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Chapter 02: Foundations of Modern Trade Theory: Comparative Advantage

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.

ANSWER: d
FEEDBACK:
   a.
   b.
   c.
   d. The mercantilists advocated government regulation of trade. Tariffs, quotas, and other commercial policies were proposed by the mercantilists to minimize imports to protect a nation's trade position.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

2. Unlike the mercantilists, Adam Smith maintained that
   a. trade benefits one nation only at the expense of another nation.
   b. government control of trade leads to maximum economic welfare.
   c. all nations can gain from free international trade.
   d. the world's output of goods must remain constant over time.

ANSWER: c
FEEDBACK:
   a.
   b.
   c. Smith's view of international trade suggested that trading partners could simultaneously enjoy higher levels of production and consumption with trade.
   d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

3. The trading principle formulated by Adam Smith maintained that
   a. international prices are determined from the demand side of the market.

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b. differences in resource endowments determine comparative advantage.
c. differences in income levels govern world trade patterns.
d. absolute cost differences determine the immediate basis for trade.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Adam Smith's trading principle was the principle of absolute advantage. A nation will import goods in which it has an absolute cost disadvantage and export those goods in which it has an absolute cost advantage.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

4. 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.

ANSWER: c
FEEDBACK:
a.
b.
c. Unlike Smith, who emphasized the importance of absolute cost differences among nations, Ricardo emphasized comparative (relative) cost differences.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

5. If Spain's weather is better for growing wine grapes than Denmark's, it can be said that Spain has a(n)
a. absolute advantage in the production of wine.
b. comparative advantage in the production of wine.
c. lower marginal rate of transformation for wine.
d. lower opportunity cost of producing wine.

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ANSWER: a
FEEDBACK:
a. Spain has a natural advantage (absolute advantage) in wine production.
b.
c.
d.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Apply

6. According to the principle of comparative advantage, specialization and trade increase a nation's total output because
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 frontier.
d. the problem of unemployment is eliminated.

ANSWER: a
FEEDBACK:
a. Because the world uses its resources more efficiently as the result of specializing, an increase in world output occurs that is distributed to the two nations through trade.
b.
c.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Understand

7. The United States has an absolute disadvantage to Spain on wine production. According to David Ricardo, specialization can be more efficient only in the following circumstances:
a. Spain intentionally slows its production.
b. The United States grows its own grapes, thereby reducing transport costs.
c. In this case, specialization will not have an impact on either country.
d. Specialization can lead to more efficient allocation of resources with free trade.

ANSWER: d
FEEDBACK:
a.
b.

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c.

d. Ricardo maintained that, with specialization and trade, the world economy can attain a more efficient allocation of resources with free trade.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Apply

8. A nation that gains from trade will find its consumption point being located
a. inside its production possibilities frontier.
b. along its production possibilities frontier.
c. outside its production possibilities frontier.
d. below its production possibilities frontier.

ANSWER: c
FEEDBACK:

a.

b.

c. The principle of comparative advantage implies that with specialization and free trade, a nation enjoys production gains and consumption gains outside its production possibilities frontier.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Understand

Table 2.1. Output Possibilities of the U.S. and the U.K.

	Output per Worker per Labor Hour	
Country	Wine	Cloth
United States	5 bottles	20 yards
United Kingdom	15 bottles	10 yards

9. Referring to Table 2.1, the United States has the absolute advantage in the production of
a. cloth.
b. wine.
c. both cloth and wine.
d. neither cloth nor wine.

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ANSWER: a
FEEDBACK:
a. The United States is two times as efficient in cloth production (20/10 = 2). The United States has an absolute advantage in cloth.
b.
c.
d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

10. Referring to Table 2.1, the United Kingdom has a comparative advantage in the production of
a. cloth.
b. wine.
c. both cloth and wine
d. neither cloth nor wine.
ANSWER: b
FEEDBACK:
a.
b. The principle of comparative advantage recognizes that the United Kingdom is three times as efficient in wine production (15/5 = 3). The United Kingdom has a comparative advantage in the production of wine.
c.
d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

11. Refer to Table 2.1. If trade opens up between the United States and the United Kingdom, American firms should specialize in producing
a. cloth.
b. wine.
c. both cloth and wine.

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d. neither cloth nor wine.

ANSWER: a

FEEDBACK:

a. Each nation specializes in and exports that good in which it has a comparative advantage. American firms should specialize in producing cloth.

b.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

12. Referring to Table 2.1, the opportunity cost of producing one bottle of wine in the United States is

a. 3 yards of cloth.
b. 4 yards of cloth.
c. 5 yards of cloth.
d. 10 yards of cloth.

ANSWER: b

FEEDBACK:

a.

b. The opportunity cost means that the relative cost of producing one bottle of wine is 4 yards of cloth sacrificed (20/5 = 4).

c.

d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

13. If a production possibilities frontier is bowed out (i.e., concave) in appearance, production occurs under conditions of

a. constant opportunity costs.
b. increasing opportunity costs.
c. decreasing opportunity costs.
d. zero opportunity costs.

ANSWER: b

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FEEDBACK:

a.

b. Nations tend to experience increasing-cost conditions. Thus, production possibilities frontiers are drawn bowed outward.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

14. 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.

ANSWER: d
FEEDBACK:

a.

b.

c.

d. Given increasing cost conditions, unit costs rise as both nations produce more of their export commodities. Eventually, the cost differentials are eliminated, at which point the basis for further specialization ceases to exist.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Apply

Table 2.2. Output possibilities for South Korea and Japan

	Output per worker per day	
Country	Tons of steel	Cars
South Korea	80	40
Japan	20	20

15. Referring to Table 2.2, the opportunity cost of 1 car in Japan is
a. 1 ton of steel.
b. 2 tons of steel.
c. 3 tons of steel.

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d. 4 tons of steel.

ANSWER: a

FEEDBACK:

a. The opportunity cost means that the relative cost of producing 1 car in Japan is 1 ton of steel sacrificed (20/20 = 1).

b.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

16. Referring to Table 2.2, the opportunity cost of one car in South Korea is

a. 1/2 ton of steel.

b. 1 ton of steel.

c. 1 1/2 tons of steel.

d. 2 tons of steel.

ANSWER: d

FEEDBACK:

a.

b.

c.

d. The opportunity cost means that the relative cost of producing 1 car in South Korea is 2 tons of steel sacrificed (80/40 = 2).

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

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

a. export steel.

b. export cars.

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c. export steel and cars.

d. not trade in anything, as there is no basis for gainful trade.

ANSWER: d

FEEDBACK:

a.

b.

c.

d. According to the principle of absolute advantage, because the opportunity cost of producing 1 car in Japan is 1 ton of steel sacrificed, Japan should not trade in anything, as there is no basis for gainful trade.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Apply

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18. Refer to Table 2.2. According to the principle of comparative advantage,

a. South Korea should export steel.

b. South Korea should export steel and cars.

c. Japan should export steel.

d. Japan should export steel and cars.

ANSWER: a

FEEDBACK:

a. According to the principle of comparative advantage, South Korea should export steel.

b.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Apply

19. 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 car?

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a. 1/2 ton of steel
b. 1 ton of steel
c. 1-1/2 tons of steel
d. 2 tons of steel

ANSWER: d

FEEDBACK:
a.
b.
c.
d. The opportunity cost of producing 1 car in South Korea is 2 tons of steel (80/40 = 2). The maximum amount of steel that South Korea would be willing to export to Japan in exchange for each car is 2 tons of steel.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

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

a. 1car
b. 2 cars
c. 3 cars
d. 4 cars

ANSWER: a

FEEDBACK:
a. The opportunity cost of producing 1 car in Japan is 1 ton of steel (20/20 = 1). Thus, the maximum number of cars that Japan would be willing to export to South Korea in exchange for each ton of steel is 1 car.
b.
c.
d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Table 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

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21. The earliest theorist to discuss the principle of comparative advantage was
    a. Adam Smith.
    b. David Ricardo.
    c. Eli Heckscher.
    d. Bertil Ohlin.

