International Economics Theory and Policy 12th edition Krugman Test Bank

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International Economics: Theory and Policy, 12e **(Krugman)**
Chapter 1 Introduction

1.1 What Is International Economics About?

1) Historians of economic thought often describe _____ written by _____ and published in _____ as the first real exposition of an economic model.
A) "Of the Balance of Trade"; David Hume; 1776
B) "Wealth of Nations"; David Hume; 1758
C) "Wealth of Nations"; Adam Smith; 1758
D) "Wealth of Nations"; Adam Smith; 1776
E) "Of the Balance of Trade"; David Hume; 1758
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

2) From 1960 to 2019
A) the U.S. economy roughly tripled in size.
B) U.S. imports roughly tripled in size.
C) the share of U.S. trade in the global economy roughly tripled in size compared with the economy as a whole.
D) U.S. imports roughly tripled as compared to U.S. exports.
E) U.S. exports roughly tripled in size.
Answer: C
Difficulty: Easy
AACSB: Application of knowledge

3) From 1960 to 2019, both U.S. imports and exports have increased, _____ have grown more, leading to a large excess of _____.
A) imports; imports over exports
B) exports; exports over imports
C) imports; exports over imports
D) exports; imports over exports
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

4) The facts that U.S. imports and exports plunged in 2009 during the global economic crisis and in 2020 during the Covid-19 pandemic demonstrated the close links between
A) world trade and the overall state of the world economy.
B) crisis and unemployment.
C) the pandemic and shortage of goods and services.
D) the business cycle and trade policies.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

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5) The United States is less dependent on trade than most other countries because
A) the United States is a relatively large country with diverse resources.
B) the United States is a "Superpower."
C) the military power of the United States makes it less dependent on anything.
D) the United States invests in many other countries.
E) many countries invest in the United States.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

6) Theories of international economics from the 18th and 19th centuries are
A) not relevant to current policy analysis.
B) only of moderate relevance in today's modern international economy.
C) highly relevant in today's modern international economy.
D) the only theories that are actually relevant to modern international economy.
E) not well understood by modern mathematically oriented theorists.
Answer: C
Difficulty: Easy
AACSB: Application of knowledge

7) International economics _____ use the same fundamental methods of analysis as other branches of economics, because _____.
A) does not; the level of complexity of international issues is unique
B) does not; the interactions associated with international economic relations is highly mathematical
C) does not; international economics takes a different perspective on economic issues
D) does; international economists must reach an agreement with other economists on every economic issue
E) does; the motives and behavior of individuals are the same in international trade as they are in domestic transactions
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

8) Because the Constitution forbids restraints on interstate trade
A) the U.S. may not impose tariffs on imports from NAFTA countries.
B) the U.S. may not affect the international value of the $ U.S.
C) the U.S. may not put restraints on foreign investments in California if it involves a financial intermediary in New York State.
D) the U.S. may not impose export duties.
E) the U.S. may not disrupt commerce between Florida and Hawaii.
Answer: E
Difficulty: Easy
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9) An important insight of international economics is that when countries sell goods and services to each other,
A) the exchange is almost always mutually beneficial.
B) one country always benefits at the expense of the other.
C) it only benefits the low wage country.
D) it only benefits the high wage country.
E) it is almost never beneficial to both countries.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

10) "Trade is generally harmful if there are large disparities between countries in wages."
A) This is generally true.
B) This is generally false.
C) Trade theory has nothing to say about this issue.
D) This is true if the trade partner ignores child labor laws.
E) This is true if the trade partner uses prison labor.
Answer: B
Difficulty: Easy
AACSB: Application of knowledge

11) If there are large disparities in wage levels between countries, then
A) trade is likely to be harmful to both countries.
B) trade is likely to be harmful to the country with the high wages.
C) trade is likely to be harmful to the country with the low wages.
D) trade is likely to be harmful to neither country.
E) trade is likely to have no effect on either country.
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

12) If there are large disparities in productivity between countries, then
A) trade is likely to be harmful to neither country.
B) trade is likely to be harmful to the country with the high wages.
C) trade is likely to be harmful to the country with the low wages.
D) trade is likely to be harmful to both countries.
E) trade is likely to have no effect on either country.
Answer: A
Difficulty: Easy
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13) Which of the following statements is TRUE?
A) Trade is mutually beneficial when countries exchange goods and services.
B) Trade is harmful if large disparities exist between countries in productivity.
C) Trade is harmful if large disparities exist between countries in wages.
D) Trading with less-advanced, lower-wage countries will drag down a country's standard of living.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

