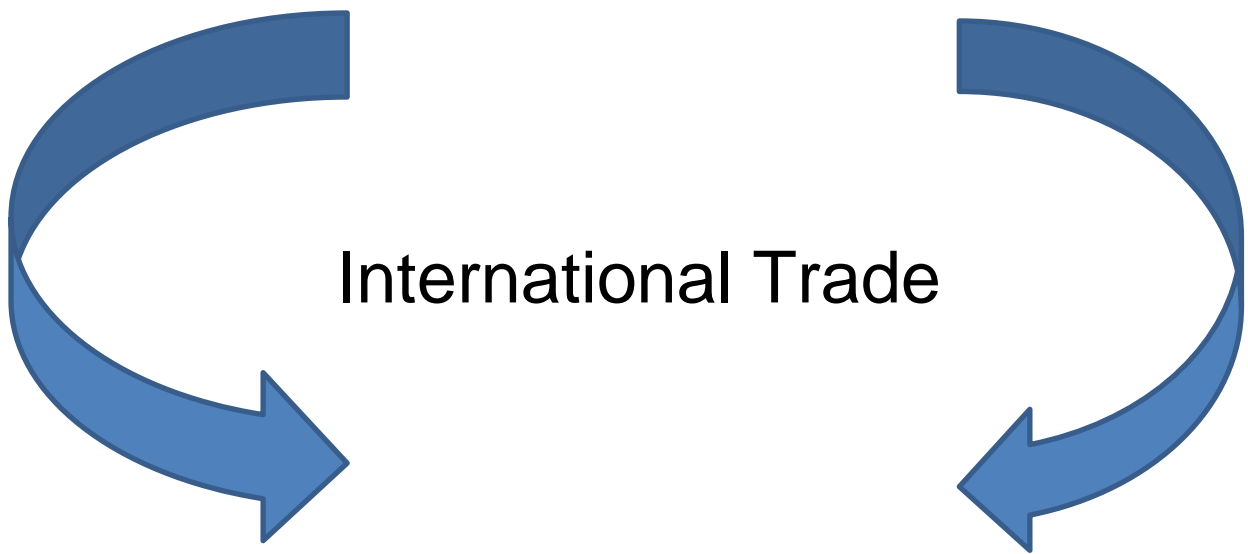


بسم الله الرحمن الرحيم



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## **Part A: True–False Questions**

- (1) If Italy uses fewer resources to produce wine than California, then Italy has a comparative advantage over California in wine production. **F**
- (2) The world's industrialized countries buy most of their imports from less-developed countries because labor costs there are so much lower. **F**
- (3) Dumping refers to a firm selling its goods in foreign markets below its domestic cost in order to drive competitors out of those markets. **T**
- (4) Mercantilism assumed that exports are good because they earn a country gold, while import are bade because they result in an outflow of gold. **T**
- (5) The government policy should seek to reduce imports by imposing duties on imports and restricting the amount of foreign goods that are allowed into the country. **T**
- (6) According to mercantilism, the trade is "zero-sum game" in which one country's gain is another country's loss. **T**
- (7) Adam smith argued that trade is beneficial because of differences between countries in the cost of producing different goods. **T**
- (8) Smith assumed that production of both products took place under conditions of variable costs. **F**
- (9) Absolute advantage theory is given by Adam Smith. **T**
- (10) Adam Smith advocated free trade and specialized. **T**
- (11)

## Part B: multiple-choice questions

(1) If Sweden has an absolute advantage over Ireland in the production of automobiles, then this results from

- a. its ability to sell automobiles in Ireland for less than the cost of production in Ireland
- b. its ability to produce automobiles using fewer resources than Ireland
- c. the size of the Swedish market relative to the Irish market
- d. competitive free trade in automobiles

(2) If it takes Mexico 40 labor-hours to produce a barrel of wine and 30 labor-hours to produce a bushel of corn, then

- a. Mexico could not benefit from international trade
- b. Mexico has an absolute advantage in wine production
- c. Mexico has a comparative advantage in wine production
- d. **the opportunity cost of 1 barrel of wine is  $\frac{4}{3}$  bushel of corn.**

