

University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Macroeconomics
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CH 31

- 1) Goods and services that we buy from other countries are our
 - A) balance of payments.
 - B) exports.
 - C) imports.
 - D) terms of trade.
 - E) comparative goods and services.

- 2) The goods and services we sell to people in other countries are our
 - A) tariffs.
 - B) quotas.
 - C) exports.
 - D) imports.
 - E) investment goods and services.

- 3) The fundamental force that drives international trade is
 - A) absolute advantage.
 - B) importation duties.
 - C) the advantage of execution.
 - D) export advantage.
 - E) comparative advantage.

- 4) The fundamental force that drives international trade is
 - A) comparative advantage.
 - B) absolute advantage.
 - C) a countries' desire to increase their trade surplus.
 - D) cheap labor in countries like China and India.
 - E) unemployment of factors of production.

- 5) A country
 - A) imports those goods in which it has a comparative advantage.
 - B) exports those goods in which it has a comparative advantage.
 - C) imports goods produced in countries with lower wage rates.
 - D) exports goods produced by domestic industries with low wages relative to its trading partners.
 - E) B and D are correct.

- 6) Canada has a comparative advantage in producing airplanes if
 - A) it can produce them at a lower dollar cost than another country.
 - B) it can produce a larger quantity than another country.
 - C) it has a larger quantity of skilled workers than another country.
 - D) it can produce them at a higher opportunity cost than another country.
 - E) it can produce them at a lower opportunity cost than another country.

- 7) Prior to international trade, if the price of good X is lower in country A than in country B,
- A) country B has an absolute advantage in the production of good X.
 - B) country B has a comparative advantage in the production of good X.
 - C) country A has an absolute advantage in the production of good X.
 - D) country A has a comparative advantage in the production of good X.
 - E) country B should stop producing good A.
- 8) Which of the following statements about Canada's international trade in 2008 is correct?
- A) The value of Canada's exports exceeded the value of Canada's imports.
 - B) The value of Canada's exports was about 45 percent of the value of total expenditure in Canada.
 - C) Canada imported only goods.
 - D) Canada was the world's second largest trader.
 - E) Canada exported only goods.
- 9) Canada has a comparative advantage in producing hardwood if the Canadian price of hardwood before international trade is _____ the world price.
- A) equal to
 - B) greater than
 - C) not comparable to
 - D) at least double
 - E) less than
- 10) Compared to the situation before international trade, after Canada exports a good, production in Canada _____ and consumption in Canada _____.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) increases; does not change
- 11) Compared to the situation before international trade, after Canada imports a good, production in Canada _____ and consumption in Canada _____.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) does not change; increases
- 12) Which of the following is a Canadian service export?
- A) A Canadian buys dinner while travelling in Switzerland.
 - B) A Swiss buys dinner while travelling in Canada.
 - C) A Canadian buys a clock made in Switzerland.
 - D) A Swiss buys a computer made in Canada.
 - E) A Canadian buys a Canadian computer in Switzerland.

Refer to the table below to answer the following questions.

Table 31.1.1
Glazeland's Doughnut Market

Price (dollars per doughnut)	Glazeland's Supply (millions)	Glazeland's Demand (millions)
0.20	1	10
0.30	2	8
0.40	3	6
0.50	4	4
0.60	5	2
0.70	6	0

- 13) Table 31.1.1 shows Glazeland's doughnut market before international trade. Glazeland opens up to international trade. If the world price is \$0.60, then Glazeland will produce _____ doughnuts and will _____ doughnuts.
- A) 2 million; import 3 million
 - B) 4 million; import 1 million
 - C) 4 million; export 1 million
 - D) 5 million; import 3 million
 - E) 5 million; export 3 million
- 14) Table 31.1.1 shows Glazeland's doughnut market before international trade. Glazeland opens up to international trade. If the world price is \$0.40, then Glazeland will produce _____ doughnuts and will _____ doughnuts.
- A) 3 million; import 3 million
 - B) 3 million; export 3 million
 - C) 4 million; import 1 million
 - D) 4 million; export 1 million
 - E) 6 million; export 3 million
- 15) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. If Canada did *not* trade with the rest of the world, then the equilibrium price of lumber would be _____ in Canada than the rest of the world, and the equilibrium price of wine would be _____ in Canada than the rest of the world.
- A) lower; higher
 - B) higher; lower
 - C) higher; higher
 - D) lower; lower
 - E) the same or lower; the same or higher
- 16) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. Canada has a comparative advantage in producing _____. The rest of the world has a comparative advantage in producing _____.
- A) lumber; wine
 - B) wine; lumber
 - C) wine; wine
 - D) lumber; lumber
 - E) a good other than lumber or wine; wine
- 17) Consider a country that sells some of its goods as exports. Who does *not* benefit?
- A) domestic consumers
 - B) domestic producers
 - C) workers in the industry
 - D) foreign consumers
 - E) everyone benefits

