

Principles of Microeconomics, 12e (Case/Fair/Oster)

Chapter 20 International Trade, Comparative Advantage, and Protectionism

20.1 Trade Surpluses and Deficits

- 1) A country has a trade surplus when
- A) its exports exceed its imports.
 - B) its exports equal its imports.
 - C) its government spending exceeds its tax revenues.
 - D) its exports are less than its imports.

Answer: A

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

- 2) A country's trade is balanced when
- A) its imports exceeds its exports.
 - B) its government expenditures are equal to its tax revenues.
 - C) its net exports equal to zero.
 - D) its net exports are greater than zero.

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

- 3) A country has a trade deficit when
- A) its exports exceed its imports.
 - B) its exports equal its imports.
 - C) its exports are less than its imports.
 - D) government spending is greater than tax receipts.

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

- 4) If a country has a trade surplus of \$40 billion, which of the following can be true?
- A) The country's exports are \$160 billion, and its imports are \$120 billion.
 - B) The country's exports are \$110 billion, and its imports are \$150 billion.
 - C) The country's exports are \$120 billion, and its imports are \$140 billion.
 - D) The country's exports are \$140 billion, and its imports are \$40 billion.

Answer: A

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

5) If a country has a trade deficit of \$30 billion, which of the following can be true?

- A) The country's exports are \$150 billion, and its imports are \$120 billion.
- B) The country's exports are \$110 billion, and its imports are \$140 billion.
- C) The country's exports are \$120 billion, and its imports are \$140 billion.
- D) The country's exports are \$140 billion, and its imports are \$40 billion.

Answer: B

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

6) In the year _____, the United States switched from running a trade surplus to running a trade deficit.

- A) 1950
- B) 1966
- C) 1976
- D) 1994

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Fact

Learning Outcome: Micro-8

7) When a nation's exports exceed its imports, it has a

- A) trade surplus.
- B) trade shortage.
- C) trade embargo.
- D) exchange rate discrepancy.

Answer: A

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

8) When a nation's net exports are equal to zero, it has a

- A) surplus in trade.
- B) shortage in trade.
- C) balanced trade.
- D) deficit in trade.

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

9) When a nation's exports are less than its imports, it has a

- A) trade surplus.
- B) balanced trade.
- C) trade shortage.
- D) trade embargo.

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

10) If a country has a trade surplus of \$60 billion, which of the following can be true?

- A) The country's exports are \$180 billion, and its imports are \$120 billion.
- B) The country's exports are \$110 billion, and its imports are \$190 billion.
- C) The country's exports are \$120 billion, and its imports are \$180 billion.
- D) The country's exports are \$160 billion, and its imports are \$60 billion.

Answer: A

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

11) If a country has a trade deficit of \$50 billion, which of the following can be true?

- A) The country's exports are \$150 billion, and its imports are \$100 billion.
- B) The country's exports are \$110 billion, and its imports are \$160 billion.
- C) The country's exports are \$100 billion, and its imports are \$50 billion.
- D) The country's exports are \$150 billion, and its imports are \$60 billion.

Answer: B

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

12) In the year 1976, the United States switched from running a trade _____ to running a trade _____.

- A) balance; surplus
- B) deficit; surplus
- C) surplus; deficit
- D) deficit; balance

Answer: C

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Fact

Learning Outcome: Micro-8

13) If Belgium has exports of 50 billion euros and imports of 40 billion euros, then it is running a trade deficit.

Answer: FALSE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

14) If Japan has exports of 70 billion yen and imports of 60 billion yen, it is running a trade surplus.

Answer: TRUE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

15) If a country's imports are greater than its exports, a country has a trade deficit.

Answer: TRUE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Definition

Learning Outcome: Micro-8

16) A country's balance of trade must be balanced.

Answer: FALSE

Diff: 2

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

17) If a country's imports are less than its exports, a country has a trade surplus.

Answer: TRUE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

18) If Germany has exports of 90 billion euros and imports of 110 billion euros, then it is running a trade deficit.

Answer: TRUE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

19) If Mexico has exports of 40 billion pesos and imports of 50 billion pesos, it is running a trade surplus.

Answer: FALSE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

20) In 2014, the United States ran a trade deficit of 3.1 percent of GDP.

Answer: FALSE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Fact

Learning Outcome: Micro-8

21) Until the 1970s, the United States generally had a trade surplus.

Answer: TRUE

Diff: 1

Topic: Trade Surpluses and Deficits

Skill: Fact

Learning Outcome: Micro-8

20.2 The Economic Basis for Trade: Comparative Advantage

1) The purpose of the Corn Laws was to

A) encourage imports and discourage exports, and thus keep the price of food low.

B) encourage both exports and imports in order to integrate the British economy with the rest of Europe.

C) discourage both imports and exports in order to promote economic self-sufficiency in Britain.

D) discourage imports and encourage exports, and thus keep the price of food high.

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

2) The theory of comparative advantage is credited to

A) Adam Smith.

B) David Ricardo.

C) John Maynard Keynes.

D) Milton Friedman.

Answer: B

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

- 3) Country A would have an absolute advantage compared to Country B in the production of corn if
- A) corn can be produced at lower cost in terms of other goods than it could be in Country B.
 - B) Country A uses fewer resources to produce corn than Country B does.
 - C) the demand for corn is higher in Country A than in Country B.
 - D) corn sells for a higher price in Country A than in Country B.

Answer: B

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

- 4) The advantage in the production of a product enjoyed by one country over another when it uses fewer resources to produce that product than the other country does is

- A) an absolute advantage.
- B) a comparative advantage.
- C) a relative advantage.
- D) a productive advantage.

Answer: A

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

- 5) According to the theory of comparative advantage, a country

- A) exports the goods in which it has a comparative advantage.
- B) imposes tariffs on goods in which it does not have comparative advantage.
- C) imports the goods in which it has a comparative advantage.
- D) exports goods in which it has absolute advantage.

Answer: A

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

- 6) China has a comparative advantage in textiles and an absolute advantage in both textiles and radios. Japan has a comparative advantage in radios. According to this scenario

- A) Japan should import both radios and textiles.
- B) China should export both radios and textiles.
- C) China should export textiles and import radios.
- D) Japan should export textiles and import radios.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 7) Country A has a comparative advantage compared to Country B in the production of shoes if
- A) Country A can produce shoes at a lower monetary cost than Country B can.
 - B) Country A can produce shoes using fewer resources than Country B can.
 - C) the demand for shoes is higher in Country A than in Country B.
 - D) Country A can produce shoes at a lower cost in terms of other goods than Country B can.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 8) According to the theory of comparative advantage, a country should
- A) specialize in and export goods with the highest opportunity cost.
 - B) specialize in and export goods with the lowest production cost.
 - C) specialize in and export goods with the lowest opportunity cost.
 - D) specialize in and export goods with the lowest average cost.

Answer: C

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

- 9) When one country can produce a product at a lower cost in terms of other goods, that country is said to have
- A) an absolute advantage.
 - B) a comparative advantage.
 - C) a productive advantage.
 - D) an unfair advantage.

Answer: B

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

- 10) The United States imports televisions from Japan and Japan imports computer chips from the United States. If the theory of comparative advantage guides trade between the two countries, it must be true that
- A) the opportunity cost of producing televisions in Japan is higher than that in the United States.
 - B) the opportunity cost of producing computer chips in the United States is higher than that in Japan.
 - C) the United States has comparative advantage in producing computer chips.
 - D) the United States has comparative advantage in producing televisions.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

11) If Russia has a comparative advantage in the production of wheat and China has a comparative advantage in the production of textiles, then

- A) neither country has anything to gain from specialization and trade.
- B) it is reasonable to expect that specialization will benefit both countries, but trade will not.
- C) it is reasonable to expect that specialization and trade will benefit both countries.
- D) it is reasonable to expect that trade will benefit both countries, but specialization will not.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

12) If Brazil has a comparative advantage in the production of coffee compared to the United States, then

- A) Brazil also has an absolute advantage in the production of coffee.
- B) the United States has an absolute advantage in the production of coffee.
- C) Brazil can produce coffee at a lower opportunity cost than the United States.
- D) the United States cannot produce coffee.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

13) The United States has a comparative advantage in the production of wheat, and Haiti has a comparative advantage in the production of sugar. If both countries specialize based on the theory of comparative advantage,

- A) only the production of wheat will increase.
- B) the production and consumption of both goods will increase.
- C) only the production of both goods will increase.
- D) only the consumption of both goods will increase.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

14) Suppose that Japan and India are both engaged in the production of radios and rice, and that Japan has an absolute advantage in the production of both goods. If India has a lower opportunity cost for producing rice, then

A) India has a comparative advantage in rice production, but there will be no gains from specialization and trade.

B) Japan has a comparative advantage in the production of both goods.

C) India has a comparative advantage in the production of rice, but it is outweighed by Japan's absolute advantage in rice production.

D) India has a comparative advantage in the production of rice, and specialization and trade between the two countries can be mutually beneficial.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

15) If the slopes of the production possibility frontiers involving sugar and rice in countries A and B are equal,

A) the opportunity cost of producing sugar is less in Country A.

B) the opportunity cost of producing rice is less in Country B.

C) specialization does not benefit either country.

D) each country will produce identical quantities of sugar and rice.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

16) Suppose that Argentina and Chile are both engaged in the production of copper and wheat, and that Argentina has an absolute advantage in the production of both goods. If Chile has a comparative advantage in the production of copper, then Chile

A) has a lower opportunity cost for copper, which means that it should specialize in production of copper and engage in trade.

B) has a lower opportunity cost for producing copper, but specialization is not feasible because Argentina has a lower monetary cost of copper production.

C) has a higher opportunity cost for copper, which means it should specialize in the production of wheat and engage in trade.

D) should continue to produce copper, but only for domestic consumption, because trade is not a viable option.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Table 20.1 below to answer the question(s) that follow.

Table 20.1

Mexico		Guatemala	
Oranges bushel/acre	Bananas bushel/acre	Oranges bushel/acre	Bananas bushel/acre
200	0	50	0
160	40	40	20
120	80	30	40
80	120	20	60
40	160	10	80
0	200	0	100

17) Refer to Table 20.1. In Mexico, the opportunity cost of 1 bushel of bananas is

- A) 1/2 bushel of oranges.
- B) 1 bushels of oranges.
- C) 2 bushel of oranges.
- D) 5 bushels of oranges.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

18) Refer to Table 20.1. In Guatemala, the opportunity cost of 1 bushel of oranges is

- A) 1/2 bushel of bananas.
- B) 1 bushels of bananas.
- C) 2 bushel of bananas.
- D) 4 bushels of bananas.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

19) Refer to Table 20.1. In Mexico, the opportunity cost of 1 bushel of oranges is

- A) 1/2 bushel of bananas.
- B) 1 bushels of bananas.
- C) 2 bushel of bananas.
- D) 5 bushels of bananas.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

20) Refer to Table 20.1. In Guatemala, the opportunity cost of 1 bushel of bananas is

- A) 1/2 bushel of oranges.
- B) 1 bushels of oranges.
- C) 2 bushel of oranges.
- D) 4 bushels of oranges.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

21) Refer to Table 20.1. The opportunity cost of producing a bushel of oranges in Mexico is

- A) twice as much as that in Guatemala.
- B) half as much as that in Guatemala.
- C) the same as that in Guatemala.
- D) four times as much as that in Guatemala.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

22) Refer to Table 20.1. Guatemala has

- A) a comparative advantage in orange production.
- B) an absolute advantage in orange production.
- C) an absolute advantage in banana production.
- D) a comparative advantage in banana production.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

23) Refer to Table 20.1. Guatemala has

- A) a comparative advantage but not an absolute advantage in orange production.
- B) a comparative advantage but not an absolute advantage in banana production.
- C) an absolute advantage and a comparative advantage in banana production.
- D) an absolute advantage and a comparative advantage in orange production.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

24) Refer to Table 20.1. Mexico has

- A) a comparative advantage but not an absolute advantage in orange production.
- B) a comparative advantage but not an absolute advantage in banana production.
- C) an absolute advantage and a comparative advantage in banana production.
- D) an absolute advantage and a comparative advantage in orange production.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

25) Refer to Table 20.1. Guatemala should specialize in and export _____, and Mexico should specialize in and export _____.

- A) oranges; oranges
- B) bananas; bananas
- C) bananas; oranges
- D) oranges; bananas

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

26) Refer to Table 20.1. Before specialization, Mexico produces 120 bushels of oranges and 80 bushels of bananas, and Guatemala produces 40 bushels of oranges and 20 bushels of bananas. After specialization, the increase in orange production is

- A) 10 bushels of oranges.
- B) 20 bushels of oranges.
- C) 25 bushels of oranges.
- D) 40 bushels of oranges.

Answer: D

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

27) Refer to Table 20.1. Before specialization, Mexico produces 160 bushels of oranges and 40 bushels of bananas, and Guatemala produces 30 bushels of oranges and 40 bushels of bananas. After specialization, the increase in banana production is

- A) 10 bushels of bananas.
- B) 15 bushels of bananas.
- C) 20 bushels of bananas.
- D) 40 bushels of bananas.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

28) Refer to Table 20.1. For both countries to benefit from trade, the terms of trade must be between _____ bushel(s) of oranges to bushel(s) of bananas.

- A) 1:1/2 and 1:4
- B) 2:3 and 2:1
- C) 1:1 and 1:1/2
- D) 1:1 and 1:2.

Answer: D

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Table 20.2 below to answer the question(s) that follow.

Table 20.2

China		Thailand	
Tractors	Motorcycles	Tractors	Motorcycles
0	300	0	300
5	250	5	225
10	200	10	150
15	150	15	75
20	100	20	0
25	50	—	—
30	0	—	—

29) Refer to Table 20.2. In China, the opportunity cost of

- A) a tractor is 1 motorcycle.
- B) a motorcycle is 10 tractors.
- C) a tractor is 10 motorcycles.
- D) a motorcycle is 1/30 of a tractor.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

30) Refer to Table 20.2. In Thailand, the opportunity cost of

- A) a motorcycle is 1/15 of a tractor.
- B) a motorcycle is 15 tractors.
- C) a motorcycle is 1/30 of a tractor.
- D) a tractor is 20 motorcycles.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

31) Refer to Table 20.2. _____ has a comparative advantage in motorcycles and _____ has an absolute advantage in motorcycles.

- A) China; neither
- B) Neither; neither
- C) Thailand; neither
- D) Thailand; China

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

32) Refer to Table 20.2. If both countries specialize and trade with each other, Thailand will export _____ and China will import _____.

- A) motorcycles; tractors
- B) tractors; motorcycles
- C) tractors; tractors
- D) motorcycles; motorcycles

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

33) Refer to Table 20.2. The most that Thailand will be willing to pay for a tractor is

- A) 5 motorcycles.
- B) 10 motorcycles.
- C) 15 motorcycles.
- D) 20 motorcycles.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

34) Refer to Table 20.2. The most that China will be willing to pay for a motorcycle is

- A) 1/30 of a tractor.
- B) 1/20 of a tractor.
- C) 1/10 of a tractor.
- D) 1/5 of a tractor.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

35) Refer to Table 20.2. Which terms of trade benefits both countries?

- A) 1 tractor for 10 motorcycles
- B) 1 tractor for 12.5 motorcycles
- C) 1 motorcycle for 10 tractors
- D) 1 motorcycle for 1/5 of a tractor

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

36) The terms of trade refers to

- A) the documents that two countries sign in order to facilitate trade.
- B) the conditions imposed by the importing country regarding the quality of the imported goods.
- C) the exchange rate determined by the exporting and the importing countries.
- D) the ratio at which one country trades a domestic product for imported product.

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-3

37) Specialization and trade allow a country to

- A) produce and consume on its production possibility frontier.
- B) produce and consume inside its production possibility frontier.
- C) produce and consume outside its production possibility frontier.
- D) produce on its production possibility frontier and consume outside it.

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

38) The main advantage of trade between two countries is that

- A) trade makes both countries more self-sufficient.
- B) employment in both countries will increase.
- C) both countries have consumption choices beyond their current resource and production constraints.
- D) trade will lead to a more equitable distribution of income in both countries.

Answer: C

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

39) According to comparative advantage, trade between two countries

- A) maximizes the amount of inputs that are used in the production of all products.
- B) guarantees that consumption levels will be equal in the two countries.
- C) will benefit all the industries in each of the countries.
- D) allows each of the trading countries to allocate its resources most efficiently.

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

- 40) When countries specialize in producing those goods in which they have a comparative advantage, they
- A) maximize their combined output, but they do not necessarily allocate their resources more efficiently.
 - B) maximize their combined output and allocate their resources more efficiently.
 - C) allocate their resources more efficiently, but they do not necessarily maximize their combined output.
 - D) do not necessarily maximize their combined output, and they also do not necessarily allocate their resources more efficiently.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

Refer to the information provided in Figure 20.1 below to answer the question(s) that follow.

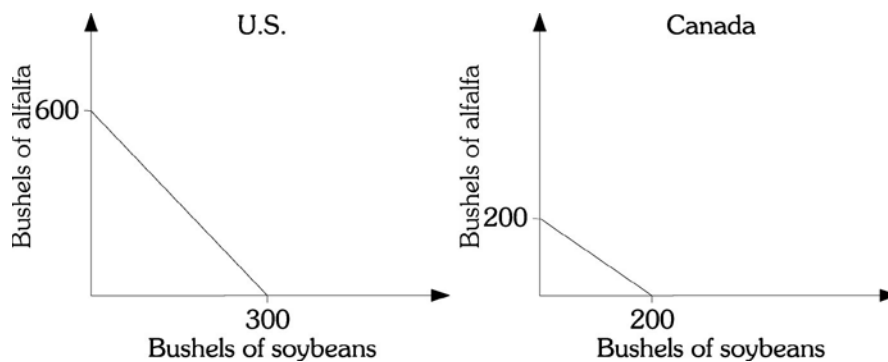


Figure 20.1

- 41) Refer to Figure 20.1. Which of the following statements is true?
- A) The United States has both an absolute advantage and a comparative advantage in the production of soybeans and alfalfa.
 - B) The United States has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of soybeans.
 - C) The United States has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of alfalfa.
 - D) The United States has a comparative advantage in the production of both soybeans and alfalfa, but an absolute advantage only in the production of soybeans.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 42) Refer to Figure 20.1. Which of the following statements is true?
- A) Only Canada can benefit from trade because the United States has an absolute advantage in the production of both soybeans and alfalfa.
 - B) Trade will benefit both countries because the United States has a comparative advantage in the production of soybeans and Canada has a comparative advantage in the production of alfalfa.
 - C) Trade will benefit both countries because the United States has a comparative advantage in the production of alfalfa and Canada has a comparative advantage in the production of soybeans.
 - D) Trade will benefit neither country because the United States has an absolute advantage in the production of both soybeans and alfalfa, but Canada has a comparative advantage in the production of both soybeans and alfalfa.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

- 43) Refer to Figure 20.1. The opportunity cost of producing a bushel of alfalfa in the United States is
- A) twice as much as that in Canada.
 - B) half as much as that in Canada.
 - C) the same as that in Canada.
 - D) four times as much as that in Canada.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 44) Refer to Figure 20.1. The opportunity cost of producing a bushel of alfalfa in the United States is
- A) half a bushel of soybeans.
 - B) 1 bushel of soybeans.
 - C) 2 bushels of soybeans.
 - D) 300 bushels of soybeans.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

45) Refer to Figure 20.1. The opportunity cost of producing a bushel of alfalfa in Canada is

- A) half a bushel of soybeans.
- B) 1 bushel of soybeans.
- C) 2 bushels of soybeans.
- D) zero.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

46) Refer to Figure 20.1. The opportunity cost of producing a bushel of soybeans in the United States is

- A) half a bushel of alfalfa.
- B) 1 bushel of alfalfa.
- C) 2 bushels of alfalfa.
- D) 300 bushels of alfalfa.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

47) Refer to Figure 20.1. Canada has _____ advantage in the production of soybeans and _____ advantage in the production of alfalfa.

- A) a comparative; an absolute
- B) a comparative; neither a comparative nor absolute
- C) neither a comparative nor absolute; neither a comparative nor absolute
- D) an absolute; a comparative

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

48) Refer to Figure 20.1. Which of the following statements is true?

