

## Chapter 17 International Trade

### CHAPTER 17 International Trade

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1. Which of the following is an example of a land-intensive commodity?

- A) chemicals
- B) autos
- C) watches
- D) wool

Ans: D Level: Easy Main Topic: 17.1 The economic basis for trade Page: 387  
Type: Application

2. The best example of a land-intensive commodity is:

- A) cameras.
- B) radios.
- C) meat.
- D) chemicals.

Ans: C Level: Easy Main Topic: 17.1 The economic basis for trade Page: 387  
Type: Application

3. Which of the following is an example of a labour-intensive commodity?

- A) clothing
- B) beer
- C) Aspirin tablets
- D) gasoline

Ans: A Level: Easy Main Topic: 17.1 The economic basis for trade Page: 387  
Type: Application

4. Which of the following is an example of a capital-intensive commodity?

- A) clothing
- B) wool
- C) wheat
- D) chemicals

Ans: D Level: Easy Main Topic: 17.1 The economic basis for trade Page: 387  
Type: Application

5. Differences in production efficiencies among nations in producing a particular good results from:

- A) different endowments of fertile soil.
- B) different amounts of skilled labour.
- C) different levels of technological knowledge.
- D) all of the above.

Ans: D Level: Easy Main Topic: 17.1 The economic basis for trade Page: 387  
Type: Application

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6. If country A can produce both goods X and Y more efficiently, that is, with smaller absolute amounts of resources, than can country B:
- A) mutually advantageous specialization and trade between A and B may still be possible.
  - B) we can conclude that A is an "advanced" economy and B is "less developed."
  - C) it will necessarily be advantageous for B to import both X and Y from A.
  - D) then there is no possible basis for mutually advantageous specialization and trade between A and B.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 387 Subtopic: The basic principle Type: Application

7. If country X can produce two products more efficiently than country Y, country X:
- A) should specialize in production of both goods.
  - B) has absolute advantage over country B, in production of both products.
  - C) should produce and export both products to country B.
  - D) should not trade with country B.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 387 Subtopic: The basic principle Type: Application

8. In a two-nation world, comparative advantage means that one nation can produce:
- A) a product with fewer inputs than the other nation.
  - B) a product at lower average cost than the other nation.
  - C) a product at a lower domestic opportunity cost than the other nation.
  - D) more of a product than the other nation.

Ans: C Level: Easy Main Topic: 17.1 The economic basis for trade Page: 388  
Subtopic: Two isolated nations Type: Application

9. Given the following production possibilities schedules, it can be seen that:

|        | <b>Wine</b> | <b>Machines</b> |
|--------|-------------|-----------------|
| Brazil | 30          | 10              |
| Poland | 1           | 1               |

- A) Brazil has a comparative advantage in producing wine.
- B) Poland can produce more machines than Brazil.
- C) Brazil has a comparative advantage in producing machines.
- D) Poland can produce more of both goods than Brazil.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Application

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10. Consider two countries which trade with each other. The degree of specialization according to their respective comparative advantages will be greater if the countries face:
- A) constant costs.
  - B) high tariffs.
  - C) low unemployment rates.
  - D) increasing costs.

Ans: A Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Application

Use the following to answer questions 11-12:

Production possibilities tables for two countries, Latalia and Trombonia:

Latalia's production possibilities

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Pork (tonnes)  | 4        | 3        | 2        | 1        | 0        |
| Beans (tonnes) | 0        | 5        | 10       | 15       | 20       |

Trombonia's production possibilities

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Pork (tonnes)  | 8        | 6        | 4        | 2        | 0        |
| Beans (tonnes) | 0        | 6        | 12       | 18       | 24       |

11. The above data indicate that production in:
- A) both Latalia and Trombonia is subject to constant opportunity costs.
  - B) Trombonia is subject to decreasing costs, but production in Latalia occurs under increasing opportunity costs.
  - C) Latalia is subject to increasing costs, but production in Trombonia occurs under constant opportunity costs.
  - D) both Latalia and Trombonia are subject to the law of increasing opportunity costs.

Ans: A Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Calculation

12. Refer to the above tables. In Latalia the domestic real cost of 1 tonne of pork:
- A) is 3 tonnes of beans.
  - B) diminishes with the level of pork production.
  - C) is 5 tonnes of beans.
  - D) is 1/5 of a tonne of beans.

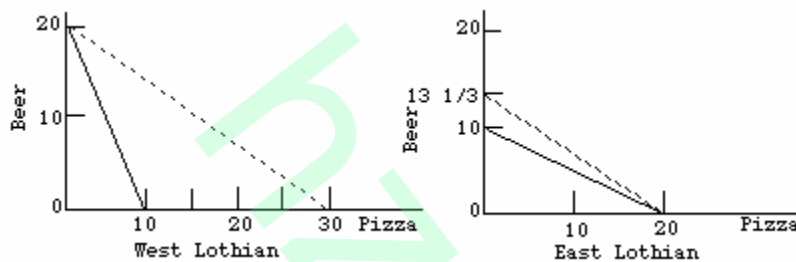
Ans: C Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Calculation

## Chapter 17 International Trade

13. If two nations have straight-line production possibilities curves:
- A) then their trading possibilities curves must lie inside the production possibilities curves.
  - B) there will be no basis for mutually advantageous trade.
  - C) there will be a basis for mutually advantageous trade whether the slopes are equal or not.
  - D) there will be a basis for mutually advantageous trade provided the slopes differ.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Application

Use the following to answer questions 14-15:



14. Refer to the diagrams. The solid lines are production possibilities curves; the dashed lines are trading possibilities curves. The data contained in the production possibilities curves are based on the assumption of:
- A) imperfect shift ability of resources as between beer and pizza production.
  - B) constant costs.
  - C) decreasing costs.
  - D) increasing costs.
15. Refer to the diagrams. The solid lines are production possibilities curves; the dashed lines are trading possibilities curves. The opportunity cost of producing a:
- A) pizza is 2 beers in both countries.
  - B) beer is 1/2 a pizza in both countries.
  - C) pizza in East Lothian is 1 beer.
  - D) beer in West Lothian is 1/2 a pizza.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Graphic

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16. The following information is about the cost ratios for two products—fish (F) and chicken (C)—in Singsong and Harmony. Assume that production occurs under conditions of constant costs and these are the only two nations in the world.

If in Singsong:  $1F = 2C$  and, in Harmony:  $1F = 4C$ , then in Singsong the domestic real cost of each chicken:

- A) is  $1/2$  a fish.
- B) is 2 fish.
- C) increases with the level of fish caught.
- D) decreases with the level of fish caught.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Calculation

17. The impact of increasing, as opposed to constant, costs is to:

- A) intensify and prolong the comparative advantages which any nation may have initially.
- B) expand the limits of the terms of trade.
- C) cause the bases for further specialization to disappear as nations specialize in accordance with comparative advantage.
- D) cause nations to realize economies of scale in those products in which they specialize.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Application

Use the following to answer questions 18-19:

Production possibilities data for two countries, Alpha and Beta, which have populations of equal size.

Alpha's production possibilities:

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Fish (tonnes)  | 80       | 60       | 40       | 20       | 0        |
| Chips (tonnes) | 0        | 5        | 10       | 15       | 20       |

Beta's production possibilities:

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Fish (tonnes)  | 240      | 180      | 120      | 60       | 0        |
| Chips (tonnes) | 0        | 10       | 20       | 30       | 40       |

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18. The data show that:

- A) Beta has a comparative advantage in producing chips.
- B) Alpha has a comparative advantage in catching fish.
- C) Alpha is subject to constant costs and Beta is subject to increasing costs.
- D) Beta is more efficient than Alpha.

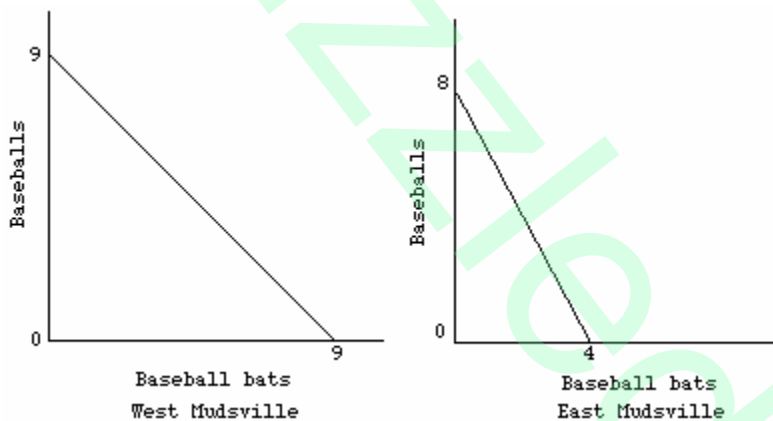
Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Calculation

19. Refer to the data. The domestic opportunity cost of:

- A) producing a tonne of chips in Alpha is 1/5 of a tonne of fish.
- B) producing a tonne of chips in Beta is 6 tonnes of fish.
- C) catching a tonne of fish in Alpha is 5 tonnes of chips.
- D) catching a tonne of fish in Beta is 6 tonnes of chips.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Calculation

20. Assuming labour forces of equal size, the production possibilities curves below suggest that workers in West Mudville will have:



- A) lower wages than workers in East Mudville before trade but equal wages after trade.
- B) higher wages than workers in East Mudville both before and after trade.
- C) lower wages than workers in East Mudville both before and after trade.
- D) higher wages than workers in East Mudville before trade but lower wages after trade.