ANSWER: b

FEEDBACK:
    a.
    b. David Ricardo was the earliest theorist to discuss the principle of comparative advantage, in the 1800s.
    c.
    d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

22. If Hong Kong and Taiwan had identical labor costs but were subject to increasing costs of production,
    a. trade would depend on differences in demand conditions.
    b. trade would depend on economies of large-scale production.
    c. trade would depend on the use of different currencies.
    d. there would be no basis for gainful trade.

ANSWER: a

FEEDBACK:
    a. With increasing costs of production, trade would depend on differences in demand conditions.
    b.
    c.
    d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Changing Comparative Advantage
KEYWORDS: BLOOM'S: Apply

23. If the international terms of trade settles 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.

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c. only one country gains from trade.

d. one country gains and the other country loses from trade.

ANSWER: b

FEEDBACK:

a.

b. With increasing opportunity costs, comparative product prices in each country are determined by both supply and demand factors. A country tends to partially specialize in the product of its comparative advantage under increasing-cost conditions.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

24. 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.

ANSWER: b

FEEDBACK:

a.

b. Taking labor as an example of a resource, labor can move freely among industries within a nation but is incapable of moving between nations. Thus, goods are more mobile internationally than are resources.

c.

d.

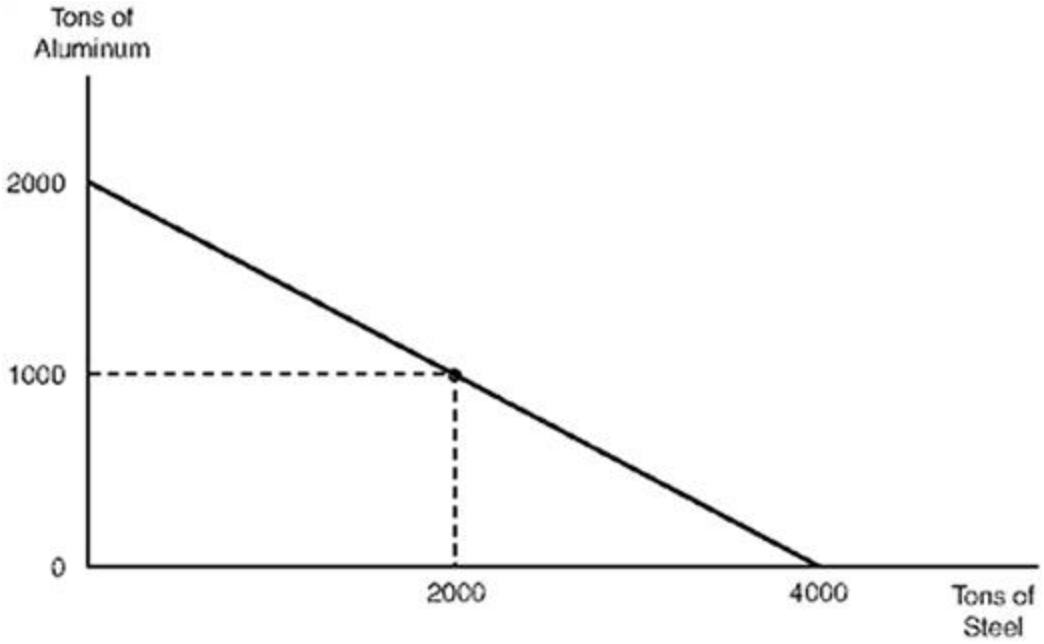
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

Figure 2.1. Production Possibilities Frontier

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25. Referring to Figure 2.1, the relative cost of steel in terms of aluminum is
    a. 4.0 tons.
    b. 2.0 tons.
    c. 0.5 tons.
    d. 0.25 tons.

ANSWER: c
FEEDBACK:
    a.
    b.
    c. The relative cost of steel in terms of aluminum is 0.5 tons (1000/2000 = 0.5).
    d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

26. Referring 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.

ANSWER: b
FEEDBACK:
    a.

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b. The relative cost of aluminum in terms of steel is 2.0 tons (2000/1000 = 2.0).

c.

d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

27. Refer to Figure 2.1. If the relative cost of steel were to rise, then the production possibilities frontier would
a. become steeper.
b. become flatter.
c. shift inward in a parallel manner.
d. shift outward in a parallel manner.

ANSWER: a
FEEDBACK:

a. The slope of the production possibilities frontier measures the marginal rate of transformation that indicates the amount of one product that must be sacrificed per unit increase of another product. Thus, if the relative cost of steel were to rise, then the production possibilities frontier would become steeper.

b.

c.

d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Analyze

28. Refer to Figure 2.1. If the relative cost of aluminum were to rise, then the production possibilities frontier would
a. become steeper.
b. become flatter.
c. shift inward in a parallel manner.
d. shift outward in a parallel manner.

ANSWER: b
FEEDBACK:

a.

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b. The slope of the production possibilities frontier measures the marginal rate of transformation that indicates the amount of one product that must be sacrificed per unit increase of another product. Thus, if the relative cost of aluminum were to rise, then the production possibilities frontier would become flatter.

c.

d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.1
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Analyze

29. 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.

ANSWER: d
FEEDBACK:

a.

b.

c.

d. In autarky equilibrium (the absence of trade), a nation prefers to produce and consume at a point on its production possibilities frontier where production equals consumption.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

30. When a nation is in autarky and maximizes its living standard, its consumption and production points are
a. along the production possibilities frontier.
b. above the production possibilities frontier.
c. beneath the production possibilities frontier.
d. beside the production possibilities frontier.

ANSWER: a
FEEDBACK:

a. When a nation is in autarky equilibrium (the absence of trade) and maximizes its living standard, its consumption and production points are along the production possibilities frontier.

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b.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

31. Constant-cost conditions reflect that
a. quality differs between products.
b. products are perfect substitutes for each other.
c. product quality is related to who produces it.
d. one product is more desirable than the other.

ANSWER: b
FEEDBACK:
a.
b. Constant-cost conditions reflect that products are perfect substitutes for each other.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

32. If Canada experiences constant opportunity costs, its supply schedule of steel will be
a. downward-sloping.
b. upward-sloping.
c. horizontal.
d. vertical.

ANSWER: c
FEEDBACK:
a.
b.
c. If Canada experiences constant opportunity costs, its supply schedule of steel will be horizontal.
d.

POINTS: 1

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DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

33. In a two-country, two-product world, the statement "Japan enjoys a comparative advantage over France in steel relative to bicycles" is equivalent to
a. France having a comparative advantage over Japan in bicycles relative to steel.
b. France having a comparative disadvantage against Japan in bicycles and steel.
c. Japan having a comparative advantage over France in steel and bicycles.
d. Japan having a comparative disadvantage against Japan in bicycles and steel.

ANSWER: a
FEEDBACK:
a. In a two-country, two-product world, the statement "Japan enjoys a comparative advantage over France in steel relative to bicycles" is equivalent to France having a comparative advantage over Japan in bicycles relative to steel.
b.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

34. Ricardo's theory of comparative advantage was of limited real-world validity because it was founded on the
a. labor theory of value.
b. capital theory of value.
c. land theory of value.
d. entrepreneur theory of value.

ANSWER: a
FEEDBACK:
a. Ricardian trade theory relied solely on supply analysis, where labor is the only input (the labor theory of value). Each nation has a fixed endowment of labor, and labor is fully employed and homogeneous.
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy

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QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

35. Autarky is defined as
a. the relative cost to produce and consume.
b. the absence of trade.
c. the amount of labor required to produce 1 unit of a product.
d. the slope of the production possibilities frontier.

ANSWER: b
FEEDBACK:
a.
b. Autarky is defined as the absence of trade.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

36. 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.

ANSWER: b
FEEDBACK:
a.
b. Ricardian trade theory relied solely on supply analysis, where labor is the only input (the labor theory of value). A country will have a comparative advantage in the product in which its labor productivity is relatively high.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

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TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

37. The Ricardian model of comparative advantage includes all of the following assumptions EXCEPT
a. it is only based on 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.

