International Financial Management 9th edition Eun Test Bank

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Student name:_____

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) What major dimension sets apart international finance from domestic finance?

A) Foreign exchange and political risks
B) Market imperfections
C) Expanded opportunity set
D) all of the options

2) An example(s) of a political risk is

A) expropriation of assets.
B) adverse change in tax rules.
C) the opposition party being elected.
D) both the expropriation of assets and adverse changes in tax rules are correct.

3) Production of goods and services has become globalized to a large extent as a result of

A) natural resources being depleted in one country after another.
B) skilled labor being highly mobile.
C) multinational corporations' efforts to source inputs and locate production anywhere where costs are lower and profits higher.
D) common tastes worldwide for the same goods and services.

4) Recently, financial markets have become highly integrated. This development

A) allows investors to diversify their portfolios internationally.
B) allows minority investors to buy and sell stocks.
C) has increased the cost of capital for firms.
D) none of the options

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5) Japan has experienced large trade surpluses. Japanese investors have responded to this by

A) liquidating their positions in stocks to buy dollar-denominated bonds.
B) investing heavily in U.S. and other foreign financial markets.
C) lobbying the U.S. government to depreciate its currency.
D) lobbying the Japanese government to allow the yen to appreciate.

6) Suppose your firm invests $100,000 in a project in Italy. At the time the exchange rate is $1.25 = €1.00. One year later the exchange rate is the same, but the Italian government has expropriated your firm's assets paying only €80,000 in compensation. This is an example of

A) exchange rate risk.
B) political risk.
C) market imperfections.
D) none of the options, since $100,000 = €80,000 × $1.25/€1.00.

7) Suppose you start with $100 and buy stock for £50 when the exchange rate is £1 = $2. One year later, the stock rises to £60. You are happy with your 20 percent return on the stock, but when you sell the stock and exchange your £60 for dollars, you only get $45 since the pound has fallen to £1 = $0.75. This loss of value is an example of

A) exchange rate risk.
B) political risk.
C) market imperfections.
D) weakness in the dollar.

8) Suppose that Great Britain is a major export market for your firm, a U.S.-based MNC. If the British pound depreciates against the U.S. dollar,

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A) your firm will be able to charge more in dollar terms while keeping pound prices stable.

B) your firm may be priced out of the U.K. market, to the extent that your dollar costs stay constant and your pound prices will rise.

C) to protect U.K. market share, your firm may have to cut the dollar price of your goods to keep the pound price the same.

D) your firm may be priced out of the U.K. market, to the extent that your dollar costs stay constant and your pound prices will rise, and to protect U.K. market share, your firm may have to cut the dollar price of your goods to keep the pound price the same.

9) Suppose Mexico is a major export market for your U.S.-based company and the Mexican peso appreciates drastically against the U.S. dollar. This means

A) your company's products can be priced out of the Mexican market, as the peso price of American imports will rise following the peso's fall.

B) your firm will be able to charge more in dollar terms while keeping peso prices stable.

C) your domestic competitors will enjoy a period of facing lessened price competition from Mexican imports.

D) your firm will be able to charge more in dollar terms while keeping peso prices stable and your domestic competitors will enjoy a period of facing lessened price competition from Mexican imports.

10) Suppose Mexico is a major export market for your U.S.-based company and the Mexican peso depreciates drastically against the U.S. dollar, as it did in December 1994. This means that

A) your company's products can be priced out of the Mexican market, as the peso price of American imports will rise following the peso's fall.

B) your firm will be able to charge more in dollar terms while keeping peso prices stable.

C) your domestic competitors will enjoy a period of facing little price competition from Mexican imports.

D) none of the options

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11) Suppose that you are a U.S. producer of a commodity good competing with foreign producers. Your inputs of production are priced in dollars and you sell your output in dollars. If the U.S. currency depreciates against the currencies of our trading partners,

A) your competitive position is likely improved.
B) your competitive position is likely worsened.
C) your competitive position is unchanged.
D) none of the options

12) Undoubtedly, we are now living in a world where all the major economic functions—consumption, production, and investment—

A) are still inherently local.
B) are still regional in nature.
C) are slowly becoming globalized.
D) are highly globalized.

13) Most governments at least try to make it difficult for people to cross their borders illegally. This barrier to the free movement of labor is an example of

A) information asymmetry.
B) excessive transactions costs.
C) racial discrimination.
D) a market imperfection.

