 1 peso
*a. $0.0909
b. $0.1002
c. $0.2826
d. $1.1024

Which of the following is not a reason why Joe Smith (an American) might participate as a demander in the foreign exchange market?
a. his desire to open a bank account in Japan
*b. his desire to purchase an automobile produced domestically
*c. his desire to travel to Europe
d. his desire to purchase Treasury bills issued by the British government
Nominal exchange rates represent the most widely used tool in international finance for measuring the average value of a currency relative to a number of other currencies.

Investors engage in interest arbitrage when they move funds into foreign currencies in order to take advantage of interest rates abroad that are higher than domestic interest rates.

Currency speculation is stabilizing if speculators bet against market forces that cause exchange fluctuations, thus moderating such fluctuations.

The real effective exchange rate for the U.S. dollar reflects only the influence of merchandise or real trade on the dollar’s exchange value.

A difference between forward and futures contracts is that forward contracts can be tailored in amount and delivery date to the needs of importers or exporters.

Speculators in foreign exchange markets do all of the following except simultaneously buy a currency at a low price and sell that currency at a higher price, making a riskless profit.
The relationship between the exchange rate and the prices of tradable goods is known as the:

a. purchasing power parity theory  

b. asset markets theory  

c. monetary theory  

d. balance of payments theory

If the exchange rate between Swiss francs and British pounds is 5 francs per pound, then the number of pounds that can be obtained for 200 francs equals:

a. 20 pounds  
*b. 40 pounds  

c. 60 pounds  

d. 80 pounds

If a Big Mac hamburger sells for the same dollar value in New York as in London then

a. the inflation rate in each country will necessarily equal zero  

b. the inflation rate in each country will necessarily equal 1 percent  

c. the exchange rates are said to be fixed or pegged to each other  
*4. purchasing power parity holds

Relatively low real interest rates in the United States tend to:

a. decrease the foreign demand for dollars, causing the dollar to depreciate  

b. decrease the foreign demand for dollars, causing the dollar to appreciate  

c. increase the foreign demand for dollars, causing the dollar to depreciate  

*d. decrease the foreign demand for dollars, causing the dollar to appreciate

Relatively high real interest rates in the United States tend to:

a. decrease the foreign demand for dollars, causing the dollar to depreciate  

b. decrease the foreign demand for dollars, causing the dollar to appreciate  

c. increase the foreign demand for dollars, causing the dollar to depreciate  
*4. increase the foreign demand for dollars, causing the dollar to appreciate

Assume that the United States faces an 8 percent inflation rate while no (zero) inflation exists in Japan. According to the purchasing power parity theory, over the long run the dollar would be expected to:

a. appreciate by 8 percent against the yen  

*b. depreciate by 8 percent against the yen  

c. remain at its existing exchange rate  

d. any of the above

In the presence of purchasing power parity, if one dollar exchanges for 2 British pounds and if a DVD player costs $400 in the United States, then in Britain the DVD player should cost:

a. 200 pounds  

b. 400 pounds  

c. 600 pounds  
*4. 800 pounds
If wheat costs $4 per bushel in the United States and 2 pounds per bushel in Great Britain, then in the presence of purchasing power parity the exchange rate should be:

a. $.50 per pound  
b. $1.00 per pound  
c. $2.00 per pound  
d. $8.00 per pound

A primary reason that explains the appreciation in the value of the U.S. dollar would be:

a. large trade surpluses for the United States  
b. high inflation rates in the United States  
c. lack of investor confidence in U.S. monetary policy  
d. high interest rates in the United States

The high foreign exchange value of the U.S. dollar in the early 1980s can best be explained by:

*a. additional investment funds made available from overseas  
b. lack of investor confidence in U.S. fiscal policy  
c. market expectations of rising inflation in the United States  
d. American tourists overseas finding costs increasing

When the price of foreign currency (i.e. the exchange rate) is below the equilibrium level:

*a. an excess demand for that currency exists in the foreign exchange market  
b. an excess supply of the currency exists in the foreign exchange market  
c. the demand for foreign exchange shifts outward to the right  
d. the demand for foreign exchange shifts backward to the left

When the price of foreign currency (the exchange rate) is above the equilibrium level:

*a. an excess demand for that currency exists in the foreign exchange market  
b. an excess supply of that currency exists in the foreign exchange market  
c. the supply of foreign exchange shifts outward to the right  
d. the supply of foreign exchange shifts backward to the left

The appreciation in the value of the dollar in the early 1980s is explained by all of the following except:

a. the United States being considered a safe haven by foreign investors  
b. relatively high real interest rates in the United States  
c. confidence of foreign investors in the U.S. economy  
d. relatively high inflation rates in the United States

Suppose Canada and Switzerland were the only two countries in the world. There exists an excess supply of Swiss francs on the foreign exchange market. This suggests that:

*a. the Canadian current-account balance is in surplus  
b. the Swiss current-account balance is in deficit  
c. the Canadian current-account balance is in equilibrium  
d. the Swiss current-account balance is in equilibrium

If Canada runs a balance-of-payments surplus and exchange rates are floating:

a. the value of other currencies will rise relative to the dollar  
b. the dollar will depreciate relative to other currencies
c. the price of foreign goods will become cheaper to Canadians
d. the price of foreign goods will rise for Canadians

If Japan runs current-account deficit and exchange rates are floating:

a. Japanese exports become more expensive to foreign buyers
*b. Japanese exports become less expensive to foreign buyers
c. Japanese imports become less expensive for German buyers
d. Japanese imports become more prestigious to German buyers

The exchange value of the U.S. dollar is primarily determined by:

a. the rate of inflation in the United States
b. the number of dollars printed by the U.S. government
*c. the international demand and supply for dollars
d. the monetary value of gold held at Fort Knox, Kentucky

For the United States, suppose the annual interest rate on government securities equals 8 percent while the annual inflation rate equals 4 percent. For Switzerland, the annual interest rate on government securities equal 10 percent while the annual inflation rate equals 7 percent. The above variables would cause investment funds to flow from:

a. the United States to Switzerland, causing the dollar to depreciate
b. the United States to Switzerland, causing the dollar to appreciate
*c. Switzerland to the United States, causing the franc to depreciate
d. Switzerland to the United States, causing the franc to appreciate

For the United States, suppose the annual interest rate on government securities equals 12 percent while the annual inflation rate equals 8 percent. For Japan, the annual interest rate on government securities equals 10 percent while the annual inflation rate equals 5 percent. The above variables would cause investment funds to flow from:

*a. the United States to Japan, causing the dollar to depreciate
b. the United States to Japan, causing the dollar to appreciate
c. Japan to the United States, causing the mark to depreciate
d. Japan to the United States, causing the mark to appreciate

Given a system of floating exchange rates, rising income in the United States would trigger a (an):

*a. increase in the demand for imports and an increase in the demand for foreign currency
b. increase in the demand for imports and a decrease in the demand for foreign currency
c. decrease in the demand for imports and an increase in the demand for foreign currency
d. decrease in the demand for imports and a decrease in the demand for foreign currency

Given a system of floating exchange rates, falling income in the United States would trigger a (an):
a. increase in the demand for imports and an increase in the demand for foreign currency
b. increase in the demand for imports and a decrease in the demand for foreign currency
c. decrease in the demand for imports and an increase in the demand for foreign currency
*d. decrease in the demand for imports and a decrease in the demand for foreign currency
Under a system of floating exchange rates, relatively low productivity and high inflation rates in the United States results in a (an):

a. increase in the demand for foreign currency, a decrease in the supply of foreign currency, and a depreciation in the dollar
b. increase in the demand for foreign currency, an increase in the supply of foreign currency, and an appreciation in the dollar
c. decrease in the demand for foreign currency, a decrease in the supply of foreign currency, and a depreciation in the dollar
d. decrease in the demand for foreign currency, and increase in the supply of foreign currency, and an appreciation in the dollar

Under a system of floating exchange rates, relatively high productivity and low inflation rates in the United States results in a (an)

a. increase in the demand for foreign currency, a decrease in the supply of foreign currency, and a depreciation in the dollar
b. increase in the demand for foreign currency, an increase in the supply of foreign currency, and an appreciation in the dollar
c. decrease in the demand for foreign currency, a decrease in the supply of foreign currency, and a depreciation in the dollar
*d. decrease in the demand for foreign currency, an increase in the supply of foreign currency, and an appreciation in the dollar

Which example of market expectations causes the dollar to appreciate against the yen---expectations that the U.S. economy will have:

a. faster economic growth than Japan
*b. higher future interest rates than Japan
c. more rapid money supply growth than Japan
d. higher inflation rates than Japan

Which example of market expectations causes the dollar to depreciate against the yen--expectations that the U.S. economy will have:

*a. faster growth than Japan
b. higher future interest rates than Japan
c. more rapid money supply growth than Japan
d. lower inflation rates than Japan

Starting from a position where the nation’s money demand equals the money supply and its balance of payments is in equilibrium, economic theory suggests that the nation’s balance of payments would move into a surplus position if there occurred in the nation a (an):

*a. decrease in the money supply
b. increase in the money supply
c. decrease in the money demand
d. any of the above

Starting from a position where the nation’s money demand equals the money supply and its balance of payments is in equilibrium, economic theory suggests that the nation’s balance of payments would move into a surplus positions if there occurred in the nation a (an):

*a. increase in the money demand
b. decrease in the money demand
c. increase in the money demand
d. any of the above

Assume identical interest rates on comparable securities in the United States and foreign countries. Suppose investors anticipate that in the future the U.S. dollar will depreciate against foreign currencies. Investment funds would tend to:
*a. flow from the United States to foreign countries
b. flow from foreign countries to the United States
c. remain totally in foreign countries
d. remain totally in the United States

Suppose that rising U.S. income leads to higher sales and profits in the United States. This would likely result in:
a. increasing portfolio investment into the United States
b. decreasing portfolio investment into the United States
*c. increasing direct investment into the United States
d. decreasing direct investment into the United States

Due to Japan's high saving rate, suppose that the Japanese invest abroad. This investment may result in a/an ______ of the Japanese yen and therefore a ________ for Japan.
a. appreciation; trade surplus
b. appreciation; trade deficit
*c. depreciation; trade surplus
d. depreciation; trade deficit

Suppose that the purchasing-power-parity estimate of the dollar/euro exchange rate is $1.30 per euro, and the current spot rate is $1.38 per euro. Comparing these two exchange rates, from a long-run viewpoint you would
*a. anticipate the dollar to depreciate against the euro
b. anticipate the dollar to appreciate against the euro
*c. anticipate the dollar's exchange rate against the euro to remain constant
d. have no anticipation concerning future movements in the dollar/euro exchange rate

Assume that a "Big Mac" hamburger costs $3 in the United States and 2 pesos in Mexico. The implied purchasing-power-parity exchange rate between the peso and the dollar is
*a. 0.67 pesos = $1
b. 0.8 pesos = $1
c. 1.25 pesos = $1
d. 1.67 pesos = $1

Consulting firms that use large-scale econometric models to forecast exchange rate movements are engaging in
*a. judgmental analysis
b. fundamental analysis
*c. technical analysis
d. nontechnical analysis

Exchange rate overshooting often occurs because
*a. domestic prices adjust slowly to shifts in demand
b. military spending increases during military conflicts
c. elasticities are smaller in the long run than the short run
elasticities are smaller in the short run than the long run

The asset market approach is most helpful in explaining
a. why exchange rates remain quite stable
b. why governments change their money supplies
c. long-term exchange rate movements
*d. short-term exchange rate movements

According to the asset market approach, increased investor confidence in the Mexican economy would cause the peso to
a. appreciate because of an increased supply of peso-denominated assets
b. depreciate because of an increased supply of peso-denominated assets
*c. appreciate because of an increased demand for peso-denominated assets
d. depreciate because of an increased demand for peso-denominated assets

The asset market approach views exchange rates as being determined mainly by
a. the use of import tariffs and quotas by governments
b. the current account balance of each country
c. the relative growth rate of national output between countries
*d. efforts of investors to balance their portfolios among financial assets denominated in different currencies

The purchasing-power-parity theory has limitations in forecasting exchange rate fluctuations for all of the following reasons except
*a. inflation affects exchange rates
b. international capital flows affect exchange rates
c. governments sometimes impose trade restrictions such as tariffs and quotas
d. not all products are internationally tradeable

Chapter 14: Exchange-Rate Adjustments and the Balance of Payments

Suppose that U.S. dollar depreciates 70 percent against the yen, yet Japanese export prices to Americans did not decrease by the full extent of the dollar depreciation. This is best explained by:
*a. partial currency pass through
b. complete currency pass through
c. partial J-curve effect
d. complete J-curve effect

Because of the J-Curve effect and partial currency pass through, a depreciation of the domestic currency tends to increase the size of a:
a. trade surplus in the short run
b. trade surplus in the long run
c. trade deficit in the short run
d. trade deficit in the long run

Economic theory predicts that a currency depreciation will least lead to an improvement in the home country’s trade balance when:

*a. home demand for imports is inelastic and foreign export demand is inelastic
b. home demand for imports is elastic and foreign export demand is inelastic
c. home demand for imports is inelastic and foreign export demand is elastic
d. home demand for imports is elastic and foreign export demand is elastic

If foreign manufacturing costs and profit margins in response to a depreciation in the U.S. dollar, the effect of these actions is to:
a. shorten the amount of time in which the depreciation leads to a smaller trade deficit
b. shorten the amount of time in which the depreciation leads to a smaller trade surplus
*c. lengthen the amount of time in which the depreciation leads to a smaller trade deficit
d. lengthen the amount of time in which the depreciation leads to a smaller trade surplus

The shift toward imperfectly competitive markets in domestic and international trade questions the concept of:
a. official exchange rates
*b. complete currency pass through
c. exchange arbitrage
d. trade adjustment assistance

Given a two country world, suppose Japan devalues the yen by 20 percent and West Germany devalues the mark by 15 percent. This results in a (an):
a. appreciation in the value of both currencies
b. depreciation in the value of both currencies
c. appreciation in the value of the yen against the mark
*d. depreciation in the value of the yen against the mark

The extent to which a change in the exchange rate leads to changes in import and export prices is known as the:
a. J-Curve effect
b. Marshall-Lerner effect
c. absorption effect
*d. pass-through effect

Complete currency pass through arises when a 10 percent depreciation in the value of the dollar causes U.S.:
a. import prices to fall by 10 percent
*b. import prices to rise by 10 percent
c. export prices to rise by 10 percent
d. export prices to rise by 20 percent

Which approach predicts that is an economy operates at full employment and faces a trade deficit, currency devaluation will improve the trade balance only if domestic spending is cut, thus freeing resources to produce exports:
a. the absorption approach  
b. the Marshall-Lerner approach  
c. the monetary approach  
d. the elasticities approach

If export contracts are written in terms of foreign currency and import contracts are denominated in domestic currency, a depreciation of the dollar during the currency contract period
a. should increase the dollar value of exports  
b. should not have any effect on the dollar value of U.S. imports  
c. must increase the balance of trade  
d. all of the above

The notion that, following a currency depreciation, the balance of trade falls for a while before increasing is called a __________ effect
a. relative price  
b. elasticity  
c. J-Curve  
d. pass-through