Ans: B Level: Difficult Main Topic: 17.1 The economic basis for trade  
Page: 388-389 Subtopic: Two isolated nations Type: Graphic

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21. If two countries are isolated and have to be self-sufficient, each will choose the mix that provides:

- A) highest opportunity cost.
- B) the greatest total utility or satisfaction.
- C) the lowest cost in terms of their currencies..
- D) the greatest marginal utility.

Ans: B Level: Easy Main Topic: 17.1 The economic basis for trade Page: 389  
Subtopic: Self-sufficiency output mix Type: Application

22. According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in nations where:

- A) domestic opportunity costs are lowest.
- B) inflation rates are low.
- C) the balance of trade is in a surplus position.
- D) the exchange rate is falling.

Ans: A Level: Easy Main Topic: 17.1 The economic basis for trade Page: 390  
Subtopic: Specialization based on comparative advantage Type: Application

23. In the theory of comparative advantage, a good should be produced in that nation where:

- A) the production possibilities line lies further to the right than the trading possibilities line.
- B) its cost is least in terms of alternative goods which might otherwise be produced.
- C) its absolute cost in terms of real resources used is least.
- D) its absolute money cost of production is least.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Application

24. Assume that by devoting all of its resources to the production of X, nation Alpha can produce 40 units of X. By devoting all of its resources to Y, Alpha can produce 60Y. Comparable figures for nation Beta are 60X and 40Y. We can conclude that:

- A) the terms of trade will be 3X equals 1Y.
- B) Alpha should specialize in Y and Beta in X.
- C) Alpha should specialize in X and Beta in Y.
- D) there is no basis for mutually beneficial specialization and trade.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Application



## Chapter 17 International Trade

Use the following to answer questions 25-26:

Production possibilities tables for two countries, Latalia and Trombonia:

Latalia's production possibilities

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Pork (tonnes)  | 4        | 3        | 2        | 1        | 0        |
| Beans (tonnes) | 0        | 5        | 10       | 15       | 20       |

Trombonia's production possibilities

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Pork (tonnes)  | 8        | 6        | 4        | 2        | 0        |
| Beans (tonnes) | 0        | 6        | 12       | 18       | 24       |

25. Refer to the tables. If these two nations specialize on the basis of comparative advantage:
- A) Trombonia will produce beans and Latalia will produce pork.
  - B) Trombonia will produce both beans and pork.
  - C) Latalia will produce both beans and pork and Trombonia will produce neither.
  - D) Latalia will produce beans and Trombonia will produce pork.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Application

26. Refer to the tables. Assume that before specialization and trade, Latalia produced combination C and Trombonia produced combination B. If these two nations now specialize completely in accordance with comparative advantage, the total gains from specialization and trade will be:
- A) 4 tonnes of beans.
  - B) 1 tonne of pork and 2 tonnes of beans.
  - C) 4 tonnes of pork.
  - D) 2 tonnes of pork and 4 tonnes of beans.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Application

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27. Given the following production possibilities schedules, it can be seen that:

|         | <u>Machines</u> | <u>Wine</u> |
|---------|-----------------|-------------|
| France  | 3               | 1           |
| Germany | 1               | 1           |

- A) France has a comparative advantage in producing wine.
- B) Germany can produce more machines than France.
- C) France has a comparative advantage in producing machines.
- D) Germany can produce more of both goods than France.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Calculation

28. The table below shows points from straight-line production possibilities schedules for two countries and indicates that:

|   | <u>Meat per worker per day</u> | <u>Houses per worker per day</u> |
|---|--------------------------------|----------------------------------|
| A | 40                             | 80                               |
| B | 10                             | 40                               |

- A) country B can produce more meat than country A.
- B) country A has a comparative advantage in producing meat.
- C) country B can produce more houses than country A.
- D) country A has a comparative advantage in producing houses and meat.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Calculation

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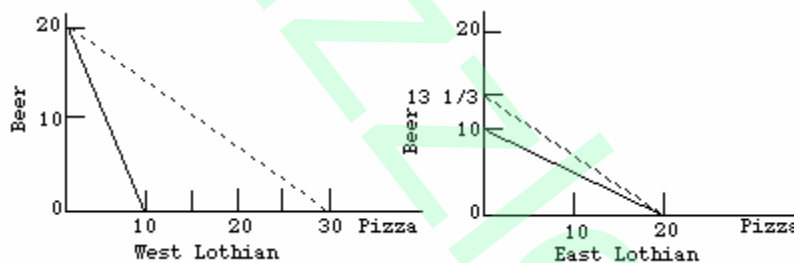
29. The production possibilities table given below shows how many bushels of either wheat or rice can be produced in India and Canada with 1 unit of input. To achieve gains from specialization:

|        | Wheat<br>(bushels) | Rice<br>(bushels) |
|--------|--------------------|-------------------|
| India  | 10                 | 10                |
| Canada | 40                 | 20                |

- A) India should export rice to Canada and import Canadian wheat.  
 B) India should export wheat to Canada and import Canadian rice.  
 C) Canada should produce both wheat and rice and not trade with India.  
 D) India should produce both wheat and rice and not trade with Canada.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
 Page: 390 Subtopic: Specialization based on comparative advantage  
 Type: Calculation

Use the following to answer questions 30-31:



30. Refer to the diagrams. The solid lines are production possibilities curves; the dashed lines are trading possibilities curves. The data suggest that:
- A) West Lothian should specialize in, and export, beer.  
 B) both countries will be better off if they do not engage in specialization and trade involving these two products.  
 C) West Lothian should specialize in, and export, pizza.  
 D) East Lothian should specialize in, and export, beer.

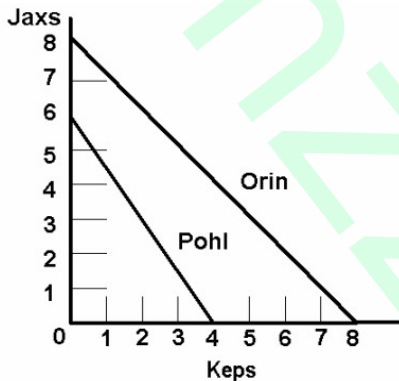
Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
 Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic

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31. Refer to the diagrams. The solid lines are production possibilities curves; the dashed lines are trading possibilities curves. The trading possibilities curves imply that:
- A) both countries are experiencing an excess of exports over imports which results in economic growth.
  - B) the domestic production possibilities curves entail unemployment and/or the domestic misallocation of resources.
  - C) world resources will be allocated more efficiently if the two nations specialize and trade in accordance with comparative advantage.
  - D) both nations will be worse off as a result of international specialization and trade.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic

32. The graph below shows the production possibility curves for two hypothetical nations, Orin and Pohl, which each make two hypothetical products, jaxs and keps. Which of the following statements is correct?

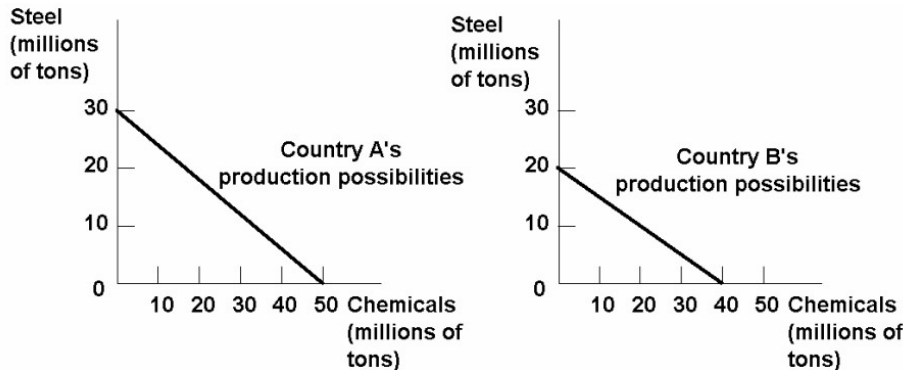


- A) Orin has a comparative advantage in both jaxs and keps.
- B) Pohl has a comparative advantage in jaxs.
- C) The opportunity cost of making jaxs is lower in Orin than in Pohl.
- D) Orin is more efficient than Pohl.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Graphic

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33. From the diagram below it can be seen that:



- A) country B has a comparative advantage in chemicals.
- B) country B can produce more of both goods than A.
- C) country A has a comparative advantage in both commodities.
- D) it is more costly in terms of resources to produce steel in country A.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic

34. The following information is about the cost ratios for two products—fish (F) and chicken (C)—in Singsong and Harmony. Assume that production occurs under conditions of constant costs and these are the only two nations in the world.