14) Although the world economy is much more integrated today than was the case 10 or 20 years ago, a variety of barriers still hamper free movements of people, goods, services, and capital across national boundaries. These barriers include

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A) legal restrictions.
B) excessive transportation costs.
C) information asymmetry.
D) all of the options

15) The Japanese automobile company Honda decided to establish production facilities in Ohio, mainly to

A) circumvent trade barriers.
B) reduce transportation costs.
C) reduce transactions costs.
D) all of the options

16) When individual investors become aware of overseas investment opportunities and are willing to diversify their portfolios internationally,

A) they trade one market imperfection, information asymmetry, for another, exchange rate risk.
B) they benefit from an expanded opportunity set.
C) they should not bother to read or to understand the prospectus, since it's probably written in a foreign language.
D) they should invest only in dollars or euros.

17) The Nestlé Corporation, a well-known Swiss MNC, used to issue two different classes of common stock, bearer shares and registered shares, and foreigners were allowed to hold only

A) registered shares.
B) bearer shares.
C) voting shares.
D) convertible shares.

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18) Deregulated financial markets and heightened competition in financial services provided an environment for financial innovations that resulted in the introduction of various instruments. Examples of these innovative instruments include

A) currency futures and options, foreign stock index futures and options.
B) multicurrency bonds.
C) international mutual funds, country funds, exchange traded funds.
D) all of the options

19) Nestlé, a well-known Swiss corporation,

A) has been a paragon of virtue in its opposition to all forms of political risk.
B) at one time placed restrictions on foreign ownership of its stock. When it relaxed these restrictions, the total market value of the firm fell.
C) at one time placed restrictions on foreign ownership of its stock. When it relaxed these restrictions, there was a major transfer of wealth from foreign shareholders to domestic shareholders.
D) none of the options

20) The goal of shareholder wealth maximization

A) is not appropriate for non-U.S. business firms.
B) means that all business decisions and investments that a firm makes are done for the purpose of making the owners of the firm better off financially.
C) is a sub-objective the firm should attempt to achieve after the objective of customer satisfaction is met.
D) is in conflict with the privatization process taking place in third-world countries.

21) As capital markets are becoming more integrated, the goal of shareholder wealth maximization

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A) has been altered to include other goals as well.
B) has lost out to other goals, even in the U.S.
C) has been given increasing importance by managers in Europe.
D) has been shown to be a deterrent to raising funds abroad.

22) Corporate scandals at firms such as Enron, WorldCom and the Italian firm Parmalat

A) show that managers might be tempted to pursue their own private interests at the expense of shareholders.
B) show that Italian shareholders are better at monitoring managerial behavior than U.S. shareholders.
C) show that white-collar criminals hardly ever get punished.
D) show that socialism is a better way to go than capitalism.

23) While the corporate governance problem is not confined to the United States,

A) it can actually be a much more serious problem in other parts of the world, where the legal protection of shareholders is weak or nonexistent.
B) it has reached its high point in the United States.
C) the U.S. legal system, with lawsuits used only as a last resort, ensured that any conflicts of interest would soon be a thing of the past.
D) none of the options

24) The owners of a business are the

A) taxpayers.
B) workers.
C) suppliers.
D) shareholders.

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25) The massive privatization that is currently taking place in developing and formerly socialist countries

A) will eventually enhance the standard of living to these countries' citizens.
B) depends on private investment.
C) increases the opportunity set facing these countries' citizens.
D) all of the options

26) A firm with *concentrated ownership*

A) may give rise to conflicts of interest between dominant shareholders and small outside shareholders.
B) may enjoy more accounting transparency than firms with diffuse ownership structures.
C) is a partnership, never a corporation.
D) none of the options

27) The *ultimate* guardians of shareholder interest in a corporation are the

A) rank and file workers.
B) senior management.
C) boards of directors.
D) all of the options

28) In countries like France and Germany,

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A) managers have often made business decisions with regard to maximizing market share to the exclusion of other goals.

B) managers have often viewed shareholders as one of the "stakeholders" of the firm, others being employees, customers, suppliers, banks and so forth.

C) managers have often regarded the prosperity and growth of their *combines,* or families of related firms, as their most critical goal.

D) managers have traditionally embraced the maximization of shareholder wealth as the only worthy goal.

29) When corporate governance breaks down

A) shareholders are unlikely to receive fair returns on their investments.

B) managers may be tempted to enrich themselves at shareholder expense.

C) the board of directors is not doing its job.

D) all of the options

30) Privatization refers to the process of

A) having government operate businesses for the betterment of the public sector.

B) government allowing the operation of privately owned business only.

C) prohibiting government operated enterprises.

D) a country divesting itself of the ownership and operation of a business venture by turning it over to the free market system.