- 18) Who benefits from imports?
- A) domestic consumers
 - B) domestic producers
 - C) foreign consumers
 - D) domestic workers in the industry
 - E) everyone benefits
- 19) A country opens up to trade. In an import industry,
- A) domestic producers lose and domestic consumers gain.
 - B) domestic consumers lose and domestic producers gain.
 - C) the government loses and domestic consumers gain.
 - D) domestic producers lose and the government gains.
 - E) none of the above.

Refer to the table below to answer the following questions.

Table 31.1.2

Price (dollars)	Quantity demanded (units)	Quantity supplied (units)
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- 20) Refer to Table 31.1.2. The table shows a country's demand and supply schedules. At what world price would the country import?
- A) at exactly \$8 a unit
 - B) any price above \$8 a unit
 - C) a price of \$10 a unit
 - D) a price of \$20 a unit
 - E) a price below \$8 a unit
- 21) Refer to Table 31.1.2. The table shows a country's demand and supply schedules. Suppose the world price is \$4 a unit. The country
- A) imports 20 units.
 - B) exports 20 units.
 - C) imports 10 units.
 - D) exports 10 units.
 - E) imports 30 units.
- 22) A market is open to international trade. At the world price, the quantity demanded is 150 units and the quantity supplied is 200 units. This country will
- A) import 50 units.
 - B) export 200 units.
 - C) import 150 units.
 - D) import 200 units.
 - E) export 50 units.

- 23) A country opens up to trade. In an export industry,
- A) domestic consumers lose and domestic producers win.
 - B) domestic producers lose and domestic consumers win.
 - C) domestic producers lose and the government wins.
 - D) the government loses and domestic consumers win.
 - E) none of the above.

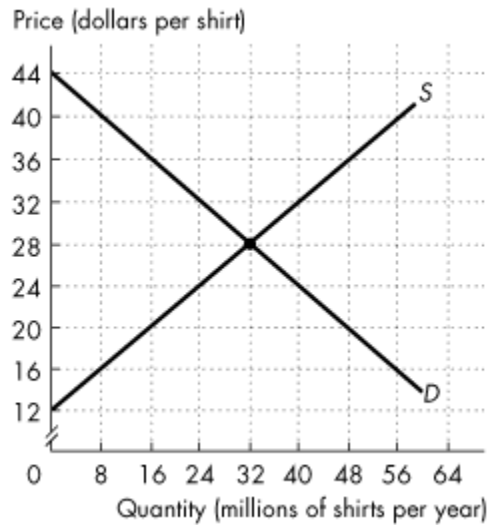
Refer to the table below to answer the following question.

Table 31.1.3

Price (dollars)	Quantity demanded (units)	Quantity supplied (units)
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- 24) Refer to Table 31.1.3. The table shows a country's demand and supply schedules. At what world price would the country export?
- A) at only \$8 a unit
 - B) any price below \$8
 - C) a price of \$6 a unit
 - D) a price of \$4 a unit
 - E) any price above \$8 a unit

Refer to the figure below to answer the following questions.



The figure shows the market for shirts in Canada, where *D* is the domestic demand curve and *S* is the domestic supply curve. The world price is \$20 per shirt.

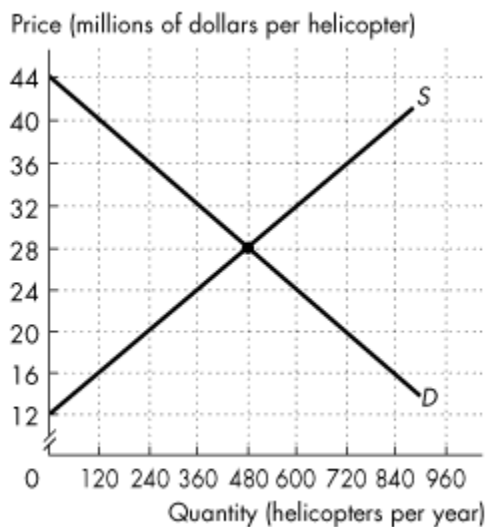
Figure 31.1.1

- 25) In Figure 31.1.1, with international trade Canadians buy _____ million shirts per year.
 - A) 48
 - B) 32
 - C) 16
 - D) 24
 - E) 56