- A) Only Canada can benefit from trade.
- B) Only the United States should produce alfalfa.
- C) Only Canada should produce alfalfa.
- D) Both countries should produce both products.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

49) Refer to Figure 20.1. The opportunity cost of producing a bushel of alfalfa in Canada is

- A) twice as much as that in the United States.
- B) half as much as that in the United States.
- C) the same as that in the United States.
- D) four times as much as that in the United States.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

50) Refer to Figure 20.1. The opportunity cost of producing a bushel of soybeans in the United States is

- A) 1/2 as much as that in Canada.
- B) twice as much as that in Canada.
- C) 4 times as much as that in Canada.
- D) the same as that in Canada.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

51) Refer to Figure 20.1. The opportunity cost of producing a bushel of soybeans in Canada is

- A) half a bushel of alfalfa.
- B) 1 bushel of alfalfa.
- C) 2 bushels of alfalfa.
- D) zero.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

52) Refer to Figure 20.1. The opportunity cost of producing a bushel of soybeans in the Canada is

- A) 2/3 as much as that in the United States.
- B) 1/2 as much as that in the United States.
- C) twice as much as that in the United States.
- D) the same as that in the United States.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Figure 20.2 below to answer the question(s) that follow.

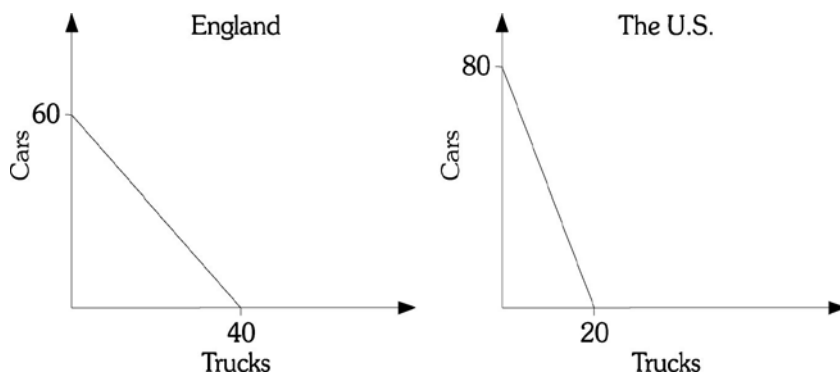


Figure 20.2

53) Refer to Figure 20.2. The opportunity cost of a truck is _____ car(s) in the United States and _____ car(s) in England.

- A) 6; 4
- B) 4; 1.5
- C) 4; 6
- D) .25; 1.5

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

54) Refer to Figure 20.2. The theory of comparative advantage suggests that

- A) England should import trucks and export cars.
- B) England should export both trucks and cars.
- C) the United States should export both trucks and cars.
- D) the United States should export cars and import trucks.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

55) Refer to Figure 20.2. The opportunity cost of a car is _____ truck(s) in the United States and _____ truck(s) in England

- A) 6; 4
- B) 4; 1.5
- C) 4; 6
- D) 0.25; 0.67

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

56) Refer to Figure 20.2. England has

- A) a comparative advantage in producing trucks.
- B) an absolute advantage in producing cars.
- C) a comparative advantage in producing cars.
- D) no comparative advantage in producing either cars or trucks.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

57) Refer to Figure 20.2. the U.S. has

- A) a comparative advantage in producing trucks.
- B) an absolute advantage in producing trucks.
- C) a comparative advantage in producing cars.
- D) no comparative advantage in producing either cars or trucks.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

58) Refer to Figure 20.2. The opportunity cost of 1 _____ is 4 _____ in the United States and 1.5 _____ in England.

- A) car; trucks; trucks
- B) truck; cars; cars
- C) car; cars; trucks
- D) truck; trucks; cars

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

59) Refer to Figure 20.2. The theory of comparative advantage suggests that

- A) England should export trucks and import cars.
- B) England should export both trucks and cars.
- C) the United States should export both trucks and cars.
- D) the United States should import cars and export trucks.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

60) Refer to Figure 20.2. The opportunity cost of 1 _____ is 0.25 _____ in the United States and 0.67 _____ in England.

- A) car; truck; truck
- B) truck; car; car
- C) car; car; truck
- D) truck; truck; car

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

61) Refer to Figure 20.2. England has an absolute advantage in producing

- A) trucks.
- B) both cars and trucks.
- C) cars.
- D) neither cars nor trucks.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

62) Refer to Figure 20.2. The United States has an absolute advantage in producing

- A) trucks.
- B) both cars and trucks.
- C) cars.
- D) neither cars nor trucks.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

63) Assume that Blade Runner specializes in producing in-line skates and Hang Ten specializes in producing surfboards. After trade Blade Runner exports 800 pairs of in-line skates and imports 200 surfboards. The terms of trade

- A) are 1:4 in-line skates to surfboards.
- B) are 4:1 in-line skates to surfboards.
- C) are 1/4:1 in-line skates to surfboards.
- D) cannot be determined from this information.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

64) When trade is free, patterns of trade and trade flows result from

- A) the collective decisions of a few importers and exporters, as well as the governments of the countries in which they reside.
- B) the collective decisions of a few importers and exporters, as well as millions of private households and firms.
- C) the independent decisions of thousands of importers and exporters, as well as millions of private households and firms.
- D) the independent decisions of thousands of importers and exporters, as well as the governments of the countries in which they reside.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

65) If you are traveling in China and you purchase a meal that costs 140 yuan and the current exchange rate is 7 yuan to the dollar, then the price of the meal in U.S. currency is

- A) \$200.
- B) \$20.
- C) \$10.
- D) \$2.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-7

66) Suppose a U.S. dollar exchanges for 2 British pounds, then each pound is worth

- A) \$.25.
- B) \$.50.
- C) \$1.
- D) \$4.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-1

67) If the price of a car in the United States is \$26,000, and the exchange rate between the dollar and the British pound rises from \$1.50 to \$2.00 per pound, then the price of the American car in Britain will

- A) fall.
- B) rise.
- C) remain the same.
- D) be irrelevant, because the British government will impose restrictions on imports from the United States.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

68) If the price of a car in the United States is \$22,000, and the exchange rate between the dollar and the Japanese yen falls from 125 yen to 105 yen per dollar, then the price of the American car in Japan will

- A) fall.
- B) rise.
- C) remain the same.
- D) be irrelevant, because the Japanese government will impose restrictions on imports from the United States.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

69) For any pair of countries, there is

- A) a range of exchange rates that can lead automatically to both countries realizing the gains from specialization and comparative advantage.
- B) one single exchange rate that will lead indirectly to one country realizing the gains from specialization and comparative advantage, but not the other country.
- C) a range of exchange rates that can lead indirectly to one country realizing the gains from specialization and comparative advantage, but not the other country.
- D) one single exchange rate that will lead automatically to both countries realizing the gains from specialization and comparative advantage.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

Refer to the information provided in Table 20.3 below to answer the question(s) that follow.

Table 20.3

	United States	Belgium
Raspberries	\$9	9 euros
Chocolate	\$12	27 euros

70) Refer to Table 20.3. If the exchange rate is \$1 = 1 euro, then

- A) the United States will import both raspberries and chocolate.
- B) Belgium will import both raspberries and chocolate.
- C) the United States will import chocolate and Belgium will import raspberries.
- D) Belgium will import chocolate.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

71) Refer to Table 20.3. If the exchange rate is \$1 = 3 euros, then

- A) the United States will import both raspberries and chocolate.
- B) Belgium will import both raspberries and chocolate.
- C) the United States will import chocolate and Belgium will import raspberries.
- D) the United States will import raspberries and Belgium will import chocolate.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

- 72) Refer to Table 20.3. If the exchange rate is \$1 = 2 euros, then
- A) the United States will import both raspberries and chocolate.
 - B) Belgium will import both raspberries and chocolate.
 - C) the United States will import raspberries and Belgium will import chocolate.
 - D) Belgium will import chocolate.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

- 73) Refer to Table 20.3. Trade will flow in both directions between countries only if the price of the euro is between

- A) \$.40 and \$.50.
- B) \$1.00 and \$2.25.
- C) \$.60 and \$.75.
- D) \$.44 and \$1.00.

Answer: D

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 74) If the exchange rate between the United States and Japan changes from \$1 = 100 yen to \$1 = 110 yen, then, *ceteris paribus*, the price of American goods in Japan

- A) could either increase or decrease.
- B) will decrease.
- C) will remain the same.
- D) will increase.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 75) If the exchange rate between the United States and Mexico changes from \$1 = 100 pesos to \$1 = 5 pesos, *ceteris paribus*,

- A) U.S. imports from Mexico increase.
- B) Mexican exports to the United States increase.
- C) U.S. exports to Mexico increase.
- D) the trade deficit in the United States increases.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

76) Initially trade between the United States and Canada is balanced. Then, if a change in the exchange rate reduces the U.S. dollar price of Canadian goods, *ceteris paribus*, we would expect

- A) a trade surplus in the United States.
- B) a trade surplus in Canada.
- C) a trade deficit in Canada.
- D) a trade deficit in both countries.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

77) Suppose that the United States and Italy both produce wine and shoes. In the United States, wine sells for \$10 a bottle and shoes sell for \$40 a pair. In Italy, wine sells for 15 euros a bottle and shoes sell for 20 euros a pair. If the current exchange rate is 0.8 euro to the dollar, then

- A) Italy will import both shoes and wine from the United States.
- B) the United States will import both shoes and wine from Italy.
- C) the United States will import shoes from Italy and Italy will import wine from the United States.
- D) the United States will import wine from Italy and Italy will import shoes from the United States.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

78) Suppose that the United States and Italy both produce wine and shoes. In the United States, wine sells for \$10 a bottle and shoes sell for \$40 a pair. In Italy, wine sells for 15 euros a bottle and shoes sell for 20 euros a pair. Given this information, trade will flow in both directions if the price of a dollar is between

- A) .5 and .75 euro.
- B) .67 and 2 euros.
- C) 1.5 and 2.5 euros.
- D) 2.0 and 3.0 euros.

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

79) The purpose of the _____ was to discourage imports and encourage exports, and thus keep the price of food high.

- A) Banana Tax
- B) Soybean Wars
- C) Sugar Legislation
- D) Corn Laws

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

80) The theory of _____ is credited to David Ricardo.

- A) supply and demand
- B) comparative advantage
- C) national trade protection
- D) marginal production

Answer: B

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

81) The United States would have an absolute advantage compared to Canada in the production of wheat if

- A) wheat sells for a higher price in the United States than in Canada.
- B) the demand for wheat is higher in the United States than in Canada.the United States.
- C) the United States uses fewer resources to produce wheat than Canada does.
- D) wheat can be produced at lower cost in terms of other goods than it could be in Canada.

Answer: C

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

82) The advantage in the production of a product enjoyed by one country over another when it uses _____ to produce that product than the other country does is an absolute advantage.

- A) fewer resources
- B) more technology
- C) more labor
- D) more capital

Answer: A

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

83) According to the theory of comparative advantage, a country exports goods when it can produce those goods _____ than other countries.

- A) at a lower opportunity cost
- B) at a higher opportunity cost
- C) using fewer resources
- D) using more resources

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

84) Thailand has a comparative advantage in rice and an absolute advantage in both rice and cell phones. Indonesia has a comparative advantage in cell phones. According to this scenario,

- A) Indonesia should import both cell phones and rice.
- B) Thailand should export both cell phones and rice.
- C) Thailand should export rice and import cell phones.
- D) Indonesia should export rice and import cell phones.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

85) India has a comparative advantage compared to Spain in the production of clothing if

- A) India can produce clothing at a lower monetary cost than Spain can.
- B) India can produce clothing using fewer resources than Spain can.
- C) the demand for clothing is higher in India than in Spain.
- D) India can produce clothing at a lower cost in terms of other goods than Spain can.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

86) According to _____, a country should specialize and export goods with the lowest opportunity cost.

- A) the General Agreement on Tariffs and Trade
- B) the Heckscher-Ohlin theorem
- C) the theory of comparative advantage
- D) the theory of absolute advantage

Answer: C

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

87) When one country can produce a product at a _____ cost in terms of other goods, that country is said to have a(n) _____ advantage.

- A) higher; comparative
- B) lower; comparative
- C) lower; absolute
- D) higher; absolute

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

88) The United States imports DVD recorders from China and China imports computer chips from the United States. If the theory of comparative advantage guides trade between the two countries, it must be true that

- A) the United States has comparative advantage in producing computer chips.
- B) the opportunity cost of producing computer chips in the United States is higher than that in China.
- C) the opportunity cost of producing DVD recorders in China is higher than that in the United States.
- D) the United States has comparative advantage in producing DVD recorders.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

89) If Argentina has an absolute advantage in the production of beef and Guatemala has an absolute advantage in the production of bananas, then

- A) it is reasonable to expect that specialization and trade will benefit both countries.
- B) it is reasonable to expect that specialization will benefit both countries, but trade will not.
- C) neither country has anything to gain from specialization and trade.
- D) it is reasonable to expect that trade will benefit both countries, but specialization will not.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

90) If Mexico has a comparative advantage in the production of oil compared to France, then

- A) Mexico also has an absolute advantage in the production of oil.
- B) France has an absolute advantage in the production of oil.
- C) Mexico can produce oil at a lower opportunity cost than France.
- D) France cannot produce oil.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

91) The Dominican Republic has a comparative advantage in the production of tobacco, and Panama has a comparative advantage in the production of oranges. If both countries specialize based on the theory of comparative advantage,

- A) only the production of tobacco will increase.
- B) only the production of both goods will increase.
- C) only the consumption of both goods will increase.
- D) the production and consumption of both goods will increase.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

92) Suppose that Greece and Portugal are both engaged in the production of grapes and figs, and that Greece has an absolute advantage in the production of both goods. If Portugal has a lower opportunity cost for producing figs, then

- A) Portugal has a comparative advantage in the production of figs, but it is outweighed by Portugal's absolute advantage in fig production.
- B) Greece has a comparative advantage in the production of both goods.
- C) Portugal has a comparative advantage in fig production, but there will be no gains from specialization and trade.
- D) Portugal has a comparative advantage in the production of figs, and specialization and trade between the two countries can be mutually beneficial.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

93) If the slopes of the _____ involving corn and wheat in the United States and Canada are equal, specialization does not benefit either country.

- A) supply curves
- B) demand curves
- C) production possibility frontiers
- D) marginal revenue curves

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

94) Suppose that Paraguay and Guyana are both engaged in the production of soybeans and grapefruit, and that Paraguay has an absolute advantage in the production of both goods. If Guyana has a comparative advantage in the production of soybeans, then Guyana

A) has a higher opportunity cost for soybeans, which means it should specialize in the production of grapefruit and engage in trade.

B) has a lower opportunity cost for producing soybeans, but specialization is not feasible because Paraguay has a lower monetary cost of soybean production.

C) has a lower opportunity cost for soybeans, which means that it should specialize in production of soybeans and engage in trade.

D) should continue to produce soybeans, but only for domestic consumption, because trade is not a viable option.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Table 20.4 below to answer the question(s) that follow.

Table 20.4

Germany		Chile	
Beer (cases)	Wine (cases)	Beer (cases)	Wine (cases)
75	0	30	0
60	15	24	12
45	30	18	24
30	45	12	36
15	60	6	48
0	75	0	60

95) Refer to Table 20.4. In Germany, the opportunity cost of 1 case of wine is

A) 1/2 case of beer.

B) 1 case of beer.

C) 2 cases of beer.

D) 5 cases of beer.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

96) Refer to Table 20.4. In Chile, the opportunity cost of 1 case of beer is

- A) 1/2 case of wine.
- B) 1 case of wine.
- C) 2 cases of wine.
- D) 4 cases of wine.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

97) Refer to Table 20.4. In Germany, the opportunity cost of 1 case of beer is

- A) 1/2 case of wine.
- B) 1 case of wine.
- C) 2 cases of wine.
- D) 5 cases of wine.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

98) Refer to Table 20.4. In Chile, the opportunity cost of 1 case of wine is

- A) 1/2 case of beer.
- B) 1 case of beer.
- C) 2 cases of beer.
- D) 4 cases of beer.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

99) Refer to Table 20.4. The opportunity cost of producing a case of beer in Germany is

- A) twice as much as that in Chile.
- B) half as much as that in Chile.
- C) the same as that in Chile.
- D) four times as much as that in Chile.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 100) Refer to Table 20.4. Chile has
- A) a comparative advantage in beer production.
 - B) an absolute advantage in beer production.
 - C) an absolute advantage in wine production.
 - D) a comparative advantage in wine production.

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 101) Refer to Table 20.4. Chile has
- A) a comparative advantage in wine production.
 - B) an absolute advantage and a comparative advantage in beer production.
 - C) an absolute advantage and a comparative advantage in wine production.
 - D) neither a comparative advantage in wine production nor in beer production.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 102) Refer to Table 20.4. Germany has
- A) a comparative advantage in beer production.
 - B) an absolute advantage in wine production.
 - C) an absolute advantage in beer production.
 - D) all of the above

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

- 103) Refer to Table 20.4. Chile should specialize in and export _____, and Germany should specialize in and export _____.

- A) beer; beer
- B) wine; wine
- C) wine; beer
- D) beer; wine

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

104) Refer to Table 20.4. Before specialization, Germany produces 45 cases of beer and 30 cases of wine, and Chile produces 18 cases of beer and 24 cases of wine. After specialization, the increase in beer production is

- A) 0 cases of beer.
- B) 2 cases of beer.
- C) 8 cases of beer.
- D) 12 cases of beer.

Answer: D

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

105) Refer to Table 20.4. Before specialization, Germany produces 45 cases of beer and 30 cases of wine, and Chile produces 18 cases of beer and 24 cases of wine. After specialization, the increase in wine production is

- A) 2 cases of wine.
- B) 4 cases of wine.
- C) 6 cases of wine.
- D) 10 cases of wine.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

106) Refer to Table 20.4. For both countries to benefit from trade, the terms of trade must be between _____ case(s) of beer to case(s) of wine.

- A) 1:1/2 and 1:4
- B) 1:1 and 1:2
- C) 1:1 and 1:1/2
- D) 2:3 and 2:1

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Table 20.5 below to answer the question(s) that follow. Cashews are measured in bushels and tea is measured in pounds (lbs.)

Table 20.5

India		Vietnam	
Cashews	Tea	Cashews	Tea
0	600	0	600
20	500	20	450
40	400	40	300
60	300	60	150
80	200	80	0
100	100	—	—
120	0	—	—

107) Refer to Table 20.5. In India, the opportunity cost of

- A) a bushel of cashews is 6 lbs. of tea.
- B) a lb. of tea is 1/6 of a bushel of cashews.
- C) a bushel of cashews is 5 lbs. of tea.
- D) a lb. of tea is 1/5 of a bushel of cashews.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

108) Refer to Table 20.5. In Vietnam, the opportunity cost of

- A) a lb. of tea is 2/15 of a bushel of cashews.
- B) a lb. of tea is 1/8 of a bushel of cashews.
- C) a lb. of tea is 40 bushels of cashews.
- D) a bushel of cashews is 4/3 of a lb. of tea.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

109) Refer to Table 20.5. _____ has a comparative advantage in tea and _____ has an absolute advantage in tea.

- A) India; neither
- B) Neither; neither
- C) Vietnam; neither
- D) Vietnam; India

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

110) Refer to Table 20.5. If both countries specialize and trade with each other, Vietnam will export _____ and India will import _____.

- A) tea; cashews
- B) cashews; tea
- C) cashews; cashews
- D) tea; tea

Answer: D

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

111) Refer to Table 20.5. The most that Vietnam will be willing to pay for a bushel of cashews is

- A) 5 lbs. of tea.
- B) 6.25 lbs. of tea.
- C) 7.5 lbs. of tea.
- D) 10 lbs. of tea.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

112) Refer to Table 20.5. The most that India will be willing to pay for a lb. of tea is

- A) 1/10 of a bushel of cashews.
- B) 1/5 of a bushel of cashews.
- C) 1/4 of a bushel of cashews.
- D) 1/2 of a bushel of cashews.

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

113) Refer to Table 20.5. Which terms of trade benefits both countries?