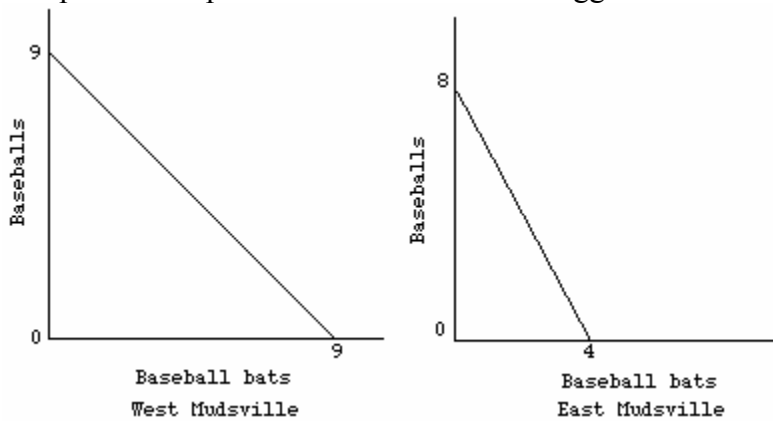
If in Singsong:  $1F = 2C$  and, in Harmony:  $1F = 4C$ , then

- A) Singsong will both produce chicken and catch fish.
- B) Harmony will both produce chicken and catch fish.
- C) Harmony will produce chicken and Singsong will catch fish.
- D) Singsong will produce chicken and Harmony will catch fish.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Calculation

## Chapter 17 International Trade

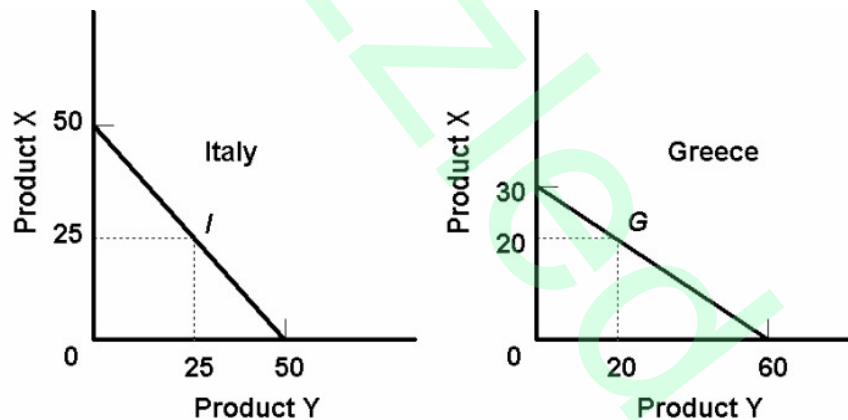
35. The production possibilities curves below suggest that:



- A) West Mudville should specialize in, and export, baseball bats.
- B) West Mudville should specialize in, and export, both baseballs and baseball bats.
- C) East Mudville should specialize in, and export, baseball bats.
- D) workers will try to immigrate from West Mudville to East Mudville.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic

36. The data embodied in the below diagrams suggest that:



- A) Italy should export X and Greece should export Y.
- B) Greece should export X and Italy should export Y.
- C) production in both countries is subject to increasing costs.
- D) Italy should import both X and Y from Greece.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic

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37. Refer to the data below. In Wat, the opportunity cost of 1 unit of:

The data given is for two hypothetical nations, Wat and Xat. The nations have the production possibilities for units of rice and corn given below.

Wat's

production

possibilities

|      | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> | <u>F</u> |
|------|----------|----------|----------|----------|----------|----------|
| Rice | 750      | 600      | 450      | 300      | 150      | 0        |
| Corn | 0        | 50       | 100      | 150      | 200      | 250      |

Xat's

Production

possibilities

| <u>Product</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> | <u>F</u> |
|----------------|----------|----------|----------|----------|----------|----------|
| Rice           | 2,500    | 2,000    | 1,500    | 1,000    | 500      | 0        |
| Corn           | 0        | 100      | 200      | 300      | 400      | 500      |

A) rice is 3 units of corn.

B) rice is  $\frac{1}{3}$  unit of corn.

C) corn is 5 units of rice.

D) corn is  $\frac{1}{5}$  unit of rice.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 390 Subtopic: Specialization based on comparative advantage

Type: Calculation

Use the following to answer questions 38-39:

Production possibilities data for two countries, Alpha and Beta, which have populations of equal size.

Alpha's

production

possibilities:

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Fish (tonnes)  | 80       | 60       | 40       | 20       | 0        |
| Chips (tonnes) | 0        | 5        | 10       | 15       | 20       |

Beta's

production

possibilities:

|                | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------|----------|----------|----------|----------|----------|
| Fish (tonnes)  | 240      | 180      | 120      | 60       | 0        |
| Chips (tonnes) | 0        | 10       | 20       | 30       | 40       |

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38. Refer to the data. Beta:

- A) should specialize in catching fish and trade with Alpha for chips.
- B) should specialize in producing chips and trade with Alpha for fish.
- C) will not realize gains from specialization and trade.
- D) will export both fish and chips to Alpha.

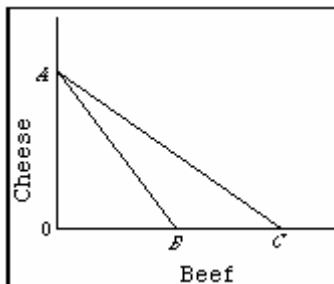
Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Calculation

39. Refer to the data. Assume the production possibilities in Beta double at alternatives A through E while remaining as shown in the table for Alpha. As a result Beta should:

- A) continue to specialize in producing chips.
- B) continue to specialize in fishing.
- C) no longer specialize and trade.
- D) specialize both in fishing and in producing chips and sell the surplus to Alpha.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Application

40. Refer to the diagram below in which line AB is the Canadian production possibility curve and AC is its trading possibilities curve. We can conclude that Canada:



- A) has chosen to specialize in the production of cheese.
- B) has chosen to specialize in the production of beef.
- C) has decided to trade beef for cheese.
- D) is relatively more efficient than its trading partners in producing both cheese and beef.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage Type: Graphic



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Use the following to answer questions 41-42:

Production possibilities data for Gamma and Sigma. All data are in tonnes.

Gamma

production

possibilities:

|      | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|------|----------|----------|----------|----------|----------|
| Tea  | 120      | 90       | 60       | 30       | 0        |
| Pots | 0        | 30       | 60       | 90       | 120      |

Sigma

production

possibilities:

|      | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|------|----------|----------|----------|----------|----------|
| Tea  | 40       | 30       | 20       | 10       | 0        |
| Pots | 0        | 30       | 60       | 90       | 120      |

41. On the basis of the information provided:

- A) Gamma should export both tea and pots to Sigma.
- B) Sigma should export tea to Gamma and Gamma should export pots to Sigma.
- C) Gamma should export tea to Sigma and Sigma should export pots to Gamma.
- D) Gamma should export tea to Sigma, but it will not be profitable for the two nations to exchange pots.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 390 Subtopic: Specialization based on comparative advantage

Type: Application

42. Refer to the data. What are the limits of the terms of trade between Gamma and Sigma?

- A) 1 tea = 2 pots to 1 tea = 6 pots
- B) 1 tea = 3 pots to 1 tea = 6 pots
- C) 1 tea = 2 pots to 1 tea = 3.5 pots
- D) 1 tea = 1 pot to 1 tea = 3 pots

Ans: D Level: Difficult Main Topic: 17.1 The economic basis for trade

Page: 390 Subtopic: Terms of trade Type: Calculation

43. The terms of trade reflect the:

- A) rate at which gold exchanges internationally for any domestic currency.
- B) ratio at which nations will exchange two goods.
- C) fact that the gains from trade will be equally divided.
- D) cost conditions embodied in a single country's production possibilities curve.

Ans: B Level: Easy Main Topic: 17.1 The economic basis for trade Page: 390

Subtopic: Terms of trade Type: Definition

## Chapter 17 International Trade

44. Nations Quirk and Turk can produce aluminum and oil in the following maximum quantities when all other resources are fully employed.

| <u>Nation</u> | <u>Output (units)</u> |            |
|---------------|-----------------------|------------|
|               | <u>Aluminum</u>       | <u>Oil</u> |
| Quirk         | 20                    | 40         |
| Turk          | 30                    | 90         |

Which one of the following terms of trade is most likely to produce exchange between the two nations?