- 26) In Figure 31.1.1, with international trade _____ million shirts per year are produced in Canada.
 - A) 48
 - B) 32
 - C) 20
 - D) 56
 - E) 16

- 27) In Figure 31.1.1, with international trade Canada _____ million shirts per year.
 - A) imports 32
 - B) imports 48
 - C) exports 16
 - D) exports 32
 - E) imports 16

Refer to the figure below to answer the following questions.



The figure shows the market for helicopters in Canada, where *D* is the domestic demand curve and *S* is the domestic supply curve. Canada trades helicopters with the rest of the world at a price of \$36 million per helicopter.

Figure 31.1.2

- 28) In Figure 31.1.2, with international trade Canadian firms buy _____ helicopters per year.
 - A) 240
 - B) 480
 - C) 720
 - D) 360
 - E) 600

- 29) In Figure 31.1.2, with international trade _____ helicopters per year are produced in Canada.
 - A) 360
 - B) 480
 - C) 720
 - D) 240
 - E) 600

- 30) In Figure 31.1.2, Canada _____ helicopters per year.
 - A) exports 480
 - B) exports 720
 - C) imports 480
 - D) imports 240
 - E) exports 240

- 31) Consider a market that sells some of its goods as exports. Who does *not* benefit?
 - A) domestic consumers
 - B) domestic producers
 - C) workers in the industry
 - D) foreign consumers
 - E) all of the above benefit

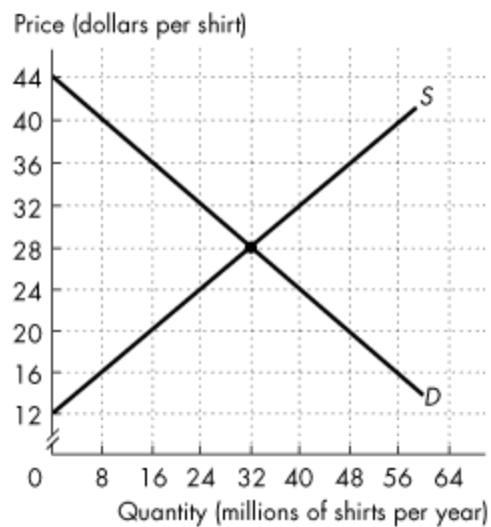
- 32) Who benefits from imports?
- A) domestic consumers
 - B) domestic producers
 - C) foreign consumers
 - D) domestic workers in the industry
 - E) none of the above benefit
- 33) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. When Canada exports lumber to the rest of the world and the rest of the world exports wine to Canada _____.
- A) lumber producers in the rest of the world lose and wine producers in the rest of the world gain
 - B) Canada's lumber producers gain
 - C) Canada's wine producers lose
 - D) all of the above
 - E) none of the above
- 34) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. If Canada did *not* trade with the rest of the world, then the equilibrium price of lumber would be _____ in Canada than the rest of the world, and the equilibrium price of wine would be _____ in Canada than the rest of the world.
- A) lower; higher
 - B) higher; lower
 - C) higher; higher
 - D) lower; lower
 - E) sometimes higher and sometimes lower; always higher
- 35) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. Canada has a comparative advantage in producing _____. The rest of the world has a comparative advantage in producing _____.
- A) lumber ; wine
 - B) wine; lumber
 - C) wine; wine
 - D) lumber; lumber
 - E) both lumber and wine; neither lumber nor wine
- 36) Suppose that the world price of oats is 30 cents a kilogram. Canada does *not* trade internationally, and the equilibrium price of oats in Canada is 40 cents a kilogram. Canada then begins to trade internationally. The price of oats in Canada _____. Canadian consumers buy _____ oats. Canadian firms produce _____ oats. Canada _____ oats.
- A) rises; less; more; exports
 - B) falls; less; more; imports
 - C) falls; more; less; imports
 - D) rises; more; less; exports
 - E) falls; more; less; exports
- 37) A tariff is a tax that is imposed by the _____ country when an _____ good crosses its international boundary.
- A) exporting; imported
 - B) importing; exported
 - C) exporting; exported
 - D) importing; imported
 - E) importing or exporting; imported or exported