(3) One difference between a tariff and a quota that both limit imports to the same quantity is that

- a. quota gives more encouragement to domestic producers to become more competitive than the tariff
- b. quota raises the price by less than the tariff
- c. quota generates more revenue for the government than the tariff
- d. **tariff generates tax revenue and the quota does not**

(4) A country's terms of trade is the ratio of

- a. the quantity of its exports to the quantity of its imports
- b. the value of its exports to the value of its imports
- c. **the index of its export prices to the index of its import prices, multiplied by 100**
- d. domestic prices to international prices, multiplied by 100

(5) If the opportunity cost of producing onions is lower in Montana than in Ohio, then

**a. Montana has a comparative advantage in onions over Ohio**

- b. Montana has an absolute advantage in onions over Ohio
- c. Ohio has an absolute advantage in onions over Montana
- d. Montana has more highly skilled onion farmers than Ohio

(6) Free trade between Canada and the United States

- a. helps every Canadian and American
- b. generally hurts one country and helps the other

**c. allows for production specialization in Canada and the United States**

- d. is more beneficial to the larger country, United States

(7) If the U.S. government places a quota on wheat, it is to

- a. restrict the quantity of wheat U.S. wheat producers can sell abroad
- b. raise government revenues from imports of wheat to the United States

**c. restrict the quantity of wheat that can be imported**

- d. shift the domestic supply curve to the right in order to lower domestic wheat prices

(8) One way for a small developing economy to benefit rapidly from a freer trade environment is to

- a. make certain that tariffs remain high on imports that compete with domestically-produced goods
- b. impose strict quotas on imports that compete with domestically-produced goods

**c. encourage foreign multinationals to enter the economy to speed capital formation and spur exports**

- d. use tax revenues to subsidize exports

(9) A country's ability to produce a good at a lower opportunity cost than the country it trades with gives a(n)

- a. superiority
- b. absolute advantage

c. international specialization

**d. comparative advantage**

(10) According to the theory of comparative advantage, which of the following is not a reason why countries trade?

b. Costs are higher in one country than in another.

c. Prices are lower in one country than in another.

d. The productivity of labor differs across countries and industries.

**e. Exports give a country a political advantage over other countries that export less.**

(11) Which of the following statements would a mercantilist not agree with?

**a. Imports are desirable.**

b. Trade is a zero-sum activity.

c. The purpose of trade is to amass revenues from exports.

d. A country can benefit by granting monopoly rights to individuals.

(12) According to the theory of comparative advantage, a country will export a good only if

a. It can produce it using less labor than other countries.

b. Its productivity is higher in producing the good than the productivity of other countries in producing it.

c. Its wage rate in producing the good is lower than in other countries.

**d. Its cost of producing the good, relative to other goods, is at least as low as in other countries.**

(13) According to the theory of comparative advantage, countries gain from trade because

a. Trade makes firms behave more competitively, reducing their market power.

b. All firms can take advantage of cheap labor.

c. Output per worker in each firm increases.

**d. World output can rise when each country specializes in what it does relatively best.**

(14) Which of the following is not considered as factors of production?

- a. Land
- b. Labor
- c. **Money**
- d. Capital

(15) Trade between two countries is known as .....

- a. **External**
- b. Internal
- c. Inter-regional
- d. None of above

(16) A primary reason why nations conduct international trade is because:

- a. Some nations prefer to produce one thing while others produce another
- b. **Resources are not equally distributed to all trading nations**
- c. Trade enhances opportunities to accumulate profits
- d. Interest rates are not identical in all trading nations.

(17) A main advantage of specialization results from:

- a. **Economics of large-scale production**
- b. The specializing country behaving as a monopoly
- c. Smaller production runs resulting in lower unit costs.
- d. High wages paid to foreign workers.

(18) International trade in goods and services is sometimes used as a substitute for all of the following except:

- a. International movements of capital.
- b. International movements of labor.
- c. International movements of technology
- d. **Domestic production of different goods and services**

(19) If a nation has an open economy it means that the nation:

a. Allows private ownership of capital.

b. Has flexible exchange rates

c. Has fixed exchange rates.

