

Assignment 2 (Chapter 2)

1. The mercantilists would have *objected* to:

- a) Export promotion policies initiated by the government
- b) The use of tariffs or quotas to restrict imports
- c) Trade policies designed to accumulate gold and other precious metals
- d) International trade based on open markets

2. Unlike Adam Smith, David Ricardo's trading principle emphasizes the:

- a) Demand side of the market
- b) Supply side of the market
- c) Role of comparative costs
- d) Role of absolute costs

3. According to the principle of comparative advantage, specialization and trade increase a nation's total output since:

- a) Resources are directed to their highest productivity
- b) The output of the nation's trading partner declines
- c) The nation can produce outside of its production possibilities curve
- d) The problem of unemployment is eliminated

4. In a two-product, two-country world, international trade can lead to increases in:

- a) Consumer welfare only if output of both products is increased
- b) Output of both products and consumer welfare in both countries
- c) Total production of both products, but not consumer welfare in both countries
- d) Consumer welfare in both countries, but not total production of both products

5. Using the data in Table 2.1, answer the question(s).

Table 2.1. *Output Possibilities for the U.S. and the U.K.*

Country	Output per Worker per Day	
	Tons of Steel	Televisions
United States	5	45
United Kingdom	10	20

Refer to Table 2.1. The United Kingdom gains most from trade if:

- a) 1 ton of steel trades for 2 televisions
- b) 1 ton of steel trades for 3 televisions
- c) 2 tons of steel trade for 4 televisions
- d) 2 tons of steel trade for 5 televisions

6. Increasing opportunity costs suggest that:

- a) Resources are not perfectly shiftable between the production of two goods
- b) Resources are fully shiftable between the production of two goods
- c) A country's production possibilities curve appears as a straight line
- d) A country's production possibilities curve is bowed inward (i.e., convex) in appearance

7. Assuming increasing cost conditions, trade between two countries would *not* be likely if they have:

- a) Identical demand conditions but different supply conditions
- b) Identical supply conditions but different demand conditions
- c) Different supply conditions and different demand conditions
- d) Identical demand conditions and identical supply conditions

8. Use the data in Table 2.2 to answer the question(s).

Table 2.2. *Output Possibilities for South Korea and Japan*

		<u>Output per Worker per Day</u>
<u>Country</u>	<u>Tons of Steel</u>	<u>VCRs</u>
South Korea	80	40
Japan	20	20

Refer to Table 2.2. The opportunity cost of one VCR in South Korea is:

- a) $\frac{1}{2}$ ton of steel
- b) 1 ton of steel
- c) $1\frac{1}{2}$ tons of steel
- d) 2 tons of steel

9. Use the data in Table 2.2 to answer the question(s).

Table 2.2. *Output Possibilities for South Korea and Japan*

		<u>Output per Worker per Day</u>
<u>Country</u>	<u>Tons of Steel</u>	<u>VCRs</u>
South Korea	80	40
Japan	20	20

Refer to Table 2.2. According to the principle of absolute advantage, Japan should:

- a) Export steel
- b) Export VCRs
- c) Export steel and VCRs
- d) None of the above; there is no basis for gainful trade

10. Use the data in Table 2.2 to answer the question(s).

Table 2.2. *Output Possibilities for South Korea and Japan*

		<u>Output per Worker per Day</u>
<u>Country</u>	<u>Tons of Steel</u>	<u>VCRs</u>
South Korea	80	40
Japan	20	20

Refer to Table 2.2. With international trade, what would be the maximum amount of steel that South Korea would be willing to export to Japan in exchange for each VCR?

- a) $\frac{1}{2}$ ton of steel
- b) 1 ton of steel
- c) $1\frac{1}{2}$ tons of steel
- d) 2 tons of steel

11. If the international terms of trade settle at a level that is between each country's opportunity cost:

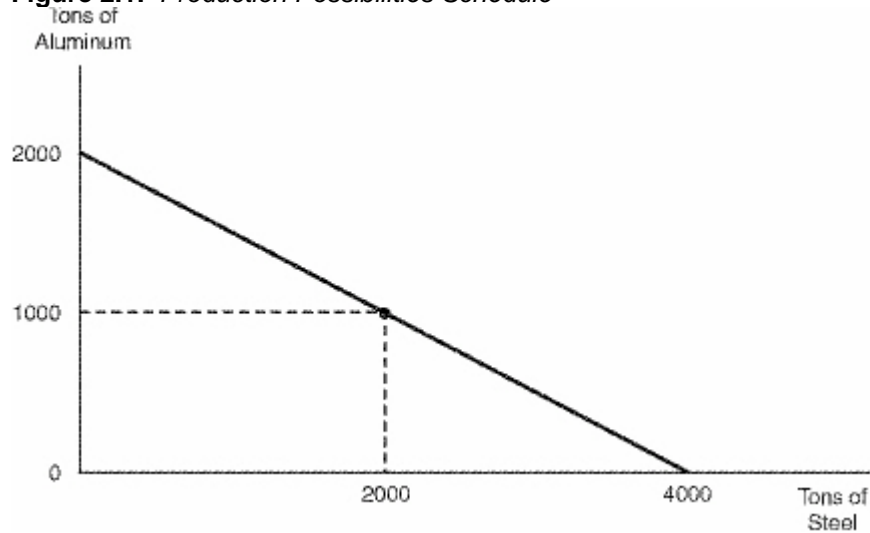
- a) There is no basis for gainful trade for either country
- b) Both countries gain from trade
- c) Only one country gains from trade
- d) One country gains and the other country loses from trade

12. International trade is based on the notion that:

- a) Different currencies are an obstacle to international trade
- b) Goods are more mobile internationally than are resources
- c) Resources are more mobile internationally than are goods
- d) A country's exports should always exceed its imports

13. Use the graph shown in Figure 2.1 to answer the question(s).

Figure 2.1. Production Possibilities Schedule



Refer to Figure 2.1. The relative cost of aluminum in terms of steel is:

- a) 4.0 tons
- b) 2.0 tons
- c) 0.5 tons
- d) 0.25 tons

14. When a nation achieves autarky equilibrium:

- a) Input price equals final product price
- b) Labor productivity equals the wage rate
- c) Imports equal exports
- d) Production equals consumption

15. According to Ricardo, a country will have a comparative advantage in the product in which its:

- a) Labor productivity is relatively low
- b) Labor productivity is relatively high
- c) Labor mobility is relatively low
- d) Labor mobility is relatively high

16. The Ricardian model of comparative advantage is based on all of the following assumptions *except*:

- a) Only two nations and two products
- b) Product quality varies among nations
- c) Labor is the only factor of production
- d) Labor can move freely within a nation

17. Introducing indifference curves into our trade model permits us to determine:
- a) Where a nation chooses to locate along its production possibilities curve in autarky
 - b) The precise location of a nation's production possibilities curve
 - c) Whether absolute cost or comparative cost conditions exist
 - d) The currency price of one product in terms of another product
18. Trade between two nations would *not* be possible if they have:
- a) Identical community indifference curves but different production possibilities curves
 - b) Identical production possibilities curves but different community indifference curves
 - c) Different production possibilities curves and different community indifference curves
 - d) Identical production possibilities curves and identical community indifference curves
19. Given a two-country and two-product world, the United States would enjoy *all* the attainable gains from free trade with Canada if it:
- a) Trades at the U.S. rate of transformation
 - b) Trades at the Canadian rate of transformation
 - c) Specializes completely in the production of both goods
 - d) Specializes partially in the production of both goods
20. The equilibrium prices and quantities established after trade are *fully* determinate if we know:
- a) The location of all countries' indifference curves
 - b) The shape of each country's production possibilities curve
 - c) The comparative costs of each trading partner
 - d) The strength of world supply and demand for each good
21. The best explanation of the gains from trade that David Ricardo could provide was to describe only the outer limits within which the equilibrium terms of trade would fall. This is because Ricardo's theory did *not* recognize how market prices are influenced by:
- a) Demand conditions
 - b) Supply conditions
 - c) Business expectations
 - d) Profit patterns
22. Under free trade, Sweden enjoys all of the gains from trade with Holland if Sweden:
- a) Trades at Holland's rate of transformation
 - b) Trades at Sweden's rate of transformation
 - c) Specializes completely in the production of its export good
 - d) Specializes partially in the production of its export good

23. Because the Ricardian trade theory recognized only how supply conditions influence international prices, it could determine:

- a) The equilibrium terms of trade
- b) The outer limits for the terms of trade
- c) Where a country chooses to locate along its production possibilities curve
- d) Where a country chooses to locate along its trade triangle

24. Given the terms of trade data in Table 2.3, answer the question(s).

Table 2.3. *Terms of Trade*

Country	Export Price Index		Import Price Index	
	1990	2004	1990	2004
Mexico	100	220	100	200
Sweden	100	160	100	150
Spain	100	155	100	155
France	100	170	100	230
Denmark	100	120	100	125

Refer to Table 2.3. Which countries' terms of trade *improved* between 1990 and 2004?

- a) Mexico and Denmark
- b) Sweden and Denmark
- c) Sweden and Spain
- d) Mexico and Sweden

25. Under free trade, Canada would *not* enjoy any gains from trade with Sweden if Canada:

- a) Trades at the Canadian rate of transformation
- b) Trades at Sweden's rate of transformation
- c) Specializes completely in the production of its export good
- d) Specializes partially in the production of its export good