- A) 1 bushel of cashews for 4 lbs. of tea
- B) 1 bushel of cashews for 6 lbs. of tea
- C) 1 lb. of tea for 8 bushels of cashews
- D) 1 lb. of tea for 10 bushels of cashews

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

114) The ratio at which one country trades a domestic product for imported product is that country's

- A) absolute advantage.
- B) comparative advantage.
- C) cost ratio.
- D) terms of trade.

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-3

115) _____ allow(s) a country to produce on its production possibility frontier and consume outside it.

- A) Discovery of new resources
- B) Improvements in technology
- C) A decrease in population
- D) Specialization and trade

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

116) The main advantage of _____ is the ability to move out beyond previous resource and production constraints.

- A) absolute advantage
- B) trade barriers
- C) trade between two countries
- D) export subsidies

Answer: C

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

117) According to _____, trade between two countries allows each of the trading countries to allocate its resources most efficiently.

- A) the Heckscher-Ohlin theorem
- B) the theory of absolute advantage
- C) the General Agreement on Tariffs and Trade
- D) the theory of comparative advantage

Answer: D

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

118) When countries specialize in producing those goods in which they have _____, they maximize their combined output and allocate their resources more efficiently.

- A) an absolute advantage
- B) a comparative advantage
- C) a greater demand
- D) export subsidies from the government

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

119) Assume that Down Slope specializes in producing snow boards and Seven Seas specializes in producing scuba tanks. After trade, Down Slope exports 2,000 snow boards and imports 400 scuba tanks. The terms of trade

- A) are 1/5:1 snow boards to scuba tanks.
- B) are 5:1 snow boards to scuba tanks.
- C) are 1:5 snow boards to scuba tanks.
- D) cannot be determined from this information.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

120) When trade is _____, patterns of trade and trade flows result from the independent decisions of thousands of importers and exporters, as well as millions of private households and firms.

- A) restricted
- B) barred
- C) free
- D) embargoed

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

121) If you are traveling in Thailand and you purchase a meal that costs 1,400 baht and the current exchange rate is 35 baht to the dollar, then the price of the meal in U.S. currency is

- A) \$400.
- B) \$40.
- C) \$4.
- D) \$0.40.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-7

122) Suppose a U.S. dollar exchanges for 0.8 euros, then each euro is worth

- A) \$1.25.
- B) \$1.20.
- C) \$0.80.
- D) \$0.20.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-1

123) If the price of a truck in the United States is \$25,000, and the exchange rate between the dollar and the euro falls from \$1.50 to \$1.30 per euro, then the price of the American truck in the EU will

- A) rise.
- B) fall.
- C) remain the same.
- D) be irrelevant, because the EU will impose restrictions on imports from the United States.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

124) If the price of a truck in the United States is \$18,000, and the exchange rate between the dollar and the Argentine peso falls from 10 pesos to 8 pesos per dollar, then the price of the American truck in Argentina will

A) rise.
 B) fall.
 C) remain the same.
 D) be irrelevant, because the Argentine government will impose restrictions on imports from the United States.

Answer: B
 Diff: 2
 Topic: The Economic Basis for Trade: Comparative Advantage
 Skill: Analytical
 AACSB: Analytical Thinking
 Learning Outcome: Micro-8

125) For _____, there is a range of exchange rates that can lead automatically to both countries realizing the gains from specialization and comparative advantage.

A) any pair of countries
 B) very few countries
 C) only industrialized countries
 D) only democratic countries

Answer: A
 Diff: 2
 Topic: The Economic Basis for Trade: Comparative Advantage
 Skill: Conceptual
 AACSB: Reflective Thinking
 Learning Outcome: Micro-8

Refer to the information provided in Table 20.6 below to answer the question(s) that follow.

Table 20.6

	United States	France
Peas	\$3	3 euros
Carrots	\$4	9 euros

126) Refer to Table 20.6. If the exchange rate is \$1 = 1 euro, then

A) the United States will import both peas and carrots.
 B) France will import both peas and carrots.
 C) the United States will import carrots and France will import peas.
 D) France will import carrots.

Answer: D
 Diff: 2
 Topic: The Economic Basis for Trade: Comparative Advantage
 Skill: Analytical
 AACSB: Analytical Thinking
 Learning Outcome: Micro-3

- 127) Refer to Table 20.6. If the exchange rate is \$1 = 3 euros, then
- A) the United States will import both peas and carrots.
 - B) France will import both peas and carrots.
 - C) the United States will import carrots and France will import peas.
 - D) the United States will import peas and France will import carrots.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

- 128) Refer to Table 20.6. If the exchange rate is \$1 = 2 euros, then
- A) the United States will import both peas and carrots.
 - B) France will import both peas and carrots.
 - C) the United States will import peas and France will import carrots.
 - D) France will import peas.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

129) Refer to Table 20.6. Trade will flow in both directions between countries only if the price of the euro is between

- A) \$1.00 and \$2.25.
- B) \$.44 and \$1.00.
- C) \$.40 and \$.50.
- D) \$.60 and \$.75.

Answer: B

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

130) If the exchange rate between the United States and Mexico changes from \$1 = 8 pesos to \$1 = 9 pesos, then, *ceteris paribus*, the price of American goods in Mexico

- A) will remain the same.
- B) will increase.
- C) could either increase or decrease.
- D) will decrease.

Answer: B

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

131) If the exchange rate between the United States and India changes from \$1 = 60 rupees to \$1 = 10 rupees, *ceteris paribus*

- A) the United States imports from India increase.
- B) Indian exports to the United States increase.
- C) the United States exports to India increase.
- D) the trade deficit in the United States increases.

Answer: C

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

132) Initially trade between Australia and the United States is balanced. Then, if a change in the exchange rate increases the U.S. dollar price of Australian goods, *ceteris paribus*, we would expect

- A) a trade deficit in the United States.
- B) a trade surplus in the United States.
- C) a trade deficit in Australia.
- D) a trade deficit in both countries.

Answer: A

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

133) Suppose that the United States and Spain both produce cognac and handbags. In the United States, cognac sells for \$20 a bottle and handbags sell for \$80. In Spain, cognac sells for 30 euros a bottle and handbags sell for 40 euros. If the current exchange rate is 0.8 euro to the dollar, then

- A) Spain will import both handbags and cognac from the United States.
- B) the United States will import both handbags and cognac from Spain.
- C) the United States will import handbags from Spain and Spain will import cognac from the United States.
- D) the United States will import cognac from Spain and Spain will import handbags from the United States.

Answer: C

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

134) Suppose that the United States and Spain both produce cognac and handbags. In the United States, cognac sells for \$20 a bottle and handbags sell for \$80. In Spain, cognac sells for 30 euros a bottle and handbags sell for 40 euros. Given this information, trade will flow in both directions if the price of a dollar is between

- A) 1.5 and 2.5 euros.
- B) 2.0 and 3.0 euros.
- C) 0.5 and 0.75 euro.
- D) 0.67 and 2.0 euros.

Answer: D

Diff: 3

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-3

135) In general, for any two countries, there are many exchange rates that will lead to gains from trade, based on comparative advantage.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

136) Trade allows the people of a country to consume outside their production possibility curve.

Answer: TRUE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

137) If the exchange rate between the United States and Greece changes from \$1 = 1 euro to \$1 = 2 euros, then holding everything else constant, the price of U.S. goods in Greece will increase.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

138) If Spain decreases subsidies to its olive growers, the price of olives in the U.S. will fall.

Answer: FALSE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

139) A country is said to enjoy a comparative advantage over another country in the production of a product if it uses fewer resources to produce that product than the other country does.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

140) A country enjoys a comparative advantage in the production of a good if that good can be produced at a lower cost in terms of other goods.

Answer: TRUE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

141) For any pair of nations and goods, if each country has an absolute advantage in the production of one product, it is reasonable to expect that specialization and trade will benefit both countries.

Answer: TRUE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

142) For any pair of countries, there is only one single exchange rate that can lead automatically to both countries realizing the gains from specialization and comparative advantage.

Answer: FALSE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

143) Within the range of exchange rates that permits specialization and trade to take place, the exchange rate will determine which country gains the most from trade.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

144) If exchange rates end up in the right ranges, the free market will drive each country to shift resources into those sectors in which it enjoys a comparative advantage.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

145) Only those products in which a country has an absolute advantage will be competitive in world markets.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

146) If the domestic price is below the world price of a certain product, the domestic country will export the product.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

147) The economic basis for trade is based on absolute advantage.

Answer: FALSE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

148) Trade allows the people of a country to produce outside their production possibility curve.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

149) If the exchange rate between the United States and Portugal changes from $\$1 = 1$ euro to $\$1 = 2$ euros, then holding everything else constant, the price of U.S. goods in Portugal will decrease.

Answer: FALSE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

150) If Holland decreases subsidies to its tulip growers, the price of tulips in the United States will rise.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

151) A country is said to have an absolute advantage over another country in the production of a product if it uses more resources to produce that product than the other country does.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

152) A country enjoys an absolute advantage in the production of a good if that good can be produced at a lower cost in terms of other goods.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

153) For any pair of nations and goods, if each country has a comparative advantage in the production of one product, it is reasonable to expect that specialization and trade will benefit both countries.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

154) The ratio at which a country can exchange domestic products for imported products is called the terms of trade.

Answer: TRUE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

155) If the opportunity cost of corn to wheat is 3:1 in the United States and 5:1 in France, both countries would benefit from trade if the actual terms of trade between corn and wheat were 4:1.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

156) If the opportunity cost of corn to wheat is 3:1 in the United States and 5:1 in France, only France would benefit from trade if the actual terms of trade between corn and wheat were 7:1.

Answer: FALSE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

157) If the opportunity cost of corn to wheat is 3:1 in the United States and 5:1 in France, only the United States would benefit from trade if the actual terms of trade between corn and wheat were 2:1.

Answer: FALSE

Diff: 1

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

158) If the domestic price is above the world price of a certain product, the domestic country will import the product.

Answer: TRUE

Diff: 2

Topic: The Economic Basis for Trade: Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

20.3 The Sources of Comparative Advantage

1) The quantity and quality of labor, land, and natural resources of a country are its

A) capital stock.

B) productive capacity.

C) factor endowments.

D) economic potential.

Answer: C

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

2) The software industry depends on highly trained workers, who are abundantly available in Country A. The heavy equipment industry depends on the availability of a large stock of physical capital with which Country B is well endowed. According to Heckscher-Ohlin theorem,

- A) Country A should export heavy equipment.
- B) Country B should import software.
- C) Country B should import heavy equipment.
- D) Country A should import software.

Answer: B

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

3) A significant portion of actual world trade patterns results from

- A) different factor endowments between countries.
- B) the different tastes and preferences of people in different countries.
- C) the industrial policies of governments.
- D) different sizes of the countries.

Answer: A

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

4) An example of an acquired comparative advantage is

- A) the United States producing more agricultural products than other countries because land is more abundant in the United States than in other countries.
- B) United States consumers buying television sets produced in Japan because Japanese companies have a reputation for producing a higher-quality TV than those produced in the United States.
- C) United States companies selling to other countries chemical products that cannot be sold in the United States.
- D) the United States purchasing coconuts from other countries, because they cannot be produced in the United States.

Answer: B

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

5) An example of acquired comparative advantage is that

- A) the United States imports coffee beans because coffee beans cannot be grown in the United States.
- B) some U.S. consumers prefer German cars over American cars because German cars have a reputation for being very safe.
- C) China specializes in the production of labor-intensive goods because of the amount of labor available in the country relative to capital.
- D) the U.S. government provides a subsidy to firms that are trying to increase their exports to other countries.

Answer: B

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

6) Which of the following phenomena *cannot* be explained by the simple comparative advantage theory?

- A) A country that does not have much farmland tends to import agricultural goods.
- B) A country with a lot of skilled labor tends to export highly technical goods.
- C) A country tends to export the goods that it can produce at a lower opportunity cost.
- D) A country imports and exports the same goods.

Answer: D

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

7) The Heckscher-Ohlin theorem looks to _____ to explain trade flows.

- A) relative factor endowments
- B) the existence of trade barriers
- C) acquired comparative advantage
- D) the differences in preferences among consumers

Answer: A

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

8) The quantity and quality of _____ of a country are its factor endowments.

- A) imports and exports
- B) deficits and surpluses
- C) labor, land, and natural resources
- D) commodity money and fiat money

Answer: C

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

9) The pharmaceutical industry depends on highly trained workers, who are abundantly available in India. The automobile industry depends on the availability of a large stock of physical capital with which the United States is well endowed. According to Heckscher-Ohlin theorem,

- A) India should export automobiles.
- B) the United States should export pharmaceuticals.
- C) the United States should import automobiles.
- D) India should import automobiles.

Answer: D

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-1

10) _____ portion of actual world trade patterns results from different factor endowments between countries.

- A) A significant
- B) No
- C) A small
- D) A negative

Answer: A

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

11) An example of a(n) _____ comparative advantage is U.S. consumers buying automobiles produced in Japan because Japanese companies have a reputation for producing a higher-quality automobile than those produced in the United States.

- A) unwarranted
- B) acquired
- C) natural
- D) subsidized

Answer: B

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

12) An example of a(n) _____ comparative advantage is that some U.S. consumers prefer German beer over American beer because German beer has a reputation for tasting better.

- A) unwarranted
- B) acquired
- C) natural
- D) subsidized

Answer: B

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

13) Which of the following phenomena can be explained by the simple comparative advantage theory?

- A) A country that has a vast amount of farmland tends to export agricultural goods.
- B) A country with little skilled labor tends to export highly technical goods.
- C) A country tends to import the goods that it can produce at a lower opportunity cost.
- D) A country imports and exports the same goods.

Answer: A

Diff: 2

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

14) _____ looks to relative factor endowments to explain trade flows.

- A) The Heckscher-Ohlin theorem
- B) Ockham's razor
- C) Say's law
- D) The Sherman Antitrust Act

Answer: A

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

15) A country with a lot of human capital is likely to have a comparative advantage in highly technical goods.

Answer: TRUE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

16) The Heckscher-Ohlin theorem says that a country is likely to have a comparative advantage in a labor intensive product if it has a large labor supply.

Answer: TRUE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Fact

Learning Outcome: Micro-8

17) The Heckscher-Ohlin theorem explains why the U.S. both imports and exports cars.

Answer: FALSE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

18) Acquired comparative advantage comes from factor endowments.

Answer: FALSE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

19) The quantity and quality of a country's labor, land, and natural resources are that country's factor endowments.

Answer: TRUE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Definition

Learning Outcome: Micro-8

20) Comparative advantage is the only reason countries trade.

Answer: FALSE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Analytical

AACSB: Reflective Thinking

Learning Outcome: Micro-8

21) Goodwill can be a source of comparative advantage.

Answer: TRUE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

22) Natural comparative advantage comes from factor endowments.

Answer: TRUE

Diff: 1

Topic: The Sources of Comparative Advantage

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

20.4 Trade Barriers: Tariffs, Export Subsidies, and Quotas

1) A tariff is

A) a limit on the quantity of a good that can be imported into a country.

B) a tax on imports.

C) a government payment made to domestic firms to encourage exports.

D) a payment made by the government to producers of the product.

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

2) Government payments made to domestic firms in order to encourage exports are called

A) tariffs.

B) bribes.

C) quotas.

D) subsidies.

Answer: D

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-5

3) It costs a computer manufacturer \$1,000 to produce a personal computer. This manufacturer sells these computers abroad for \$600. This is an example of

A) a negative tariff.

B) export subsidy.

C) dumping.

D) a trade-related economy of scale.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

4) If the United States decreases the tariff on imported tuna steaks, this will

- A) reduce the number of tuna steaks imported into the United States and reduce production of tuna steaks in the United States.
- B) increase the number of tuna steaks imported in the United States and increase the production of tuna steaks in the United States.
- C) reduce the number of tuna steaks imported in the United States and increase the production of tuna steaks in the United States.
- D) increase the number of tuna steaks imported in the United States and reduce the production of tuna steaks in the United States.

Answer: D

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

5) The United States placed a limit on the amount of cars that can be imported into the United States. This is an example of

- A) a tariff.
- B) an export subsidy.
- C) a quota.
- D) dumping.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

6) Which of the following is true?

- A) An import quota generates government revenue.
- B) Tariffs on imports generate government revenue as long as the domestic price is larger than the world price plus the tariff.
- C) Tariffs on imports do not generate government revenue if the domestic price is larger than the world price plus the tariff.
- D) Tariffs on imports never generate government revenue.

Answer: B

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

7) Which of the following statements is *false*?

- A) If the United States imposes a tariff on Japanese car imports, the price of cars in the United States is likely to increase.
- B) If the United States imposes a quota on Japanese car imports, the price of cars in the United States is likely to increase.
- C) If Japan imposes a subsidy on car exports to the United States, the price of cars in the United States is likely to increase.
- D) If Japan imposes a "voluntary export restraint" on car exports to the United States, the price of cars in the United States is likely to increase.

Answer: C

Diff: 3

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

8) Dumping involves a country selling its exports

- A) at a price lower than its cost of production.
- B) to nations without a comparative advantage in producing the products.
- C) to nations that regularly impose tariffs.
- D) to nations that have no need for the products.

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-3

9) The U.S. tariff law that set off an international trade war in the 1930s was the

- A) Taft-Hartley tariff.
- B) Bentsen-Gephardt tariff.
- C) Smoot-Hawley tariff.
- D) Landrum-Griffin tariff.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

10) The international agreement signed by the United States and 22 other countries in 1947 to promote the liberalization of foreign trade is known by its initials as

- A) GATT.
- B) START.
- C) SALT.
- D) IMF.

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

11) Every president who has held office since the General Agreement on Tariffs and Trade was signed has

A) argued for free-trade policies, but only Eisenhower and Reagan successfully resisted all calls for protection from various sectors of the economy.

B) argued that certain domestic industries deserve protection, yet each one has been reluctant to use his powers to protect individual sectors of the economy.

C) argued for free-trade policies, yet each one has used his powers to protect various sectors of the economy.

D) argued for free-trade policies, but only Kennedy and Carter successfully resisted all calls for protection from various sectors of the economy.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

12) In 2003, the WTO ruled that U.S. tariffs on _____ were unfair and allowed retaliatory tariffs on U.S. products.

A) steel imported from the EU

B) beef imported from Argentina

C) automobiles imported from Japan

D) diamonds imported from South Africa

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

13) Over time, the general movement in the United States has been toward

A) higher tariffs and stricter import quotas.

B) managed trade.

C) relatively more free trade.

D) complete elimination of tariffs, import quotas, and export subsidies.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

14) If a nation has most-favored-nation status conferred on it, then exports from that country

A) will be priced higher than products exported from countries without most-favored-nation status.

B) are exempt from all safety regulations.

C) are sold below cost.

D) are taxed at the lowest negotiated tariff rates.

Answer: D

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

15) Economic integration

- A) occurs when two or more nations join to form a free-trade zone.
- B) occurs when countries develop an acquired comparative advantage that makes their industries more competitive in international markets.
- C) occurs when countries are granted most-favored-nation status.
- D) occurs when one country voluntarily agrees to reduce its exports to another country.

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-3

16) The idea of the U.S.-Canadian Free-Trade Agreement that removed all barriers to trade including tariffs and quotas between the United States and Canada by 1998 was to

- A) increase the price of Canadian goods sold in the United States.
- B) increase the price of U.S. goods sold in Canada.
- C) increase the amount that the United States exports to Canada and the amount that the United States imports from Canada.
- D) increase the amount that the United States exports to Canada and decrease the amount that the United States imports from Canada.

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

17) In 1991, what group of countries began the process of forming the largest free-trade zone in the world?

- A) the European Community
- B) the North Atlantic Treaty Organization
- C) the United States, Canada, and Mexico
- D) the Organization of Petroleum Exporting Countries

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

18) Which of the following can be considered a free-trade zone?

- A) countries that are members of GATT
- B) the European Union
- C) all English-speaking nations
- D) the industrialized OECD nations

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

19) Related to the *Economics in Practice* on page 421: Trade _____ comparative advantage of countries and _____ the efficiency of firms.

- A) exploits; improves
- B) exploits; reduces
- C) inhibits; improves
- D) inhibits; reduces

Answer: A

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

20) Related to the *Economics in Practice* on page 422: When a country lifts a quota, imports to that country generally _____ and the price of the affected product in that country generally _____.