14) The benefits of international trade are derived from trade in
A) tangible goods only.
B) intangible goods only.
C) goods but not services.
D) services but not goods.
E) anything of value.
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

15) Which of the following statements is NOT TRUE?
A) International trade will have no effects on income distribution.
B) International trade may hurt particular groups within nations.
C) International trade can adversely impact owners of resources that are specific to industries that compete with imports.
D) International trade can alter the distribution of income between broad groups, such as workers and the owners of capital.
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge

16) Who sells what to whom
A) has been a major preoccupation of international economics.
B) is not a valid concern of international economics.
C) is not considered important for government foreign trade policy since such decisions are made in the private competitive market.
D) is determined by political rather than economic factors.
E) is less important than international economic theory.
Answer: A
Difficulty: Easy
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17) The insight that patterns of trade are primarily determined by international differences in labor productivity was first proposed by
A) David Ricardo.
B) David Hume.
C) Adam Smith.
D) Eli Heckscher.
E) Lerner and Samuelson.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

18) International economists cannot discuss the effects of international trade or recommend changes in government policies toward trade with any confidence unless they know
A) their theory is the best available.
B) their theory is internally consistent.
C) their theory passes the "reasonable person" legal criteria.
D) their theory is good enough to explain the international trade that is actually observed.
E) their theory accounts for China's unique position in international trade.
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

19) Which of the following is NOT a major concern of international economic theory?
A) protectionism
B) the balance of payments
C) exchange rate determination
D) bilateral trade relations with China
E) the international capital market
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

20) Which of the following does NOT belong?
A) NAFTA
B) Uruguay Round
C) World Trade Organization
D) non-tariff barriers
E) major free trade agreements of the 1990s
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

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21) In 1998 an economic and financial crisis in South Korea caused it to experience
A) a surplus in their balance of payments.
B) a deficit in their balance of payments.
C) a balanced balance of payments.
D) an unbalanced balance of payments.
E) a lull in international trade.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

22) In 1998, countries that ran large trade surpluses include
A) China and South Korea.
B) U.S. and Japan.
C) China and U.S.
D) U.S. and South Korea.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

23) After World War II, the United States has pursued a broad policy of
A) strengthening "Fortress America" protectionism.
B) removing barriers to international trade.
C) isolating Iran and other members of the "axis of evil."
D) protecting the U.S. from the economic impact of oil producers.
E) restricting trade of manufactured goods.
Answer: B
Difficulty: Easy
AACSB: Application of knowledge

24) Cost-benefit analysis of international trade
A) is basically useless.
B) is empirically intractable.
C) focuses attention primarily on conflicts of interest within nations.
D) focuses attention on conflicts of interest between nations.
E) never leads to government intervention in international trade.
Answer: C
Difficulty: Moderate
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25) An improvement in a country's balance of payments means a decrease in its balance of payments deficit, or an increase in its surplus. In fact, we know that a surplus in a balance of payments
A) is always beneficial.
B) is usually beneficial.
C) is never harmful.
D) is sometimes harmful.
E) is always harmful.
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge

26) The GATT is
A) an international agreement.
B) an international U.N. agency.
C) an international IMF agency.
D) a U.S. government agency.
E) a collection of tariffs.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

27) The balance of payments has become a central issue for the United States because
A) when the balance of payments is not balanced, society is unbalanced.
B) the U.S. economy cannot grow when the balance of payments is in deficit.
C) the U.S. has run huge trade deficits in every year since 1982.
D) the U.S. never experienced a surplus in its balance of payments.
E) the U.S. once ran a large trade surplus of about $40 billion.
Answer: C
Difficulty: Easy
AACSB: Application of knowledge

28) In September 2010, the finance minister of _____ declared that the world was "in the midst of an international currency war" because of rapid appreciation in the value of the country's currency, the _____.
A) England; pound sterling
B) Germany; euro
C) Japan; yen
D) China; renminbi
E) Brazil; Real
Answer: E
Difficulty: Easy
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29) The study of exchange rate determination is a relatively new part of international economics, since
A) for much of the past century, exchange rates were fixed by government action.
B) the calculations required for this were not possible before modern computers became available.
C) economic theory developed by David Hume demonstrated that real exchange rates remain fixed over time.
D) dynamic overshooting asset pricing models are a recent theoretical development.
E) the exchange rate never fluctuates.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

30) A fundamental problem in international economics is how to produce
A) a perfect degree of monetary harmony.
B) an acceptable degree of harmony among the international trade policies of different countries.
C) a world government that can harmonize trade and monetary policies.
D) a counter-cyclical monetary policy so that all countries will not be adversely affected by a financial crisis in one country.
E) a worldwide form of currency.
Answer: B
Difficulty: Easy
AACSB: Application of knowledge

31) For almost 70 years international trade policies have been governed
A) by the World Trade Organization.
B) by the International Monetary Fund.
C) by the World Bank.
D) by an international treaty known as the General Agreement on Tariffs and Trade (GATT).
E) by the North American Free Trade Agreement (NAFTA).
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

32) International capital markets experience a kind of risk not faced in domestic capital markets, namely
A) "economic meltdown" risk.
B) Flood and hurricane crisis risk.
C) the risk of unexpected downgrading of assets by Standard and Poor.
D) the risk of currency fluctuations.
E) the risk of political upheaval.
Answer: D
Difficulty: Moderate
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33) Since 1994, trade rules have been enforced by
A) the WTO.
B) the G10.
C) the GATT.
D) The U.S. Congress.
E) the European Union.
Answer: A
Difficulty: Easy
AACSB: Application of knowledge

34) The international capital market is
A) the place where you can rent earth moving equipment anywhere in the world.
B) a set of arrangements by which individuals and firms exchange money now for promises to pay in the future.
C) the arrangement where banks build up their capital by borrowing from the Central Bank.
D) the place where emerging economies accept capital invested by banks.
E) exclusively concerned with the debt crisis that ended in the 1990s.
Answer: B
Difficulty: Easy
AACSB: Application of knowledge

35) The international financial crisis of 2007 was the result of
A) failure of the Euro currency.
B) runaway inflation in the U.S.
C) a deep global recession.
D) the collapse of global currency markets.
E) defaults on U.S. mortgage-backed securities.
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

36) It is argued that global trade tends to be more important to countries with smaller economies than the U.S. Is this empirically verified?
Answer: Yes. Figure 1-2 shows exports and imports as a percentage of national income in the U.S. and five other countries and notes that "International trade is even more important to most other countries than it is to the U.S."
Difficulty: Moderate
AACSB: Application of knowledge

37) It is argued that if a rich high wage country such as the United States were to expand trade with a relatively poor and low wage country such as Mexico, then U.S. industry would migrate south, and U.S. wages would fall to the level of Mexico's. What do you think about this argument?
Answer: The student may think anything. The purpose of the question is to set up a discussion, which will lead to the models in the following chapters.
Difficulty: Moderate
AACSB: Reflective thinking

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38) How are the patterns of international trade, that is the pattern of what different countries export and import, explained?
Answer: Climate explains why Brazil exports coffee. Natural resources explains why Saudi Arabia exports oil. More generally, differences in labor productivity and in the availability of land, labor, and capital within different countries explain patterns of trade. More recent research suggests that there is a significant random component involved, as well.
Difficulty: Moderate
AACSB: Application of knowledge

39) International trade theory implies that international trade is beneficial to all trading countries. However, casual observation leads to the conclusion that official obstruction of international trade flows is widespread. How might you reconcile these two facts?
Answer: This question is meant to allow students to offer preliminary discussions of issues, which will be explored in depth later in the book.
Difficulty: Moderate
AACSB: Application of knowledge

1.2 International Economics: Trade and Money

1) International economics can be divided into two broad sub-fields
A) macro and micro.
B) developed and less developed.
C) monetary and barter.
D) international trade and international money.
E) static and dynamic.
Answer: D
Difficulty: Easy
AACSB: Application of knowledge

2) International trade analysis focuses on
A) the real transactions that involve a physical movement of goods or a tangible commitment of economic resources in the international economy.
B) the monetary side of the international economy.
C) the financial transactions such as foreign purchases of U.S. dollars.
D) the devaluation of currencies of the international economy.
Answer: A
Difficulty: Easy
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3) International monetary analysis focuses on
A) the real side of the international economy.
B) the international trade side of the international economy.
C) the international investment side of the international economy.
D) the issues of international cooperation between Central Banks.
E) the monetary side of the international economy, such as currency exchange.
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

4) The distinction between international trade and international money is NOT entirely clear because
A) real developments in the trade accounts do not have monetary implications.
B) the balance of payments includes only real measures.
C) developments caused by purely monetary changes have no real effects.
D) trade models focus on real, or barter relationships.
E) most international trade involves monetary transactions.
Answer: E
Difficulty: Easy
AACSB: Application of knowledge

5) The distinction between international trade and international money is NOT entirely clear because
A) many monetary events have important consequences for trade.
B) real developments in the trade accounts do not have monetary implications.
C) the balance of payments includes only real measures.
D) developments caused by purely monetary changes have no real effects.
E) trade models focus on real, or barter relationships.
Answer: A
Difficulty: Easy
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