- 38) A tax that is imposed by the importing country when an imported good crosses its international boundary is called
- A) an import quota.
 - B) dumping.
 - C) a voluntary export restraint.
 - D) a tariff.
 - E) a sales tax.
- 39) Tariffs and import quotas differ in that
- A) one is a form of trade restriction, while the other is not.
 - B) one is a tax, while the other is a limit.
 - C) one is imposed by the government, while the other is imposed by the private sector.
 - D) one is legal, while the other is not.
 - E) one increases imports, while the other decreases imports.
- 40) Tariffs and import quotas both result in
- A) lower levels of domestic production.
 - B) the domestic government gaining revenue.
 - C) lower levels of imports.
 - D) higher levels of domestic consumption.
 - E) an increase in demand.
- 41) If Canada imposes a tariff on imported cars,
- A) Canada's demand curve for cars shifts rightward.
 - B) Canada's demand curve for cars shifts leftward.
 - C) Canada's supply curve of cars shifts rightward.
 - D) Canada's supply curve of cars shifts leftward.
 - E) the price in Canada rises but neither Canada's demand curve nor Canada's supply curve shifts.
- 42) Which of the following statements concerning tariffs is *not* true?
- A) A tariff increases domestic production.
 - B) A tariff creates revenue for the government.
 - C) A tariff decreases international trade.
 - D) A tariff leaves the price of imports unchanged.
 - E) A tariff decreases domestic consumption.
- 43) If a country imposes a tariff on an imported good, the tariff _____ the price in the importing country and _____ the quantity of imports.
- A) raises; increases
 - B) raises; does not change
 - C) lowers; does not change
 - D) lowers; increases
 - E) raises; decreases
- 44) A tariff imposed by Canada on Japanese cars _____ the price of cars in Canada and _____ the quantity of Japanese cars imported into Canada.
- A) raises; increases
 - B) raises; decreases
 - C) lowers; increases
 - D) lowers; decreases
 - E) raises; does not change

- 45) If Canada imposes a tariff of \$1 per imported shirt, the tariff
- A) raises the price of a shirt paid by Canadian consumers.
 - B) benefits Canadian shirt producers.
 - C) decreases imports of shirts into Canada.
 - D) creates a social loss.
 - E) all of the above.
- 46) If Canada imposes a tariff on imported steel, the tariff
- A) raises the Canadian price of imported steel.
 - B) decreases the Canadian production of steel.
 - C) increases the total Canadian consumption of steel.
 - D) decreases employment in the Canadian steel industry.
 - E) all of the above.
- 47) Suppose the country of Mooland imposes tariffs on imported beef from the country of Aqualand. As a result of the tariffs, the
- A) price of beef in Mooland falls.
 - B) quantity of beef exported by Mooland increases.
 - C) quantity of beef imported by Mooland decreases.
 - D) quantity of beef imported by Mooland increases.
 - E) price of beef in Mooland does not change.
- 48) Reducing a tariff _____ the domestic production of the good and _____ the total domestic consumption of the good.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) does not change; increases
- 49) Increasing a tariff _____ the domestic quantity consumed of the good and _____ the domestic production of the good.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) decreases; does not change
- 50) Tariffs
- A) generate revenue for consumers.
 - B) generate revenue for the government.
 - C) encourage domestic consumers to buy more imports.
 - D) encourage domestic producers to produce less.
 - E) lower prices for consumers.
- 51) Canada imports cars from Japan. If Canada imposes a tariff on cars imported from Japan, Canadian
- A) consumers will lose and Japanese producers will gain.
 - B) tariff revenue will equal the loss of Canadian consumers.
 - C) consumers will lose and Canadian producers will gain.
 - D) car manufacturers will gain revenue equal to the revenue lost by Japanese car manufacturers.
 - E) producers will lose and Japanese consumers will gain.
- 52) A Canadian tariff imposed on items that can be produced more cheaply abroad
- A) benefits Canadians by making these goods cheaper.
 - B) makes the goods more expensive in foreign markets.
 - C) creates a social loss.
 - D) equalizes the cost of production between Canada and foreign producers.
 - E) All of the above.