- A) increase; rises
- B) increase; falls
- C) decrease; rises
- D) decrease; falls

Answer: B

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

21) A tax on imports is a(n)

- A) import quota.
- B) tariff.
- C) voluntary import restriction.
- D) quality barrier.

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

22) Government payments made to _____ firms in order to encourage _____ are called subsidies.

- A) foreign; immigration
- B) foreign; imports
- C) domestic; imports
- D) domestic; exports

Answer: D

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-5

23) It costs a television manufacturer \$1,000 to produce a plasma television. This manufacturer sells these televisions abroad for \$750. This is an example of

- A) an export subsidy.
- B) dumping.
- C) a negative tariff.
- D) a trade-related economy of scale.

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

24) If the United States increases the tariff on imported salmon, this will

- A) reduce the amount of salmon imported into the United States and reduce production of salmon in the United States.
- B) increase the amount of salmon imported in the United States and increase the production of salmon in the United States.
- C) reduce the amount of salmon imported in the United States and increase the production of salmon in the United States.
- D) increase the amount of salmon imported in the United States and reduce the production of salmon in the United States.

Answer: C

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

25) Germany placed a limit on the amount of beer that can be imported into Germany. This is an example of

- A) dumping.
- B) an export subsidy.
- C) a tariff.
- D) a quota.

Answer: D

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

26) Which of the following is *false*?

- A) An import quota does not generate government revenue.
- B) Tariffs on imports generate government revenue as long as the domestic price is larger than the world price plus the tariff.
- C) Tariffs on imports do not generate government revenue if the domestic price is larger than the world price plus the tariff.
- D) Tariffs on imports generate revenue for the government.

Answer: C

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

27) Which of the following statements is true?

- A) If the United States imposes a tariff on Swiss chocolate imports, the price of chocolate in the Switzerland is likely to increase.
- B) If the United States imposes a quota on Swiss chocolate imports, the price of chocolate in the United States is likely to increase.
- C) If Switzerland imposes a "voluntary export restraint" on chocolate exports to the United States, the price of chocolate in the United States is likely to decrease.
- D) all of the above

Answer: B

Diff: 3

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

28) _____ involves a country selling its exports at a price lower than its cost of production.

- A) Dumping
- B) Having an absolute advantage
- C) Having a comparative advantage
- D) An export quota

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-3

29) The Smoot-Hawley tariff set off an international trade war in the

- A) 1930s.
- B) 1950s.
- C) 1970s.
- D) 1990s.

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

30) GATT is the international agreement signed by the United States and _____ other countries in 1947 to promote the liberalization of foreign trade.

- A) 13
- B) 22
- C) 86
- D) 97

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

31) _____ U.S. president(s) who has/have held office since GATT was signed has argued for free-trade policies, yet each one has used his powers to protect various sectors of the economy.

- A) Only one
- B) No
- C) Every
- D) Only 3

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

32) In 2003, the _____ ruled that U.S. tariffs on steel imported from the EU were unfair and allowed the EU to issue retaliatory tariffs on U.S. products.

- A) World Trade Organization
- B) United Nations
- C) European Central Bank
- D) International Human Rights Commission

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

33) The Smoot-Hawley tariff increased the average tariff rate to _____ percent.

- A) 15
- B) 30
- C) 60
- D) 90

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

34) If a nation has _____ status conferred on it, then exports from that country are taxed at the lowest negotiated tariff rates.

- A) international-ally
- B) no-child-labor
- C) total-trade-guaranteed
- D) most-favored-nation

Answer: D

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

35) Economic _____ occurs when two or more nations join to form a free-trade zone.

- A) integration
- B) correlation
- C) conjugation
- D) immigration

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-3

36) The idea of the U.S.-Canadian Free-Trade Agreement that _____ barriers to trade including tariffs and quotas between the United States and Canada by 1998 was to increase the amount that the United States exports to Canada and the amount that the United States imports from Canada.

- A) increased all
- B) removed some
- C) removed all
- D) increased some

Answer: C

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

37) In 1991, the European Union began the process of forming the

- A) largest free-trade zone in the world.
- B) only continental military force in the world.
- C) first international trade agreement in the world.
- D) first unified currency in the world.

Answer: A

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

38) The free-trade agreement signed by Canada, Mexico, and the United States in 1992 is known as

- A) GATT.
- B) NAFTA.
- C) WTO.
- D) DOHA.

Answer: B

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-3

39) Related to the *Economics in Practice* on p. 421: When a country opens its markets to free trade, competition _____ and efficiency _____.

- A) grows; improves
- B) grows; declines
- C) decreases; improves
- D) decreases; declines

Answer: A

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

40) Related to the *Economics in Practice* on p. 422: When a country imposes a quota, imports to that country generally _____ and the price of the affected product in that country generally _____.

- A) increase; rises
- B) increase; falls
- C) decrease; rises
- D) decrease; falls

Answer: C

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

41) An export subsidy raises the domestic price of the product.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

42) A tariff is a tax on imports.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

43) Dumping refers to a country selling its exports at a price lower than its selling price at home.

Answer: FALSE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

44) A quota is a restriction that allows women and minorities to import a certain percentage of imports.

Answer: FALSE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

45) Tariffs, quotas, and exports subsidies all increase domestic production.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

46) A quota on sugar harms domestic producers of sugar.

Answer: FALSE

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

47) Tariffs tend to increase the domestic price of the product.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

48) A quota is a tax on imports.

Answer: FALSE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Definition

Learning Outcome: Micro-8

49) Trade barriers are forms of protection that shield some sector of the economy from foreign competition.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

50) Quotas generate tariff revenues for the government.

Answer: FALSE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

51) The average tariff on imports into the United States is less than 5 percent.

Answer: TRUE

Diff: 1

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Fact

Learning Outcome: Micro-8

52) A tariff on tires benefits domestic producers of tires.

Answer: TRUE

Diff: 2

Topic: Trade Barriers: Tariffs, Export Subsidies, and Quotas

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

20.5 Free Trade or Protection?

1) The case for free trade is based on the

A) theory of balanced growth.

B) theory of absolute advantage.

C) argument for a diversified economy.

D) theory of comparative advantage.

Answer: D

Diff: 1

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

2) Which of the following statements is *not* true?

- A) Trade is beneficial because it allows more efficient production.
- B) Trade is beneficial because it allows consumers to buy goods at cheaper prices.
- C) Trade is beneficial because it allows all domestic industries to increase production.
- D) Trade is beneficial because it allows consumption beyond the production possibility frontier.

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-3

3) A tariff imposed on imported shoes will cause the domestic price of shoes to _____ and the domestic production of shoes to _____.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

Refer to the information provided in Figure 20.3 below to answer the question(s) that follow.

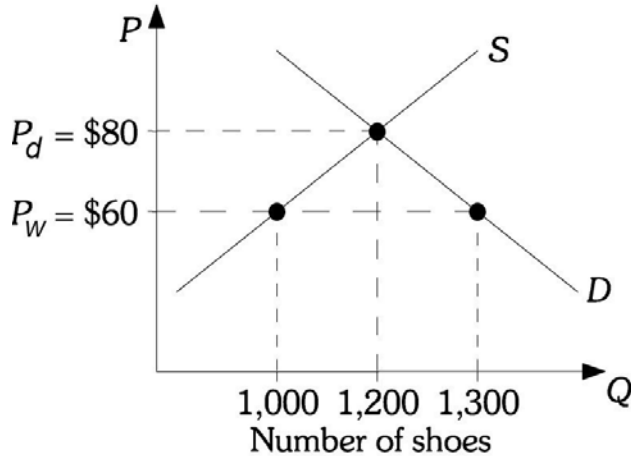


Figure 20.3

4) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. After trade this country will import

- A) 100 pairs of shoes.
- B) 200 pairs of shoes.
- C) 300 pairs of shoes.
- D) 1,300 pairs of shoes.

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

5) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. Now domestic production costs fall so that the equilibrium domestic price of a pair of shoes is \$70. This would cause

- A) the number of pairs of shoes imported into this country to increase.
- B) the number of pairs of shoes imported into this country to decrease.
- C) the number of pairs of shoes exported from this country to increase.
- D) the number of pairs of shoes exported from this country to decrease.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

6) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. If shoes are a normal good and income in this country rises, then we would expect

- A) the number of pairs of shoes imported into this country to increase.
- B) the number of pairs of shoes imported into this country to decrease.
- C) the number of pairs of shoes exported from this country to increase.
- D) the number of pairs of shoes exported from this country to decrease.

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

7) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. After trade this country will _____ 300 pairs of shoes.

- A) buy
- B) sell
- C) import
- D) export

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

8) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. This would cause the number of pairs of shoes produced domestically to

- A) increase.
- B) decrease.
- C) remain the same.
- D) fall to zero.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

9) Refer to Figure 20.3. The domestic price of shoes is \$80. After trade the price of a pair of shoes is \$60. If shoes are a normal good and income in this country falls, then we would expect

- A) the number of pairs of shoes imported into this country to increase.
- B) the number of pairs of shoes imported into this country to decrease.
- C) the number of pairs of shoes exported from this country to increase.
- D) the number of pairs of shoes exported from this country to decrease.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Figure 20.4 below to answer the question(s) that follow.

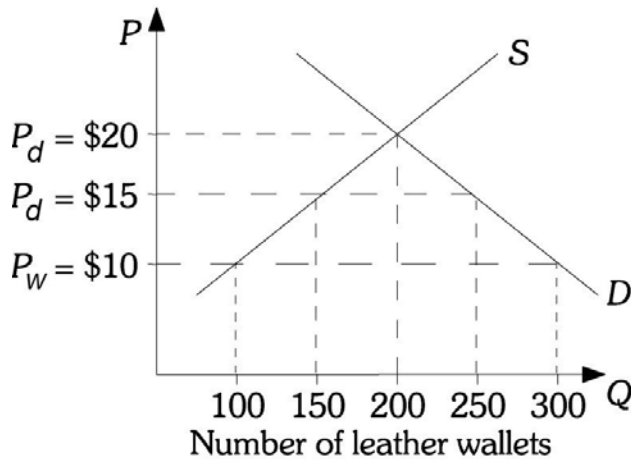


Figure 20.4

10) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. If there is free trade, this country will import _____ leather wallets.

- A) 50
- B) 100
- C) 200
- D) 300

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

11) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed, this country will import _____ leather wallets.

- A) 50
- B) 100
- C) 150
- D) 200

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

12) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed, tariff revenue in this country will be

- A) \$50.
- B) \$250.
- C) \$500.
- D) \$750.

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

13) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed,

- A) domestic production and consumption will increase by 50 wallets and domestic consumption will increase by 50 wallets.
- B) domestic production will increase by 150 wallets and domestic consumption will decrease by 250 wallets.
- C) domestic production will increase by 100 wallets and domestic consumption will decrease by 100 wallets.
- D) domestic production will increase by 50 wallets and domestic consumption will decrease by 50 wallets.

Answer: D

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

14) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. If the tariff is raised so that it now equals \$10, tariff revenue in this country will be

- A) \$0.
- B) \$1,000.
- C) \$2,000.
- D) \$3,000.

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

15) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. With free trade domestic production is

- A) 0.
- B) 100.
- C) 150.
- D) 300.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

16) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. With the tariff domestic production is

- A) 100.
- B) 150.
- C) 200.
- D) 300.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

17) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. If there is free trade, this country will _____ 200 leather wallets.

- A) buy
- B) sell
- C) import
- D) export

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

18) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed, this country will _____ 250 leather wallets.

- A) buy
- B) sell
- C) import
- D) export

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

19) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed, _____ revenue in this country will be \$500.

- A) export
- B) import
- C) tariff
- D) total

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

20) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. After the tariff is imposed, domestic consumption of domestically produced wallets will be _____ wallets and domestic consumption of imported wallets will be _____ wallets.

- A) 150; 100
- B) 150; 250
- C) 100; 250
- D) 200; 50

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

21) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. If the tariff is changed so that it is now _____, tariff revenue in this country will be zero.

- A) \$1
- B) between \$1 and \$5
- C) between \$5 and \$10
- D) \$10

Answer: D

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

22) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. With free trade domestic consumption is

- A) 0.
- B) 100.
- C) 150.
- D) 300.

Answer: D

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

23) Refer to Figure 20.4. The domestic price of a leather wallet is \$20. With free trade the price of a leather wallet is \$10 and after a tariff is imposed the price is \$15. With the tariff domestic consumption is

- A) 100.
- B) 150.
- C) 200.
- D) 250.

Answer: D

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

Refer to the information provided in Figure 20.5 below to answer the question(s) that follow.

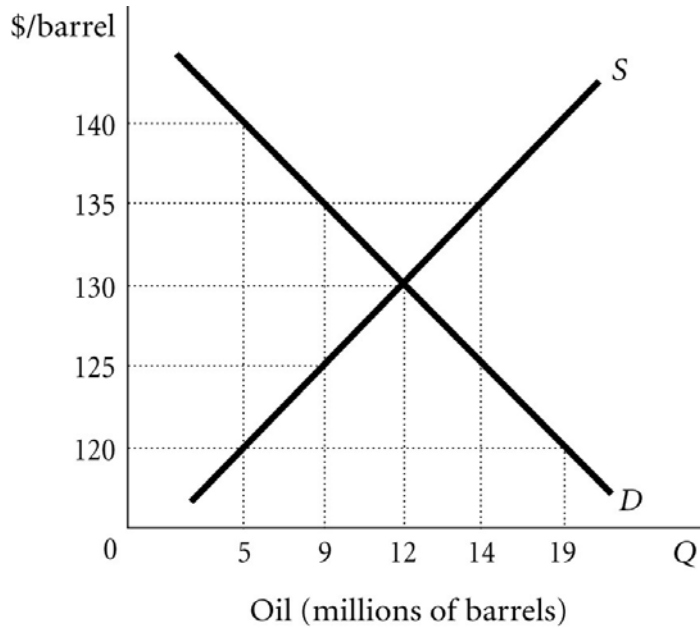


Figure 20.5

24) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel. If the world price of oil is \$135 per barrel, this country will

- A) import 23 million barrels.
- B) import 9 million barrels.
- C) export 5 million barrels.
- D) export 14 million barrels.

Answer: C

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

25) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel. This country imports 14 million barrels if the world price of oil is

- A) \$120.
- B) \$125.
- C) \$135.
- D) \$140.

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

26) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel, and the world price of oil is \$120 per barrel. If the domestic government imposes a tariff of \$_____ per barrel, it will eliminate all oil imports and achieve tariff revenues of \$_____.

- A) 10; zero
- B) 5; 20 million
- C) 5; 45 million
- D) 10; 120 million

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

27) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel. If the world price of oil is \$120 per barrel, this country will

- A) import 19 million barrels.
- B) import 14 million barrels.
- C) export 5 million barrels.
- D) export 19 million barrels.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

28) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel. This country imports 5 million barrels if the world price of oil is

- A) \$120.
- B) \$125.
- C) \$135.
- D) \$140.

Answer: B

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

29) Refer to Figure 20.5. The domestic price of oil is \$130 per barrel, and the world price of oil is \$120 per barrel. If the domestic government imposes a tariff of \$10 per barrel, it will

- A) import zero barrels.
- B) import 5 million barrels.
- C) export 5 million barrels.
- D) export 7 million barrels.

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

30) Related to the *Economics in Practice* on page 427: If the candle makers in the petition were able to gain protection for their industry, the French economy would most likely

- A) benefit in the short run.
- B) become more efficient.
- C) benefit only if the protection was in the form of a tariff.
- D) have to pay higher prices for candles.

Answer: D

Diff: 1

Topic: Free Trade or Protection?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

31) Related to the *Economics in Practice* on page 427: Satirist Frederic Bastiat's essay arguing for a quota on sunlight in order to protect domestic candle makers suggests that it is pointless to

- A) participate in international trade.
- B) protect industries that cannot compete effectively.
- C) legislate based on economic theory.
- D) create barriers to trade in some markets but not others.

Answer: B

Diff: 2

Topic: Free Trade or Protection?: Economics in Practice

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Micro-8

32) The case for _____ is based on the theory of comparative advantage.

- A) quotas
- B) export subsidies
- C) tariffs
- D) free trade

Answer: D

Diff: 1

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

33) A tariff imposed on imported wine will cause the domestic _____ of wine to increase and the domestic _____ of wine to increase.

- A) price; production
- B) cost; price
- C) imports; exports
- D) revenues; imports

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

34) A quota imposed on imported steel will cause the domestic _____ of steel to increase and the domestic _____ of steel to increase.

- A) price; production
- B) cost; price
- C) imports; exports
- D) revenues; imports

Answer: A

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

35) Related to the *Economics in Practice* on p. 427: The French economy would most likely have to pay higher prices for candles if the candle makers in the petition

- A) were able to gain protection for their industry.
- B) were not granted any protection for their industry.
- C) were allowed to export their product.
- D) had a comparative advantage in producing candles.

Answer: A

Diff: 1

Topic: Free Trade or Protection?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

36) Related to the *Economics in Practice* on p. 427: Protectionism of the kind that is suggested in the petition of the candle makers would most likely result in

- A) more efficient production.
- B) lower prices.
- C) lower production cost.
- D) lower consumption.

Answer: D

Diff: 1

Topic: Free Trade or Protection?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

37) It is a valid argument that industries need to be protected from foreign competition because foreign wages are substantially lower than wages paid to U.S. workers.

Answer: FALSE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

38) Free trade allows the people of a country to consume outside their production possibility frontier.

Answer: TRUE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

39) Free trade decreases world production and consumption.

Answer: FALSE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

40) Protection is often temporary to help infant industries.

Answer: FALSE

Diff: 2

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

41) Protection makes the people of a country better off.

Answer: FALSE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

42) According to some environmental groups, free trade policies are potentially harmful to the environment.

Answer: TRUE

Diff: 1

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

43) An argument in favor of free trade is that trade barriers prevent a nation from reaping the benefits of specialization.

Answer: TRUE

Diff: 1

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

44) Free trade allows the people of a country to produce outside their production possibility frontier.

Answer: FALSE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

45) An argument in favor of free trade is that trade barriers force consumers to pay higher prices for protected products than they would otherwise pay.

Answer: TRUE

Diff: 1

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

46) Since 1980, most nation shave increased tariff rates.

Answer: FALSE

Diff: 1

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

47) In general, free-trade makes the people of a country better off.

Answer: TRUE

Diff: 2

Topic: Free Trade or Protection?

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Micro-8

48) No U.S. trading partners engage in unfair trade practices.

Answer: FALSE

Diff: 1

Topic: Free Trade or Protection?

Skill: Fact

Learning Outcome: Micro-8

Principles of Microeconomics, 12e (Case/Fair/Oster)
Chapter 21 Economic Growth in Developing Economies

21.1 Life in the Developing Nations: Population and Poverty

- 1) The term "Global South" refers to
- A) countries in the Southern Hemisphere.
 - B) the Southern states of the United States.
 - C) developing countries in Asia, Africa, and Latin America.
 - D) industrialized countries south of the equator.

Answer: C

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Definition

Learning Outcome: Macro-16

- 2) Over the past 25 years, child mortality has _____ and literacy has _____ in developing countries.
- A) risen; risen
 - B) risen; fallen
 - C) fallen; fallen
 - D) fallen; risen

Answer: D

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 3) Over the past 25 years, child mortality has _____ and literacy has _____ in developed countries.
- A) risen; risen
 - B) risen; fallen
 - C) fallen; fallen
 - D) fallen; risen

Answer: D

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 4) The country with the second-highest GDP in the world, behind only the United States, is
- A) China.
 - B) India.
 - C) Germany.
 - D) Russia.

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 5) The disparity in child mortality rates between the Global North and the Global South
A) has virtually disappeared.
B) remains very high.
C) has been cut roughly in half in percentage terms.
D) has more than tripled over the past 25 years.

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 6) Literacy rates in the Global South _____ the Global North.
A) have caught up to those in
B) are still significantly lower than those in
C) have surpassed those in
D) are falling even farther behind those in

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 7) A majority of the population of the Global South live in _____ and work _____.
A) rural areas; in agriculture
B) urban areas; in factories
C) rural areas; in urban areas
D) urban areas; for the government

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 8) In the agriculture sectors in the Global South, productivity tends to be _____ because farmers work with _____.
A) low; little capital
B) low; little labor
C) high; large amounts of capital
D) high; large amounts of labor

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

9) From 1990 to 2013, mortality under age 5 has _____ and the literacy rate has _____ in India.

