

Chapter 6

■ MULTIPLE-CHOICE QUESTIONS

Circle the letter that corresponds to the best answer.

- Which nation is the world's leading trading nation in terms of absolute volumes of imports and exports?
 - Japan
 - China
 - Germany
 - United States
- Which nation is our most important trading partner in terms of the quantity of trade volume?
 - Japan
 - Canada
 - Germany
 - United Kingdom
- Which of the following is true?
 - Exports as a percentage of GDP are greatest in the United States.
 - The United States is almost totally dependent on other nations for aircraft, machine tools, and coal.
 - Most of the exports and imports trade of the United States is with industrially advanced nations.
 - The United States has a trade surplus with Japan.
- How is most of the trade deficit financed by a nation such as the United States?
 - by buying securities or assets from other nations
 - by selling securities or assets to other nations
 - by borrowing from the Federal government
 - by lending to the Federal government
- Which is one way the United States finances its trade deficit?
 - by lending to foreigners
 - by selling real assets to foreigners
 - by purchasing real assets from foreigners
 - by passing protective tariffs on foreign products
- Which factor has greatly facilitated international trade since World War II?
 - greater import quotas
 - expanded export subsidies
 - increased nontariff barriers
 - improved communications
- Which industrializing nation would be considered one of the new participants in international trade?
 - Canada
 - Sweden
 - Japan
 - China
- Why do nations specialize and engage in trade?
 - to protect multinational corporations
 - to increase output and income
 - to improve communications
 - to control other nations

Answer Questions 9, 10, 11, and 12 on the basis of the data given for two regions, Slobovia and Utopia, which have the following production possibilities tables.

SLOBOVIA PRODUCTION POSSIBILITIES TABLE

Product	Production alternatives					
	A	B	C	D	E	F
Cams	1,500	1,200	900	600	300	0
Widgets	0	100	200	300	400	500

UTOPIA PRODUCTION POSSIBILITIES TABLE

Product	Production alternatives				
	A	B	C	D	E
Cams	4,000	3,000	2,000	1,000	0
Widgets	0	200	400	600	800

- In Slobovia, the comparative cost of
 - 1 cam is 3 widgets
 - 1 widget is .33 of a cam
 - 1 cam is .33 of a widget
 - 3 widgets is 1 cam
- Which of the following statements is *not* true?
 - Slobovia should specialize in the production of widgets.
 - Slobovia has a comparative advantage in the production of widgets.
 - Utopia should specialize in the production of widgets.
 - Utopia has a comparative advantage in the production of cams.
- The terms of trade will be
 - greater than 7 cams for 1 widget
 - between 7 cams for 1 widget and 5 cams for 1 widget

- (c) between 5 cams for 1 widget and 3 cams for 1 widget
 (d) less than 3 cams for 1 widget
12. Assume that if Slobovia did not specialize it would produce alternative C and that if Utopia did not specialize it would select alternative B. The gains from specialization are
 (a) 100 cams and 100 widgets
 (b) 200 cams and 200 widgets
 (c) 400 cams and 500 widgets
 (d) 500 cams and 400 widgets
13. If the dollar-yen exchange rate is \$1 for 110 yen, then a Sony VCR priced at 27,500 yen would cost a U.S. consumer
 (a) \$200
 (b) \$250
 (c) \$275
 (d) \$300
14. If the equilibrium exchange rate changes so that the dollar price of Japanese yen increases
 (a) the dollar has appreciated in value
 (b) the dollar has depreciated in value
 (c) U.S. citizens will be able to buy more Japanese goods
 (d) Japanese citizens will be able to buy fewer U.S. goods
15. A decrease in the United States demand for Japanese goods will
 (a) increase the demand for Japanese yen and increase the dollar price of yen
 (b) increase the demand for Japanese yen but decrease the dollar price of yen
 (c) decrease the demand for Japanese yen and decrease the dollar price of yen
 (d) decrease the demand for Japanese yen but increase the dollar price of yen
16. If the exchange rate for one United States dollar changes from 1.4 German marks to 1.7 German marks, then there has been
 (a) an appreciation in the value of the mark
 (b) a depreciation in the value of the dollar
 (c) a depreciation in the value of the mark
 (d) an increase in the price of the mark
17. Which of the following is designed to restrict trade?
 (a) GATT
 (b) NAFTA
 (c) import quotas
 (d) multinational corporations
18. Why do governments often intervene in international trade?
 (a) to expand a nation's production possibilities
 (b) to improve the position of multinational corporations
 (c) to protect domestic industries from foreign competition
 (d) to increase revenue from tariff duties and excise taxes
19. Tariffs and quotas in a nation benefit domestic
 (a) consumers and foreign producers of the protected product
 (b) consumers and producers of the protected product
 (c) producers of the protected product, but harm domestic consumers of the product
 (d) producers and foreign producers of the product
20. Which one of the following specifically empowered the President of the United States to reduce tariff rates up to 50% if other nations would reduce their tariffs on American goods?
 (a) the Smoot-Hawley Tariff Act of 1930
 (b) the Reciprocal Trade Agreements Act of 1934
 (c) the General Agreement on Tariffs and Trade of 1947
 (d) North American Free Trade Agreement of 1993
21. Which of the following is characteristic of the General Agreement on Tariffs and Trade? Nations signing the agreement were committed to
 (a) the expansion of import quotas
 (b) the reciprocal increase in tariffs by negotiation
 (c) the nondiscriminatory treatment of all member nations
 (d) the establishment of a world customs union
22. One important outcome from the Uruguay round of GATT was
 (a) removal of voluntary export restraints in manufacturing
 (b) establishment of the World Trade Organization
 (c) abolishment of patent, copyright, and trademark protection
 (d) an increase in tariff barriers on services
23. One of the potential problems with the European Union is that
 (a) an unregulated free flow of labor and capital may reduce productivity
 (b) economies of large-scale production may increase consumer prices
 (c) tariffs may reduce trade with nonmember nations
 (d) governments may have difficulty covering the shortfall from the elimination of duties and taxes
24. An example of the formation of a trade bloc would be the
 (a) Smoot-Hawley Tariff Act
 (b) North American Free Trade Agreement
 (c) Reciprocal Trade Agreements Act
 (d) General Agreements on Tariffs and Trade
25. The increase in global competition has resulted in:
 (a) greater inefficiency among U.S. producers
 (b) lower quality in the production of goods
 (c) the inability of most U.S. firms to compete
 (d) lower prices for many consumer goods and services