- A) .5 unit of oil for 1 unit of aluminum
- B) .5 unit of oil for 2 units of aluminum
- C) 1 unit of oil for .4 unit of aluminum
- D) 1 unit of oil for 4 units of aluminum

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Specialization based on comparative advantage  
Type: Calculation

45. Refer to the tables below. Which of the following would be feasible terms for trade between Latalia and Trombonia?

| <u>Latalia's</u>     | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------------|----------|----------|----------|----------|----------|
| <u>production</u>    |          |          |          |          |          |
| <u>possibilities</u> |          |          |          |          |          |
| Pork (tonnes)        | 4        | 3        | 2        | 1        | 0        |
| Beans (tonnes)       | 0        | 5        | 10       | 15       | 20       |

| <u>Trombonia's</u>   | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|----------------------|----------|----------|----------|----------|----------|
| <u>Production</u>    |          |          |          |          |          |
| <u>possibilities</u> |          |          |          |          |          |
| Pork (tonnes)        | 8        | 6        | 4        | 2        | 0        |
| Beans (tonnes)       | 0        | 6        | 12       | 18       | 24       |

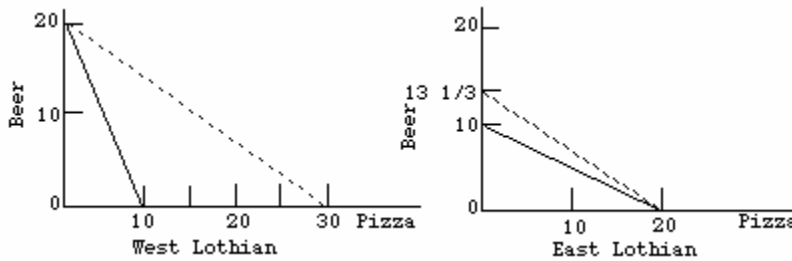
Production possibilities tables for two countries, Latalia and Trombonia:

- A) 1 tonne of beans for 1 tonne of pork
- B) 2 tonnes of beans for 1 tonne of pork
- C) 6 tonnes of beans for 1 tonne of pork
- D) 4 tonnes of beans for 1 tonne of pork

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Terms of trade Type: Calculation

## Chapter 17 International Trade

46. Refer to the diagrams below. The solid lines are production possibilities curves; the dashed lines are trading possibilities curves. The trading possibilities curves suggest that the terms of trade are:



- A) 1.5 beers for 1 pizza.
- B) 1 beer for 2 pizzas.
- C) 2 beers for 1 pizza.
- D) 1 beer for 1.5 pizzas.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Terms of trade Type: Graphic

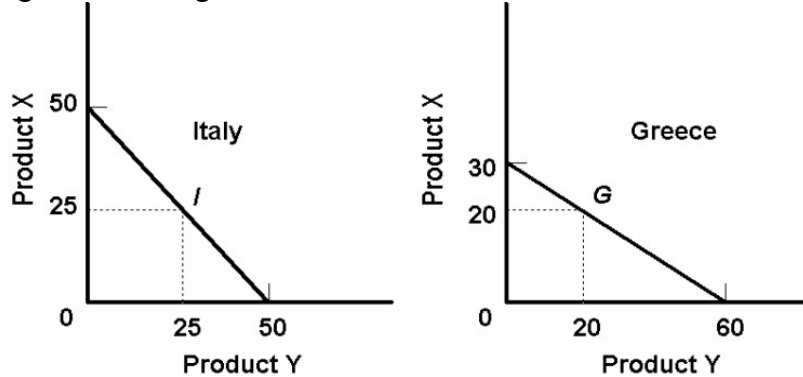
47. The following information is about the cost ratios for two products—fish (F) and chicken (C)—in Singsong and Harmony. Assume that production occurs under conditions of constant costs and these are the only two nations in the world. If in Singsong:  $1F = 2C$  and, in Harmony:  $1F = 4C$ , which one of the following would not be feasible terms for trade between Singsong and Harmony?

- A) 1 fish for 2 1/2 chicken
- B) 1 fish for 3 chicken
- C) 1 chicken for 1/5 of a fish
- D) 1 chicken for 1/3 of a fish

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Terms of trade Type: Calculation

## Chapter 17 International Trade

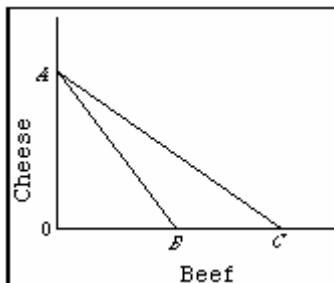
48. Refer to the diagrams below. Which of the following is a feasible rate at which X and Y might be exchanged?



- A) 1X for 3Y
- B) 1X for 1.5Y
- C) 1X for 2.5Y
- D) 1X for .5Y

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Terms of trade Type: Graphic

49. Refer to the diagram below in which line AB is Canadian production possibility curve and AC is its trading possibilities curve. The international exchange ratio between beef and cheese (terms of trade):



- A) is the absolute value of slope of line AB.
- B) is the absolute value of slope of line AC.
- C) could lie anywhere between the absolute value of the slopes of lines AB and AC.
- D) cannot be determined on the basis of this information.

Ans: B Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Subtopic: Terms of trade Type: Graphic

## Chapter 17 International Trade

50. Refer to the data below. Assume that before specialization and trade Gamma and Sigma both chose production possibility "C." Now if each specializes according to comparative advantage, the gains from specialization and trade will be:

Production possibilities data for Gamma and Sigma. All data are in tonnes.

| <u>Gamma</u><br><u>Production</u><br><u>possibilities:</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|--|----------|----------|----------|----------|----------|
| Tea  | 120      | 90       | 60       | 30       | 0        |
| Pots   | 0        | 30       | 60       | 90       | 120      |

| <u>Sigma</u><br><u>Production</u><br><u>possibilities:</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|--|----------|----------|----------|----------|----------|
| Tea  | 40       | 30       | 20       | 10       | 0        |
| Pots   | 0        | 30       | 60       | 90       | 120      |

- A) 40 tonnes of pots.
- B) 20 tonnes of tea and 20 tonnes of pots.
- C) 20 tonnes of tea.
- D) 40 tonnes of tea.

Ans: D Level: Difficult Main Topic: 17.1 The economic basis for trade  
Page: 391-392 Subtopic: Gains from specialization and trade  
Type: Application

51. The fact that international specialization and trade based on comparative advantage can increase world output is reflected in the fact that:
- A) the production possibilities curve of any two nations are identical.
  - B) a nation's production possibilities and trading possibilities lines coincide.
  - C) a nation's trading possibilities line lies to the right of its production possibilities line.
  - D) a nation's production possibilities line lies to the right of its trading possibilities line.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 391-392 Subtopic: Gains from specialization and trade  
Type: Application

## Chapter 17 International Trade

52. Free trade based on comparative advantage is economically beneficial because:

- A) it promotes an efficient allocation of world resources.
- B) it increases competition.
- C) it provides consumers with a wider range of products.
- D) of all of the above reasons.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 391-392 Subtopic: Gains from specialization and trade

Type: Application

53. The "gain" from international trade is:

- A) increased employment in the domestic export sector.
- B) more goods than would be attainable through domestic production alone.
- C) tariff revenue.
- D) increased employment in the domestic import sector.

Ans: B Level: Easy Main Topic: 17.1 The economic basis for trade

Page: 391-392 Subtopic: Gains from specialization and trade

Type: Application

## Chapter 17 International Trade

54. Refer to data below. Suppose that before specialization and trade Alpha chose production alternative C and Beta chose production alternative B. After specialization and trade the gains will be:

Production possibilities data for two countries, Alpha and Beta, which have populations of equal size.

### Alpha's

#### production

| <u>possibilities:</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|-----------------------|----------|----------|----------|----------|----------|
| Fish (tonnes)         | 80       | 60       | 40       | 20       | 0        |
| Chips (tonnes)        | 0        | 5        | 10       | 15       | 20       |

### Beta's

#### production

| <u>possibilities:</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|-----------------------|----------|----------|----------|----------|----------|
| Fish (tonnes)         | 240      | 180      | 120      | 60       | 0        |
| Chips (tonnes)        | 0        | 10       | 20       | 30       | 40       |

- A) 20 tonnes of fish.
- B) 20 tonnes of chips.
- C) 20 tonnes of fish and 20 tonnes of chips.
- D) 240 tonnes of fish and 20 tonnes of chips.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 391-392 Subtopic: Gains from specialization and trade  
Type: Calculation

55. In the real world, specialization is rarely complete because:
- A) nations normally experience increasing opportunity costs in producing more of the product in which they are specializing.
  - B) production possibilities curves are straight lines rather than curves bowed outward as viewed from the origin.
  - C) one nation's imports are necessarily another nation's exports.
  - D) international law prohibits monopolies.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 393-394 Subtopic: Trade with increasing costs Type: Application

## Chapter 17 International Trade

56. The law of increasing opportunity costs:

- A) applies to land-intensive commodities, but not to labour-intensive or capital-intensive commodities.
- B) results in straight-line production possibilities curves rather than curves which are bowed outward as viewed from the origin.
- C) refutes the principle of comparative advantage.
- D) may limit the extent to which a nation specializes in producing a particular product.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 393-394 Subtopic: Trade with increasing costs Type: Application

57. Consider two countries which trade with each other. The degree of specialization according to their respective comparative advantages will be greater if the countries face:

- A) constant costs.
- B) high tariffs.
- C) low unemployment rates.
- D) increasing costs.