- A) increased; decreased
- B) decreased; increased
- C) increased; increased
- D) decreased; decreased

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

10) From 1990 to 2013, mortality under age 5 has _____ and the literacy rate has _____ in China.

- A) increased; decreased
- B) decreased; increased
- C) increased; increased
- D) decreased; decreased

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

11) Data from the United Nations indicate that in 2014, _____ people experienced extreme hunger.

- A) 125 million
- B) 870 million
- C) 5.4 billion
- D) almost 10 billion

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

12) In 2015, the population of the world

- A) was approximately 500 million people.
- B) fell below 2 billion people.
- C) was more than 7 billion people.
- D) was close to 1 trillion people.

Answer: C

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 13) Most of the world's nations
A) belong to the developing world.
B) belong to the developed world.
C) have transitioned from the Global North to the Global South.
D) have transitioned from the Global South to the Global North.

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 14) Which of the following characteristics is generally representative of developed countries relative to developing nations?

- A) a smaller percentage of the population working in agriculture
B) a shorter life expectancy
C) a higher rate of infant mortality
D) a smaller percentage of children enrolled in college

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 15) Which of the following characteristics is generally representative of developing countries relative to developed countries?

- A) a smaller percentage of the labor force in urban areas
B) a lower infant mortality rate
C) a greater availability of college education.
D) a lower rate of illiteracy

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

- 16) Which of the following characteristics is generally representative of developed countries relative to developing countries?

- A) a larger percentage of the labor force in rural areas
B) a lower infant mortality rate
C) lower productivity in the agriculture sector
D) a lower rate of literacy

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

17) Which of the following characteristics is generally representative of developing countries relative to developed countries?

- A) a higher rate of literacy
- B) a larger percentage of the labor force in urban areas
- C) a lower infant mortality rate
- D) lower productivity in the agricultural sector

Answer: D

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

18) India is on the World Bank's list of _____ countries and its capital city is one of the top ten centers of commerce in the world.

- A) low-income
- B) lower middle-income
- C) upper middle-income
- D) high-income

Answer: A

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

19) Related to the *Economics in Practice* on page 436: _____ children under 5 years of age in the world are characterized as extremely short due to malnutrition.

- A) 1 in 20
- B) 1 in 10
- C) 1 in 4
- D) 1 in 2

Answer: C

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

20) Related to the *Economics in Practice* on page 436: Of the children under 5 years of age in the world who are characterized as extremely short due to malnutrition, one half are in

- A) Africa.
- B) Asia.
- C) South America.
- D) Eastern Europe.

Answer: B

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

21) Health and education are two of the lynch pins of economic development.

Answer: TRUE

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

22) In some African nations, less than half of the adult population are literate.

Answer: TRUE

Diff: 2

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

23) The Global South provides college educations to a large fraction of their populations.

Answer: FALSE

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

24) Farm output per person in the Global South is often barely sufficient to feed a farmer's own family.

Answer: TRUE

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

25) Despite India being on the World Bank's list of low-income countries, its capital city, Mumbai, is one of the top ten centers of commerce in the world.

Answer: TRUE

Diff: 1

Topic: Life in the Developing Nations: Population and Poverty

Skill: Fact

Learning Outcome: Macro-16

21.2 Economic Development: Sources and Strategies

1) All of the following are factors that limit a poor nation's economic growth *except*

A) insufficient capital formation.

B) insufficient controls on free trade.

C) lack of entrepreneurial ability.

D) lack of human capital.

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

- 2) The vicious-circle-of-poverty hypothesis states that poor countries
- A) are unable to save and invest enough to accumulate capital stock that would help them grow.
 - B) cannot develop because they lack the ability to educate their workers.
 - C) cannot develop because their economic policies are ineffective.
 - D) cannot develop because people don't consume due to lack of goods and services.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

- 3) Capital flight refers to the fact that both human and financial capital
- A) flow into developing countries to build much needed infrastructure.
 - B) leave developing countries in search of a higher rate of return.
 - C) leave developed countries in search of a higher rate of return.
 - D) flow into developing countries to invest in risk free investments.

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

- 4) A "brain drain" is
- A) the tendency of workers in developing countries to reject new technologies.
 - B) the tendency of talented people in developing countries to get education in developed countries and to stay there after graduation.
 - C) the impact of poverty on the productivity of workers in developing countries.
 - D) the impact of malnutrition on education and productivity in developing countries.

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

- 5) Compensation sent back to family in the home country by recent emigrants is known as
- A) remittances.
 - B) transaction costs.
 - C) outsourcing.
 - D) capital flight.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

- 6) _____ is (are) estimated at approximately \$100 billion per year.
- A) Remittances sent from developed countries to less developed countries
 - B) Capital flight from the United States
 - C) Social overhead capital in the United States
 - D) The value of brain drain flowing into the United States

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

- 7) In 2007, remittances from illegal immigrants in the United States to Mexico
- A) began to fall because of increased crackdowns on illegal immigration.
 - B) continued to rise despite increased crackdowns on illegal immigration.
 - C) began to fall despite a decrease in enforcement of immigration laws.
 - D) continued to rise because of the decrease in enforcement of immigration laws.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

- 8) Which of the following factors has been suggested as an explanation for the lack of economic growth in many poor nations?
- A) insufficient capital formation
 - B) the supply of human resources is too high.
 - C) inadequate level of resources
 - D) a lack of dependence on the already developed nations

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

- 9) The lack of capital in developing nations causes
- A) labor productivity to remain low.
 - B) the savings rate to be too high.
 - C) output to be low in the present but high in the future.
 - D) consumption rates to be too high.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

10) An economy is not able to develop because of a lack of capital. Which of the following strategies would you suggest this economy pursue?

- A) lower interest rates
- B) impose quotas on how much capital can be imported from other countries to reduce dependency on foreign capital
- C) increase the political stability of the economy
- D) nationalize private enterprises because the government sector is not motivated by profit maximization

Answer: C

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

11) A developing economy is considering restricting the amount of money its citizens can invest abroad. What might the purpose of this restriction be?

- A) to increase the dependency of the economy on developed economics
- B) to increase capital formation by forcing its citizens to invest in their own country
- C) to reduce the nation's trade deficit so that interest rates will be reduced and capital formation will increase
- D) to increase the degree of equality in the income distribution

Answer: B

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

12) Building roads, power generators, and irrigation systems are projects that are referred to as

- A) social overhead capital.
- B) human capital.
- C) physical capital.
- D) financial capital.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

13) The government's role in a developing country is important during the country's development process for all of the following reasons *except*

- A) building social overhead capital cannot be taken on by the private sector.
- B) building infrastructure is a huge project that only the government can undertake.
- C) many social projects are associated with the free-rider problem, which minimizes the rate of return to the private sector.
- D) the government is the only institution with a vested interest in a country's development.

Answer: D

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

14) A policy in which a government actively picks industries to support as a base for economic development is known as

- A) social policy.
- B) first-choice policy.
- C) preferential policy.
- D) industrial policy.

Answer: D

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

15) Statistics show that the less developed a country is,

- A) the larger is the share of industrial output in its total output.
- B) the larger is the share of agricultural output in its total output.
- C) the larger is the per capita income.
- D) the larger is the GDP.

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

16) The process of developing local industries to manufacture goods to replace imports is known as

- A) export promotion.
- B) import substitution.
- C) export favoritism.
- D) import promotion.

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-15

17) The policy in which industrial production is oriented towards foreign consumers is called

- A) import substitution.
- B) export promotion.
- C) export orientation.
- D) import promotion.

Answer: B

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-15

18) One of the most successful countries in implementing export promotion policies is

- A) the United States.
- B) Germany.
- C) China.
- D) Japan.

Answer: D

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

19) Which agency lends money to countries to promote their economic development?

- A) the International Monetary Fund
- B) the Federal Reserve
- C) the World Bank
- D) the League of Nations

Answer: C

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

20) Which agency lends money to countries to help them stabilize their exchange rates?

- A) the International Monetary Fund
- B) the World Bank
- C) the Federal Reserve
- D) the Bureau de Change

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

21) The practice of lending very small amounts of money, without collateral, and accepting small savings deposits is known as

- A) microfinance.
- B) capital flight.
- C) debt rescheduling.
- D) a stabilization program.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

22) With microfinance, the mechanism of _____ is a way to avoid the problem of imperfect information.

- A) requiring no collateral
- B) peer lending
- C) making only small loans
- D) accepting savings deposits

Answer: B

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

23) Compared to traditional bank loans, microfinance loans have all of the following characteristics *except*

- A) they are much smaller.
- B) they require no collateral.
- C) they are made more frequently to women than to men.
- D) they have repayments that begin at a much later date.

Answer: D

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

24) From 1978 to 2003, the economy of _____ grew on average 9 percent per year, a rate faster than any other country in the world.

- A) India
- B) China
- C) the United States
- D) Russia

Answer: B

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

25) China and India both have rapidly developing economies. Which of the following characteristics is shared by India and China?

- A) Both have embraced free-market economies.
- B) Property rights are well established in both countries.
- C) Both are democratic countries.
- D) Both have high literacy rates.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

26) Most of China's recent growth has been fueled by _____, and most of India's recent growth has been fueled by _____.

- A) manufacturing; services
- B) services; manufacturing
- C) manufacturing; manufacturing
- D) services; services

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

27) Related to the *Economics in Practice* on page 439: In Indonesia, children and allies of President Suharto were affiliated with many companies. When Suharto unexpectedly fell ill, the stock prices of these companies dropped significantly, suggesting that

- A) these companies thrived under President Suharto despite their connection with Suharto's allies and relatives.
- B) later regimes in Indonesia will be more concerned about economic efficiency and less corrupt.
- C) President Suharto's removal from power was based not only on illness but also on concern over corruption.
- D) investor opinion of many of these firms was based on their connections with President Suharto and not the economic efficiency of those companies.

Answer: D

Diff: 2

Topic: Economic Development: Sources and Strategies: Economics in Practice

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Macro-16

28) Related to the *Economics in Practice* on page 442: In areas of Bangladesh where the government has invested in building flood embankments,

- A) marriages between cousins has fallen.
- B) marriages between cousins has risen.
- C) marriages to people from distant villages has fallen.
- D) marriage rates in general have risen.

Answer: A

Diff: 1

Topic: Economic Development: Sources and Strategies: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

29) One factors that limits a poor nation's economic growth is

- A) an overabundance of capital formation.
- B) insufficient labor.
- C) lack of entrepreneurial ability.
- D) increased urbanization.

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

30) The _____ hypothesis states that poor countries are unable to save and invest enough to accumulate capital stock that would help them grow.

- A) vicious-circle-of-poverty
- B) equitable investment
- C) no-country-left-behind
- D) global-redevelopment

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

31) _____ refers to the fact that both human and financial capital leave developing countries in search of a higher rate of return.

- A) Urbanization
- B) Capital flight
- C) Outsourcing
- D) Divestiture

Answer: B

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

32) The tendency of talented people in developing countries to get education in developed countries and stay there after graduation is called

- A) outsourcing.
- B) brain drain.
- C) financial capital flight.
- D) the vicious-circle-of-poverty.

Answer: B

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

33) Remittances refer to

- A) compensation sent back to family in the home country by recent emigrants.
- B) the flight of capital from developing nations to developed nations.
- C) the formation of capital due to technological advances.
- D) the movement from the agricultural sector to the industrial sector.

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

34) Remittances sent from developed countries are estimated at approximately _____ per year.

- A) \$2 million
- B) \$50 million
- C) \$100 billion
- D) \$5 trillion

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

35) Since the end of the 2008-2009 recession, remittances from illegal immigrants in the United States to Mexico

- A) continued to fall.
- B) began to noticeably decrease.
- C) have begun to increase.
- D) did not noticeably change.

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

36) Insufficient capital formation has been suggested as an explanation for the _____ economic growth in many poor nations.

- A) lack of
- B) rapid
- C) slow and steady
- D) continued

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

37) The _____ capital in developing nations causes labor productivity to remain low.

- A) lack of
- B) subsidized
- C) reassignment of
- D) increase in privately controlled

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

38) If a developing economy _____ the amount of money its citizens can invest abroad, it has _____ chance of increasing capital formation by forcing its citizens to invest in their own country.

- A) restricts; a lesser
- B) restricts; a greater
- C) restricts; no
- D) increases; a greater

Answer: B

Diff: 2

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

39) Building infrastructure is referred to as

- A) human capital.
- B) physical capital.
- C) social overhead capital.
- D) financial capital.

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

40) The government's role in a developing country is important during the country's development process because building social overhead capital

- A) cannot be taken on by the private sector.
- B) can only be financed by the private sector.
- C) requires a joint venture between the public and private sectors.
- D) can only be achieved in a developing country.

Answer: A

Diff: 2

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

41) A policy in which _____ actively pick(s) industries to support as a base for economic development is known as industrial policy.

- A) microfinanciers
- B) the World Bank
- C) the International Monetary Fund
- D) a government

Answer: D

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

42) Statistics show that the _____ a country is, the _____ is the share of agricultural output in its total output.

- A) more developed; larger
- B) more developed; smaller
- C) less populated; smaller
- D) more populated; smaller

Answer: B

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

43) Import substitution is the process of developing local industries to manufacture goods to

- A) replace imports.
- B) import.
- C) replace exports.
- D) export.

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-15

44) Export promotion is the policy in which industrial production is oriented towards

- A) foreign producers.
- B) foreign consumers.
- C) domestic consumers.
- D) both A and B

Answer: B

Diff: 2

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-15

45) _____ implementing export promotion policies is Japan.

- A) One of the most successful countries in
- B) One of the least successful countries in
- C) The only developed country that has banned
- D) The only developed country that has been successful in

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

46) The World Bank lends money to countries to

- A) finance their international transactions.
- B) stabilize their exchange rates.
- C) promote their economic development.
- D) fund wars against dictatorial regimes.

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

47) The International Monetary Fund lends money to countries to

- A) finance their international transactions.
- B) stabilize their exchange rates.
- C) promote their economic development.
- D) Both A and B are correct.

Answer: D

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

48) Microfinance is the practice of lending _____, with no collateral, and accepting _____ savings deposits.

- A) very small amounts of money; small
- B) foreign currency; foreign currency as
- C) money electronically; electronic
- D) government-backed funds; government securities as

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

49) With microfinance, the mechanism of peer lending is a way to avoid the problem of

- A) capital flight.
- B) imperfect information.
- C) the tragedy of the commons.
- D) a double coincidence of wants.

Answer: B

Diff: 2

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

50) Compared to traditional bank loans, microfinance loans

- A) are much larger.
- B) require collateral.
- C) are made more frequently to women than to men.
- D) have repayments that begin at a much later date.

Answer: C

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

51) From 1978 to 2003, China grew on average _____ percent per year, a rate faster than any other country in the world.

- A) 4
- B) 9
- C) 25
- D) 75

Answer: B

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

52) Which of the following characteristics is shared by India and China?

- A) Both are typically labeled as developing countries.
- B) Both have increasing birth rates.
- C) Both are politically authoritarian.
- D) Both have low life-expectancy rates.

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

53) China's approach to market development has been

- A) pragmatic and gradual.
- B) nonexistent.
- C) inefficient and intermittent.
- D) unrealistic and uneven.

Answer: A

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

54) Related to the *Economics in Practice* on p. 439: According to the World Bank, of the following countries, which one has the lowest controls on corruption?

- A) Germany
- B) India
- C) China
- D) Nigeria

Answer: D

Diff: 1

Topic: Economics Development: Sources and Strategies: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

55) Related to the *Economics in Practice* on p. 442: When the government of Bangladesh built flood embankments on the sides of rivers, this represented an investment in

- A) social overhead capital.
- B) human capital.
- C) financial capital.
- D) intangible capital.

Answer: A

Diff: 2

Topic: Economic Development: Sources and Strategies: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

56) In a developing economy, scarcity of capital may have more to do with a lack of incentive for citizens to save and invest productively than with any absolute scarcity of income available for capital accumulation.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

57) Investment in social overhead capital refers to investment in areas like education and nutrition.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

58) The International Monetary Fund (IMF) makes loans to encourage economic development.

Answer: FALSE

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

59) Social overhead capital is basic infrastructure projects such as roads, power generation and irrigation systems.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

60) The following situation is an example of an import substitution strategy. Costa Rica has a comparative advantage in the production of coffee and, as a result, the Costa Rican government grants incentives to coffee planters to improve their performance in the international marketplace.

Answer: FALSE

Diff: 3

Topic: Economic Development: Sources and Strategies

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Macro-15

61) Remittances can be used as investment capital for small businesses.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

62) Human capital shortages are *not* a barrier to economic growth in developing countries.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

63) A frequently cited barrier to economic development is the apparent shortage of entrepreneurial activity in developing nations.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

64) Most economists believe that import-substitution strategies have been quite successful around the world.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

65) Policies designed to promote import substitution often encouraged labor-intensive production methods, which encouraged the creation of jobs.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

66) Economic growth guarantees economic development.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

67) Countries with the highest level of per-capita GNI tend to generate a large percentage of GDP from agriculture production.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

68) A very small percentage of GDP tends to come from the service sectors in poor countries.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

69) Export promotion policies try to encourage firms to produce more of the products for which the country has a comparative advantage.

Answer: TRUE

Diff: 2

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-15

70) Microfinance is aimed at introducing entrepreneurs among the very poorest parts of the developing world to the capital market.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

71) India is a democratic country with a history of rule-of-law and an English-speaking heritage, all factors thought to give a development advantage.

Answer: TRUE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

72) China has developed a rapid approach to development.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

73) Related to the *Economic in Practice* on page 439: Corruption often leads to more efficient firms producing the goods and services in a society.

Answer: FALSE

Diff: 1

Topic: Economic Development: Sources and Strategies: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

74) Insufficient capital formation can limit a poor nation's economic growth.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

75) A lack of infrastructure can limit a poor nation's economic growth.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

76) Investment in social overhead capital refers to investment in areas like power plants and road construction.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Definition

Learning Outcome: Macro-16

77) The following situation is an example of an export promotion strategy. Guatemala has a comparative advantage in the production of bananas and, as a result, the Guatemalan government grants incentives to banana growers to improve their performance in the international marketplace.

Answer: TRUE

Diff: 3

Topic: Economics Development: Sources and Strategies

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Macro-15

78) Remittances are used to fund housing and education for families left behind in the home countries.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

79) Capital flight is a barrier to economic growth in developing countries.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

80) "Brain drain" results in many of the most talented minds leaving developing countries for developed countries.

Answer: FALSE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Analytical

AACSB: Reflective Thinking

Learning Outcome: Macro-16

81) The transition to a developing economy typically involves a movement away from agriculture.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

82) Policies designed to promote import substitution often encouraged capital-intensive production methods.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

83) Social overhead capital guarantees economic growth.

Answer: FALSE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

Learning Outcome: Macro-16

84) The World Bank is an international agency that lends money to individual countries for projects that promote economic development.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

85) Protection of intellectual property rights is more common in developing countries than in developed countries.

Answer: FALSE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-15

86) Microfinance is aimed at encouraging entrepreneurs among the very poorest parts of the developing world to relocate to high-income countries.

Answer: FALSE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

87) China is politically authoritarian and does not have well-established property rights, characteristics which were once thought to hinder growth.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

88) In India, services have led to growth, particularly in the software industry.

Answer: TRUE

Diff: 1

Topic: Economics Development: Sources and Strategies

Skill: Fact

Learning Outcome: Macro-16

89) Related to the *Economic in Practice* on p. 439: As corruption falls in a country, cost of production usually rises.

Answer: FALSE

Diff: 1

Topic: Economics Development: Sources and Strategies: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

21.3 Development Interventions

1) With _____, outcomes of specific interventions are determined by using the intervention in a randomly selected subset of a sample and then comparing outcomes from the exposed and control group.

A) natural experiments

B) random experiments

C) manipulated experiments

D) predetermined experiments

Answer: B

Diff: 1

Topic: Development Interventions

Skill: Definition

Learning Outcome: Macro-16

2) An alternative to random experiments is to rely on _____ to mimic the controlled experiment.