ANSWER: b
FEEDBACK:
a.
b. One assumption of the Ricardian model of comparative advantage is that product quality does not vary among nations, implying that all units of each product are identical.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

38. MacDougall's 1951 writings argued that _____ explains a country's competitive position.
a. national income levels
b. relative endowments of natural resources
c. domestic tastes and preferences
d. labor productivity

ANSWER: d
FEEDBACK:
a.
b.
c.
d. MacDougall tested the Ricardian prediction that nations tend to export goods in which their labor productivity is relatively high. MacDougall found that wage rates and labor productivity were important determinants of international trade patterns.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Empirical Evidence on Comparative Advantage

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KEYWORDS: BLOOM'S: Remember

39. John Stuart Mill's theory of reciprocal demand best applies when trading partners
    a. are of equal size and importance in the market.
    b. produce under increasing cost conditions.
    c. partially specialize in the production of commodities.
    d. have similar taste and preference levels.

ANSWER: a

FEEDBACK:
    a. John Stuart Mill's theory of reciprocal demand asserts that within the limits to the terms of trade, the actual terms of trade are determined by the intensity of each country's demand for the other country's product. It best applies when trading partners are of equal size and importance in the market.
    b.
    c.
    d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

40. 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 frontier.
    c. the comparative costs of each trading partner.
    d. the strength of world supply and demand for each good.

ANSWER: d

FEEDBACK:
    a.
    b.
    c.
    d. Under constant-cost conditions, domestic relative prices are determined exclusively by a nation's supply conditions. The equilibrium relative commodity price at which trade takes place is determined by the conditions of demand and supply for each commodity in both nations.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

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41. "The equilibrium relative commodity price at which trade takes place is determined by the conditions of demand and supply for each commodity in both nations. Other things being equal, the nation with the more intense demand for the other nation's exported good will gain less from trade than the nation with the less intense demand." This statement was first proposed by

a. Alfred Marshall, with offer curve analysis.
b. John Stuart Mill, with the theory of reciprocal demand.
c. Adam Smith, with the theory of absolute advantage.
d. David Ricardo, with the theory of comparative advantage.

ANSWER: b
FEEDBACK:
a.
b. This statement was first proposed by John Stuart Mill with the theory of reciprocal demand.
c.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

42. Which of the following terms-of-trade concepts is calculated by dividing the change in a country's export price index by the change in its import price index between two points in time, multiplied by 100 to express the terms of trade in percentages?

a. commodity terms of trade
b. marginal rate of transformation
c. marginal rate of substitution
d. autarky price ratio

ANSWER: a
FEEDBACK:
a. The commodity terms of trade, a frequently used measure of the international exchange ratio. measures the relation between the prices a nation gets for its exports and the prices it pays for its imports. This is calculated by dividing a nation’s export price index by its import price index and multiplying by 100 to express the terms of trade in percentage.
b.
c.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
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TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

43. 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.

ANSWER: a
FEEDBACK:
a. Because Ricardian trade theory relied solely on supply analysis, it was not able to determine actual terms of trade.
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

44. 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.

ANSWER: a
FEEDBACK:
a. The slope of the production possibilities frontier measures the marginal rate of transformation that indicates the amount of one product that must be sacrificed per unit increase of another product. For a country to consume at some point outside its production possibilities frontier, it must be able to exchange its export good internationally at terms of trade more favorable than the domestic terms of trade. Thus, under free trade, Sweden enjoys all of the gains from trade with Holland if Sweden trades at Holland's rate of transformation.
b.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

45. 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 frontier.
d. where a country chooses to locate along its trade triangle.

ANSWER: b
FEEDBACK:
a.
b. Because Ricardian trade theory relied solely on supply analysis, it was not able to determine actual terms of trade, but it could determine the outer limits for the terms of trade.
c.
d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

46. Terms of trade is determined by the prices

a. paid for all goods imported by the home country.
b. received for all goods exported by the home country.
c. received for exports and paid for imports.
d. of primary products as opposed to manufactured products.

ANSWER: c
FEEDBACK:
a.
b.
c. Terms of trade measures the relation between the prices a nation gets for its exports and the prices it pays for its imports.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
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TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

Example 2. Terms of Trade

Country	2000	Export Price Index 2018	Import Price Index 2018
Mexico	100	220	200
Sweden	100	160	150
Spain	100	155	155
France	100	170	230
Denmark	100	120	125

47. Referring to Example 2, which countries' terms of trade improved between 2000 and 2018?
    a. Mexico and Denmark
    b. Sweden and Denmark
    c. Sweden and Spain
    d. Mexico and Sweden

ANSWER: d
RATIONALE: Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages. Using the terms of trade formula, we find that the terms of trade improved for Mexico (10 percent increase) and Sweden (7 percent increase).

Country	2000	Terms of Trade 2018
Mexico	100	110
Sweden	100	107
Spain	100	100
France	100	74
Denmark	100	96

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Example 2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

48. Referring to Table 2.3, which countries' terms of trade worsened between 2000 and 2018?
    a. Spain and Mexico

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b. Mexico and France
c. France and Denmark
d. Denmark and Sweden

ANSWER: c

RATIONALE: Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages. Using the terms of trade formula, we find that the terms of trade worsened for France (26 percent decrease) and Denmark (4 percent decrease).

		Terms of Trade
Country	2000	2018
Mexico	100	110
Sweden	100	107
Spain	100	100
France	100	74
Denmark	100	96

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Example 2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

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49. Referring to Table 2.3, which country's terms of trade did NOT change between 2000 and 2018?
a. Spain
b. Sweden
c. France
d. Denmark

ANSWER: a

RATIONALE: Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages. Using the terms of trade formula, we find that the terms of trade did not change for Spain (difference 0 percent).

		Terms of Trade
Country	2000	2018
Mexico	100	110
Sweden	100	107
Spain	100	100
France	100	74
Denmark	100	96

POINTS: 1

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DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Example 2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

50. Given free trade, small nations tend to benefit the most from trade because they
    a. are more productive than their large trading partners.
    b. are less productive than their large trading partners.
    c. have demand preferences and income levels lower than their large trading partners.
    d. enjoy terms of trade lying near the opportunity costs of their large trading partners.

ANSWER: d
FEEDBACK:
    a.
    b.
    c.
    d. If one nation is significantly larger than the other, the larger nation attains fewer gains from trade while the smaller nation attains most of the gains from trade.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

51. A terms-of-trade index that equals 150 indicates that, compared to the base year,
    a. it requires a greater output of domestic goods to obtain the same amount of foreign goods.
    b. it requires a lesser amount of domestic goods to obtain the same amount of foreign goods.
    c. the price of exports has risen from $100 to $150.
    d. the price of imports has risen from $100 to $150.

ANSWER: b
FEEDBACK:
    a.
    b. Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages. A terms-of-trade index that equals 150 indicates that to purchase a given quantity of imports, the nation had to sacrifice about 50 percent fewer exports.
    c.
    d.

POINTS: 1
DIFFICULTY: Challenging

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QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

52. A term-of-trade index that equals 90 indicates that, compared to the base year,
a. it requires a greater output of domestic goods to obtain the same amount of foreign goods.
b. it requires a lesser amount of domestic goods to obtain the same amount of foreign goods.
c. the price of exports has fallen from $100 to $90.
d. the price of imports has fallen from $100 to $90.

ANSWER: a
FEEDBACK:
a. Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages. A terms-of-trade index that equals 90 indicates that to purchase a given quantity of imports, the nation had to sacrifice about 10 percent more exports.
b.
c.
d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

53. Terms of trade is given by
a. price of exports/price of imports − 100.
b. price of exports/price of imports + 100.
c. price of exports/price of imports ÷ 100.
d. price of exports/price of imports × 100.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: price of exports/price of imports × 100.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice

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HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

54. A rise in the price of imports or a fall in the price of exports will
a. improve the terms of trade.
b. worsen the terms of trade.
c. expand the production possibilities frontier.
d. contract the production possibilities frontier.