**d. Conducts trade with other countries.**

(20) International trade forces domestic firms to become more competitive in terms of:

a. The introduction of new products

b. Product design and quality

c. Product price

**d. All of the above**

(21) The movement to free international trade is most likely to generate short-term unemployment in which industries:

a. Industries in which there are neither imports nor exports

**b. Import-competing industries.**

c. Industries that sell to domestic and foreign buyers

d. Industries that sell to only foreign buyers

(22) International trade is based on the idea that:

a. Exports should exceed imports

b. Imports should exceed exports

c. Resources are more mobile internationally than are goods

**d. Resources are less mobile internationally than are goods**

(23) Free traders maintain that an open economy is advantageous in that it provides all of the following except:

a. Increased competition for world producers

b. A wider selection of products for consumers

c. The utilization of the most efficient production methods

**d. Relatively high wages levels for all domestic workers**

(24) A feasible effect of international trade is that a (an):

**a. Monopoly in the home market becomes an oligopoly in the world market**

b. Oligopoly in the home market becomes a monopoly in the world market

c. Purely competitive firm in the home market becomes an oligopolist

d. Purely competitive firm in the home market becomes a monopolist

(25) International trade in goods and services tends to:

a. Increase all domestic costs and prices

b. Keep all domestic costs and prices at the same level

c. Lessen the amount of competition facing home manufacturers

**d. Increase the amount of competition facing home manufacturers**

(26) The real income of domestic producers and consumers can be increased by:

a. Technological progress, but not international trade

b. International trade, but not technological progress

**c. Technological progress and international trade**

d. Neither technological progress nor international trade

(27) Technological improvements are similar to international trade since they both:

a. Provide benefits for all producers and consumers

**b. Increase the nation's aggregate income**

c. Reduce unemployment for all domestic workers

d. Ensure that industries can operate at less than full capacity

(28) Use the information in the table below to answer the next six questions.

<u>Country</u>	<u>Tons of steel</u>	<u>DVDs</u>
South Korea	80	40
Japan	20	20



(1) The opportunity cost of one DVD in Japan is:

- a. **One ton of steel**
- b. Two tons of steel
- c. Three tons of steel
- d. Four tons of steel

(2) The opportunity cost of one DVD in South Korea is:

- a. One-half ton of steel
- b. One ton of steel
- c. One and one-half tons of steel
- d. Two tons of steel

(3) According to the principle of absolute advantage; Japan should:

- a. Export steel
- b. Export DVDs
- c. Export steel and DVDs
- d. **There is no basis for gainful specialization and trade**

(4) According to the principle of comparative advantage:

- a. **South Korea should export steel\_**  
should export steel and DVDs
- b. South Korea
- c. Japan should export steel  
steel and DVDs
- d. Japan should export

(5) With international trade, what would be the maximum amount of steel that South Korea would be willing to export to Japan in exchange for each DVD

- a. One-half ton of steel
- b. One ton of steel
- c. **Two tons of steel**  
tons of steel
- d. Two and one-half

(6) With international trade, what would be the maximum number of DVDs that Japan would be willing to export to South Korea in exchange for each ton of steel:

- a. **One DVD**
- b. Two DVDs
- c. Three DVDs
- d. Four DVDs

(19) The earliest statement of the principle of comparative advantage is associated with:

a. Adam Smith

**b. David Ricardo**

c. Eli Heckscher

d. Bertil Ohlin

(20) If Hong Kong and Taiwan have identical production possibilities curves that are subject to increasing opportunity costs:

**a. Trade would depend on differences in demand conditions**

b. Trade would depend on economies of large-scale production

c. Trade would depend on the use of different currencies

d. There would be no basis for gainful trade

(21) International trade is based on the notion that:

a. Different currencies are an obstacle to international trade

**b. Goods are more mobile internationally than are resources**

c. Resources are more mobile internationally than are goods

d. A country's exports should always exceed its imports

(22) The classical trade theories of Smith and Ricardo predict that

a. Countries will completely specialize in the production of export goods.

b. Considerable trade will occur between countries with different levels of technology

c. Small countries could obtain all of the gains from trade when trading with large countries

**d. All of the above.**

(23) In the classical model of Ricardo, the direction of trade is determined by:

a. absolute advantage  
**advantage**

**b. comparative**

c. physical advantage  
blows

d. which way the wind

(24) Absolute advantage is determined by:

**a. actual differences in labor productivity between countries.**

b. relative differences in labor productivity between countries.

c. both (a) and (b)

d. neither (a) nor (b)

(25) Comparative advantage is determined by:

a. actual differences in labor productivity between countries.