- A) natural experiments
- B) mirror experiments
- C) manipulated experiments
- D) predetermined experiments

Answer: A

Diff: 1

Topic: Development Interventions

Skill: Definition

Learning Outcome: Macro-16

3) Throughout the developing world, _____ is a problem that affects education.

- A) student absenteeism
- B) teacher absenteeism
- C) an excess supply of classrooms
- D) Both A and B are correct.

Answer: D

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

4) In some nations, the government pays parents to send their children to school. There is _____ that these payments _____ school attendance.

- A) some evidence; actually decrease
- B) no evidence; increase or decrease
- C) no evidence; increase
- D) some evidence; increase

Answer: D

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

5) A World Bank study found that charging user fees for medical treatment in developing countries

- A) had no significant effect on treatment rates.
- B) dramatically reduced treatment rates.
- C) slightly increased treatment rates.
- D) greatly increased treatment rates.

Answer: B

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

6) Related to the *Economics in Practice* on page 445: In the Kerala region of India, fishermen used cell phones to help connect buyers and sellers, reducing waste. All of the following describe ways in which technology is likely to improve information flow and increase economic efficiency *except*

- A) fax technology makes it possible to transmit signed contracts in seconds, allowing the parties to the contract to begin performing their contract duties more quickly.
- B) high-speed Internet connections allow engineers in developing countries to collaborate with firms all around the world.
- C) e-mail now makes criminals who commit certain kinds of fraud very difficult to identify and arrest.
- D) video conferencing decreases the need for expensive business travel.

Answer: C

Diff: 2

Topic: Development Interventions: Economics in Practice

Skill: Analytical

AACSB: Analytical Thinking

Learning Outcome: Macro-16

7) Related to the *Economics in Practice* on page 445: By 2001, the majority of the fishing fleet in the Indian state of Kerala had mobile phones. As a result of the introduction of mobile phone service to this fishing industry, profits _____ and consumer prices _____.

- A) rose; fell
- B) fell; rose
- C) rose; rose
- D) fell; fell

Answer: A

Diff: 1

Topic: Development Interventions: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

8) With random experiments, outcomes of specific interventions are determined by using the intervention in a(n) _____ subset of a sample and then comparing outcomes from the exposed and control group.

- A) previously tested
- B) randomly selected
- C) unrelated
- D) predetermined

Answer: B

Diff: 1

Topic: Development Interventions

Skill: Definition

Learning Outcome: Macro-16

9) An alternative to _____ is to rely on natural experiments to mimic the controlled experiment.

- A) random experiments
- B) mirror experiments
- C) manipulated experiments
- D) predetermined experiments

Answer: A

Diff: 1

Topic: Development Interventions

Skill: Definition

Learning Outcome: Macro-16

10) Throughout the developing world, teacher absenteeism

- A) has a much smaller impact on education than does student absenteeism.
- B) is much lower than it is in developed nations.
- C) is virtually unheard of.
- D) is a problem that affects education.

Answer: D

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

11) In Rajasthan, India teachers in half of the community's schools were asked to have their pictures taken with their children, and this evidence of attendance fed into the compensation of the teacher. The result of this experiment was that teacher absentee rates _____ relative to classrooms in which no cameras were introduced.

- A) were cut in half
- B) fell to zero
- C) actually increased
- D) did not change

Answer: A

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

12) A World Bank study found that charging user fees for medical treatment in developing countries dramatically reduced treatment rates, indicating that these medical treatments have elasticities

- A) less than 1.
- B) greater than 1.
- C) equal to 1.
- D) equal to zero.

Answer: B

Diff: 2

Topic: Development Interventions

Skill: Conceptual

AACSB: Reflective Thinking

Learning Outcome: Macro-16

13) Related to the *Economics in Practice* on p. 445: By 2001, the majority of the fishing fleet in the Indian state of Kerala had mobile phones. As a result of the introduction of mobile phone service, _____ in this fishing industry was virtually eliminated.

- A) human capital
- B) profit
- C) competition
- D) waste

Answer: D

Diff: 1

Topic: Development Interventions: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

14) Related to the *Economics in Practice* on p. 445: By 2001, the majority of the fishing fleet in the Indian state of Kerala had mobile phones. As a result of the introduction of mobile phone service to this fishing industry, _____ increased and _____ decreased.

- A) profits; consumer prices
- B) consumer prices; productivity
- C) consumer prices; competition
- D) competition; profits

Answer: A

Diff: 1

Topic: Development Interventions: Economics in Practice

Skill: Fact

Learning Outcome: Macro-16

15) Student absenteeism is a problem facing education in the developing world.

Answer: TRUE

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

16) Based on a World Bank study, medical treatment in developing countries has an elasticity value greater than 1.

Answer: TRUE

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

17) Teacher absenteeism is a problem facing education in the developing world.

Answer: TRUE

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

18) A World bank study conducted in Kenya found that as the proportion of vaccinated people in a village grew, more people wanted to get vaccinated.

Answer: FALSE

Diff: 1

Topic: Development Interventions

Skill: Fact

Learning Outcome: Macro-16

19) Human capital is an important ingredient in the economic growth of a nation.

Answer: TRUE

Diff: 1

Topic: Development Interventions

Skill: Analytical

AACSB: Reflective Thinking

Learning Outcome: Macro-16

Chapter 2

The Economic Problem: Scarcity and Choice

SCARCITY, CHOICE AND OPPORTUNITY COST

1. What are resources? Describe two different types of resources.

Resources are anything provided by nature or previous generations that can be used directly, or indirectly, to satisfy human wants. Capital resources include machinery, equipment, and structures used to produce other goods and services. Human resources include labor, skills, and knowledge. Products of nature can also be used as resources.

Diff: 1 Skill: Definitional Topic: Resources
AACSB:

2. List the three basic *economic* questions that all societies must answer.

- (1.) **What will be produced?**
- (2.) **How will it be produced?**
- (3.) **Who will get what is produced?**

Diff: 1 Skill: Factual Topic: Choice
AACSB:

3. Explain the economic concept of *opportunity cost*.

The opportunity cost of something is the best alternative that we give up when we make a choice or a decision.

Diff: 1 Skill: Definitional Topic: Opportunity Cost
AACSB:

4. Explain how it might be possible to discuss costs of production of a good or service without using monetary values.

All costs are essentially opportunity costs. That is to say that it is simply the value of the next best available alternative. Therefore, it is possible to discuss costs without mentioning monetary costs by analyzing what was given up to produce a good or a service.

Diff: 1 Skill: Definitional Topic: Opportunity Cost
AACSB:

5. What critical resource is likely to be the culprit for the impending doom of Social Security regarding tax collection? Explain.

Because the baby-boom generation gave birth to fewer children these people will be part of the labor force that will be supporting the baby-boomers when they retire. Because their numbers are so much smaller the amount of taxes collected will be smaller as well.

Diff: 1 Skill: Definitional Topic: Resources
AACSB:

6. Suppose you have saved \$300. You can spend it on a new stereo or on a weekend skiing trip. What is the opportunity cost of going on the skiing trip?

The opportunity cost of the skiing trip is the value of the next best alternative for using the \$300 you have saved. If the next best alternative is purchasing the stereo, then the opportunity cost of going skiing is the enjoyment foregone by not purchasing the stereo.

Diff: 1 Skill: Conceptual Topic: Opportunity Cost
AACSB: Reflective Thinking

7. Suppose there is a new technological invention that will allow you to put any resource into a special black box and in an instant anything that you program it to produce will be produced? Does this invention end scarcity? Why or why not?

It does not end scarcity for the simple reason that you still need to use human labor to place the resources in the black box and the natural resources themselves of course are still scarce. In addition, this device will not limit our wants.

Diff: 1 Skill: Conceptual Topic: Scarcity
AACSB: Analytic Skills

8. What is the opportunity cost of attending class today?

The opportunity cost of attending class today is the next best alternative for your time including sleeping, studying for another class, or earning income at a job. But it can't be all of these things since you can only do one of these things at a time.

Diff: 1 Skill: Conceptual Topic: Opportunity Cost
AACSB:

9. Suppose you could measure the value in monetary terms for the following three things that you could do with your time this Friday evening: a) doing your homework - \$50, 2) spending time with your friends - \$40 or c) taking a nap - \$30. Armed with only this information which activity has the lowest opportunity cost? Which two activities have the same opportunity cost? Based on what you have discovered what is the best use of your time and why?

The opportunity cost of doing your homework is only \$40 which is the next best available alternative. Spending time with your friends has an opportunity cost of \$50 since this is the next best available alternative. And it turns out this is also the opportunity cost of taking a nap as well. Therefore, the best use of your time is to spend it doing your homework since the opportunity cost of doing so is lower than the other two alternatives.

Diff: 2 Skill: Conceptual Topic: Opportunity Cost
AACSB:

10. Critically evaluate the following statement. "Only poor nations face scarcity. Rich nations have everything they need and have therefore conquered scarcity."

Rich nations simply face different choices than do poor nations. The existence of choices naturally presumes that there is scarcity. Since all resources are limited there is only so many goods and services that can be produced by any nation whether it is poor or rich.

Diff: 2 Skill: Conceptual Topic: Scarcity
AACSB: Reflective Thinking

11. Comment on the following statement: "I decided to buy a car from a dealer in a town 100 miles away because he was offering a price that was \$100 lower than the dealer in my hometown. Therefore, I saved \$100."

Assuming that the individual had no other reason to travel the 100 miles, the savings from the purchase of the car is less than \$100. Travel costs should be taken into account, including the opportunity cost of time.

Diff: 1 Skill: Conceptual Topic: Opportunity Cost
AACSB: Analytic Skills

12. Explain why some researchers conclude that Americans are becoming more obese because of the existence of fast-food restaurants. If fast-food restaurants have been around for over 50 years why is the trend toward obesity only a recent one? Explain.

Essentially fast-food restaurants have become more prolific. The costs has fallen dramatically and coupled with their convenience and proximity to neighborhoods in both urban and suburban areas this has lowered the opportunity cost of eating out.

Diff: 2 Skill: Conceptual Topic: Opportunity Cost
AACSB: Analytical Skills

13. Suppose that a local government decides to provide more funds to the local police department in order for the department to hire additional police officers. Is there an opportunity cost of this action? If so, how would you measure it?

Yes, there is an opportunity cost. The opportunity cost should be measured by the next best alternative use of the funds provided to the police department.

Diff: 1 Skill: Conceptual Topic: Opportunity Cost
AACSB:

14. At which time is the opportunity cost likely to be higher to go to war, during a recession or during an economic boom? Explain your answer fully.

It is likely that going to war during an economic boom is more costly because many men and women who join the military or are drafted will more than likely be leaving behind a productive job. The rest of the country will experience a permanent sacrifice in terms of all the goods and services that will not be produced by them. During a recession many men and women are without jobs so the opportunity cost of deploying them in war is lower.

Diff: 2 Skill: Conceptual Topic: Opportunity Cost
AACSB: Reflective Thinking

15. Michael Jordan has more athletic ability than most individuals. Thus, he is more productive at most tasks involving physical skill. Explain why then, it is more efficient for Michael Jordan to pay someone else to mow his lawn.

While Michael Jordan probably has an absolute advantage in mowing his lawn, the opportunity cost of his time is very high. He could spend the time it takes to mow his lawn in a variety of ways including earning a large amount of money making a commercial endorsement. Thus, it is likely that he does not have a comparative advantage in mowing his lawn.

Diff: 1 Skill: Conceptual Topic: Opportunity Cost
AACSB:

16. Because of the quantity and quality of its resources, the U.S. has an absolute advantage in the production of many goods and services. Does this imply that the U.S. cannot benefit from trading with a developing country that has less productive ability? Why or why not?

The U.S. can benefit from trading with less productive countries as long as it produces the goods for which it has a comparative advantage and trades to receive the goods for which it does not.

Diff: 2 Skill: Conceptual Topic: Absolute and comparative advantage
AACSB:

17. Assume that two countries are considering trading with each other for the first time. Also assume that one of the countries has an absolute disadvantage in producing everything compared to the other country. How would it still be possible for these two nations to benefit from trade with each other?

The reason that it would still be beneficial for each nation to trade with each other is because trade is not dependent on absolute advantage but rather comparative advantage. That means that one nation may be operating at an absolute disadvantage vis-à-vis another nation but still have a comparative advantage in at least one good or service.

Diff: 3 Skill: Conceptual Topic: Absolute and comparative advantage
AACSB:

18. Evaluate the following statement. “The nation of Berundi has an absolute disadvantage in the production of everything compared to the United States. Therefore, the United States will have no reason to trade with Berundi”.

This statement is false. The reason is that nations don't trade according to their absolute advantage but rather their comparative advantage. Even though the nation of Berdundi has an absolute disadvantage in the production of everything it is very unlikely that it won't have a comparative advantage in the production of at least one good or service vis-à-vis the United States.

Diff: 2 Skill: Conceptual Topic: Comparative advantage
AACSB: Reflective Thinking

19. Explain Ricardo's theory of comparative advantage.

Specialization and free trade will benefit all trading partners, including those that may be absolutely more efficient producers.

Diff: 1 Skill: Definitional Topic: Comparative Advantage
AACSB:

20. Mexico has lower wages than the United States. Does this necessarily mean that it will have a comparative advantage in the production of everything compared to the United States?

Wages are only one factor in the input mix. What matters is the overall opportunity cost of production. If wages are 1/5 the in Mexico compared to what they are in the United States and workers in Mexico are 1/5 as productive as American workers this doesn't translate necessarily into a comparative advantage for Mexico. Also, goods that are produced with a lot of capital which turns out to be more expensive in Mexico and less expensive in the U.S. will tip the comparative advantage to the United States.

Diff: 2 Skill: Conceptual Topic: Comparative Advantage
AACSB: Analytic Skills

21. The following table shows output per hour for Martha and Stewart who make gift baskets and potholders:

	Output per Hour	
	Martha	Stewart
Giftbaskets	10	8
Potholders	20	12

What is the opportunity cost of a gift basket for Martha? What is the opportunity cost of a gift basket for Stewart? Who has a comparative advantage in producing gift baskets? How can you tell?

The opportunity cost of a gift basket for Martha is 2 potholders. The opportunity cost of a gift basket for Stewart is 1.5 potholders. Stewart has a comparative advantage in the production of gift baskets. His opportunity cost of producing a gift basket is lower.

Diff: 2 Skill: Analytical Topic: Opportunity cost and comparative advantage
AACSB:

22. Explain the difference between absolute advantage and comparative advantage.

A person has an absolute advantage in the production of a good if he or she is more productive at producing the good. A person has a comparative advantage in the production of a good if he or she can produce it at the lowest opportunity cost.

Diff: 1 Skill: Definitional Topic: Comparative and absolute advantage
AACSB:

23. Critically evaluate the following statement. “If a country has an absolute advantage in the production of everything it necessarily follows that it will have a comparative advantage in the production of everything.”

This is patently false. Absolute advantage only implies that a good can be produced with fewer inputs versus a rival. Comparative advantage means that a good can be produced at lower opportunity cost than a rival. That means that a rival could have an absolute disadvantage in the production of a good or a service and still have a comparative advantage because of its lower opportunity costs.

Diff: 3 Skill: Analytical Topic: Comparative and absolute advantage
AACSB: Reflective Thinking

24. Critically evaluate the following statement. “If a country can produce a good using fewer inputs than other country then that means that country enjoys a comparative advantage.”

This is not true. What is being described here is an absolute advantage. In order to have a comparative advantage all that is needed is that a country produce the good with a lower opportunity cost but not necessarily with fewer inputs.

Diff: 3 Skill: Analytical
AACSB: Reflective Thinking

Topic: Comparative and absolute advantage

25. If a comparative advantage implies that a country can produce a product at a lower opportunity cost than another country then why do we see two countries often trading the same goods? For instance, for most agricultural products the U.S. has a comparative advantage. Japan, one of America’s largest trading partners has a comparative advantage in the production of most economy cars. Explain what is going on here when we still see the U.S. exporting cars to Japan and the U.S. importing some foods from Japan.

First of all not all goods are homogeneous. The U.S. may import some food from Japan that either is not available here or is produced at lower cost or has a higher perceived or actual quality differential. On the other hand while Japan has a comparative advantage in the production of many economy cars there is a cost difference and a quality difference across makes a models that doesn’t allow for a apples-to-apples comparison.

Diff: 3 Skill: Definitional
AACSB: Reflective Thinking

Topic: Comparative advantage and trade

26. Assume that a lawyer and a secretary have been working together for two years. The lawyer suddenly realizes that he prepares legal briefs and types faster than the secretary. Upon learning this he decides to let his secretary go. Why might this be a mistake?

It might be a mistake if it turns out that the secretary had a comparative advantage in typing over the lawyer. In other words it is very likely and possible that the secretary and type at a lower opportunity cost than the lawyer. By firing the secretary he has confused absolute advantage with comparative advantage.

Diff: 3 Skill: Definitional
AACSB: Reflective Thinking

Topic: Comparative advantage and trade

27. The following table shows output per hour for Martha and Stewart who make gift baskets and potholders:

	Output per Hour	
	Martha	Stewart
Gift Baskets	10	8
Potholders	20	12

What is the opportunity cost of a potholder for Martha? What is the opportunity cost of a potholder for Stewart? Who has an absolute advantage in producing potholders? Who has a comparative advantage in producing potholders?

The opportunity cost of a potholder for Martha is 1/2 of a gift basket. The opportunity cost of a potholder for Stewart is 2/3 of a gift basket. Martha has an absolute advantage and a comparative advantage in the production of potholders.

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

28. The following table shows output per hour for Fred and Barney who mow lawns and trim hedges:

	Output per Hour	
	Fred	Barney
Lawns Cut	2	1
Hedges Trimmed	8	6

What is the opportunity cost of mowing a lawn for Fred? What is the opportunity cost of trimming a hedge for Fred? Who has a comparative advantage in mowing lawns? How can you tell?

The opportunity cost of mowing a lawn for Fred is 4 hedges trimmed. The opportunity cost of a trimming a hedge for Fred is 1/4 of a lawn mowed. Fred has a comparative advantage in mowing lawns. His opportunity cost of mowing a lawn is 4 hedges trimmed and Barney's opportunity cost of mowing a lawn is 6 hedges trimmed.

Diff: 2 Skill: Analytical Topic: Comparative advantage
AACSB:

29. The following table shows output per hour for Mexico and Canada, two countries that produce beer and T-shirts:

	Output per Hour	
	Mexico	Canada
Beer (thousands of bottles)	5	10
T-shirts (thousands)	10	12

What is the opportunity cost of a bottle of beer for Mexico? What is the opportunity cost of a T-shirt for Mexico? Who has a comparative advantage in producing beer? How can you tell?

The opportunity cost of a bottle of beer for Mexico is 2 T-shirts. The opportunity cost of a T-shirt for Mexico is 1/2 bottle of beer. Canada has a comparative advantage in the production of beer. Canada's opportunity cost of producing a bottle of beer is 1.2 T-shirts and Mexico's opportunity cost of producing a bottle of beer is 2 T-shirts.

Diff: 2 Skill: Analytical Topic: Opportunity cost and comparative advantage
AACSB:

30. Suppose that Rosie and Betty spend their free time making cakes and cookies. Is it possible for Betty to have an absolute advantage in the production of both cakes and cookies? Is it possible for Betty to have a comparative advantage in the production of both cakes and cookies? Explain.

Yes, it is possible for Betty to have an absolute advantage in the production of cakes and cookies. This simply means that she is able to produce more per hour. However, Betty cannot have a comparative advantage in producing both cakes and cookies. Because the opportunity cost of producing a cookie is the reciprocal of the opportunity cost of making a cake, it is impossible to have the lower opportunity cost of each.

Diff: 1 Skill: Conceptual Topic: Absolute and comparative advantage
AACSB: Analytic Skills

31. Papa Ray owns a pizzeria. He is more efficient at making pizza than anyone he could hire. Does this mean that he should make all of the pizzas himself?

No. This simply means that Papa Ray has an absolute advantage in making pizza. This does not mean that he has a comparative advantage in making pizza. It is possible that the opportunity cost of his time is high (he could be out selling franchises, for example).