ANSWER: b
FEEDBACK:
a.
b. Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: price of exports/price of imports × 100. A rise in the price of imports or a fall in the price of exports will worsen the terms of trade.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

55. A fall in the price of imports or a rise in the price of exports will
a. improve the terms of trade.
b. worsen the terms of trade.
c. expand the production possibilities frontier.
d. contract the production possibilities frontier.

ANSWER: a
FEEDBACK:
a. Terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: price of exports/price of imports × 100. A fall in the price of imports or a rise in the price of exports will improve the terms of trade.
b.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

56. 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.

ANSWER: a
FEEDBACK:
a. The slope of the production possibilities frontier measures the marginal rate of transformation that indicates the amount of one product that must be sacrificed per unit increase of another product. Under free trade, Canada would not enjoy any gains from trade with Sweden if Canada trades at the Canadian rate of transformation.
b.
c.
d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

57. The dynamic gains from trade include all of the following EXCEPT
a. economies of large-scale production resulting in decreasing unit cost.
b. increased saving and investment resulting in economic growth.
c. increased competition resulting in lower prices and wider range of output.
d. increasing comparative advantage leading to specialization.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Dynamic gains from trade can arise from increased investment in equipment and manufacturing plants, economies of large-scale production, and increased competition that occurs over time. It does not include increasing comparative advantage leading to specialization.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

58. All of the following may be exit barriers EXCEPT
a. employee health benefit costs.
b. treatment, storage, and disposal costs.
c. penalties for terminating contracts with raw material suppliers.
d. increasing opportunity cost of production.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Exit barriers imply a high cost of leaving an unprofitable market or discontinuing a low-profit product. Increasing opportunity cost of production is not an exit barrier.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Factor Mobility, Exit Barriers, and Trade
KEYWORDS: BLOOM'S: Understand

59. Improvements in productivity may lead to decreasing comparative costs if
a. the assumption of fixed technologies under constant costs is relaxed.
b. technologies available to each nation are maintained the same.
c. resource endowments do not vary.
d. comparative advantage does not change.

ANSWER: a
FEEDBACK:
a. Improvements in productivity may lead to decreasing comparative costs if the assumption of fixed technologies under constant costs is relaxed.
b.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Changing Comparative Advantage
KEYWORDS: BLOOM'S: Understand

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60. Modern trade theory contends that the pattern of world trade is governed by
    a. mercantilism.
    b. supply conditions only.
    c. demand conditions only.
    d. the ability to separate the production process into tasks that can be done in different locations.

ANSWER: d
FEEDBACK:
    a.
    b.
    c.
    d. Modern trade theory contends that the pattern of world trade is governed by the ability to separate the production process into tasks that can be done in different locations.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Understand

61. When nations are of similar size and have similar taste patterns, the gains from trade
    a. are shared equally between them.
    b. are impossible to determine.
    c. are so small that trading is not beneficial.
    d. are determined by the nation that has comparative advantage in the more essential product.

ANSWER: a
FEEDBACK:
    a. If two nations of approximately the same size and with similar taste patterns participate in international trade, the gains from trade will be shared about equally between them.
    b.
    c.
    d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

62. Commodity terms of trade measures
    a. the rate at which exports exchange for imports.

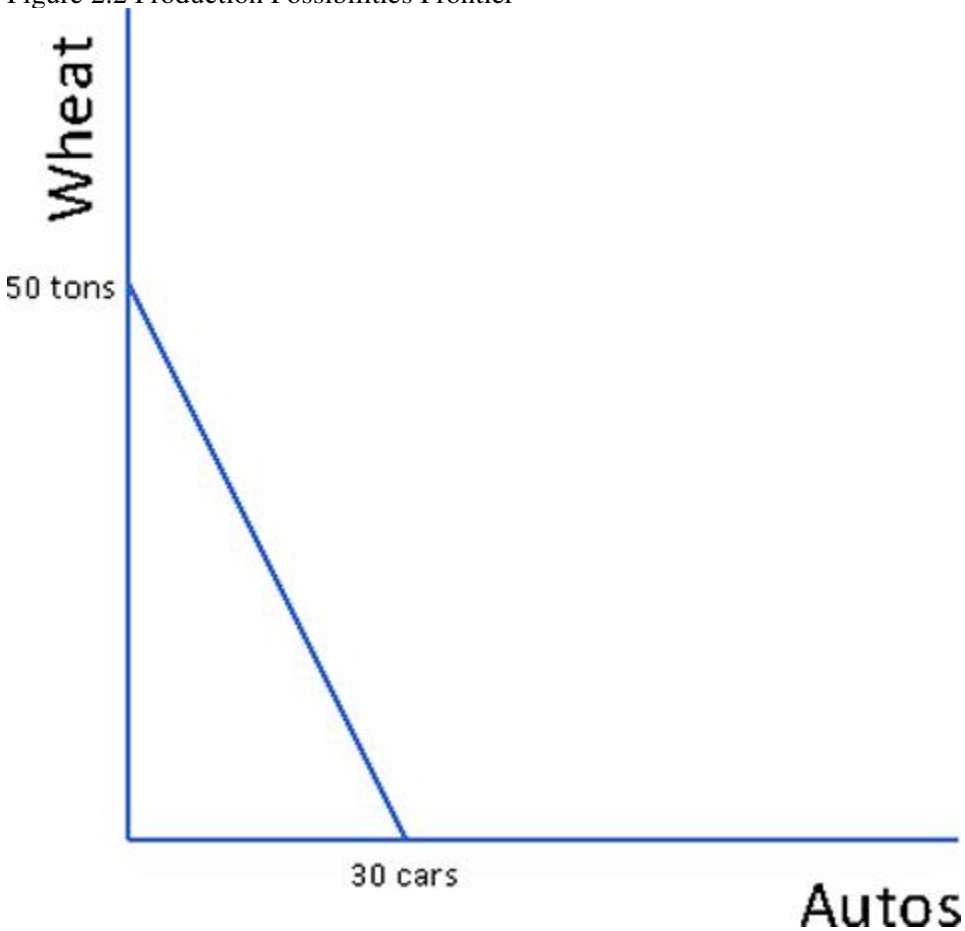
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b. the influence trade has on productivity levels.
c. the effect on income of the trading nation.
d. the improvement in a nation's welfare.

ANSWER: a
FEEDBACK:
a. Commodity terms of trade is a frequently used measure of the international exchange ratio. It measures the relation between the prices a nation gets for its exports and the prices it pays for its imports.
b.
c.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

Figure 2.2 Production Possibilities Frontier



63. In Figure 2.2, the marginal rate of transformation of wheat into autos is
a. one and two-thirds.

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b. two and one-third.
c. three-fifths.
d. three-sevenths.

ANSWER: a

FEEDBACK:
a. The marginal rate of transformation of wheat into autos is one and two-thirds (50/30 = 1.67).
b.
c.
d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC7: - Reading and interpreting graphs
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

64. In Figure 2.2, the marginal rate of transformation of autos into wheat is
a. one and two-thirds.
b. two and one-third.
c. three-fifths.
d. three-sevenths.

ANSWER: c

FEEDBACK:
a.
b.
c. The marginal rate of transformation of autos into wheat is three-fifths (30/50 = 3/5).
d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC7: - Reading and interpreting graphs
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Apply

65. In Figure 2.2, 1 car can be produced at a cost of
a. one and two-thirds tons of wheat.
b. two and one-third tons of wheat.

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c. three-fifths tons of wheat.
d. three-sevenths tons of wheat.

ANSWER: a
FEEDBACK:
a. One car can be produced at a cost of one and two-thirds tons of wheat (50/30 = 1.67).
b.
c.
d.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC7: - Reading and interpreting graphs
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

66. In Figure 2.2, 1 ton of wheat can be produced at a cost of
a. one and two-thirds cars.
b. two and one-third cars.
c. three-fifths of a car.
d. three-sevenths of a car.

ANSWER: c
FEEDBACK:
a.
b.
c. One ton of wheat can be produced at a cost of three-fifths of a car (30/50 = 3/5).
d.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
PREFACE NAME: Figure 2.2
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC7: - Reading and interpreting graphs
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

67. Suppose Japan produces Widget A at the lowest cost. Then, Sweden discovers and uses new technology to produce Widget A at a slightly lower cost. What could Japan do to increase its comparative advantage in Widget A?
a. specialize on aspects of Widget A for which it is more productive relative to Sweden.
b. produce less of Widget A.
c. use its manufacturing sector to produce a different kind of widget.
d. continue to produce Widget A with no changes in production.

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ANSWER: a

FEEDBACK:

a. Japan could specialize on aspects of Widget A for which it is more productive relative to Sweden.

b.

c.

d.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Changing Comparative Advantage
KEYWORDS: BLOOM'S: Analyze

68. According to your text, international trade has little impact on jobs because
a. people prefer to buy domestically.
b. governments control trade through tariffs.
c. trade and unemployment typically move in unison.
d. international trade tends to follow the principle of comparative advantage.

ANSWER: d

FEEDBACK:

a.

b.

c.

d. Because international trade tends to follow the principle of comparative advantage, it has little impact on jobs.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: The Impact of Trade on Jobs
KEYWORDS: BLOOM'S: Understand

69. The example of Rubbermaid in Wooster, Ohio, shows us that
a. international trade is always favorable for the U.S. economy.
b. tariffs can reduce firm mobility, thus keeping jobs in the U.S.
c. although international trade generally benefits all, the movement of firms can have a temporary negative impact on workers in a region.
d. prices always rise to account for price increases in raw materials.

ANSWER: d

FEEDBACK:

a.

b.

c.

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d. The example of Rubbermaid in Wooster, Ohio, shows us that prices always rise to account for price increases in raw materials.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: The Impact of Trade on Jobs
KEYWORDS: BLOOM'S: Understand

70. Which question is a concern of modern trade theory?
a. What constitutes the basis for trade?
b. What is the basis for direction of trade?
c. What are the gains from trade regarding products exchanged in the world market?
d. What are the potential gains from trade for the world as a whole?

ANSWER: a
FEEDBACK:
a. The question that is a concern of modern trade theory is: What constitutes the basis for trade?
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Introduction
KEYWORDS: BLOOM'S: Remember

71. Which theory attempted to explain why a favorable balance of trade could only exist in the short run, because it would automatically be eliminated in the long run?
a. price-specie-flow doctrine
b. theory of absolute advantage
c. theory of comparative advantage
d. theory of fluctuating incomes

ANSWER: a
FEEDBACK:
a. According to David Hume's price-specie-flow doctrine, a favorable trade balance is possible only in the short run because it would automatically be eliminated over time.
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy

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QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

72. Both Adam Smith and David Ricardo
a. were advocates of free trade and opponents of protectionism.
b. were advocates of protectionism and opponents of free trade.
c. developed trade theories based on the demand side of an economy.
d. maintained that precious metals represented the wealth of a nation.

ANSWER: a
FEEDBACK:
a. Both Adam Smith and David Ricardo were advocates of free trade and opponents of protectionism.
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

73. In Adam Smith's trade theory, _____ is the only factor of production and is of one quality (homogeneous).
a. land
b. labor
c. capital
d. entrepreneurship

ANSWER: b
FEEDBACK:
a.
b. In Adam Smith's trade theory, labor is the only factor of production and is of one quality (homogeneous).
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC6: - Labor markets
TOPICS: Historical Development of Modern Trade Theory

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KEYWORDS: BLOOM'S: Remember

74. David Ricardo's simplified trade model is based on all of these assumptions EXCEPT
a. costs do not vary with the level of production.
b. the level of technology is fixed for all nations.
c. capital is the only factor of production.
d. perfect competition prevails in all markets.

ANSWER: c
FEEDBACK:
a.
b.
c. In David Ricardo's simplified trade model labor, not capital, is the only input (the labor theory of value).
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC4: - Productivity and growth
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

75. David Ricardo's simplified trade model assumes all of the following EXCEPT
a. trade is balanced, thus ruling out money flows between nations.
b. firms make production decisions in an attempt to maximize profit.
c. transportation costs are zero.
d. tariffs and quotas are used to protect a nation's producers from foreign competition.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. David Ricardo's simplified trade model labor assumes that free trade occurs between nations; that is, no government barriers to trade exist.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

76. Which trade theory asserts that, within the outer limits of the terms of trade, the actual terms of trade is determined by the relative strength of each country's demand for the other country's product?
a. theory of reciprocal demand
b. overlapping demand theory

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c. theory of income determination
d. theory of negative externalities

ANSWER: a

FEEDBACK:
a. According to the theory of reciprocal demand, the actual exchange ratio at which trade occurs depends on the trading partners' interacting demands.
b.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC9: - Supply and demand
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

77. Referring to the textbook's example of Babe Ruth, Ruth switched from being a pitcher to being an outfielder and batter because of the
a. principle of absolute advantage.
b. principle of comparative advantage.
c. desire to be a mercantilist.
d. concept of economies of scale.

ANSWER: b

FEEDBACK:
a.
b. Ruth switched from being a pitcher to being an outfielder and batter because of the principle of comparative advantage.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC13: - Perfect competition
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

78. All of the following are sources of dynamic gains from trade EXCEPT
a. specialization and the reallocation of existing resources.
b. additional savings and investment that occur over time.
c. economies of large-scale production.
d. economic stimulus provided by increasing levels of competition.

ANSWER: a

FEEDBACK:
a. Dynamic gains from trade can arise from increased investment in equipment and manufacturing plants, economies of large-scale production, and increased

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competition that occurs over time. Specialization and the reallocation of existing resources are not sources of dynamic gains from trade.

b.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

79. According to Apple, why does the company no longer assemble the majority of its products in the United States?
a. Labor costs are higher in the United States.
b. The United States has more skilled workers.
c. Income taxes are highest in the United States.
d. Foreign workers are more skilled and flexible.

ANSWER: d
FEEDBACK:

a.

b.

c.

d. Apple maintains that the vast scale of overseas factories, as well as the flexibility, perseverance, and skills of foreign workers, have become so superior to their American counterparts that manufacturing in the United States is no longer a realistic option for most Apple products.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Understand

80. The presence of increasing opportunity costs gives rises to production possibilities frontiers that are
a. downward-sloping straight lines.
b. upward-sloping straight lines.
c. bowed outward from the diagram's origin.
d. bowed inward toward the diagram's origin.

ANSWER: c
FEEDBACK:

a.

b.

c. Nations tend to experience increasing-cost conditions. Thus, production possibilities frontiers are drawn bowed outward.

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d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC4: - Productivity and growth
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

81. Suppose that a country's post-trade consumption point lies outside of its production possibilities frontier. As a result, the country

a. gains from trade.
b. loses from trade.
c. is not affected by trade.
d. reaches the autarky point.

ANSWER: a
FEEDBACK:

a. If a country's post-trade consumption point lies outside of its production possibilities frontier, the country gains from trade.
b.
c.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

82. If a production possibilities frontier appears as a downward-sloping straight line, which of the following occurs?

a. increasing opportunity cost
b. decreasing opportunity cost
c. constant opportunity cost
d. negative opportunity cost

ANSWER: c
FEEDBACK:

a.
b.
c. Under constant-cost conditions, the production possibilities frontier is a straight line.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice

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HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC14: - Costs of production
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Understand

83. The so-called _____ shows the amount of one product that a nation must sacrifice in order to obtain one more unit of the second product.

a. autarkic cost
b. marginal rate of transformation
c. technology cost
d. accounting cost

ANSWER: b
FEEDBACK:
a.
b. The marginal rate of transformation indicates the amount of one product that must be sacrificed per unit increase of another product.
c.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC4: - Productivity and growth
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Remember

84. International economists use the production possibilities frontier to help explain

a. a favorable trade balance.
b. a trade surplus.
c. levels of consumption.
d. a nation’s gain from trade.

ANSWER: c
FEEDBACK:
a.
b.
c. In the absence of trade, the consumption alternatives of a nation are limited to points along their domestic production possibilities frontiers.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Remember

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85. The British economist G. MacDougall compared the labor productivity ratios and export ratios for the United Kingdom and the United States in order to test

a. Adam Smith's principle of absolute advantage.

b. David Hume's price specie flow mechanism.

c. David Ricardo's principle of comparative advantage.

d. William Benoit's theory of mercantilism.

ANSWER: c

FEEDBACK:

a.

b.

c. The first empirical test of Ricardo’s theory of comparative advantage was made by MacDougall.

d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Empirical Evidence on Comparative Advantage
KEYWORDS: BLOOM'S: Remember

86. Suppose that international trade results in an outward shift in a country's production possibilities frontier. This would be described as

a. dynamic gains from trade.

b. static gains from trade.

c. protectionist gains from trade.

d. allocative gains from trade.

ANSWER: a

FEEDBACK:

a. The effect of trade on the country’s long-run growth rate, which is demonstrated by an outward shift of the production possibilities frontier, is known as the dynamic gains from international trade as opposed to the static effects of reallocating a fixed quantity of resources.

b.

c.

d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Changing Comparative Advantage
KEYWORDS: BLOOM'S: Apply

87. Outsourcing (offshoring)

a. harms the economy’s domestic sectors.

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b. applies only to manufacturing industries instead of service industries.
c. is the transfer of work previously done by domestic workers to workers located in foreign countries.
d. refers to the transfer of money capital from domestic banks to foreign banks.

ANSWER: c
FEEDBACK:
a.
b.
c. Outsourcing (offshoring) refers to the subcontracting of work to another firm or the purchase of components for a product rather than manufacturing them in order to save on production costs.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC9: - Supply and demand
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Remember

88. For the United States, outsourcing tends to result from
a. a change in the pattern of comparative advantage.
b. the desire of domestic firms to keep domestic labor unions happy.
c. poor educational systems that result in domestic workers becoming less productive.
d. highly restrictive import tariffs and import quotas.

ANSWER: a
FEEDBACK:
a. Outsourcing (offshoring) refers to the subcontracting of work to another firm or the purchase of components for a product rather than manufacturing them in order to save on production costs. For the United States, outsourcing tends to result from a change in the pattern of comparative advantage.
b.
c.
d.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC9: - Supply and demand
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Understand

89. Although Apple Inc. employs some 40,000 workers in the United States, it licenses most of the production of its iPads and iPhones to Foxconn Technology Group, a company located in
a. Mexico.
b. China.
c. Vietnam.

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d. Cambodia.

ANSWER: b

FEEDBACK:

a.

b. Foxconn Technology Group is a company located in China.

c.

d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC4: - Productivity and growth
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Remember

90. A worker quits a steel company and joins an automobile firm. What factor of mobility does this come under?

a. movement of factors of production between firms within an industry

b. movement of factors of production across industries

c. movement of factors of production between countries within an industry

d. movement of factors of production between countries across industries

ANSWER: b

FEEDBACK:

a.

b. The factor of mobility is a movement of factors of production across industries.

c.

d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Factor Mobility, Exit Barriers, and Trade
KEYWORDS: BLOOM'S: Apply

91. Which is an example of movement of factors of production between countries within an industry?

a. an employee quitting work in an automobile firm in the U.S. and joining another

b. an employee moving from a steel firm to an automobile firm in the U.S.

c. an employee moving from one steel firm to another in a different country.

d. an employee moving from a steel firm to an automobile firm in a different country.

ANSWER: c

FEEDBACK:

a.

b.

c. An employee moving from one steel firm to another in a different country is an example of movement of factors of production between countries within an industry.

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d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Factor Mobility, Exit Barriers, and Trade
KEYWORDS: BLOOM'S: Apply

92. Digital trade involves exchange of all EXCEPT
a. goods.
b. services.
c. information.
d. equipment.

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Commerce in products and services delivered via the internet is known as digital trade.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

93. The efficiency gains that _____ provide(s) for economies are not a one-time occurrence but an ongoing process that fosters long-run economic growth.
a. consumers
b. computers
c. information exchange
d. digital trade

ANSWER: d
FEEDBACK:
a.
b.
c.
d. The efficiency gains that digital trade provide for economies are not a onetime occurrence but an ongoing process that fosters long-run economic growth.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice

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HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

94. Which is an efficiency gain provided by the internet?
a. eliminates competition
b. increases cost
c. increases market
d. minimizes collaboration

ANSWER: c
FEEDBACK:
a.
b.
c. Continuing increases in productivity arise from decreasing costs, promoting competition, and increasing markets.
d.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

95. Which country is a global leader in developing digital products?
a. China
b. Japan
c. United States
d. Russia

ANSWER: c
FEEDBACK:
a.
b.
c. The United States remains the global leader in developing digital products and online platforms, and in exporting digital services.
d.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

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96. Which American companies are participating in international trade as never before?
a. Fortune 500 companies
b. smaller companies
c. medium-sized companies
d. smaller and medium-sized companies

ANSWER: d
FEEDBACK:
a.
b.
c.
d. Many of the gains from digital trade have accrued to small and medium-sized American companies, and America's smaller and medium-sized companies are participating in international trade as never before.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

97. Incomplete specialization may be caused by
a. increasing opportunity cost.
b. unrestricted trade.
c. constant opportunity cost.
d. decreasing opportunity cost.

ANSWER: a
FEEDBACK:
a. Incomplete specialization may be caused by increasing opportunity cost.
b.
c.
d.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

98. According to Adam Smith, mutually beneficial trade requires each nation to be the least-cost producer of at least one good that it can export to its trading partner.
a. True
b. False

ANSWER: True
FEEDBACK: *Correct* Smith maintained that each nation would find it advantageous to specialize in the

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production of those goods for which it had an absolute advantage.

Incorrect

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

99. If an economy is characterized by increasing opportunity costs, increasing the production of steel by constant amounts results in a constant rate of decrease in the production of autos.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*

Incorrect Under increasing-cost conditions, the production possibilities frontiers are drawn bowed outward. The slope of the production possibilities frontier measures the marginal rate of transformation, which indicates the amount of one product that must be sacrificed per unit increase of another product.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC14: - Costs of production
TOPICS: Trading under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Apply

100. If Canada produces computers at a lower relative cost than Germany, Canada is said to have a comparative disadvantage in computers.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*

Incorrect Comparative costs can be illustrated with the production possibilities frontier for one nation, Canada.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC14: - Costs of production
TOPICS: Trading under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

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101. Mercantilism refers to a system of restraints on imports and the promotion of exports, as used by governments in the 1600s and 1700s.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct Mercantilists contended that the government should adopt trade controls to limit imports and promote exports.

Incorrect

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic

STATE STANDARDS: United States - PA - DISC3: - International trade and finance

TOPICS: Historical Development of Modern Trade Theory

KEYWORDS: BLOOM'S: Remember

102. According to the trade model of David Ricardo, the direction of trade is determined by absolute advantage.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect Ricardo argued that mutually gainful trade is possible even if one nation has an absolute disadvantage in the production of both commodities compared with the other nation.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic

STATE STANDARDS: United States - PA - DISC3: - International trade and finance

TOPICS: Historical Development of Modern Trade Theory

KEYWORDS: BLOOM'S: Understand

103. Adam Smith and David Ricardo reasoned that in a world of two countries, at least one country will be worse off as the result of trade.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect Smith and Ricardo reasoned that in a world of two countries, both countries would benefit as the result of trade.