- 53) The winners from a tariff on imports are
- A) producers and government.
 - B) producers only.
 - C) consumers only.
 - D) consumers, producers, and government.
 - E) government only.
- 54) A tariff is imposed on a good. This _____ the quantity supplied, _____ the quantity demanded, and _____ the price in the home country.
- A) increases; decreases; raises
 - B) increases; does not change; does not change
 - C) increases; increases; raises
 - D) increases; decreases; lowers
 - E) decreases; increases; lowers

Refer to the figure below to answer the following questions.



The figure shows the market for shirts in Canada, where D is the domestic demand curve and S is the domestic supply curve. The world price is \$20 per shirt. Canada imposes a tariff on imported shirts of \$4 per shirt.

Figure 31.2.1

- 55) Refer to Figure 31.2.1, with the tariff Canadians buy _____ million shirts per year.
- A) 48
 - B) 32
 - C) 16
 - D) 24
 - E) 40
- 56) Refer to Figure 31.2.1, with the tariff Canada imports _____ million shirts per year.
- A) 24
 - B) 8
 - C) 32
 - D) 16
 - E) 40

- 57) Refer to Figure 31.2.1, the tariff _____ Canada's imports of shirts by _____ million shirts per year.
- A) decreases; 16
 - B) decreases; 8
 - C) increases; 8
 - D) increases; 4
 - E) increases; 16
- 58) Refer to Figure 31.2.1, the tariff _____ the domestic production of shirts in Canada by _____ per year.
- A) increases; 8 million
 - B) decreases; 16 million
 - C) increases; 4 million
 - D) decreases; 8 million
 - E) increases; 24 million
- 59) Refer to Figure 31.2.1, the Canadian government's revenue from the tariff is _____.
- A) \$64 million
 - B) \$32 million
 - C) \$128 million
 - D) \$48 million
 - E) \$480 million
- 60) Of the following, in which decade were Canada's tariffs at their lowest level?
- A) 1990s
 - B) 1970s
 - C) 1950s
 - D) 1930s
 - E) 1890s
- 61) An import quota is
- A) a tariff that is a fixed percentage of the price of a good.
 - B) a tariff that is a fixed dollar amount per unit of a good.
 - C) an agreed upon price for a good to be imported at a specified future date.
 - D) a restriction that specifies the maximum amount of a good that may be imported.
 - E) the same as an export subsidy.
- 62) _____ specifies the maximum amount of a good that may be imported in a given period of time.
- A) An import restriction
 - B) A legislative restriction
 - C) A trade restriction
 - D) An import quota
 - E) An import subsidy
- 63) Import quotas
- A) are the same as tariffs.
 - B) are not used by Canada.
 - C) set the minimum percentage of the value of a product that must consist of imported components.
 - D) benefit society.
 - E) set the maximum number of units of a good that can be imported in a given time period.
- 64) An import quota is a
- A) tariff imposed on goods that are dumped in the country.
 - B) law that prevents ecologically damaging goods from being imported into a country.
 - C) market-imposed balancing factor that keeps prices of imports and exports in equilibrium.
 - D) government-imposed restriction on the quantity of a specific good that can be imported.
 - E) tax in an international market.

- 65) An import quota directly restricts _____ and is designed to protect domestic _____.
- A) exports; consumers only
 - B) exports; producers only
 - C) imports; consumers only
 - D) imports; producers only
 - E) imports; producers and consumers
- 66) Import quotas _____ the price of imported goods and _____ the quantity consumed in the country imposing the quota.
- A) raise; increase
 - B) raise; decrease
 - C) lower; increase
 - D) lower; decrease
 - E) raise; do not change
- 67) If a government imposes a quota on imports of a popular doll, the price of the doll in the country _____ and the quantity purchased in the country _____.
- A) rises; increases
 - B) rises; decreases
 - C) falls; increases
 - D) falls; decreases
 - E) rises; does not change
- 68) A key difference between tariffs and import quotas is that
- A) consumers are hurt with import quotas but not with tariffs.
 - B) consumers are hurt with tariffs but not with import quotas.
 - C) the government receives revenue with a tariff, but the importer makes a profit with an import quota.
 - D) the government receives revenue with an import quota, but the importer makes a profit with a tariff.
 - E) domestic producers gain with a tariff and lose with an import quota.
- 69) A difference between a quota and a tariff is that
- A) a tariff generates a higher price than does an import quota.
 - B) a tariff generates a greater reduction in exports than does an import quota.
 - C) an import quota increases profits of domestic producers more than a tariff.
 - D) the government collects revenue from a tariff but does not collect revenue from an import quota.
 - E) an import quota creates a social loss and a tariff does not.
- 70) A tariff _____ the domestic price of the good and an import quota _____ the domestic price of the good.
- A) lowers; lowers
 - B) lowers; raises
 - C) raises; lowers
 - D) raises; raises
 - E) does not change; does not change

Refer to the table below to answer the following questions.

Table 31.2.1
Canada's Market for Widgets

Price (dollars per widgets)	Canadian Supply (millions)	Canadian Demand (millions)
5	12	52
6	16	48
7	20	44
8	24	40
9	28	36
10	32	32
12	36	28

- 71) Table 31.2.1 shows the Canadian supply of and demand for widgets. Widgets are available on the world market for \$7. If the Canadian government imposes a tariff of \$1, the domestic selling price will be _____ and quantity bought will be _____.
- A) \$6; 48 million
 - B) \$7; 44 million
 - C) \$8; 16 million
 - D) \$8; 24 million
 - E) \$8; 40 million
- 72) Table 31.2.1 shows the Canadian supply of and demand for widgets. Widgets are available on the world market for \$7. If the Canadian government imposes a tariff of \$1, how many widgets will Canada import?
- A) 32 million
 - B) 24 million
 - C) 16 million
 - D) 24 million
 - E) 40 million
- 73) Table 31.2.1 shows the Canadian supply of and demand for widgets. Widgets are available on the world market for \$7. Canadian widget producers convince the government to protect the domestic industry from cheap imports. If the Canadian government sets an import quota of 8 million widgets, the resulting price of a widget in Canada will be _____, and domestic production will be _____.
- A) \$6; 40 million
 - B) \$7; 36 million
 - C) \$8; 32 million
 - D) \$9; 28 million
 - E) \$10; 32 million
- 74) A tariff on watches which are imported by Atlantis _____ the price of watches in Atlantis and _____.
- A) lowers; imports of watches increase
 - B) raises; watch production in Atlantis increases
 - C) raises; watch production in Atlantis decreases
 - D) lowers; watch production in Atlantis increases
 - E) lowers; watch production in Atlantis decreases

- 75) When an *import quota* is imposed, the gap between the domestic price and the price received in the exporting country is captured by
- consumers in the importing country.
 - the domestic producers of the good.
 - the government of the importing country.
 - foreign exporters.
 - the importers of the good.
- 76) When a *tariff* is imposed, the gap between the domestic price and the price received in the exporting country is captured by
- consumers in the importing country.
 - the domestic producers of the good.
 - the government of the importing country.
 - foreign exporters.
 - the domestic importers of the good.
- 77) Canada imposes a tariff on \$1 per imported shirt, the higher tariff
- raises the price of a shirt to Canadian consumers.
 - benefits Canadian shirt producers.
 - decreases imports of shirts into Canada.
 - creates a social loss.
 - all of the above.
- 78) If Canada imposes a tariff on imported steel, the tariff
- raises the Canadian price of imported steel.
 - decreases Canadian production of steel.
 - increases the total Canadian consumption of steel.
 - decreases employment in the Canadian steel industry.
 - both B and D are correct.
- 79) Lowering the tariff on good *X*
- increases domestic employment in industry *X*.
 - increases domestic imports of good *X*.
 - increases the domestic price of good *X*.
 - has no effect unless the nation's trading partners also lower their tariffs on good *X*.
 - increases government revenue.
- 80) When the Canadian government imposes a tariff _____.
- Canadian consumers gain and Canadian producers lose, and the gain exceeds the loss
 - the tariff revenue earned by the government is a social loss
 - a social loss occurs because increased domestic production could have been obtained at a lower cost as an import
 - Canadian producers lose
 - A and B are both correct
- 81) Economists usually agree with which of the following arguments that favour protectionism?
- the competition with cheap foreign labour defence
 - the job protection defence
 - the dumping defence
 - the infant-industry defence
 - None of the above. Economists generally agree that arguments in favor of protection are flawed.
- 82) Which of the following are valid reasons advanced by almost all economists? Protection
- saves jobs.
 - prevents rich countries from exploiting developing countries.
 - is a good way for governments in developed nations to raise revenue.
 - penalizes lax environmental standards.
 - Economists would not support any of the above reasons.

- 83) Which of the following are reasons economists consider valid for trade protection?
- I. Protection penalizes countries that have weak environmental standards.
 - II. Protection limits dumping of low-wage jobs into the domestic economy.
 - III. Protection prevents low-wage jobs in foreign countries from lowering wages in Canada.
- A) I and II.
 - B) II and III.
 - C) I, II, and III.
 - D) I and III.
 - E) None of the above.
- 84) The idea of dynamic comparative advantage is the basis for which of the following arguments for protection from foreign competition?
- A) the cheap foreign labor argument
 - B) the infant-industry argument
 - C) the dumping argument
 - D) the saves jobs argument
 - E) the prevents rich countries from exploiting developing countries argument
- 85) The most efficient way to encourage the growth of an infant-industry is through
- A) a voluntary export restraint.
 - B) a tariff.
 - C) a subsidy.
 - D) an import quota.
 - E) none of the above.
- 86) The proposition that protection is necessary to allow an infant industry to grow into a mature industry so that it can compete in world markets is the _____.
- A) infant-maturity argument
 - B) infant-industry argument
 - C) new industry proposition
 - D) growth proposition
 - E) dynamic comparative advantage argument
- 87) Dumping occurs when a foreign firm _____.
- A) pollutes international waters
 - B) disposes of waste material internationally
 - C) sells inferior output to foreigners
 - D) sells its exports at a lower price than its cost of production
 - E) sells its output at a lower price in a foreign country than in the country where it produces the good
- 88) _____ occurs when a foreign firm sells its exports at a lower price than its cost of production.
- A) Comparative advantage
 - B) Learning-by-doing
 - C) A tariff
 - D) An infant industry
 - E) Dumping
- 89) Suppose that the country of Pacifica sold its cars in Atlantica for less than it costs to produce the cars. Pacifica could be accused of
- A) avoiding import quotas.
 - B) increasing its gains from trade.
 - C) dumping.
 - D) engaging in learning-by-doing.
 - E) exploiting a comparative advantage.

- 90) When a firm "dumps" some of its output in another country, it
- A) creates an environmental hazard in the receiving country.
 - B) sells its output abroad at a price lower than it costs to produce the output.
 - C) increases the total level of employment in the importing country.
 - D) is specializing according to comparative advantage.
 - E) creates for itself an absolute advantage.
- 91) In poorer countries, free trade _____ the demand for labour in these countries and _____ the wages paid in these countries.
- A) decreases; lowers
 - B) decreases; raises
 - C) increases; lowers
 - D) increases; raises
 - E) increases the supply and decreases; lowers
- 92) Which of the following statements is true?
- A) International trade raises wages in developing countries.
 - B) International trade with rich industrial countries forces people in the developing countries to work for lower wages.
 - C) International trade leads to job losses in both import competing industries and exporting industries.
 - D) Unlike other types of international trade, offshoring does not bring any gains from trade.
 - E) All of the above.
- 93) The argument that protection _____.
- A) penalizes poor environmental standards is true
 - B) allows us to compete with cheap foreign wages is true
 - C) is necessary for infant industries is true
 - D) saves jobs is flawed
 - E) prevents rich countries from exploiting poor countries is true.
- 94) Which of the following is an explanation for the existence of trade restrictions?
- A) tariffs generate revenue for the government
 - B) rent seeking
 - C) inefficient quotas
 - D) both A and B
 - E) both A and C
- 95) In industrial countries, there is more reliance on _____, as opposed to _____ for government revenue.
- A) tariffs; tax collection
 - B) import quotas; tariffs
 - C) tariffs; import quotas
 - D) import quotas; tax collection
 - E) tax collection; tariffs
- 96) In developing countries, there is more reliance on _____ as opposed to _____ for government revenue.
- A) tariffs; tax collection
 - B) import quotas; tariffs
 - C) tax collection; tariffs
 - D) tariffs; import quotas
 - E) import quotas; tax collection
- 97) Of the groups listed below, which is most likely to lobby for protection?
- A) workers in the import industry
 - B) workers in the export industry
 - C) consumers in the import industry
 - D) producers in the export industry
 - E) All of the above.

- 98) Rent seeking is one reason why countries choose to
- A) export and import the same goods.
 - B) work for freer trade.
 - C) follow the theory of comparative advantage.
 - D) hire foreign labour.
 - E) restrict trade.
- 99) When considering rent seeking, which of the following is *true*?
- A) The anti-free trade group generally will lobby more than the pro-free trade group.
 - B) The pro-free trade group generally will lobby more than the anti-free trade group.
 - C) Usually only the anti-free trade group is concerned about what is best for society at large.
 - D) Only the pro-free trade group is concerned about the government's revenue from tariffs.
 - E) None of the above.
- 100) One reason that international trade is restricted is that
- A) the individual gain to parties who benefit from the protection will be much larger than the individual loss to parties who lose.
 - B) the government completely pays the losers from international trade for their losses.
 - C) protectionism benefits consumers.
 - D) the government cannot measure the cost of protectionism.
 - E) tariff revenue raises more income than income taxes in industrial countries.
- 101) Usually the *removal* of trade barriers affecting a particular good benefits _____ people domestically, each of whom gains a _____.
- A) a few; little
 - B) a few; lot
 - C) many; little
 - D) many; lot
 - E) We can't determine the relative benefits from the removal of trade barriers.
- 102) Usually the *imposition* of trade barriers affecting a particular good benefits _____ people domestically, each of whom gains a _____.
- A) a few; little
 - B) a few; lot
 - C) many; little
 - D) many; lot
 - E) We can't determine the relative benefits from the imposition of trade barriers.
- 103) The gains from free trade are enjoyed by a _____ number of people and the costs of free trade are imposed on a _____ number of people.
- A) small; large
 - B) large; small
 - C) small; small
 - D) large; large
 - E) We can't determine the relative number of people who benefit and lose from free trade.
- 104) The effects of offshoring from opening up call centres in India are similar to the effects from
- A) free trade.
 - B) tariffs.
 - C) import quota.
 - D) voluntary export restraints.
 - E) export subsidies.

- 105) Two reasons that explain why international trade in 2008 remains restricted is that restricted international trade _____.
- A) benefits domestic producers of import-competing goods and services and generates tariff revenue in developing countries
 - B) prevents developed countries from exploiting third world countries and saves jobs in those countries
 - C) brings diversity and stability to the whole economy and saves jobs in developing countries
 - D) saves jobs and penalizes developing countries that have lax environmental standards
 - E) brings diversity to the whole economy and penalizes countries that have lax environmental standards
- 106) Offshore outsourcing occurs when a firm in Canada _____.
- A) hires foreign labour and produces in other countries
 - B) buys finished goods, components, or services from other firms in other countries
 - C) buys finished goods, components, or services from other firms in Canada
 - D) hires Canadian labour and produces in Canada
 - E) hires foreign workers who work in Canada
- 107) When a firm implements offshore outsourcing, consumers in Canada _____, workers in Canada in the industry that is being outsourced _____ and workers in the foreign country in the industry that is being outsourced _____.
- A) gain; lose; lose
 - B) lose; lose; gain
 - C) lose; gain; lose
 - D) gain; lose; gain
 - E) gain; gain; gain

Answer Key

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- | | |
|-------|--------|
| 1) C | 59) A |
| 2) C | 60) A |
| 3) E | 61) D |
| 4) A | 62) D |
| 5) B | 63) E |
| 6) E | 64) D |
| 7) D | 65) D |
| 8) A | 66) B |
| 9) E | 67) B |
| 10) B | 68) C |
| 11) C | 69) D |
| 12) B | 70) D |
| 13) E | 71) E |
| 14) A | 72) C |
| 15) A | 73) D |
| 16) A | 74) B |
| 17) A | 75) E |
| 18) A | 76) C |
| 19) A | 77) E |
| 20) E | 78) A |
| 21) A | 79) B |
| 22) E | 80) C |
| 23) A | 81) E |
| 24) E | 82) E |
| 25) A | 83) E |
| 26) E | 84) B |
| 27) A | 85) C |
| 28) A | 86) B |
| 29) C | 87) D |
| 30) A | 88) E |
| 31) A | 89) C |
| 32) A | 90) B |
| 33) D | 91) D |
| 34) A | 92) A |
| 35) A | 93) D |
| 36) C | 94) D |
| 37) D | 95) E |
| 38) D | 96) A |
| 39) B | 97) A |
| 40) C | 98) E |
| 41) E | 99) A |
| 42) D | 100) A |
| 43) E | 101) C |
| 44) B | 102) B |
| 45) E | 103) B |
| 46) A | 104) A |
| 47) C | 105) A |
| 48) C | 106) B |
| 49) C | 107) D |
| 50) B | |
| 51) C | |
| 52) C | |
| 53) A | |
| 54) A | |
| 55) E | |
| 56) D | |
| 57) A | |
| 58) A | |