Diff: 1 Skill: Conceptual Topic: Comparative advantage
AACSB:

32. Suppose the CEO of a major corporation has five subsidiary companies. Only one of these companies is making better than the return on similar investments that the company could be making if it invested its financial capital outside the company. The CEO tells each of these subsidiary companies that the rate of return that they are earning is not acceptable and must rise to the level of these identified companies. He tells them if they can't come up with a plan in twelve months that their companies will be sold. If each of these companies was actually making money can you come up with an economic argument for why it is still rational for this CEO to sell them if they don't abide by his directive.

The question really boils down to opportunity cost. If stock holders realize that their investments could do better elsewhere then they will be upset with the CEO even if the company is making money. The opportunity cost of hanging on to these companies is the difference between what they are making and what they could make. By selling of the ones that can't comply with the directive the company can take the proceeds and investment them in a way that will raise their return and profitability.

Diff: 3 Skill: Conceptual Topic: Opportunity cost
AACSB: Analytic Skills

33. Suppose that the opportunity cost of a student's time is greater when he studies than when he works. What mistake is he making and why?

By arguing that his opportunity cost is higher for studying than when he works the student is saying that work has a more highly valued use for his time than studying. Working has a lower opportunity cost because the value of studying is less than the value of working. He should be working, not studying.

Diff: 2 Skill: Conceptual Topic: Opportunity cost
AACSB:

34. Suppose that you have saved \$100. You can spend it today or you can put it in your savings account for a year and earn 5% interest. What is the opportunity cost of spending the money today?

If you put the money in your savings account, you will have \$105 to spend next year on the item (or items) of your choice. Thus, the opportunity cost of spending the money today is the enjoyment you give up by not having the \$105 to buy something next year.

Diff: 1 Skill: Conceptual Topic: Opportunity cost
AACSB:

35. Assume that yields on bonds (rate of return) begin to fall while the stock market is booming, what should we see happen to the demand and price of stocks and why? What can we say about the opportunity cost of holding on to bonds in this situation?

Lower bond yields will push many investors into stocks where they are seeking a higher rate of return. This should increase the demand for stocks and push up asset prices as well. The opportunity cost of holding on to bonds is high compared to owning stocks.

Diff: 2 Skill: Conceptual Topic: Opportunity cost
AACSB:

36. What is the difference between *capital goods* and *consumer goods*?

Capital goods are goods that will be used to produce other goods in the future. Consumer goods are goods that are used for current consumption.

Diff: 1 Skill: Definitional Topic: Capital goods and consumer goods
AACSB:

37. What is the opportunity cost of producing capital goods such as a new road?

The opportunity cost of producing a new road can be measured by the next best alternative that could have been produced with the same resources.

Diff: 1 Skill: Conceptual Topic: Capital goods
AACSB:

38. In economic terminology, what is the meaning of *investment*?

Investment is the process of using resources to produce new capital. The new capital produced can be physical (new machinery) or human (education) in nature.

Diff: 1 Skill: Definitional Topic: Investment
AACSB:

39. How does an individual know whether or not an investment in education is worthwhile?

A worthwhile investment is one for which the expected present value of future benefits exceeds the present value of costs.

Diff: 1 Skill: Conceptual Topic: Investment
AACSB:

40. Define opportunity cost. Given the definition of opportunity cost, explain what is meant by the statement “There is no such thing as a free lunch.”

Opportunity cost is what we give up, or forgo, when we make a choice. There is no such thing as a free lunch because everything involves a cost, even if it is just a time cost.

Diff: 2 Skill: Definitional Topic: Free lunch
AACSB:

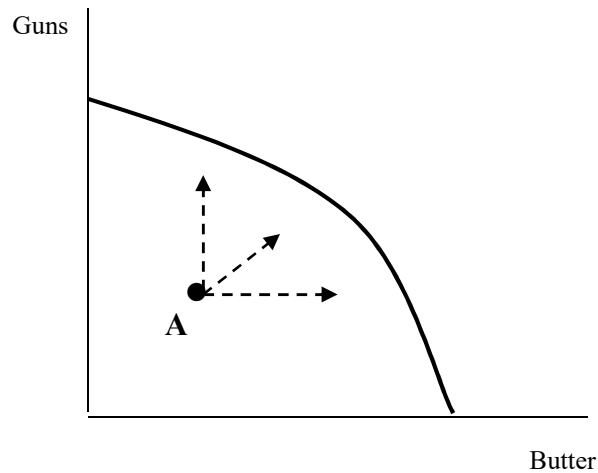
41. Kathy and Amy paint pictures and do caricatures to sell to tourists. In one day, Kathy can either paint two pictures or do four caricatures. In one day, Amy can either paint three pictures or do three caricatures. For both Kathy and Amy, what is the opportunity cost of painting one picture? Who has the comparative advantage in painting pictures and who has the comparative advantage in doing caricatures? How might they be able to increase their total output?

Kathy’s opportunity cost of painting a picture is two caricatures. Amy’s opportunity cost of painting a picture is one caricature. Amy has a comparative advantage in painting and Kathy has a comparative advantage in doing caricatures. They could increase output by specializing in producing the goods for which they have a comparative advantage.

Diff: 2 Skill: Conceptual Topic: Opportunity cost
AACSB: Analytic Skills

42. Use a graph and comment on the following statement: "If an economy is producing inside its production possibilities frontier, it could possibly produce more of one good without giving up any of the other."

In the graph below, we can see that, at point A, the economy has three options if it begins to produce more efficiently. First, it could continue producing the same level of guns and produce more butter. Second, it could continue producing the same level of butter and produce more guns. Last, the economy could increase production of both guns and butter.



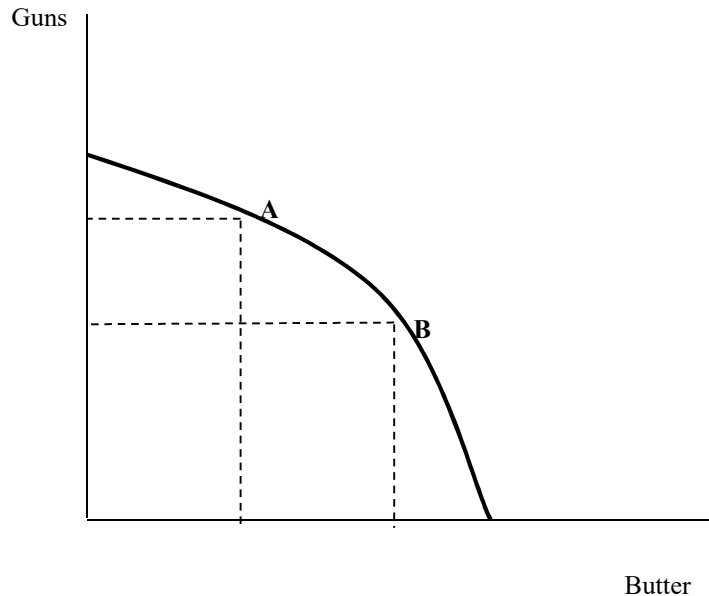
Diff: 1
AACSB:

Skill: Conceptual

Topic: Production possibilities

43. Use a graph and comment on the following statement: "If an economy is producing at a point on its production possibilities frontier, it could possibly produce more of one good without giving up any of the other."

This statement is false. In the graph above, we can see that if the economy moves from point A to point B (to increase the production of butter), some guns must be sacrificed.



Diff: 1 Skill: Conceptual Topic: Production Possibilities
AACSB:

44. What does a *production possibility frontier* represent?

A production possibility frontier is a graph that shows all of the combinations of goods and services that can be produced if all of society's resources are used efficiently.

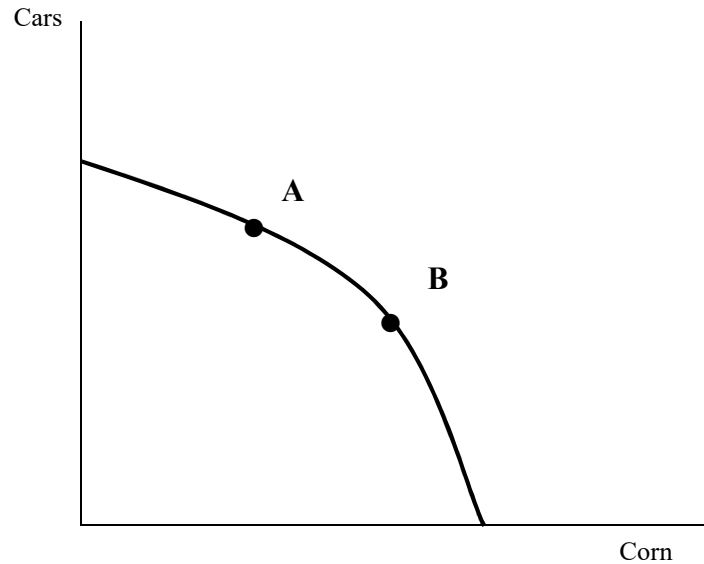
Diff: 1 Skill: Definitional Topic: Production Possibilities
AACSB:

45. What can we say about the employment of resources if the economy is at a point on its production possibility frontier?

If the economy is at a point on its production possibility frontier, this implies that there is full resource employment and productive efficiency.

Diff: 1 Skill: Conceptual Topic: Production possibilities
AACSB:

46.



Refer to the graph above. In what way could point A be considered more efficient than point B?

Both points represent productive efficiency since they are on the production possibility frontier. However, point A could be considered more efficient than point B if it represents the combination of cars and corn that members of society most want.

Diff: 1 Skill: Conceptual Topic: Productive efficiency
AACSB:

47. What can we say about the employment of resources if the economy is at a point inside its production possibility frontier?

If the economy is at a point inside its production possibility frontier, this implies that there is either unemployment of resources or productive inefficiency.

Diff: 1 Skill: Conceptual Topic: Inefficiency
AACSB:

48. Is it possible in the present to produce at a point that is outside the production possibilities frontier? Why or why not? With the passage of time how might a point outside the present production possibilities frontier be possible?

In the present, points outside the production possibilities frontier are not possible because the frontier represents the current inputs and technology that are available to the economy. With the passage of time this points will become attainable when and if there is a positive change in technology and/or a discovery of new resources.

Diff: 1 Skill: Conceptual Topic: Production possibilities
AACSB:

49. What are the implications for economic growth for countries specializing in consumer goods rather than capital goods? Assume that they cannot trade what they produce.

All else equal, countries that specialize in consumer goods will likely grow less than those that specialize in capital goods, because specializing in capital goods will allow for more goods to be produced in the future.

Difficult: M Skill: Conceptual Topic: Economic growth
AACSB: Reflective Thinking

50. Why might an economist argue that it could be damaging to the economic growth of a nation if it focused mostly on the production of consumer goods?

The reason for concern is that focusing too much on the production of consumer goods necessarily implies cutting back on the production of capital goods. The problem is that economic growth is dependent on the production of capital goods.

Difficult: M Skill: Conceptual Topic: Economic growth
AACSB: Reflective Thinking

51. Without drawing a graph explain what probably happened to the production possibility frontier during the Black Plague.

The Black Plague killed off about one-third of the world's population during its rampage. This no doubt resulted in a decline in the labor force which pushed the production possibilities frontier inward.

Difficult: E Skill: Conceptual Topic: Production possibilities
AACSB:

52. Assume that there were decreasing opportunity costs of production in an island economy that only produced two goods. What would the shape of the production possibilities frontier look like and why?

The production possibilities frontier would be downward-sloping and bowed into the origin. It would have this shape because as you move down the production possibilities frontier the amount of one good that you must give up will get smaller and smaller as you produce the second good.

Difficult: E Skill: Conceptual Topic: Production possibilities
AACSB:

53. Why does the production possibility frontier have a negative slope?

Because of scarce resources, increasing the production of one good or service implies that the production of the other good or service must be reduced. Thus, there is a negative relationship between the two goods and the production possibility frontier is downward sloping.

Diff: 1 Skill: Conceptual Topic: Production possibilities
AACSB:

54. What is meant by the *marginal rate of transformation*?

The marginal rate of transformation is the slope of the production possibility frontier. It is the ratio of the change in the good (or service) on the y-axis to the change in the good (or service) on the x-axis.

Diff: 1 Skill: Definitional Topic: Marginal rate of transformation
AACSB:

55. If the *marginal rate of transformation* is constant what can be said of the shape of the production possibilities frontier and why?

The marginal rate of transformation is the slope of the production possibility frontier. It is the ratio of the change in the good (or service) on the y-axis to the change in the good (or service) on the x-axis. If it is constant that means that the production possibilities frontier is a straight line. This is true because it would mean that the slope of the production possibilities frontier is the same throughout which of course is precisely one of the properties of a straight line.

Diff: 1 Skill: Conceptual Topic: Marginal rate of transformation
AACSB:

56. Suppose that there are two goods that a small island nation can produce – coconuts and breadfruit. If the inputs for both goods are perfectly interchangeable and there is never a rise or fall in opportunity cost explain what the production possibilities frontier should look like and why.

Production possibilities frontier are typically concave to the origin which reflects the law of increasing opportunity cost. In the present example this is not the case. The opportunity cost is constant which would lead to a downward-sloping but linear production possibilities frontier.

Diff: 1

Skill: Conceptual

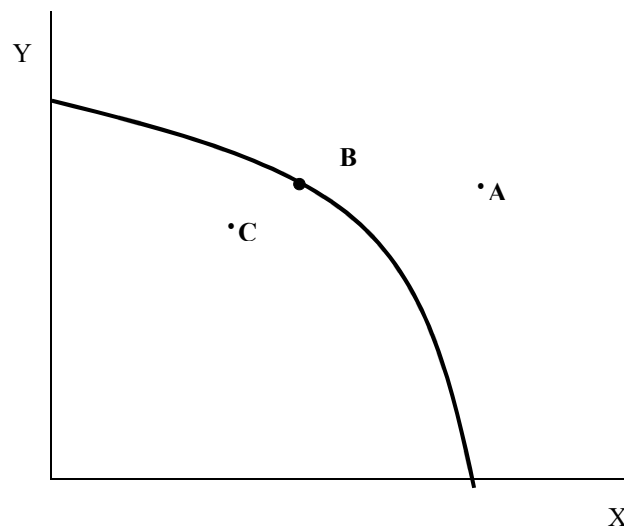
Topic: Law of increasing opportunity costs

costs

AACSB:

57. Draw a production possibility frontier. Find a point that represents a combination of outputs that is not currently feasible. Label it point A. Find a point that represents efficient production. Label it point B. Find a point that represents inefficient production. Label it point C.

There are many possible answers here, but point A should be drawn outside of the production possibility frontier, point B should be on the production possibility frontier, and point C should be inside the production possibility frontier.



Diff: 1

Skill: Conceptual

Topic: Production possibilities

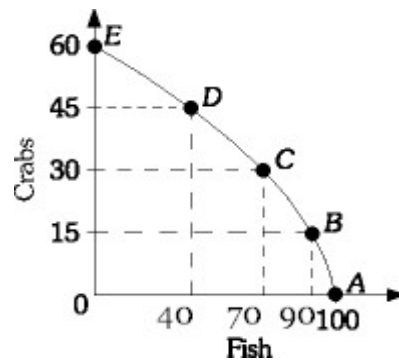
AACSB:

Refer to the information provided in Scenario 1 below to answer the following questions.

SCENARIO 1: Consider the following data for the harvest of crabs versus the harvest of fish off the coast of Virginia in answering the following questions.

Combination	Fish	Crabs
A	100	0
B	90	15
C	70	30
D	40	45
E	0	60

58. Refer to Scenario 1. Graph the production possibilities frontier and calculate the average opportunity cost of any of the first fifteen crabs produced.



The opportunity cost of the first fifteen crabs is of course the 10 fish given up (15C = 10F). Therefore, the opportunity cost of any one crab is 10/15 F or 2/3 of a fish.

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

59. Refer to Scenario 1. What is the economic significance of 25 fish captured and 25 crabs captured?

The economic significance of capturing 25 fish and 50 crabs is that the harvest would be inside the production possibilities frontier, which suggests some resource unemployment. That resource unemployment could be land, labor or capital. It could also be the result of an inefficient use of resources.

Diff: 2 Skill: Conceptual Topic: Inefficiencies
AACSB:

60. Refer to Scenario 1. Explain how this economy might be able to produce 45 fish and 45 crabs?

The economy could do this with the benefits of an increase in resources or a technological advance in fishing.

Diff: 2 Skill: Conceptual Topic: Technology

61. Refer to Scenario 1. If this economy is currently producing 30 crabs and 40 fish how is it possible for it to produce more of both?

The reason that the economy can produce more crabs and more fish is because it is currently operating inside the production possibilities frontier. As it stands now there are idle or inefficiently used resources that can be put to work to produce more of both goods.

Diff: 2 Skill: Conceptual Topic: Inefficiencies
AACSB:

62. Refer to Scenario 1. Assume this economy could either be at Point B or Point C. From which of these points is it more costly to produce more crabs? Explain your answer.

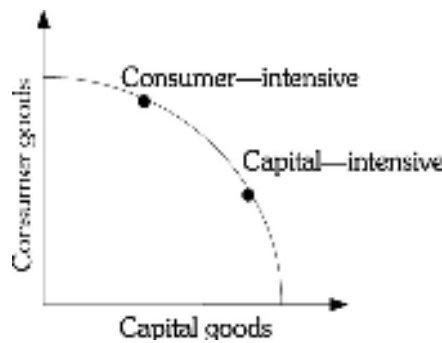
It's more costly to produce more crabs from Point C than it is to produce more crabs from Point B. The reason is that as you move up the production possibilities frontier the more crabs you produce the greater the amount of fish the economy will have to give up to produce them. For example from Point B the opportunity cost of producing 15 more crabs is twenty fish. However, if we start from Point C and wish to produce 15 more crabs we have to give up 30 fish.

Diff: 3 Skill: Conceptual Topic: Inefficiencies
AACSB:

Refer to the information provided in Scenario 2 below to answer the questions that follow.

SCENARIO 2: Assume that two countries are the same in every way except that one allocated more of its resources to the production of capital goods as opposed to consumer goods.

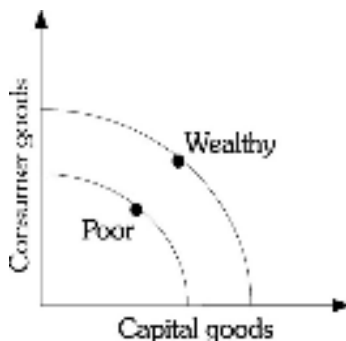
63. Refer to Scenario 2. Graphically illustrate the production choices on a production possibilities frontier. Which country's PPF will likely move out farther in the future and why?



The country with the capital intensive allocation will have its PPF move out farther since the economy will have greater productive capacity.

Diff: 1 Skill: Conceptual Topic: Production possibilities
AACSB:

64. Refer to Scenario 2. Now assume that the countries are not alike, but that one is wealthier than the other in that it has more resources. Graphically illustrate this scenario using the production possibilities frontiers.



Diff: 2 Skill: Conceptual Topic: Production possibilities
AACSB:

65. Refer to Scenario 2. What would be the impact of improvements in technology assuming that each country spends one-half of its resources on capital goods?

There should be a greater improvement in wealth for the wealthier country if each country continues to spend the same percentages.

Diff: 1 Skill: Conceptual Topic: production possibilities
AACSB:

66. Refer to Scenario 2. What happens to the relative income distribution between the two countries under the conditions in the previous question? Explain.

The relative income distributions, with income of the capital-good intensive country greater than the consumer-good intensive country, would be expected to widen as the growth is greater in the capital-good intensive country.

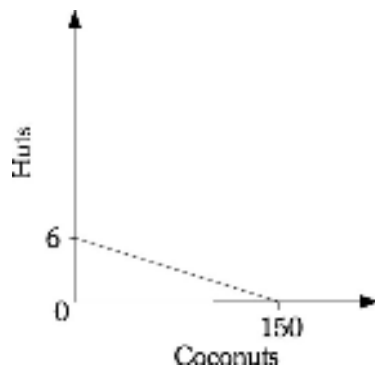
Diff: 3 Skill: Conceptual Topic: Income distribution
AACSB:

Refer to the information provided in Scenario 3 below to answer the questions that follow.

SCENARIO 3: Assume a desert island economy in which labor is the only scarce resource and labor can be used to gather food (coconuts) or to build huts. There are six equally productive individuals on the island. Each inhabitant can gather 25 coconuts in one day or build one hut in one day.