**b. relative differences in labor productivity between countries.**

c. both (a) and (b)

d. neither (a) nor (b)

(26) Answer the next five questions based on the production table below

	Country: Output per Labor Hour	
	A	B
Product X	3	9
Product Y	4	2

(1) Country A has an absolute advantage in

a. Product X

**b. Product Y**

c. Neither X nor Y

d. Both X and Y

(2) Country B has an absolute advantage in

**a. Product X**

b. Product Y

c. Neither X nor Y

d. Both X and Y

(3) If the countries were to trade along the lines of absolute advantage:

a. A would export X to B  
**from A**

**b. B would import Y**

c. Neither country would want to trade

(d) None of the above

(4) If countries were to trade along the lines of comparative advantage:

a. A would export X to B  
**to B**

**b. A would export Y**

c. Neither country would want to trade  
A

(d) B would export Y to

(5) In autarky, the relative price of X, in terms of Y, in A would be:

a.  $1/2$  Y

b.  $3/4$  Y

c. 1 Y

**d.  $4/3$**

Y

(27) Answer the next five questions based on the production table below.

Country: Output per Labor Hour

	A	B
Beer	3	9
Wine	1	2

(1) Country A has an absolute advantage in:

a. Beer

b. Wine

c. Both products

**d. Neither products**

(2) In autarky, the relative price of wine, in terms of beer, in Country A is:

a.  $1W = 1B$

b.  $1W = 2B$

**c.  $1W = 3B$**

d.  $1W =$

$1/3B$

(3) In autarky, the relative price of wine, in terms of beer, in Country B is:

a.  $1W = 3B$

**b.  $1W = 4 \frac{1}{2} B$**

c.  $1W = 5B$

d.  $1W =$

$6B$  Country

(4) A has the comparative advantage in:

**a. Wine**

b. Beer

c. Both wine and beer

d. Neither

wine nor beer

(5) Country B has the comparative advantage in:

a. Wine

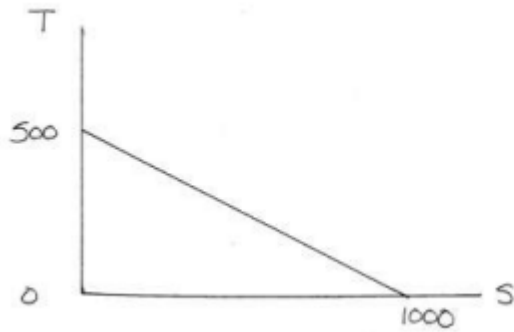
**b. Beer**

c. Both wine and beer

d. Neither

wine nor beer

(28) Answer the next four questions based on the production possibilities diagram below.



(1) The relative price (MRT) of S in terms of T is:

- a. 2                      **b.  $\frac{1}{2}$**                       c. 500                      d. 1000

(2) The relative price (MRT) of T in terms of S is:

- a. 2**                      b.  $\frac{1}{2}$                       c. 500                      d. 1000

(3) If the relative price (MRT) of S were to increase, then the price line would:

- a. shift out in a parallel fashion.                      b. shift in a parallel fashion.                      **c. Become steeper.**                      d. Become flatter.

(4) If the relative price (MRT) of T were to increase, then the price line would:

- a. shift out in a parallel fashion.                      b. shift in a parallel fashion.                      c. become steeper.                      **d. become flatter.**

(29) If a country has a bowed out (concave to the origin) production possibility frontier, then production is said to be subject to:

- a. constant opportunity costs.  
b. decreasing opportunity costs.  
c. first increasing and then decreasing opportunity costs.  
**d. increasing opportunity costs.**

(30) If a country has a linear (downward sloping) production possibilities frontier, then production is said to be subject to:

- a. constant opportunity costs.**  
b. decreasing opportunity costs.  
c. first increasing and then decreasing opportunity costs.

d. increasing opportunity costs.

