Chapter 37

For each question, decide if it is true or false. For "false" statements, rewrite the entire statment with the correct changes.

■ TRUE–FALSE QUESTIONS

Circle T if the statement is true, F if it is false.

1. The bulk of U.S. export and import trade is with other industrially advanced nations. **T F**

2. A factor that serves as the economic basis for world trade is the even distribution of resources among nations. **T F**

3. People trade because they seek products of different quality and other nonprice attributes. **T F**

4. Examples of capital-intensive goods would be automobiles, machinery, and chemicals. **T F**

5. The relative efficiency with which a nation can produce specific goods is fixed over time. **T F**

6. Mutually advantageous specialization and trade are possible between any two nations if they have the same domestic opportunity-cost ratios for any two products. **T F**

7. The principle of comparative advantage is that total output will be greatest when each good is produced by that nation which has the higher domestic opportunity cost. **T F**

8. By specializing based on comparative advantage, nations can obtain larger outputs with fixed amounts of resources. **T F**

9. The terms of trade determine how the increase in world output resulting from comparative advantage is shared by trading nations. **T F**

10. Increasing opportunity costs tend to prevent specialization among trading nations from being complete. **T F**

11. Trade among nations tends to bring about a more efficient use of the world's resources and a higher level of material well-being. **T F**

12. Free trade among nations tends to increase monopoly and lessen competition in these nations. **T F**

13. A nation will export a particular product if the world price is less than the domestic price. **T F**

14. In a two-country model, equilibrium in world prices and quantities of exports and imports will occur where one nation's export supply curve intersects the other nation's import demand curve. **T F**

15. A tariff on coffee in the United States is an example of a protective tariff. **T F**

16. The imposition of a tariff on a good imported from abroad will reduce the amount of the imported good that is bought. **T F**

17. A cost of tariffs and quotas imposed by the United States is higher prices that U.S. consumers must pay for the protected product. **T F**

18. The major difference between a tariff and a quota on an imported product is that a quota produces revenue for the government. **T F**

19. To advocate tariffs that would protect domestic producers of goods and materials essential to national defense is to substitute a political-military objective for the economic objectives of efficiently allocating resources. **T F**

20. Tariffs and import quotas meant to increase domestic full employment achieve short-run domestic goals by making trading partners poorer. **T F**

21. One-crop economies may be able to make themselves more stable and diversified by imposing tariffs on goods imported from abroad, but these tariffs are also apt to lower the standard of living in these economies. **T F**

22. Protection against the "dumping" of foreign goods at low prices on the U.S. market is one good reason for widespread, permanent tariffs. **T F**

23. Most arguments for trade protection are special-interest pleas, that if followed, would create gains for protected industries and their workers at the expense of greater losses for the economy. **T F**

24. The only argument for tariffs that has, in the appropriate circumstances, any economic justification is the increase-domestic-employment argument. **T F**

25. The World Trade Organization was established by the United Nations to encourage purchases of products from developing nations. **T F**