31) Deregulation of world financial markets

A) provided a natural environment for financial innovations, like currency futures and options.

B) has promoted competition among market participants.

C) has encouraged developing countries such as Chile, Mexico, and Korea to liberalize by allowing foreigners to directly invest in their financial markets.

D) all of the options

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32) The emergence of global financial markets is due in no small part to

A) advances in computer and telecommunications technology.
B) enforcement of the Soviet system of state ownership of resources of production.
C) government regulation and protection of infant industries.
D) none of the options

33) The common monetary policy for the euro zone is now formulated by

A) the Bundesbank in Germany.
B) the Federal Reserve Bank.
C) the World Bank.
D) the European Central Bank.

34) Since the end of World War I, the dominant global currency has been the

A) British pound.
B) Japanese yen.
C) Euro.
D) U.S. dollar.

35) Prior to World War I ending, the dominant global currency was the

A) German mark.
B) French franc.
C) Japanese yen.
D) British pound.

36) The ascendance of the dollar reflects several key factors, such as

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A) the size of the U.S. population.
B) the mature and open capital markets of the U.S. economy.
C) exchange rate stability.
D) all of the options

37) The euro

A) is the common currency of Europe.
B) is divisible into 100 cents, just like the U.S. dollar.
C) may eventually have a transaction domain larger than the U.S. dollar.
D) all of the options

38) Since its inception the euro has brought about revolutionary changes in European finance. For example,

A) by redenominating corporate bonds and stocks from several different currencies into one common currency, the euro has precipitated the emergence of continent-wide capital markets in Europe that are comparable to U.S. markets in depth and liquidity.
B) Swiss bank accounts are all denominated in euro.
C) the European banking sector has become much more important as a source of financing for European firms.
D) there have actually not been any revolutionary changes.

39) In David Ricardo's theory of comparative advantage,

A) international trade is a zero-sum game in which one trading partner's gain comes at the expense of another's loss.
B) liberalization of international trade will enhance the welfare of the world's citizens.
C) is a short-run argument, not a long-run argument.
D) has been superseded by the now-orthodox view of mercantilism.

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40) Under the theory of comparative advantage, liberalization of international trade will

A) enhance the welfare of the world's citizens.
B) create unemployment and displacement of workers permanently.
C) result in higher prices in the long run as monopolist are able to charge higher prices after eliminating their competitors.
D) all of the options

41) Privatization is often seen as a cure for bureaucratic inefficiency and waste; some economists estimate that privatization improves efficiency and reduces operating costs by as much as

A) 5 percent.
B) 10 percent.
C) 15 percent.
D) 20 percent.

42) The World Trade Organization, WTO,

A) has the power to enforce the rules of international trade.
B) covers agriculture and physical goods, but not services or intellectual property rights.
C) recently expelled China for human rights violations.
D) ruled that NAFTA is to be the model for world trade integration.

43) In November 2018, three member countries of NAFTA signed a new accord called the

A) US-Mexico-Canada-Agreement
B) New NAFTA Agreement
C) North American Agreement
D) none of the above

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44) In March 2018, a free trade area was created among 11 Pacific Rim Countries including"

A) Australia, Brunei, and Canada
B) Chile, Japan, and Malaysia
C) Mexico, New Zealand, Peru, Singapore, and Vietnam
D) all of the above

45) Privatization

A) has spurred a tremendous increase in cross-border investment.
B) has allowed many governments to have the funds to nationalize important industries.
C) has guaranteed that new ownership will be limited to the local citizens.
D) has generally decreased the efficiency of the enterprise.

46) The theory of comparative advantage

A) claims that economic well-being is enhanced if each country's citizens produce only a single product.
B) claims that economic well-being is enhanced when all countries compare commodity prices after adjusting for exchange rate differences in order to standardize the prices charged all countries.
C) claims that economic well-being is enhanced if each country's citizens produce that which they have a comparative advantage in producing relative to the citizens of other countries, and then trade production.
D) claims that no country has an absolute advantage over another country in the production of any good or service.

47) Negotiation of the terms of Brexit with the EU include which of the following key agreements?

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A) a customs union between the UK and the EU should be in place until an alternative long-term relationship can be established

B) an end to free movement of people

C) no hard border between Northern Ireland and the Republic of Ireland

D) all of the above

48) Brexit has some serious difficulties associated with free trade and global integration that espouses

A) free movements of goods, services, capital and people across countries.

B) free movements of goods and services only.

C) free movments of capital and people across countries.

D) none of the above

49) A multinational firm can be defined as a firm that

A) invests short-term cash inflows in more than one currency.