67. Refer to Scenario 3. Draw the production possibilities frontier of the trade-off between coconuts and huts.

Diff: 2 Skill: Analytical Topic: Production Possibilities
AACSB:



68. Refer to Scenario 3. Compute the opportunity cost of building two more huts in one day.

First we start off by calculating what the opportunity cost is of building all 6 huts. We can set this up as an algebraic expression $6H = 150C$. Therefore $1H = 25C$ and $2H = 50C$ or 50 coconuts.

Diff: 2 Skill: Analytical Topic: Opportunity Cost
AACSB:

69. Refer to Scenario 3. If half the workers build huts and half of the workers gather coconuts, what would be the production on the island?

In one day, the inhabitants would produce three huts and 75 coconuts.

Diff: 2 Skill: Analytical Topic: Production possibilities
AACSB:

70. Refer to Scenario 3. Assume that in one day, two huts were built and 75 coconuts were gathered. What does this situation depict?

The situation depicts the inefficient use of resources as the production point represents one that is inside the production possibilities frontier.

Diff: 2 Skill: Analytical Topic: Inefficiencies
AACSB:

71. Refer to Scenario 3. What is the maximum potential increase in coconut production and maximum potential increase in hut production described in the previous question?

The maximum potential increase in production is either one more hut or 25 more coconuts.

Diff: 2 Skill: Analytical Topic: Production possibilities
AACSB:

72. Refer to Scenario 3. What would have to occur for three huts to be produced along with 100 coconuts?

Some form of economic growth or technological improvement would have to occur.

Diff: 2 Skill: Analytical Topic: Economic growth
AACSB:

Refer to the information provided in Scenario 4 below to answer the questions that follow.

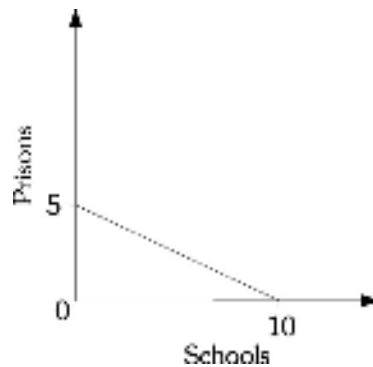
SCENARIO 4: Suppose that a state needs to build both prisons and schools with a budget limited to 10 million dollars. Schools cost \$1 million each to build and prisons cost \$2 million each to build.

73. Refer to Scenario 4. What is the maximum number of schools that can be built? The maximum number of prisons?

Ten is the maximum number of schools and five is the maximum number of prisons.

Diff: 2 Skill: Analytical Topic: Production possibilities
AACSB:

74. Refer to Scenario 4. Draw the state's production possibilities frontier for the trade-off between schools and prisons.



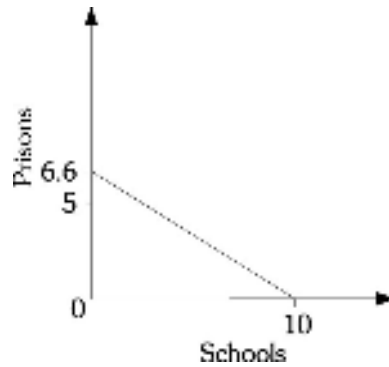
Diff: 2 Skill: Analytical Topic: Production possibilities
AACSB:

75. Refer to Scenario 4. What is the opportunity cost of building one more prison?

The opportunity cost of building one more prison is two schools. This is gleaned from the fact that the opportunity cost of 5 prisons is 10 schools or $5P = 10S$. Solving for P leaves you with 2S or two schools

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

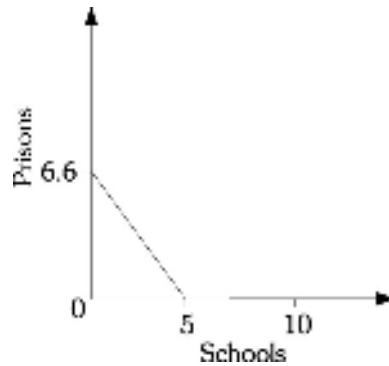
76. Refer to Scenario 4. Assume that the price of prison production falls to \$1.5 million each. Draw the new production possibilities frontier. In addition, what is the new opportunity cost of producing one more prison?



One more prison now costs one and one-half schools (10/6.66).

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

77. Refer to Scenario 4. Assume that the price of a prison falls to \$1.5 million and that the price of school production rises to \$2 million each. Draw the new production possibilities frontier. What is the new opportunity cost of producing one more prison?



In the new situation, the opportunity cost of producing one more prison is three quarters of a school.

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

78. Refer to Scenario 4. Assume that the state originally spent one-half of its budget on schools and one-half on prisons. What was the production of schools and prisons? Could the same number be achieved after the price of producing prisons falls to \$1.5 million and the price of producing schools rises to \$2 million? Explain.

Production is five schools and two and one-half prisons. No, the same number of schools and prisons could not be built after the price of production changes. If the state continues to divide its budget equally, production would be two and one-half schools and three and one-third prisons. If the budget were juggled, the maximum number of schools that could be built is five, but no prisons could be built. And, if two and one-half prisons were built, there would be enough left in the budget to build just over three schools.

Diff: 2 Skill: Analytical Topic: Production Possibilities
AACSB:

79. Why does the opportunity cost of producing a good rise as more resources are devoted to producing that good?

The opportunity cost of a good rises as we devote more resources to producing it because some resources are better suited to the production of one good than another. This is known as the law of increasing opportunity cost.

Diff: 1 Skill: Conceptual Topic: Law of increasing opportunity cost
AACSB:

	A	B	C	D	E
Rugs	50	45	35	20	0
Wheat	0	10	20	30	40

80. The table above represents five points on the production possibility frontier for the small country of Baca, which produces only rugs (measured in thousands) and wheat (measured in thousands of bushels):

If the economy is currently at point A, what is the opportunity cost of producing an additional 10,000 bushels of wheat? If the economy is currently at point B, what is the opportunity cost of producing an additional 10,000 bushels of wheat? What if the economy is currently at point D?

If the economy is currently at point A, the opportunity cost of producing an additional 10,000 bushels of wheat is 5,000 rugs. If the economy is currently at point B, the opportunity cost of producing an additional 10,000 bushels of wheat is 10,000 rugs. If the economy is currently at point D, the opportunity cost of producing an additional 10,000 bushels of wheat is 20,000 rugs.

Diff: 1 Skill: Analytical Topic: Opportunity cost
AACSB:

81. The table above represents five points on the production possibility frontier for the small country of Baca, which produces only rugs (measured in thousands) and wheat (measured in thousands of bushels):

Does the production possibility frontier demonstrate the law of increasing opportunity cost? How can you tell?

Yes. The opportunity cost of increasing the production of wheat rises as more wheat is produced. The opportunity cost of the first 10,000 bushels of wheat is only 5,000 rugs, but the opportunity cost of the fourth 10,000 bushels of wheat is 20,000 rugs.

Diff: 2 Skill: Analytical Topic: Opportunity cost
AACSB:

82. If the law of increasing opportunity cost holds, can the production possibility frontier be a straight line?

No. If the production possibility curve is a straight line, this would imply that the marginal rate of transformation is constant. This cannot be the case if the law of increasing opportunity costs holds.

Diff: 2 Skill: Conceptual Topic: Law of increasing opportunity cost
AACSB:

83. Explain why the costs of most services like haircuts and college education have risen at a faster rate relative to the costs of manufactured goods?

Manufactured goods enjoy more productivity gains most of the time over services. The reason is that machines can do more and more of the work with technological breakthroughs. However, gains in productivity in cutting hair and college education are harder to come by as the primary input in both is human and requires a relatively fixed mix of human and capital inputs in the production process.

Diff: 2

Skill: Conceptual

Topic: Law of increasing opportunity cost

cost

AACSB:

84. The table below represents five points on the production possibility frontier for the small country of Ponderosa, which produces only cowboy boots (measured in thousands of pairs) and saddles (measured in thousands):

	A	B	C	D	E
Cowboy Boots	80	50	10	50	0
Saddles	0	20	40	50	30

What is the opportunity cost of moving from point A to point B? What is the opportunity cost of moving from point D to point C?

The opportunity cost of moving from point A to point B is 30,000 pairs of cowboy boots. The opportunity cost of moving from point D to point C is 20,000 saddles.

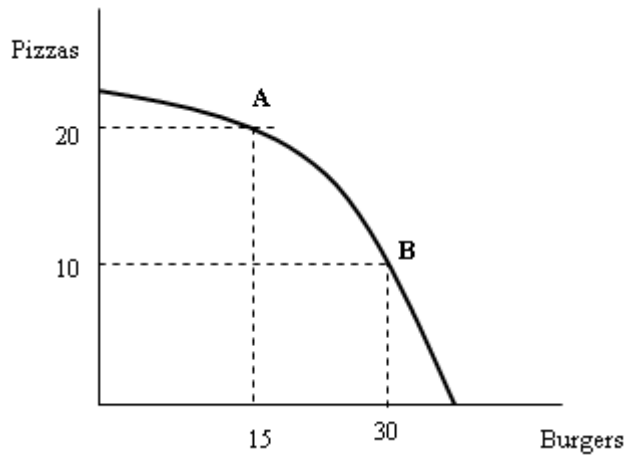
Diff: 1

Skill: Analytical

Topic: Opportunity cost

AACSB:

85.



Refer to the graph above. What is the opportunity cost of going from point A to point B? What is the opportunity cost of going from point B to point A?

The opportunity cost of going from point A to point B is 10 pizzas. The opportunity cost of going from point B to point A is 15 burgers.

Diff: 1 Skill: Analytical Topic: Opportunity cost
AACSB:

86. What is meant by the term *economic growth*?

Economic growth occurs when the total output in an economy increases.

Diff: 1 Skill: Definitional Topic: Economic growth
AACSB:

87. What are the implications for economic growth for countries specializing in consumer goods rather than capital goods? Assume the countries consume what they produce.

All else equal, countries that specialize in consumer goods will likely grow less than those that specialize in capital goods, because specializing in capital goods will allow for more goods to be produced in the future.

Diff: 2 Skill: Conceptual Topic: Economic growth
AACSB: Reflective Thinking

88. What are the implications for economic growth for countries specializing in capital goods rather than consumer goods? What is the opportunity cost of this decision?

All else equal, countries that specialize in capital goods will likely grow more than those that specialize in consumer goods, because specializing in capital goods will allow for more goods to be produced in the future. The opportunity cost of this decision is that the economy will experience a lower standard of living in the present than they would otherwise.

Diff: 2 Skill: Conceptual Topic: Economic growth
AACSB: Reflective Thinking

89. The table below represents five points on the production possibility frontier for the small country of Bistro, which produces only crackers (measured in thousands of boxes) and cheese (measured in thousands of pounds):

	A	B	C	D	E
Crackers	40	30	20	10	0
Cheese	0	5	10	15	20

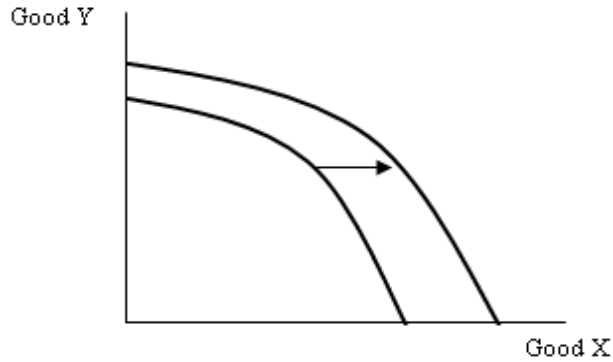
Does the production possibility frontier demonstrate the law of increasing opportunity cost? How can you tell?

No. The opportunity cost of increasing the production of cheese remains the same as more cheese is produced. The opportunity cost of the first 5,000 pounds of cheese is 10,000 boxes of crackers, and the opportunity cost of the fourth 5,000 pounds of cheese is also 10,000 boxes of crackers.

Diff: 2 Skill: Analytical Topic: Law of increasing opportunity cost
AACSB:

90. Using a graph, show how economic growth affects the production possibility frontier.

When economic growth occurs, the economy can produce more goods and services. Therefore, the production possibility curve shifts outward.



Diff: 1 Skill: Conceptual Topic: Economic growth

91. List two things that can cause economic growth to occur.

- (1.) **New resources are acquired.**
- (2.) **Society learns to produce more with existing resources.**

Diff: 1 Skill: Conceptual Topic: Economic growth
AACSB:

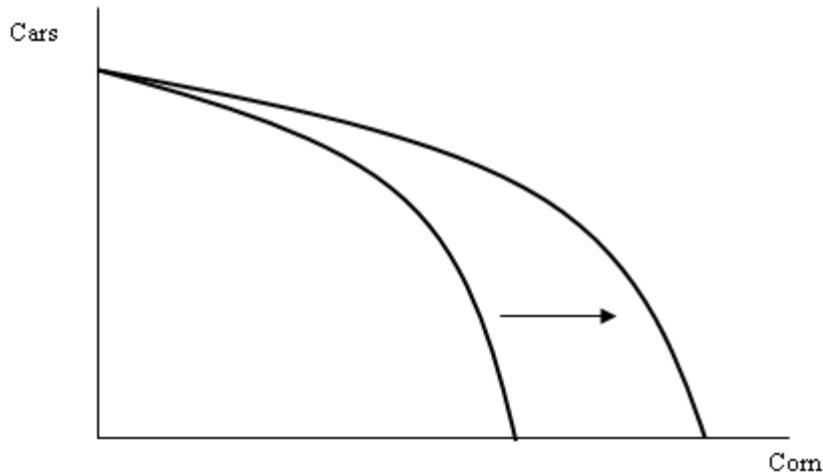
92. In what ways are technological advancements like capital?

Both require an investment in terms of current consumption foregone. Both can lead to increases in the amount an economy can produce.

Diff: 2 Skill: Conceptual Topic: Technological advancement
AACSB:

93. Suppose a country produces two goods: corn and cars. New technology is developed that increases the amount of corn that can be produced. Use a graph to show the effect of this graph on the country's production possibility frontier. Explain what occurs in the graph.

The production possibility frontier shifts outward. The y-intercept is unaffected, however. At the y-intercept, the country would be producing all cars and no corn and the new technology would have no effect.



Diff: 1 Skill: Conceptual Topic: Technological advancement
AACSB:

94. Why do poor countries often have lower rates of economic growth than richer countries?

If a large part of a country's population is poor, it is very difficult to forgo current consumption to invest in research and development of new technologies or new capital equipment. With less investment, the rate of economic growth in the country will be lower.

Diff: 2 Skill: Conceptual Topic: Economic growth
AACSB:

95. What happens to a country's production possibility frontier if it experiences a natural disaster such as a hurricane or an earthquake? Explain.

The production possibility frontier will shift in. This occurs because the destruction from the hurricane or earthquake likely destroys resources such as capital and natural resources that are used to produce goods and services. Since the quantity of resources in the country is now lower, the country will not be able to produce as much output.

Diff: 2 Skill: Conceptual Topic: Production possibilities
AACSB:

ECONOMIC SYSTEMS AND THE ROLE OF GOVERNMENT

96. What is the *economic problem*?

The economic problem is finding a way for a society to answer the three basic economic questions (what will be produced?, how will it be produced?, and who will get what is produced?) given that resources are scarce.

Diff: 1 Skill: Definitional Topic: The economic problem

97. What are the two basic types of economic systems?

- (1.) Command economies.
(2.) Laissez-faire economies.**

Diff: 1 Skill: Factual Topic: Economic systems
AACSB:

98. What is a *command economy*?

A command economy is one in which a central government either directly, or indirectly, sets output targets, incomes, and prices. It may even involve direct government ownership of the means of production and central planning of the economy.

Diff: 1 Skill: Definitional Topic: Economic systems
AACSB:

99. What is a *laissez-faire economy*?

A laissez-faire economy is one in which individuals and firms pursue their own self-interests without any central direction or regulation.

Diff: 1 Skill: Definitional Topic: Economic systems
AACSB:

100. Is the United States a command economy, a laissez-faire economy, or neither? Explain.

The United States is neither a command economy nor a laissez-faire economy. It is more accurate to describe it as a mixed economy. The U.S. basically has a free market economy, but the government is a large purchaser of goods and services and also produces some goods and services as well. In addition, the U.S. economy has significant amounts of government regulation of business.

Diff: 1 Skill: Conceptual Topic: Economic systems
AACSB:

101. What is meant by *consumer sovereignty*?

Consumer sovereignty is the idea that consumers ultimately dictate what will be produced (or not produced) by choosing what to purchase (or not to purchase).

Diff: 1 Skill: Definitional Topic: Consumer sovereignty
AACSB:

102. According to the idea of consumer sovereignty, what will happen in the market for widgets if consumers decide they no longer desire widgets?

If consumers no longer desire widgets, they will send a message to producers by not purchasing widgets. Since firms will be unable to make a profit selling widgets, widget-producing firms will go out of business (or switch to producing something else) and widgets will no longer be produced. Thus, the consumers' preferences dictate what is produced.

Diff: 2 Skill: Analytical Topic: Consumer sovereignty
AACSB:

103. What are some of the problems that exist with a laissez-faire economy?

Free markets may not always produce the goods and services that people want at the lowest cost. They are not always efficient. Also, income may be distributed unequally.

Diff: 1 Skill: Factual Topic: Economic systems
AACSB:

104. Why is microeconomic theory often referred to as *price theory*?

The reason is that much of microeconomic theory focuses on the factors which influence and determine prices.

Diff: 1 Skill: Definitional Topic: Microeconomic theory
AACSB:

105. What is the difference between a command economy and a laissez-faire economy?

The major difference lies in how the two types of economies answer the three basic questions. In a command economy, a central government either directly or indirectly sets output targets, incomes, and prices. In a laissez-faire economy, individual people and firms pursue their own self-interests without any central direction or regulation.

Diff: 1 Skill: Conceptual Topic: Economic systems
AACSB:

106. What is the economic problem? How does a command economy solve the economic problem?

The economic problem is that given scarce resources, how exactly do large, complex societies go about answering the basic economic questions? A command economy answers the questions through some centralized authority making decisions about what to produce, how to produce it, and how to distribute it.

Diff: 2 Skill: Conceptual Topic: Economic systems
AACSB:

107. What problems does a command economy face when it tries to determine what to produce for the economy?

The biggest difficulty that a command economy faces in determining which goods to produce is the fact that there are no prices in the economy which signal which goods and services are more highly valued than others. As a consequence since the decision to produce is often centralized either too little of some products are produced or too much is produced.

Diff: 2 Skill: Conceptual Topic: Economic systems
AACSB:

108. In a laissez-faire economy, what determines the distribution of output?

It is determined by income and wealth. These in part depend on the skills an individual can offer in the labor market.

Diff: 1 Skill: Factual Topic: Economic systems
AACSB:

109. What is the difference between *income* and *wealth*?

Income is a flow variable. It is the amount a household earns over a period of time such as a year. Wealth is a stock variable. It is the amount of assets a household has accumulated at a point in time from past income or through saving or inheritance.

Diff: 1 Skill: Definitional Topic: Income and wealth
AACSB:

110. Explain how it is possible for a recently retired postal worker to be more wealthy than a rookie professional football player even though it is widely recognized that football players earn more than postal workers.

The reason is that the postal worker in all likelihood has been spending years or decades building up wealth from his income. A rookie professional football player however, may earn a higher wage but has not had the opportunity to build up much if any wealth at all since his career has just begun.

Diff: 1 Skill: Conceptual Topic: Income and wealth
AACSB:

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111. Evaluate the following two statements:

“He is income rich but he is not very wealthy”

“He is income poor but he is wealthy”

The first person might be making a lot of income but hasn’t acquired much wealth in the form of savings account balances or real estate. The second person might not have an income or have a really low income but accumulated a lot of wealth from the past.

Diff: 1

Skill: Conceptual

Topic: Income and wealth

AACSB:

112. Explain three of the shortcomings of the free-enterprise system.

The shortcomings of the free-enterprise system are: products may not always be produced at lowest cost, income may be unevenly distributed, and periods of inflation and unemployment may recur.

Diff: 1

Skill: Conceptual

Topic: Economic systems

AACSB: