Assignment 3 (Chapter 3)

1. Which of the following suggests that a nation will export the commodity in the production of which a great deal of its relatively abundant and cheap factor is used?

   a) The Linder theory
   b) The product life cycle theory
   c) The MacDougall theory
   d) The Heckscher-Ohlin theory

2. According to Staffan Linder, trade between two countries tends to be most pronounced when the countries

   a) Find their tastes and preferences to be quite harmonious
   b) Experience economies of large-scale production over large output levels
   c) Face dissimilar relative abundances of the factors of production
   d) Find their per-capita income levels to be approximately the same

3. Which of the following is a long-run theory, emphasizing changes in the trading position of a nation over a number of years?

   a) Theory of factor endowments
   b) Comparative advantage theory
   c) Theory of the product cycle
   d) Overlapping demand theory

4. The Leontief paradox questioned the validity of the theory of

   a) Comparative advantage
   b) Factor endowments
   c) Overlapping demands
   d) Absolute advantage

5. Which of the following would least likely apply to the product life cycle theory?

   a) Calculators and computers
   b) Coal and crude oil
   c) Home movie cameras
   d) Office machinery

6. Classical trade theory emphasized which of the following as an underlying explanation of the basis for trade?

   a) Productivities of labor inputs
   b) Tastes and preferences among nations
   c) Changes in technologies over time
   d) Quantities of economic resources
7. Concerning the influence that transportation costs have on the location of industry, which of the following industries has generally attempted to locate production facilities close to resource supplies?
   a) Autos
   b) Steel
   c) Soft drinks
   d) Valuable electronics goods

8. Assume the cost of transporting autos from Japan to Canada exceeds the pretrade price difference for autos between Japan and Canada. Trade in autos is
   a) Impossible
   b) Possible
   c) Highly profitable
   d) Moderately profitable

9. Hong Kong is relatively abundant in labor, while Canada is relatively abundant in capital. In both countries the production of shirts is relatively more labor intensive than the production of computers. According to the factor endowment theory, Hong Kong will have a(n)
   a) Absolute advantage in the production of shirts and computers
   b) Absolute advantage in the production of computers
   c) Comparative advantage in the production of shirts
   d) Comparative advantage in the production of computers

10. If Japanese workers receive lower wages in the production of autos than do American workers
    a) Japan will have a comparative advantage in the production of autos
    b) Japan will have an absolute advantage in the production of autos
    c) Production costs will be lower in Japan than in the U.S.
    d) Production costs could be lower in the U.S. if American labor productivity is higher than the Japanese

11. A firm is said to enjoy economies of scale over the range of output for which the long-run average cost is
    a) Increasing
    b) Constant
    c) Decreasing
    d) None of the above

12. Which of the following suggests that by widening the market's size, international trade can permit longer production runs for manufacturers, which leads to increasing efficiency?
    a) Economies of scale
    b) Diseconomies of scale
    c) Comparative cost theory
    d) Absolute cost theory
13. Boeing aircraft company was able to cover its production costs of the first “jumbo jet” in the 1970s because Boeing could market it to several foreign airlines in addition to domestic airlines. This illustrates
a) How economies of scale make possible a larger variety of products in international trade
b) A transfer of wealth from domestic consumers to domestic producers as the result of trade
c) How a natural monopoly is forced to behave more competitively with international trade
d) How a natural monopoly is forced to behave less competitively with international trade

14. The theory of overlapping demands predicts that trade in manufactured goods is unimportant for countries with very different
a) Tastes and preferences
b) Expectations of future interest rate levels
c) Per-capita income levels
d) Labor productivities

15. Should international transportation costs decrease, the effect on international trade would include a(n)
   a) Increase in the volume of trade
   b) Smaller gain from trade
   c) Decline in the income of home producers
   d) Decrease in the level of specialization in production.

16. That the division of labor is limited by the size of the market best applies to which explanation of trade?
   a) Factor endowment theory
   b) Product life cycle theory
   c) Economies of scale theory
   d) Overlapping demand theory

17. A larger variety of products results from international trade especially if
   a) International trade affords producers monopoly power
   b) National governments levy import tariffs and quotas
   c) Producing goods entails increasing costs
   d) Economies of scale exist for producers

18. With economies of scale and decreasing unit costs, a country has the incentive to
   a) Specialize completely in the product of its comparative advantage
   b) Specialize partially in the product of its comparative advantage
   c) Specialize completely in the product of its comparative disadvantage
   d) Specialize partially in the product of its comparative disadvantage
19. Proponents of ____ maintain that government should enact policies that encourage the development of emerging, "sunrise" industries.

a) Product life cycle policy  
b) Static comparative advantage policy  
c) Intraindustry trade policy  
d) Industrial policy

20. Among the determinants underlying a country's international competitiveness in business services (e.g., construction) are

a) The potential scale economies afforded by a market's size  
b) Abundance of equipment including data processing facilities and computers  
c) Skills and capabilities of employees and their wage rates  
d) All of the above

21. The simultaneous import and export of computers by Germany is an example of

a) Intraindustry trade  
b) Interindustry trade  
c) Perfect competition  
d) Imperfect competition

22. Linder's theory of overlapping demand provides an explanation of

a) Product life cycle theory  
b) Factor endowment model  
c) Economies of large-scale production  
d) Intraindustry trade

23. Which nation has sometimes been characterized as being a "pollution haven" due to its lenient environmental standards that encourage the production of pollution-intensive goods?

a) Japan  
b) Canada  
c) Germany  
d) Mexico

24. The factor endowment theory states that comparative advantage is explained

a) Exclusively by differences in relative supply conditions  
b) Exclusively by differences in relative national demand conditions  
c) Both supply and demand conditions  
d) None of the above
25. The factor endowment theory assumes

a) Same tastes and preferences
b) Factor inputs of uniform quality
c) Same technology
d) All of the above