(31) The terms of trade is given by the prices:

a. Paid for all goods exported by the home country.

b. Received for all goods exported by the home country.

**c. Received for exports and paid for imports.**

d. Of primary products as opposed to manufactured products.

(32) In autarky equilibrium,

a. production equals consumption.

b. exports equal imports.

c. there is no trade.

**d. all of the above.**

(33) In autarky, when a community maximizes its standard of living, its production point is:

a. below the production possibility frontier.

**b. on the production possibility frontier.**

c. above the production possibility frontier.

d. can't tell without more information.

(34) If the autarky price of S were lower in country A than in country B, then if trade were allowed:

**a. A would likely export S to B.**

b. A would likely import S from B.

c. neither country would want to trade.

d. none of the above.

(35) Under free trade, Canada would not realize any gains from trade with Sweden if Canada:

**a. Trades at Canada's marginal rate of transformation.**

b. Trades at Sweden's marginal rate of transformation.

c. Specializes completely in the production of its export good.

d. Specializes partially in the production of its export good.

(36) A tax of 20 cents per unit of imported cheese would be an example of a (an):

a. Compound tariff

b. Effective tariff

c. Ad valorem tariff

**d. Specific tariff**

(37) A tax of 15 percent per imported item would be an example of a (an):

**a. Ad valorem tariff**

b. Specific tariff

c. Effective tariff

d. Compound tariff

(38) Which trade policy results in the government levying both a specific tariff and an ad-valorem tariff on imported goods:

**a. Compound tariff**

b. Nominal tariff

c. Effective tariff

d. Revenue tariff

(39) For advanced countries such as the United States, tariffs on imported raw materials tend to be

a. equal to tariffs on imported manufactured goods

**b. lower than tariffs on imported manufactured goods**

c. higher than tariffs on imported manufactured goods

d. the highest of all tariffs

(40) Ad valorem tariffs are collected as

a. fixed amounts of money per unit traded

**b. a percentage of the price of the product**

c. a percentage of the quantity of imports

d. all of the above

(42) Specific tariffs are collected as

- a. **fixed amount of money per unit traded**
- b. a percentage of the price of the product
- c. a percentage of the quantity of imports
- d. all of the above

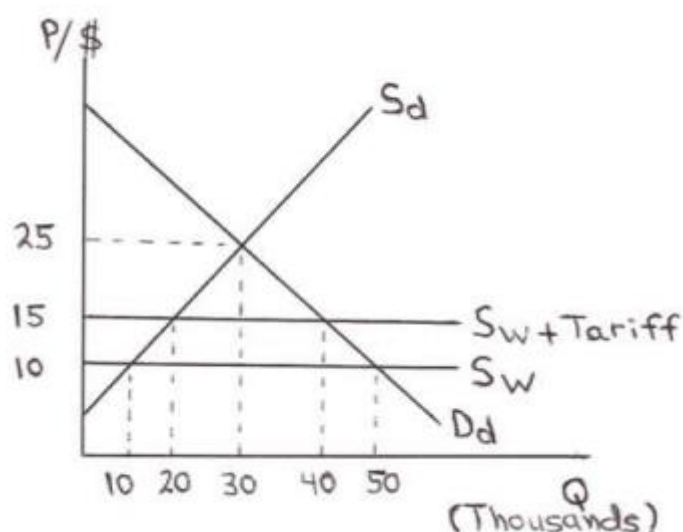
(43) Most tariffs have

- a. only revenue effects
- b. only protective effects
- c. **both protective and revenue effects**
- d. neither protective or revenue effects

(44) A tariff that prohibits imports has only

- a. a revenue effect and redistribution effect
- b. revenue effect and protection effect
- c. **consumption effect and protection effect**
- d. redistribution effect and consumption effect

(45) Answer the next seven questions based upon the following diagram for Mexico, assumed to be a small country in the world calculator market.