Suppose that the United Kingdom devalues the pound. If both exports and imports are written in terms of pounds, then the United Kingdom balance of trade _______ during a currency contract period.
 a. improves  
b. worsens  
c. is unaffected  
d. falls for a while before increasing

The ________ analysis considers the ability of domestic and foreign prices to adjust to devaluation in the short run.
 a. pass-through  
b. absorption  
c. adjustment mechanism  
d. currency contract period

The shorter the “pass-through” period, the __________ the desirable BOT effects of evaluation on quantities traded will appear.
 a. sooner  
b. longer  
c. bigger  
d. smaller

The balance of trade can only worsen if income ________ relative to absorption.
 a. increases  
b. decreases  
c. does not change  
d. none of the above
Empirical evidence regarding the effects of currency depreciation on the balance of trade indicates that
a. depreciation generally improves the trade balance
b. depreciation generally hurts the trade balance  
*c. no strong generalization are possible 
d. depreciation has no effect on the trade balance

According to the Marshall-Lerner condition, if a country’s currency depreciates its trade balance will worsen if
a. elasticity of demand for exports = 0.9; elasticity of demand for imports = 0.4
b. elasticity of demand for exports = 0.7; elasticity of demand for imports = 0.3
*c. elasticity of demand for exports = 0.5; elasticity of demand for imports = 0.7 
d. elasticity of demand for exports = 0.3; elasticity of demand for imports = 0.6

Chapter 15: Exchange-Rate Systems and Currency Crises

The exchange rate system that best characterizes the present international monetary arrangement used by industrialized countries is:
a. freely fluctuating exchange rates
b. adjustable pegged exchange rates
*c. managed floating exchange rates
*d. pegged or fixed exchange rates

Which exchange rate mechanism is intended to insulate the balance of payments from short-term capital movements while providing exchange rate stability for commercial transactions?
*a. dual exchange rates
b. managed floating exchange rates
c. adjustable pegged exchange rates
*d. crawling pegged exchange rates

Which exchange rate mechanism calls for frequent redefining of the par value by small amounts to remove a payments disequilibrium?
a. dual exchange rates
b. adjustable pegged exchange rates
c. managed floating exchange rates
*d. crawling pegged exchange rates

Under managed floating exchange rates, if the rate of inflation in the United States is less than the rate of inflation of its trading partners, the dollar will likely:
*a. appreciate against foreign currencies
b. depreciate against foreign currencies
c. be officially revalued by the government
d. be officially devalued by the government

Under adjustable pegged exchange rates, if the rate of inflation in the United States exceeds the rate of inflation of its trading partners:
a. U.S. exports tend to rise and imports tend to fall
*b. U.S. imports tend to rise and exports tend to fall
c. U.S. foreign exchange reserves tend to rise
d. U.S. foreign exchange reserves remain constant

Under a pegged exchange rate system, which does not explain why a country would have a balance-of-payments deficit?
a. very high rates of inflation occur domestically
b. foreigners discriminate against domestic products
c. technological advance is superior abroad
*d. the domestic currency is undervalued relative to other currencies

Which exchange rate system does not require monetary reserves for official exchange rate intervention?
*a. floating exchange rates
b. pegged exchange rates
c. managed floating exchange rates
d. dual exchange rates

Small nations whose trade and financial relationships are mainly with a single partner tend to utilize:
*a. pegged exchange rates
b. freely floating exchange rates
c. managed floating exchange rates
d. crawling exchange rates

Small nations with more than one major trading partner tend to peg the value of their currencies to:
a. gold
b. silver
c. a single currency
*d. a basket of currencies

Which exchange rate system involves a “leaning against the wind” strategy in which short-term fluctuations in exchange rates are reduced without adhering to any particular exchange rate over the long run?
a. pegged of fixed exchange rates
b. adjustable pegged exchange rates
*c. managed floating exchange rates
d. freely floating exchange rates