Ans: A Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 393-394 Subtopic: Trade with increasing costs Type: Application

58. The data in the tables show that production in:

**GERMANY PRODUCTION POSSIBILITIES TABLE**  
*Production alternatives*

| Product   | A  | B  | C  | D  | E  | F  |
|-----------|----|----|----|----|----|----|
| Autos     | 0  | 4  | 8  | 12 | 16 | 20 |
| Chemicals | 40 | 32 | 24 | 16 | 8  | 0  |

**U.S. PRODUCTION POSSIBILITIES TABLE**  
*Production alternatives*

| Product   | A  | B  | C  | D  | E  | F  |
|-----------|----|----|----|----|----|----|
| Autos     | 0  | 3  | 6  | 9  | 12 | 15 |
| Chemicals | 60 | 48 | 36 | 24 | 12 | 0  |

- A) Germany is subject to increasing domestic opportunity costs and the U.S. to constant domestic opportunity costs.
- B) the U.S. is subject to increasing domestic opportunity costs and Germany to constant domestic opportunity costs.
- C) both Germany and the U.S. are subject to constant domestic opportunity costs.
- D) both Germany and the U.S. are subject to increasing domestic opportunity costs.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 393-394 Subtopic: Trade with increasing costs Type: Application



## Chapter 17 International Trade

59. Which statement is true?

- A) Comparative advantage means that total world output will be greatest when each good is produced by the nation that has the highest domestic opportunity cost.
- B) Comparative advantage means that total world output will decline when each good is produced by the nation with the lowest domestic opportunity cost.
- C) Specialization is complete among nations when opportunity costs rise as any given nation produces more of a particular product.
- D) Specialization is less than complete among nations when opportunity costs rise as any given nation produces more of a particular product.

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 393-394 Subtopic: Trade with increasing costs Type: Application

60. When the distribution of resources and technology changes among nations:

- A) it costs more to produce all products.
- B) it costs less to produce all products.
- C) the relative efficiency of producing products changes.
- D) each nation will specialize in producing one product.

Ans: C Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 394 Subtopic: The case for free trade restated Type: Application

61. Which is not commonly offered as a reason to support protectionism and abandon free trade?

- A) maintaining military self-sufficiency
- B) increasing domestic employment
- C) allowing infant industries to mature and become competitive
- D) promoting specialization and increasing worldwide production levels

Ans: D Level: Moderate Main Topic: 17.1 The economic basis for trade

Page: 394 Subtopic: The case for free trade restated Type: Application

62. Suppose the domestic price (no-international-trade price) of copper is \$1.20 per kilogram in Canada, while the world price is \$1.00 per kilogram. Assuming no transportation costs, Canada will:

- A) have a domestic surplus of copper.
- B) export copper.
- C) import copper.
- D) neither export nor import copper.

Ans: C Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports

Page: 395-396 Subtopic: Supply and demand in Canada

Type: Application

## Chapter 17 International Trade

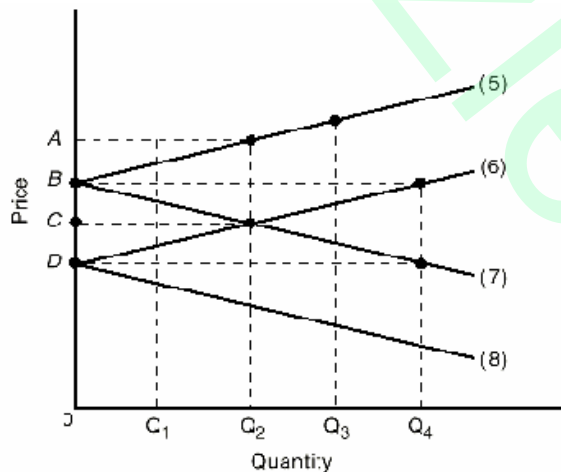
63. Suppose the domestic price (no-international-trade price) of wheat is \$3.50 per bushel in Canada, while the world price is \$4.00 per bushel. Assuming no transportation costs, Canada will:
- A) have a domestic shortage of wheat.
  - B) export wheat.
  - C) import wheat.
  - D) neither export nor import wheat.

Ans: B Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada Type: Application

64. A nation's import demand curve for a specific product:
- A) is upward sloping.
  - B) shows the amount of the product it will import at prices below its domestic price.
  - C) lies above its export supply curve for the product.
  - D) depends on domestic demand for the product, but not on domestic supply.

Ans: B Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada Type: Definition

Use the following to answer questions 65-66:



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65. Refer to the graph which shows the import demand and export supply curves for two nations that produce a product. The import demand curves for the two nations are represented by lines:

- A) 5 and 6.
- B) 5 and 7.
- C) 6 and 8.
- D) 7 and 8.

Ans: D Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada  
Type: Graphic

66. Refer to the graph which shows the import demand and export supply curves for two nations that produce a product. The export supply curves for the two nations are represented by lines:

- A) 5 and 7.
- B) 5 and 6.
- C) 6 and 8.
- D) 7 and 8.

Ans: B Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada  
Type: Graphic

67. A nation's export supply curve for a specific product:

- A) is upward sloping.
- B) shows the amount of the product it will export at prices below its domestic price.
- C) lies below its import demand curve for the product.
- D) depends on domestic supply of the product, but not on domestic demand.

Ans: A Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada  
Type: Application

68. Export supply curves are \_\_\_\_\_; import demand curves are \_\_\_\_\_.

- A) horizontal; vertical
- B) vertical; horizontal
- C) downward sloping; upward sloping
- D) upward sloping; downward sloping

Ans: D Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 395-396 Subtopic: Supply and demand in Canada  
Type: Application

## Chapter 17 International Trade

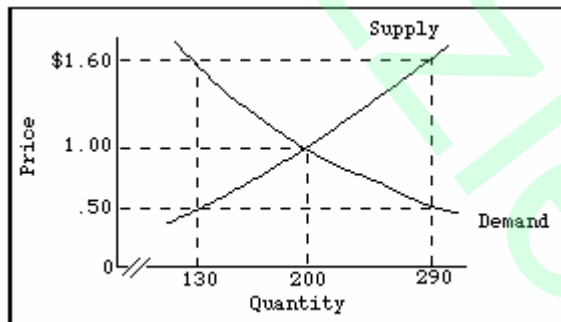
69. In a two-nation model, the equilibrium world price will occur where:
- A) one nation's export supply curve intersects the other nation's import demand curve.
  - B) both nations' exports are exactly twice the level of imports.
  - C) both nations' export supply curves are horizontal.
  - D) both nations' import demand curves are vertical.

Ans: A Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 396-397 Subtopic: Supply and demand in the United States Type: Application

70. A nation will neither export nor import a specific product when its:
- A) domestic price (no-international-trade price) equals the world price.
  - B) export supply curve lies above its import demand curve.
  - C) export supply curve is upward sloping.
  - D) import demand curve is downward sloping.

Ans: A Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 396-397 Subtopic: Supply and demand in the United States Type: Application

Use the following to answer questions 71-73:



71. Refer to the diagram showing the domestic demand and supply curves for a specific standardized product in a particular nation. If the world price for this product is \$1.60, this nation will experience a domestic:
- A) shortage of 160 units, which it will meet with 160 units of imports.
  - B) shortage of 160 units, which will increase the domestic price to \$1.60.
  - C) surplus of 160 units, which it will export.
  - D) surplus of 160 units, which will reduce the world price to \$1.00.

Ans: C Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

## Chapter 17 International Trade

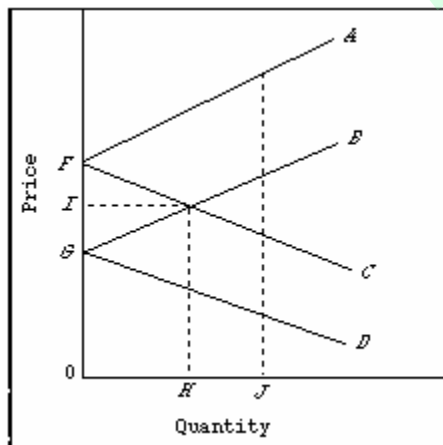
72. Refer to the diagram showing the domestic demand and supply curves for a specific standardized product in a particular nation. If the world price for this product is \$.50, this nation will experience a domestic:
- A) shortage of 160 units, which it will meet with 160 units of imports.
  - B) shortage of 160 units, which will increase the domestic price to \$1.60.
  - C) surplus of 160 units which it will export.
  - D) surplus of 160 units, which will reduce the world price to \$1.00.

