Chapter 37

■ MULTIPLE-CHOICE QUESTIONS

Circle the letter that corresponds to the best answer.

1. Which nation leads the world in the volume of exports and imports?
(a) Japan
(b) Germany
(c) United States
(d) United Kingdom

2. Which group of nations dominates world trade?
(a) Saudi Arabia and other OPEC nations
(b) Hong Kong, Singapore, South Korea, and Taiwan
(c) United States, Japan, and the nations of Western Europe
(d) China, Russia, and the nations of Eastern Europe

3. Nations engage in trade because
(a) world resources are evenly distributed among nations
(b) world resources are unevenly distributed among nations
(c) all products are produced from the same technology
(d) all products are produced from the same combinations of resources

Use the following tables to answer Questions 4, 5, 6, and 7.

NEPAL PRODUCTION POSSIBILITIES TABLE

	Production alternatives					
Product	**A**	**B**	**C**	**D**	**E**	**F**
Yak fat	0	4	8	12	16	20
Camel hides	40	32	24	16	8	0

KASHMIR PRODUCTION POSSIBILITIES TABLE

	Production alternatives					
Product	**A**	**B**	**C**	**D**	**E**	**F**
Yak fat	0	3	6	9	12	15
Camel hides	60	48	36	24	12	0

4. The data in the tables show that production in
(a) both Nepal and Kashmir are subject to increasing opportunity costs
(b) both Nepal and Kashmir are subject to constant opportunity costs
(c) Nepal is subject to increasing opportunity costs and Kashmir to constant opportunity costs
(d) Kashmir is subject to increasing opportunity costs and Nepal to constant opportunity costs

5. If Nepal and Kashmir engage in trade, the terms of trade will be
(a) between 2 and 4 camel hides for 1 unit of yak fat
(b) between 1/3 and 1/2 units of yak fat for 1 camel hide
(c) between 3 and 4 units of yak fat for 1 camel hide
(d) between 2 and 4 units of yak fat for 1 camel hide

6. Assume that prior to specialization and trade Nepal and Kashmir both choose production possibility C. Now if each specializes according to its comparative advantage, the resulting gains from specialization and trade will be
(a) 6 units of yak fat
(b) 8 units of yak fat
(c) 6 units of yak fat and 8 camel hides
(d) 8 units of yak fat and 6 camel hides

7. Each nation produced only one product in accordance with its comparative advantage, and the terms of trade were set at 3 camel hides for 1 unit of yak fat. In this case, Nepal could obtain a maximum combination of 8 units of yak fat and
(a) 12 camel hides
(b) 24 camel hides
(c) 36 camel hides
(d) 48 camel hides

8. What happens to a nation's imports or exports of a product when the world price of the product rises above the domestic price?
(a) Imports of the product increase.
(b) Imports of the product stay the same.
(c) Exports of the product increase.
(d) Exports of the product decrease.

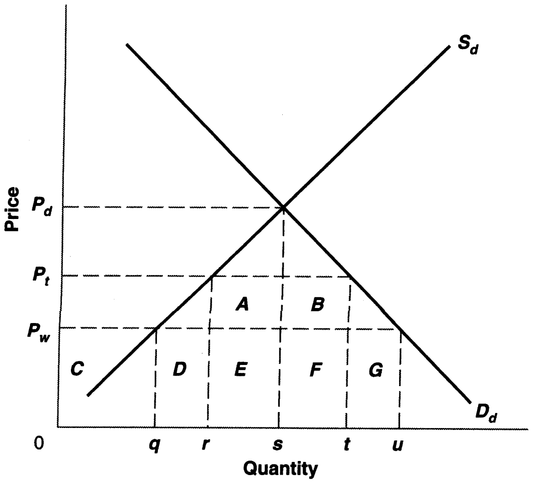
9. What happens to a nation's imports or exports of a product when the world price of the product falls below the domestic price?
(a) Imports of the product increase.
(b) Imports of the product decrease.
(c) Exports of the product increase.
(d) Exports of the product stay the same.

10. Which one of the following is characteristic of tariffs?
(a) They prevent the importation of goods from abroad.
(b) They specify the maximum amounts of specific commodities that may be imported during a given period of time.
(c) They often protect domestic producers from foreign competition.
(d) They enable nations to reduce their exports and increase their imports during periods of recession.