POINTS: 1

DIFFICULTY: Challenging

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic

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STATE STANDARDS: United States - PA - DISC3: - International trade and finance
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

104. In his empirical test of the principle of comparative advantage, G. MacDougall found that relatively high export ratios are associated with relatively high labor productivity.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* Comparing the export patterns of the United States and the United Kingdom, MacDougall found that wage rates and labor productivity were important determinants of international trade patterns. Relatively high export ratios are associated with relatively high labor productivity.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC4: - Productivity and growth
TOPICS: Empirical Evidence on Comparative Advantage
KEYWORDS: BLOOM'S: Remember

105. Analysts widely agree that Boeing's use of production outsourcing for its 787 has been highly successful in generating greater efficiencies in jetliner production.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect Outsourcing has created problems for Boeing in the production of jetliners.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC9: - Supply and demand
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Understand

106. According to the mercantilists, a nation's welfare would improve if it maintained a surplus of exports over imports.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* The mercantilists contended that the government should adopt trade controls to limit imports and promote exports.
Incorrect
POINTS: 1

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DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

107. The mercantilists maintained that a free-trade policy best enhances a nation's welfare.
a. True
b. False
ANSWER: False
FEEDBACK: *Correct*
Incorrect The mercantilists contended that the government should adopt trade controls to limit imports and promote exports.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

108. The mercantilists contended that because one nation's gains from trade come from the expense of its trading partners, not all nations could simultaneously realize gains from trade.
a. True
b. False
ANSWER: True
FEEDBACK: *Correct* The mercantilists contended that one nation could gain from trade only at the expense of its trading partners, because the stock of world wealth was fixed at a given moment in time and not all nations could simultaneously have a favorable trade balance.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

109. According to the price-specie-flow-doctrine, a trade-surplus nation would experience gold outflows, a decrease in its

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money supply, and a fall in its price level.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect According to David Hume's price-specie-flow doctrine, a favorable trade balance is possible only in the short run because it would automatically be eliminated over time. A trade surplus results in an inflow of gold and silver, which increases the amount of money in circulation. This leads to a rise in the price level relative to that of the nation's trading partners, which leads to the purchase of foreign-produced goods while exports decline. As a result, the country's trade surplus would eventually be eliminated.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Historical Development of Modern Trade Theory

KEYWORDS: BLOOM'S: Remember

110. According to the principle of absolute advantage, international trade is beneficial to the world if one nation has an absolute cost advantage in the production of one good while the other nation has an absolute cost advantage in the other good.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct According to the principle of absolute advantage, each nation would find it advantageous to specialize in the production of those goods for which it had an absolute advantage.

Incorrect

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Historical Development of Modern Trade Theory

KEYWORDS: BLOOM'S: Remember

111. The Ricardian theory of comparative advantage assumes only two nations and two products, that labor can move freely within a nation, and that perfect competition exists in all markets.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct Ricardo formulated a simplified model based on several assumptions, including

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that the world consists of two nations and two products, that labor can move freely within a nation, and that perfect competition exists in all markets.

Incorrect

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

112. A nation's trade triangle denotes its exports, imports, and terms of trade.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* A nation’s trade triangle denotes its exports, imports, and terms of trade.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Production Possibilities Frontiers
KEYWORDS: BLOOM'S: Understand

113. International trade leads to increased welfare if a nation can achieve a post-trade consumption point lying inside of its production-possibilities frontier.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect International trade leads to increased welfare if a nation can achieve a post-trade consumption point lying outside of its production-possibilities frontier.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

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114. If productivity in the German computer industry grows faster than it does in the Japanese computer industry, the opportunity cost of each computer produced in Japan increases relative to the opportunity cost of a computer produced in Germany.

a. True

b. False

ANSWER:	True
FEEDBACK:	*Correct* The comparative advantage accruing to manufacturers of a particular product in a particular country can vanish over time when productivity growth falls behind that of foreign competitors.
	Incorrect
POINTS:	1
DIFFICULTY:	Moderate
QUESTION TYPE:	True / False
HAS VARIABLES:	False
NATIONAL STANDARDS:	United States - BUSPROG: - Analytic United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS:	United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS:	Changing Comparative Advantage
KEYWORDS:	BLOOM'S: Apply

115. With constant opportunity costs, a nation will achieve the greatest possible gains from trade if it partially specializes in the production of the commodity of its comparative disadvantage.

a. True

b. False

ANSWER:	False
FEEDBACK:	*Correct*
	Incorrect Complete specialization of a country in the production of a single commodity may occur in the case of constant costs.
POINTS:	1
DIFFICULTY:	Moderate
QUESTION TYPE:	True / False
HAS VARIABLES:	False
NATIONAL STANDARDS:	United States - BUSPROG: - Analytic United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS:	United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS:	Trading Under Increasing-Cost Conditions
KEYWORDS:	BLOOM'S: Understand

116. With increasing opportunity costs, comparative advantage depends on a nation's supply conditions and demand conditions; with constant opportunity costs, comparative advantage depends only on demand conditions.

a. True

b. False

ANSWER:	False
FEEDBACK:	*Correct*
	Incorrect Under constant-cost conditions, domestic relative prices are determined exclusively by a nation’s supply conditions. Under increasing-cost conditions, relative product prices in each country are determined by both supply and demand factors.

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POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

117. The existence of exit barriers tends to delay the closing of inefficient firms that face international competitive disadvantages.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* Exit barriers refer to various cost conditions that make lengthy exit a rational response for high-cost producers.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Factor Mobility, Exit Barriers, and Trade
KEYWORDS: BLOOM'S: Understand

T B E X A M . C O M

118. MacDougall's empirical study of comparative advantage was based on the notion that a product's labor cost is underlaid by labor productivity and the wage rate.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* MacDougall found that wage rates and labor productivity were important determinants of international trade patterns.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Empirical Evidence on Comparative Advantage
KEYWORDS: BLOOM'S: Remember

119. The basic idea of mercantilism was that wealth consisted of the goods and services produced by a nation.

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a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect To the mercantilists, stocks of precious metals represented the wealth of a nation.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Understand

120. According to Adam Smith, international trade was a "win-win" situation because all nations could enjoy gains from trade.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* Smith challenged the mercantilist views on trade by arguing that, with free trade, all nations could simultaneously enjoy gains from trade.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

121. Complete specialization usually occurs under the assumption of increasing-opportunity costs.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect Complete specialization in production is improbable in the case of increasing costs.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic

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United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Remember

122. Smith contended that gold, silver, and other precious metals constituted the wealth of a nation.
a. True
b. False
ANSWER: False
FEEDBACK: *Correct*
Incorrect To the mercantilists, stocks of precious metals represented the wealth of a nation.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Remember

123. The marginal rate of transformation equals the absolute slope of a country's production possibilities frontier.
a. True
b. False
ANSWER: True
FEEDBACK: *Correct* The slope of the production possibilities frontier measures the marginal rate of transformation, which indicates the amount of one product that must be sacrificed per unit increase of another product.
Incorrect
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Understand

124. If Argentina has a comparative advantage over Brazil in beef relative to coffee, Argentina will specialize in beef production.
a. True
b. False
ANSWER: True
FEEDBACK: *Correct* A nation should specialize in the production and export of the commodity for which it has a comparative advantage.

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Incorrect

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Historical Development of Modern Trade Theory
KEYWORDS: BLOOM'S: Apply

125. Although John Stuart Mill recognized that the region of mutually beneficial trade is bounded by the cost ratios of two countries, it was not until David Ricardo developed the theory of reciprocal demand that the equilibrium terms of trade could be determined.

a. True
b. False

ANSWER: False
FEEDBACK:
Correct
Incorrect Ricardian trade theory relied solely on supply analysis; it was not able to determine actual terms of trade. This limitation was addressed by Mill in his theory of reciprocal demand.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

126. According to Mill, if we know the domestic demand expressed by both trading partners for both products, the equilibrium terms of trade can be defined.

a. True
b. False

ANSWER: True
FEEDBACK:
Correct Mill's theory asserts that within the limits to the terms of trade, the actual terms of trade are determined by the intensity of each country's demand for the other country's product.
Incorrect

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions

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KEYWORDS: BLOOM'S: Understand

127. Assume that Canada has a comparative advantage in wheat and a comparative disadvantage in autos. As the Canadian demand for wheat increases, Canada's equilibrium terms of trade improves.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect If Canada has a comparative advantage in wheat and a comparative disadvantage in autos, as the Canadian demand for wheat increases, Canada's equilibrium terms of trade worsens.