Ans: A Level: Easy Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

73. Refer to the diagram showing the domestic demand and supply curves for a specific standardized product in a particular nation. If the world price of this product is \$1, this nation will:
- A) export all of the product.
  - B) import all of the product.
  - C) import some of the product and produce some of the product domestically.
  - D) neither export nor import the product.

Ans: D Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

Use the following to answer questions 74-78:



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74. Refer to the diagram pertaining to two nations and a specific product. Lines FA and GB are:

- A) domestic supply curves for two countries.
- B) domestic demand curves for two countries.
- C) import demand curves for two countries.
- D) export supply curves for two countries.

Ans: D Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

75. Refer to the diagram pertaining to two nations and a specific product. Lines FC and GD are:

- A) domestic supply curves for two countries.
- B) domestic demand curves for two countries.
- C) import demand curves for two countries.
- D) export supply curves for two countries.

Ans: C Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

76. Refer to the diagram pertaining to two nations and a specific product. Point G is the:

- A) domestic price for the nation represented by lines FA and FC.
- B) world equilibrium price.
- C) domestic price for the nation represented by lines GB and GD.
- D) price above the world equilibrium price.

Ans: C Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

77. Refer to the diagram pertaining to two nations and a specific product. In equilibrium, the nation represented by lines FA and FC will:

- A) export H to the country represented by lines GB and GD.
- B) import H from the country represented by lines GB and GD.
- C) pay price F for its imports.
- D) receive price G for its exports.

Ans: B Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

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78. Refer to the diagram pertaining to two nations and a specific product. The equilibrium level of exports and imports occurs at:
- A) H, where GB and FC intersect.
  - B) J, where the vertical distance between A and B just equals the vertical distance between C and D.
  - C) world price level F.
  - D) world price level G.

Ans: A Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Graphic

Use the following to answer questions 79-86:

The following data is for the hypothetical nations of Alpha and Beta.  $Q_s$  is domestic quantity supplied and  $Q_d$  is domestic quantity demanded.

| Domestic market for steel, Alpha |     |       | Domestic market for steel, Beta |     |       |
|----------------------------------|-----|-------|---------------------------------|-----|-------|
| $Q_s$                            | P   | $Q_d$ | $Q_s$                           | P   | $Q_d$ |
| 60                               | \$5 | 10    | 80                              | \$5 | 20    |
| 40                               | 4   | 20    | 70                              | 4   | 30    |
| 30                               | 3   | 30    | 60                              | 3   | 40    |
| 20                               | 2   | 40    | 50                              | 2   | 50    |
| 10                               | 1   | 50    | 40                              | 1   | 60    |

79. Refer to the data. The equilibrium prices of steel in Alpha and Beta are:
- A) \$5 and \$4, respectively.
  - B) \$2 and \$4, respectively.
  - C) \$3 and \$2, respectively.
  - D) \$1 and \$2, respectively.

Ans: C Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Application

80. Refer to the data. At a world price of \$5:
- A) Alpha will want to import 50 units of steel.
  - B) Beta will want to import 60 units of steel.
  - C) Alpha will want to export 50 units of steel.
  - D) neither country will want to export steel.

Ans: C Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Application

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81. Refer to the data. At a world price of \$2:
- A) Alpha will want to import 20 units of steel.
  - B) Beta will want to export 20 units of steel.
  - C) Alpha will want to export 20 units of steel.
  - D) neither country will want to import steel.

Ans: A Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Application

82. Refer to the data. Alpha's export supply is represented by:

|   |                 |                  |
|---|-----------------|------------------|
| A | $\frac{P}{\$5}$ | $\frac{Q_s}{40}$ |
|   | 4               | 20               |
|   | 3               | 0                |

|   |                 |                  |
|---|-----------------|------------------|
| B | $\frac{P}{\$5}$ | $\frac{Q_s}{50}$ |
|   | 4               | 20               |
|   | 3               | 0                |

|   |                 |                  |
|---|-----------------|------------------|
| C | $\frac{P}{\$5}$ | $\frac{Q_s}{60}$ |
|   | 4               | 30               |
|   | 3               | 0                |

|   |                 |                  |
|---|-----------------|------------------|
| D | $\frac{P}{\$5}$ | $\frac{Q_s}{40}$ |
|   | 4               | 30               |
|   | 3               | 15               |

- A) Choice A
- B) Choice B
- C) Choice C
- D) Choice D

Ans: B Level: Difficult Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Calculation



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83. Refer to the data. The equilibrium world price must be lower than \$4 because at \$4:

- A) both nations want to import steel.
- B) both nations want to export steel.
- C) Beta wants to export more than Alpha.
- D) Alpha wants to import more than Beta.

Ans: B Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Calculation

84. Refer to the data. The equilibrium world price must be higher than \$1 because at \$1:

- A) Beta wants to import more than Alpha.
- B) Alpha wants to export more than Beta.
- C) both nations want to export steel.
- D) both nations want to import steel.

Ans: D Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Calculation

85. Refer to the data. The equilibrium world price of steel must be between:

- A) \$5 and \$4.
- B) \$4 and \$3.
- C) \$3 and \$2.
- D) \$2 and \$1.

Ans: C Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Calculation

86. Refer to the data. At the equilibrium world price:

- A) both nations will export steel.
- B) both nations will import steel.
- C) Alpha will export steel and Beta will import steel.
- D) Beta will export steel and Alpha will import steel.

Ans: D Level: Moderate Main Topic: 17.2 Supply and demand analysis of exports and imports Page: 397-398 Subtopic: Equilibrium world price, exports, and Imports Type: Calculation

## Chapter 17 International Trade

87. Tariffs:

- A) may be imposed either to raise revenue (revenue tariffs) or to shield domestic producers from foreign competition.
- B) are also called "import quotas."
- C) are excise taxes on goods exported abroad.
- D) are per unit subsidies designed to promote exports.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

88. A tariff can best be described as:

- A) an excise tax on an imported good.
- B) a government payment to domestic producers to enable them to sell competitively in world markets.
- C) an excise tax on an exported good.
- D) a law which sets a limit on the amount of a good which can be imported.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

89. An excise tax on imported commodities is known as a(n):

- A) quota.
- B) tariff.
- C) export restriction.
- D) price ceiling.

Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

90. An excise tax that is applied to imported products which are not produced domestically is a(n):

- A) protective tariff.
- B) revenue tariff.
- C) import quota.
- D) nontariff barrier.

Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

## Chapter 17 International Trade

91. A tax on an imported product is a(n):

- A) tariff.
- B) quota.
- C) import subsidy.
- D) export subsidy.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

92. Country A limits other nation's exports to 1,000 tonnes of coal annually. This is an example of a(n):

- A) protective tariff.
- B) export subsidy.
- C) import quota.
- D) voluntary export restriction.

Ans: C Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

93. Which is an example of a nontariff barrier (NTB)?

- A) an export subsidy
- B) an excise tax on imported goods
- C) box-by-box inspection requirements for imported fruit
- D) most-favoured nation (MFN) status

Ans: C Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Application

94. A licensing requirement, or unreasonable standard pertaining to the product quality and safety for a product that is imported into a country, is an example of:

- A) protective tariffs.
- B) nontariff barriers.
- C) voluntary export restrictions.
- D) quotas on imported products.

Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

## Chapter 17 International Trade

95. An example of a nontariff barrier would be:
- A) a minimum limit on the quantity of imports.
  - B) excessive licensing requirements.
  - C) a tax on an imported product.
  - D) voluntary export restraints.

Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Application

96. Which one of the following would best describe a protective tariff?
- A) an excise tax that is usually applied to products which are not produced domestically in order to raise revenues for government
  - B) an excise tax that is designed to put foreign producers at a competitive disadvantage in selling in domestic markets
  - C) a specification of the maximum amount of a product that may be imported in any period of time which is often used to protect domestic producers of a product
  - D) such activities as restricting the issuance of licenses for imported products or setting unreasonable standards for quality or safety in order to restrict imports and protect domestic markets

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Trade barriers Type: Definition

Use the following to answer questions 97-98:

The following table is domestic supply and demand schedules for a product. Suppose that the world price of the product is \$1.

| Quantity<br>supplied<br>(domestic) | Price | Quantity<br>demanded<br>(domestic) |
|------------------------------------|-------|------------------------------------|
| 12                                 | \$5   | 2                                  |
| 10                                 | 4     | 4                                  |
| 7                                  | 3     | 7                                  |
| 4                                  | 2     | 11                                 |
| 1                                  | 1     | 16                                 |

## Chapter 17 International Trade

97. Refer to the data. With free trade, that is, assuming no tariff, the outputs produced by domestic and foreign producers respectively would be:
- A) 1 unit and 15 units.
  - B) 4 units and 7 units.
  - C) 7 units and 0 units.
  - D) 4 units and 6 units.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Economic impact of tariffs Type: Application

98. Refer to the data. With a \$1 dollar per unit tariff, price and total quantity sold will be:
- A) \$3 and 7 units.
  - B) \$5 and 2 units.
  - C) \$7 and 3 units.
  - D) \$2 and 11 units.

Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399  
Subtopic: Economic impact of tariffs Type: Calculation

99. Suppose Canada eliminates tariffs on German bicycles. As a result, we would expect:
- A) the price of German bicycles to decline in Canada.
  - B) employment would increase in the German bicycle industry.
  - C) employment would decrease in the Canadian bicycle industry.
  - D) all of the above to occur.

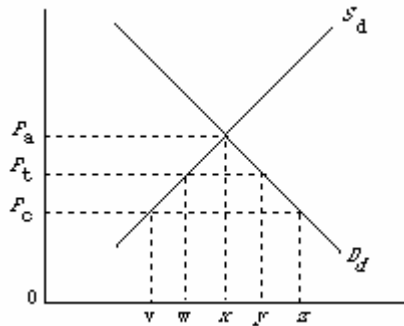
Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Application

100. Which combination of policies would entail the greatest stimulus to domestic employment and output in the short run?
- A) raising trade barriers on imports and subsidizing exports
  - B) raising trade barriers on imports and imposing special taxes on exports
  - C) lowering trade barriers on imports and imposing special taxes on exports
  - D) lowering trade barriers on imports and subsidizing exports

Ans: A Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Application

## Chapter 17 International Trade

Use the following to answer questions 101-102:



101. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product. With free trade, that is, assuming no tariff, the outputs produced by domestic and foreign producers respectively would be:

A) v and vz.  
 B) w and wy.  
 C) w and wz.  
 D) vx and xz.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Graphic

102. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product. With a per unit tariff in the amount  $P_c P_t$ , price and total quantity sold will be:

A)  $P_t$  and x.  
 B)  $P_c$  and z.  
 C)  $P_t$  and y.  
 D)  $P_a$  and x.

Ans: C Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Graphic

103. In effect tariffs on imports are:

A) special taxes on domestic producers.  
 B) subsidies to domestic consumers.  
 C) subsidies to foreign producers.  
 D) subsidies for domestic producers.

Ans: D Level: Easy Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Application

## Chapter 17 International Trade

104. A protective tariff will:

- A) increase the price and sales of domestic producers.
- B) reduce the welfare of domestic consumers.
- C) result in a transfer of income from domestic consumers to government.
- D) do all of the above.

Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Application

105. A high tariff on imported good X might reduce domestic employment in industry Y if:

- A) X is an input used domestically in producing Y.
- B) X and Y are substitute goods.
- C) X is an inferior good.
- D) Y is an inferior good.

Ans: A Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Application

106. When a tariff on a product is removed, it will result in a(n):

- A) decrease in the supply of a product and a higher price.
- B) increase in the supply of the product and a higher price.
- C) increase in the supply of the product and a lower price.
- D) decrease in the supply of the product and a lower price.

Ans: C Level: Easy Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Application

Use the following to answer questions 107-109:

The following table is domestic supply and demand schedules for a product. Suppose that the world price of the product is \$1.

| Quantity<br>supplied<br>(domestic) | Price | Quantity<br>demanded<br>(domestic) |
|------------------------------------|-------|------------------------------------|
| 12                                 | \$5   | 2                                  |
| 10                                 | 4     | 4                                  |
| 7                                  | 3     | 7                                  |
| 4                                  | 2     | 11                                 |
| 1                                  | 1     | 16                                 |

## Chapter 17 International Trade

107. Refer to the data. With a \$1 per unit tariff, the quantities sold by foreign and domestic producers respectively will be:

- A) 1 unit and 15 units.
- B) 7 units and 4 units.
- C) 11 units and 4 units.
- D) indeterminate.

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Calculation

108. Refer to the data. With a \$1 per unit tariff, prices (revenue per unit) received by domestic and foreign producers respectively will be:

- A) \$2 and \$1.
- B) \$1 and \$2.
- C) \$2 and \$2.
- D) \$3 and \$2.

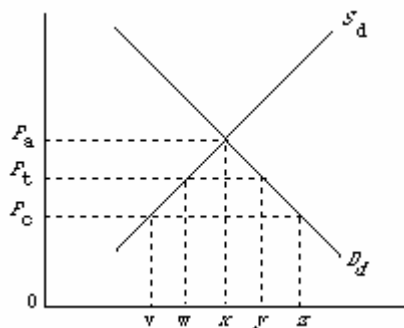
Ans: A Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Calculation

109. Refer to the data. The total amount of revenue collected from a \$1 per unit tariff on this product will be:

- A) \$22.
- B) \$8.
- C) \$7.
- D) \$14.

Ans: C Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Calculation

Use the following to answer questions 110-112:





## Chapter 17 International Trade

110. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product. With a  $P_c P_t$  per unit tariff, the quantities sold by foreign and domestic producers respectively will be:

A) xz and x.  
 B) xv and xz.  
 C) x and xz.  
 D) wy and w.

Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Graphic

111. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product. With a  $P_c P_t$  per unit tariff, per unit revenue received by domestic and foreign producers respectively will be:

A)  $P_c$  and  $P_a$ .  
 B)  $P_a$  and  $P_c$ .  
 C)  $P_a$  and  $P_t$ .  
 D)  $P_t$  and  $P_c$ .

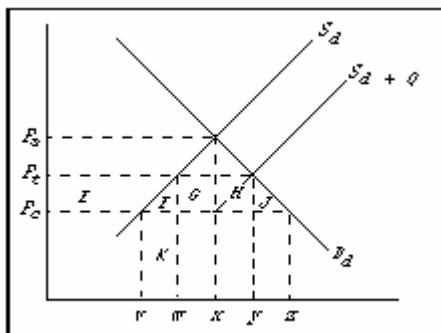
Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Graphic

112. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product. With a per unit tariff of  $P_c P_t$ , the total amount of tariff revenue collected on this product will be:

A)  $P_a P_t$  times wy.  
 B)  $P_c P_t$  times x.  
 C)  $P_c P_t$  times wy.  
 D)  $P_c P_t$  times z.

Ans: C Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
 Subtopic: Economic impact of tariffs Type: Graphic

Use the following to answer questions 113-114:



## Chapter 17 International Trade

113. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product.  $S_d + Q$  is the product supply curve after an import quota is imposed. A tariff of  $P_c P_t$  or an import quota of  $w$  will:
- A) have the same effect on the volume of imports.
  - B) have the same effect on domestic price.
  - C) have the same effect on the revenues of domestic producers.
  - D) do all of the above.

Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 399-400  
Subtopic: Economic impact of tariffs Type: Graphic

114. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product.  $S_d + Q$  is the product supply curve after an import quota is imposed. A tariff of  $P_c P_t$  will:
- A) lower domestic price and increase domestic consumption.
  - B) increase the revenues of domestic producers by areas  $E + F + K$ .
  - C) increase the revenues of domestic producers by areas  $G + H$ .
  - D) increase the revenues of domestic producers by areas  $E + F + G + H + J$ .

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 400  
Subtopic: Economic impact of quotas Type: Graphic

115. The specification of the maximum amounts of commodities which may be imported into a country in any period of time is a:
- A) tariff.
  - B) quota.
  - C) nontariff barrier.
  - D) voluntary export restriction.

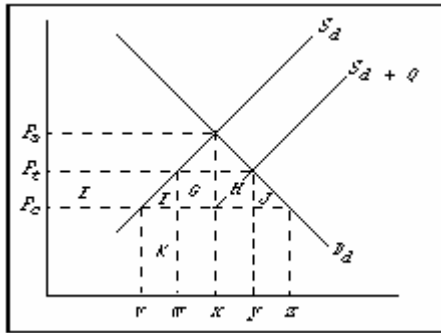
Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 400  
Subtopic: Economic impact of quotas Type: Definition

116. Which of the following is the best description of a quota?
- A) an excise tax that is designed to place foreign producers at a competitive disadvantage in selling in domestic markets
  - B) a specification of the maximum amount of a product that may be imported in any period of time
  - C) regulations and licensing related to the quality or safety of imported products
  - D) agreements adopted by exporting nations to limit exports to another country

Ans: B Level: Easy Main Topic: 17.3 Trade Barriers Page: 400  
Subtopic: Economic impact of quotas Type: Definition

## Chapter 17 International Trade

Use the following to answer questions 117-118:



117. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product.  $S_d + Q$  is the product supply curve after an import quota is imposed. The size of the import quota:

A) is  $vz$ .  
 B) is  $vy$ .  
 C) is  $wy$ .  
 D) cannot be determined.