11. The motive for barriers to the importation of goods and services from abroad is to
(a) improve economic efficiency in that nation
(b) protect and benefit domestic producers of those goods and services
(c) reduce the prices of the goods and services produced in that nation
(d) expand the export of goods and services to foreign nations

12. When a tariff is imposed on a good imported from abroad,
(a) the demand for the good increases
(b) the demand for the good decreases
(c) the supply of the good increases
(d) the supply of the good decreases

Answer Questions 13, 14, 15, 16, and 17 on the basis of the following diagram, where S_d and D_d are the domestic supply and demand for a product and P_w is the world price of that product.



13. In a closed economy (without international trade), the equilibrium price would be
  (a) P_d, but in an open economy, the equilibrium price would be P_t
  (b) P_d, but in an open economy, the equilibrium price would be P_w
  (c) P_w, but in an open economy, the equilibrium price would be P_d
  (d) P_w, but in an open economy, the equilibrium price would be P_t

14. If there is free trade in this economy and no tariffs, the total revenue going to the foreign producers is represented by
  (a) area ***C***
  (b) areas ***A*** and ***B*** combined
  (c) areas ***A***, ***B***, ***E***, and ***F*** combined
  (d) areas ***D***, ***E***, ***F***, and ***G*** combined

15. If a per-unit tariff was imposed in the amount of P_wP_t then domestic producers would supply
  (a) ***q*** units and foreign producers would supply ***qu*** units
  (b) ***s*** units and foreign producers would supply ***su*** units
  (c) ***r*** units and foreign producers would supply ***rt*** units
  (d) ***t*** units and foreign producers would supply ***tu*** units

16. Given a per-unit tariff in the amount of P_wP_t, the amount of the tariff revenue paid by consumers of this product is represented by
  (a) area ***A***
  (b) area ***B***
  (c) areas ***A*** and ***B*** combined
  (d) areas ***D***, ***E***, ***F***, and ***G*** combined

17. Assume that an import quota of ***rt*** units is imposed on the foreign nation producing this product. The amount of *total* revenue going to foreign producers is represented by areas
  (a) ***A + B***
  (b) ***E + F***
  (c) ***A + B + E + F***
  (d) ***D + E + F + G***

18. Tariffs lead to
  (a) the contraction of relatively efficient industries
  (b) an overallocation of resources to relatively efficient industries
  (c) an increase in the foreign demand for domestically produced goods
  (d) an underallocation of resources to relatively inefficient industries

19. Tariffs and quotas are costly to consumers because
  (a) the price of the imported good rises
  (b) the supply of the imported good increases
  (c) import competition increases for domestically produced goods
  (d) consumers shift purchases away from domestically produced goods

20. "The nation needs to protect itself from foreign countries that sell their products in our domestic markets at less than the cost of production." This quotation would be most closely associated with which protectionist argument?
  (a) diversification for stability
  (b) increase domestic employment
  (c) protection against dumping
  (d) cheap foreign labor

21. Which argument for protection is the least fallacious and most pertinent in the United States today?
  (a) the military self-sufficiency argument
  (b) the increase-domestic-employment argument
  (c) the cheap foreign labor argument
  (d) the infant industry argument

22. Which is the likely result of the United States using tariffs to protect its high wages and standard of living from cheap foreign labor?
  (a) an increase in U.S. exports
  (b) a rise in the U.S. real GDP
  (c) a decrease in the average productivity of U.S. workers
  (d) a decrease in the quantity of labor employed by industries producing the goods on which tariffs have been levied

23. Which is a likely result of imposing tariffs to increase domestic employment?
  (a) a short-run increase in domestic employment in import industries
  (b) a decrease in the tariff rates of foreign nations
  (c) a long-run reallocation of workers from export industries to protected domestic industries
  (d) a decrease in consumer prices

24. The infant industry argument for tariffs
  (a) is especially pertinent for the European Economic Community
  (b) generally results in tariffs that are removed after the infant industry has matured

(c) makes it rather easy to determine which infant industries will become mature industries with comparative advantages in producing their goods
(d) might better be replaced by an argument for outright subsidies for infant industries

25. What international agency is charged with overseeing trade liberalization and with resolving disputes among nations?
(a) World Bank
(b) United Nations
(c) World Trade Organization
(d) International Monetary Fund