POINTS: 1

DIFFICULTY: Challenging

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Changing Comparative Advantage

KEYWORDS: BLOOM'S: Apply

128. The theory of reciprocal demand best applies when two countries are of equal economic size, so that the demand conditions of each nation have a noticeable impact on market prices.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct The reciprocal-demand theory best applies when both nations are of equal economic size, so that the demand of each nation has a noticeable effect on market price.

Incorrect

POINTS: 1

DIFFICULTY: Challenging

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Trading Under Constant-Cost Conditions

KEYWORDS: BLOOM'S: Understand

129. The theory of reciprocal demand best applies when one country has a "large" economy and the other country has a "small" economy.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect The reciprocal-demand theory best applies when both nations are of equal economic size, so that the demand of each nation has a noticeable effect on

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market price.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

130. If two nations of approximately the same size and with similar taste patterns participate in international trade, the gains from trade tend to be shared about equally between them.

a. True
b. False

ANSWER: True
FEEDBACK: *Correct* If two nations of approximately the same size and with similar taste patterns participate in international trade, the gains from trade will be shared about equally between them.
Incorrect
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

131. The expression "importance of being unimportant" suggests that if one nation is much larger than the other, the larger nation realizes most of the gains from trade while the smaller nation realizes fewer gains from trade.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect If one nation is significantly larger than the other, the larger nation attains fewer gains from trade while the smaller nation attains most of the gains from trade.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

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132. An improvement in a nation's terms of trade occurs if the prices of its exports rise relative to the prices of its imports over a given time.

a. True

b. False

ANSWER: True

FEEDBACK: *Correct* Terms of trade measures the relation between the prices a nation gets for its exports and the prices it pays for its imports. An improvement in a nation's terms of trade occurs if the prices of its exports rise relative to the prices of its imports over a given time.

Incorrect

POINTS: 1

DIFFICULTY: Challenging

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Trading Under Constant-Cost Conditions

KEYWORDS: BLOOM'S: Understand

133. If a country's terms of trade worsens, it must exchange fewer exports for a given amount of imports.

a. True

b. False

ANSWER: False

FEEDBACK: *Correct*

Incorrect Terms of trade measures the relation between the prices a nation gets for its exports and the prices it pays for its imports. If a country's terms of trade worsens, it must exchange fewer exports for a given amount of imports.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Trading Under Constant-Cost Conditions

KEYWORDS: BLOOM'S: Understand

134. Terms of trade represents the rate of exchange between a country's exports and imports.

a. True

b. False

ANSWER: True

FEEDBACK: *Correct* Terms of trade measures the relation between the prices a nation gets for its exports and the prices it pays for its imports.

Incorrect

POINTS: 1

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DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

135. Assume 2000 to be the base year. If by the end of 2018 a country's export price index rose from 100 to 130 while its import price index rose from 100 to 115, its terms of trade would equal 113.

a. True
b. False

ANSWER: True
FEEDBACK:
Correct The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: (130/115) x 100 = 113.
Incorrect
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

136. Assume 2000 to be the base year. If by the end of 2018 a country's export price index rose from 100 to 140 while its import price index rose from 100 to 160, its terms of trade would equal 120.

a. True
b. False

ANSWER: False
FEEDBACK:
Correct
Incorrect The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: (140/160) x 100 = 88.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Apply

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137. Assume 2000 to be the base year. If by the end of 2018 a country's export price index rose from 100 to 125 while its import price index rose from 100 to 125, its terms of trade would equal 100.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages: (125/125) x 100 = 100.

Incorrect

POINTS: 1

DIFFICULTY: Challenging

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Trading Under Constant-Cost Conditions

KEYWORDS: BLOOM'S: Apply

138. The commodity terms of trade is found by dividing a country's import price index by its export price index.

a. True

b. False

ANSWER: False

FEEDBACK:

Correct

Incorrect The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking

STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade

TOPICS: Trading Under Constant-Cost Conditions

KEYWORDS: BLOOM'S: Remember

139. For the commodity terms of trade to improve, a country's export price index must rise relative to its import price index over a given time.

a. True

b. False

ANSWER: True

FEEDBACK:

Correct The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages.

Incorrect

POINTS: 1

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DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

140. For the commodity terms of trade to improve, a country's import price index must rise relative to its export price index over a given time.

a. True
b. False

ANSWER: False
FEEDBACK: *Correct*
Incorrect The commodity terms of trade is calculated by dividing a nation's export price index by its import price index and multiplying by 100 to express the terms of trade in percentages.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: True / False
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

141. Is it possible to add up the preferences of all consumers in an entire nation?

ANSWER: No. It is impossible to make interpersonal comparisons of satisfaction, and thus it is not possible to add up preferences.
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Increasing-Cost Conditions
KEYWORDS: BLOOM'S: Apply

142. Who gains more from trade when nations are of unequal economic size?

ANSWER: If one nation is significantly larger than the other, the larger nation attains fewer gains from trade, while the smaller nation captures most of the gains from trade.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False

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STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

143. Is it possible for comparative advantage to change, thus changing the direction of trade?
ANSWER: Lagging productivity growth may cause a country to lose its comparative advantage. In a two-product, two-country model, this would change the direction of trade.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Changing Comparative Advantage
KEYWORDS: BLOOM'S: Understand

144. Explain the law of comparative advantage.
ANSWER: The law of comparative advantage asserts that, with trade, each country will find it favorable to specialize in the production of the good of its comparative advantage and will trade part of this for the good of its comparative disadvantage. Taking advantage of specialization can result in production gains.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

145. Discuss the pitfalls of outsourcing, especially as experienced by Boeing.
ANSWER: Boeing outsourced its production capabilities for the Boeing 787 Dreamliner to facilities in several different countries, each of which made one component part of the aircraft. The plane would be assembled in the U.S. Boeing also required these manufacturers, as a condition of getting the contract for production, to fund part of the development of the plane. To save money, some manufacturers outsourced a portion of their part of the job, causing quality problems and production delays. By giving up control over its supply chain, Boeing suffered from delays and parts that did not meet the requirements and could not be assembled. Production of the planes was 4 years behind schedule and costly.
POINTS: 1
DIFFICULTY: Moderate

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QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Understand

146. Is it possible to estimate the gains from trade?
ANSWER: When a nation trades, it enjoys a larger income owing to a wider range of goods available to consumers. Trade also has a positive influence on productivity levels. However, it is extremely difficult to measure these gains, because it requires knowledge of what a nation's imports would cost if it produced them instead of purchasing them from a less expensive source abroad.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
United States - BUSPROG1: - Reflective Thinking
STATE STANDARDS: United States - PA - DISC1: - Gains from trade, specialization, and trade
TOPICS: Trading Under Constant-Cost Conditions
KEYWORDS: BLOOM'S: Understand

147. How does Southwest Airlines justify its outsourcing of some of its telephone reservation work to India?
ANSWER: Southwest Airlines maintains that outsourcing helps reduce the firm’s costs and increases its competitiveness. Southwest Airlines also claims that outsourcing allows the firm to repatriate its earnings to the United States and purchase goods from other American companies as business expands.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
NATIONAL STANDARDS: United States - BUSPROG: - Analytic
STATE STANDARDS: United States - PA - DISC9: - Supply and demand
TOPICS: Comparative Advantage and Global Supply Chains: Outsourcing
KEYWORDS: BLOOM'S: Remember

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