Ans: C Level: Moderate Main Topic: 17.3 Trade Barriers Page: 400  
 Subtopic: Economic impact of quotas Type: Graphic

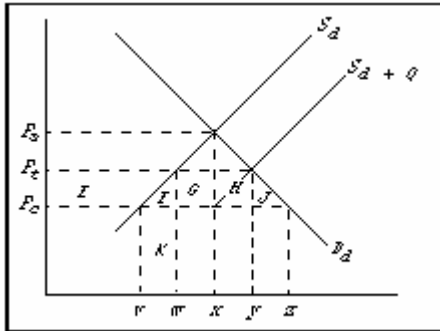
118. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product.  $S_d + Q$  is the product supply curve after an import quota is imposed. The effect of the import quota on domestic price and domestic consumption is:

A) the same as that of a tariff of  $P_cP_t$ .  
 B) the same as that of a tariff of  $P_tP_a$ .  
 C) the same as that of a tariff of  $P_cP_a$ .  
 D) to raise price by more and reduce consumption less than a tariff of  $P_cP_t$ .

Ans: A Level: Moderate Main Topic: 17.3 Trade Barriers Page: 400  
 Subtopic: Economic impact of quotas Type: Graphic

## Chapter 17 International Trade

119. Refer to the diagram, where  $S_d$  and  $D_d$  are the domestic supply and demand for a product and  $P_c$  is the world price of that product.  $S_d + Q$  is the product supply curve after an import quota is imposed. A quota of  $Q$  will:



- A) lower domestic price and increase domestic consumption.
- B) increase the revenues of domestic producers by areas  $E + F + K$ .
- C) increase the revenues of domestic producers by areas  $G + H$ .
- D) increase the revenues of domestic producers by areas  $E + F + G + H + J$ .

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 400  
Subtopic: Economic impact of quotas Type: Graphic

120. The major beneficiaries of a tariff on a product are the:

- A) domestic producers of the product.
- B) domestic consumers of the product.
- C) foreign consumers of the product.
- D) foreign producers of the product.

Ans: A Level: Easy Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

121. Other things equal, a tariff is:

- A) superior to an import quota for Canadians because a tariff increases the profits of foreign producers.
- B) inferior to an import quota for Canadians because a tariff increases the profits of domestic producers.
- C) superior to an import quota for Canadians because a tariff generates revenue for the federal government.
- D) inferior to an import quota for Canadians because a tariff generates revenue for the federal government.

Ans: C Level: Moderate Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

## Chapter 17 International Trade

122. In comparing a tariff and an import quota we find that:

- A) the tariff and quota both generate the same amount of revenue for the federal government.
- B) the tariff generates revenue for the federal government but the quota does not.
- C) the quota generates revenue for the federal government but the tariff does not.
- D) neither the tariff nor the quota generates revenue for the federal government.

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

123. When a tariff or quota on a product is removed, the action:

- A) benefits producers in the protected industries.
- B) benefits consumers of the product.
- C) benefits the government.
- D) hurts nations exporting the product.

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

124. If Canadian government were to impose a quota on wristwatches imported from Switzerland, the:

- A) Canada would reduce its export of watches.
- B) prices of watches in Switzerland would rise.
- C) price of watches in Canada would remain the same, but the quantity will fall.
- D) total quantity of watches (domestically produced and imported) purchased would decline.

Ans: D Level: Moderate Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

125. The basic difference in the economic effects of a tariff compared with a quota is that a:

- A) quota generates revenue for the government.
- B) tariff generates revenue for the government.
- C) tariff raises product prices, but a quota does not raise product prices.
- D) quota raises product prices, but a tariff does not raise product prices.

Ans: B Level: Moderate Main Topic: 17.3 Trade Barriers Page: 401  
Subtopic: Net cost of tariffs and quotas Type: Application

## Chapter 17 International Trade

126. Studies show that:

- A) it is impossible to estimate the benefits of trade barriers.
- B) costs and benefits of trade barriers are about equal.
- C) benefits of trade barriers exceed their costs in less developed nations.
- D) costs of trade barriers exceed their benefits, creating an efficiency loss for society.

Ans: D Level: Easy Main Topic: 17.3 Trade Barriers Page: 401

Subtopic: Net cost of tariffs and quotas Type: Application

127. In economic terms:

- A) the purpose of the fair-trade movement is to guarantee the lowest production cost for the low income producers .
- B) the purpose of the fair-trade movement is to guarantee the availability of the agricultural products for the high-income nations.
- C) the purpose of the fair-trade movement is to distribute more of the total gains from international trade directly to low income producers and workers.
- D) the purpose of the fair-trade movement is to guarantee the highest level of profits for the large corporations.

Ans: C Level: Easy Main Topic: Last Word Page: 402-403 Type: Application

128. Consumer organizations in some of the high-income countries have tried to bypass the usual distribution channels and buy imported agricultural goods directly from producers that agree to certain standards. This practice has been referred to as:

- A) free trade .
- B) standardized trade.
- C) certified trade.
- D) fair-trade.

Ans: D Level: Easy Main Topic: Last Word Page: 402-403

Type: Application

129. The fair-trade standards guarantee the producers :

- A) a higher-than-market prices, if they agree to pay their workers higher than market wages .
- B) a price equal to the market prices.
- C) a price less than the market prices.
- D) a removal of all agriculture subsidies in high-income nations.

Ans: A Level: Easy Main Topic: Last Word Page: 402-403

Type: Application

## Chapter 17 International Trade

130. The increase in the high-income nations' imports of agricultural commodities from low-income countries have mainly benefited the large corporations. This is because:
- A) large corporations have to abide by rules regarding labour standards, minimum wage, and work place safety.
  - B) workers in the low-income nations are immobile, have low employment opportunities and, most of them do not belong to any labour organization and therefore, they are easy to be taken advantage of.
  - C) large corporations need a huge profit to be able to share it with their low-wage workers.
  - D) large corporations have to compete with low income producers.

Ans: B Level: Easy Main Topic: Last Word Page: 402-403  
Type: Application

131. In order to be certified as fair-trade employer and fair-trade product:
- A) the producer must produce certain number of products.
  - B) the producer must be a large corporation.
  - C) either the producer and/or the product should meet the fair-trade standards.
  - D) both the producers and products should meet the fair-trade standards.

Ans: D Level: Easy Main Topic: Last Word Page: 402-403  
Type: Application

132. The principle of comparative advantage is that total output will be greatest when each good is produced by that nation which has the lowest domestic opportunity cost.

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Definition

133. Comparative advantage can result from different climates, natural resource endowments, and capital stocks in various countries.

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Application

134. The nation which has a comparative advantage in a particular product will be the only world exporter of that product.

Ans: False Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Application

## Chapter 17 International Trade

135. International trade based on the principle of comparative advantage creates a more efficient allocation of world economic resources.

Ans: True Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Application

Use the following to answer questions 136-140:

Assume that by devoting all its resources to the production of X, nation Alpha can produce 40 units of X. By devoting all its resources to Y, Alpha can produce 60Y. Comparable figures for nation Beta are, 60X and 40Y.

136. Refer to the above information. Alpha should specialize in Y and Beta in X.

Ans: True Level: Easy Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Calculation

137. Refer to the above information. The terms of trade will be at or within the  $1X = 1 \frac{1}{2} Y$  to  $1X = \frac{2}{3} Y$  range.

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Calculation

138. Refer to the above information. Alpha would prefer terms of trade at, or close to,  $1X = \frac{2}{3} Y$ .

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Calculation

139. Refer to the above information. Beta would prefer terms of trade at, or close to,  $1X = 1 \frac{1}{2} Y$ .

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Calculation

140. Refer to the above information. If Alpha had produced 20X and 30Y and Beta had produced 30X and 20Y before specialization and trade, then we can say that the gains from specialization and trade are 10X and 10Y.

Ans: True Level: Moderate Main Topic: 17.1 The economic basis for trade  
Page: 390 Type: Calculation



## Chapter 17 International Trade

141. The terms of trade will favour a larger nation over a smaller nation.

Ans: False   Level: Easy   Main Topic: 17.1   The economic basis for trade  
Page: 390   Type: Application

142. The law of increasing opportunity costs limits international specialization.

Ans: True   Level: Easy   Main Topic: 17.1   The economic basis for trade  
Page: 393-394   Type: Application

143. A nation will import a particular product if the world price is less than the domestic price.

Ans: True   Level: Moderate   Main Topic: 17.2   Supply and demand analysis of exports and imports   Page: 395-396   Type: Application

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

Ans: True   Level: Moderate   Main Topic: 17.3   Trade Barriers   Page: 399-400  
Type: Application

145. Import quotas produce the same amount of revenue for government as protective tariffs.

Ans: False   Level: Moderate   Main Topic: 17.3   Trade Barriers   Page: 400  
Type: Application

146. Barriers to free trade impair efficiency in the international allocation of resources.

Ans: True   Level: Easy   Main Topic: 17.3   Trade Barriers   Page: 402  
Type: Application

147. producers and products that meet the fair-trade standards are certified as fair-trade employers and fair-trade products.

Ans: True   Level: Easy   Main Topic: The last word   Page: 402  
Type: Application