(1) With free trade, the total quantity of imports would equal



- a. 10,000 units  
50,000 units
- b. 40,000 units**
- c. 42,000 units
- d.

(2) With free trade, the total value of imports would equal

- a. \$100,000
- b. \$400,000.**
- c. \$600,000
- d. \$800,000.

(3) With the tariff, the quantity of imports falls to

- a. 12,000 units  
42,000 units
- b. 20,000 units**
- c. 30,000 units
- d.

(4) With the tariff, the government collects

- a. \$75,000.
- b. \$100,000.**
- c. \$125,000.
- d. \$150,000.

(5) The deadweight cost of the tariff equals

- a. \$10,000.
- b. \$25,000.
- c. \$50,000.**
- d. \$75,000.

(6) Domestic producers gain \_\_\_\_\_ because of the tariff.

- a. \$50,000.
- b. \$75,000**
- c. \$120,000
- d. \$150,000.

(7) A tariff of \_\_\_\_\_ would be prohibitive, causing imports to fall to zero.

- a. \$10
- b. \$15**
- c. \$20
- d. \$25

(46) If the world price of steel is \$500 a ton, a specific tariff of \$50 is equivalent to an ad valorem tariff of

- a. 5 percent
- b. 10 percent**
- c. 15 percent
- d. 20 percent

(47) Suppose that the United States imposes a tariff on ballpoint pens of 25 cents per pen plus 12 percent of the pen's value. This is an example of a (an)

- a. specific tariff
- b. ad valorem tariff
- c. compound tariff**
- d. effective tariff

(48) During periods of growing domestic demand, an import quota

- a. is less restrictive on a country's imports than a tariff
- b. is more restrictive on a country's imports than a tariff**
- c. has the same restrictive effect on a country's imports as a tariff
- d. will always generate increased tax revenue for the government

(49) The table shows the supply and demand conditions of Canada, a small country in the world pocket calculator market. Answer the next 3 questions.

Price/\$	Qd	Qs
70	0	50
60	10	40
50	20	30
40	30	20
30	40	10
20	50	0

(1) In the absence of trade, Canada's equilibrium price and quantity equal

- a. \$65 and 40 calculators
- b. \$55 and 20 calculators
- c. \$45 and 25 calculators**
- d. \$30 and 40 calculators

(2) With free trade, suppose that the rest of the world can supply calculators to Canada at a price of \$30. Canada's imports would now equal \_\_\_\_\_ and its consumer surplus would \_\_\_\_\_ relative to what occurred in the absence of trade.

- a. 20 calculators, increase
- b. 25 calculators, decrease
- c. 25 calculators, increase
- d. 30 calculators, increase**

(3) To aid its calculator producers, suppose that the government provides them a subsidy of \$10 for each calculator produced. The amount of imports now equals \_\_\_\_\_ and the deadweight loss of the subsidy to the Canadian economy equals \_\_\_\_\_.

- a. 20 calculators, \$50**
- b. 20 calculators, \$100
- c. 25 calculators, \$50
- d. 25 calculators, \$100

(49) Import quotas tend to result in all of the following except:

- a. domestic producers of the imported good being harmed**
- b. domestic consumers of the imported good being harmed
- c. prices increasing in the importing country

d. prices falling in the exporting country

(50) To maintain that South Koreans are dumping their DVDs in the United States is to maintain that:

**a. Koreans are selling DVDs in the U.S. below their production cost**

b. Koreans are selling DVDs in the U.S. above their production cost

c. the cost of manufacturing DVDs in Korea is lower in Korea than in the U.S. since wages are lower in Korea

d. the cost of manufacturing DVDs in Korea is higher in Korea than in the U.S. since wages are higher in Korea

(51) Quotas are government imposed limits on the \_\_\_\_\_ of goods trade between countries.

a. prices

**b. quantity**

c. revenue

d. costs

(52) Similar to import tariffs, import quotas tend to result in

**a. higher prices and reduced imports**

b. increased government revenue

c. increased consumer surplus

d. decreased producer surplus

(53)