B) has sales affiliates in several countries.

C) is incorporated in more than one country.

D) incorporated in one country and has production and sales operations in several other countries.

50) An MNC may gain from its global presence by

A) spreading R&D expenditures and advertising costs over their global sales.

B) pooling global purchasing power over suppliers.

C) utilizing their technological and managerial know-how globally with minimum additional costs.

D) all of the options

51) MNCs can use their global presence to

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A) take advantage of underpriced labor services available in certain developing countries.
B) gain access to special R&D capabilities residing in advanced foreign counties.
C) boost profit margins and create shareholder value.
D) all of the options

52) Financial managers of MNCs should

A) learn how to manage foreign exchange and political risks using proper tools and instruments.
B) deal with (and take advantage of) market imperfections.
C) benefit from expanded investment and financing opportunities.
D) all of the options

53) A purely domestic firm that sources its products, sells its products, and raises its funds domestically

A) can face stiff competition from a multinational corporation that can source its products in one country, sell them in several countries, and raise its funds in a third country.
B) can be more competitive than an MNC on its home turf due to superior knowledge of the local market.
C) can still face exchange rate risk, just like an MNC.
D) all of the options

54) MNC stands for

A) Multinational Corporation.
B) Multi-Nationalized Corporation.
C) Military National Cooperation.
D) none of the options

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55) Which is growing at a faster rate, foreign direct investment by MNCs or international trade?

A) FDI by MNCs
B) International trade
C) Since they are linked, they grow at the same rate.
D) none of the options

56) A true MNC, with operations in dozens of different countries

A) must effectively manage foreign exchange risk.
B) can ignore foreign exchange risk since it is diversified.
C) will pay taxes in only its home county.
D) none of the options

57) An MNC can

A) be a factor that increases the opportunities of the citizens of less developed countries.
B) be a factor that increases the opportunity set of domestic investors.
C) increase economic efficiency.
D) all of the options

58) Today for an MNC to produce merchandise in one country on capital equipment financed by funds raised in a number of different currencies through issuing securities to investors in many countries, and then selling the finished product to customers in yet other countries is

A) not uncommon.
B) extremely common.
C) uncommon.
D) illegal.

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59) A corporation that can source its products in one country, sell them in another country, and raise the funds in a third country

A) is a multinational corporation.
B) is a domestic firm if all of the shareholders are from the same country.
C) enjoys a built-in hedge against exchange rate risk.
D) enjoys a built-in hedge against political risk.

60) Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Compute the opportunity cost of producing one additional unit of food instead of textiles.

A) 1.67 pounds of food per yard of textiles
B) 1.67 yards of textiles per pound of food
C) 0.6 pounds of food per yard of textiles
D) 0.6 yards of textiles per pound of food

61) The gains from trade

A) are likely realized in the long run when workers and firms have had the time to adjust to the new competitive environment.
B) are immediately realized in the short run, when governments drop protectionist policies.
C) are smaller than the costs of adjustment.
D) none of the options

62) Restrictions or impediments to free trade include such things as

A) import quotas.
B) import tariffs.
C) costly transportation.
D) all of the options

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63) Suppose that country A is twice as good at producing widgets as country B. If the currency of B is twice as valuable as the currency of A,

A) the comparative advantage will shift to an absolute advantage.
B) trade will be an improved outcome for both A and B.
C) the comparative advantage could be canceled out.
D) none of the options

64) Comparative advantage

A) is also known as relative efficiency.
B) can lead to trade even in the face of absolute efficiency.
C) exists when one party can produce a good or service at a lower opportunity cost than another party.
D) all of the options

65) Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Country B can produce 8 yards of textiles or 5 pounds of food per unit of input. Which of the following statements is true?

A) Country A is relatively more efficient than Country B in the production of food.
B) Country B is relatively more efficient than Country A in the production of textiles.
C) Country A is relatively more efficient than Country B in the production of textiles.
D) none of the options

66) Underlying the theory of comparative advantage are assumptions regarding

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A) free trade between nations.

B) that the factors of production (land, labor, capital, and entrepreneurial ability) are relatively *immobile*.

C) that the factors of production (land, labor, capital, and entrepreneurial ability) are relatively mobile.

D) free trade between nations and that the factors of production (land, labor, capital, and entrepreneurial ability) are relatively *immobile*.

67) If one country is twice the size of another country and is better at making almost everything than the benighted citizens of the smaller country,

A) the bigger country enjoys an absolute advantage.

B) the bigger country enjoys an relative advantage.

C) the bigger country enjoys a comparative advantage.

D) there is not enough information to make a determination.

68) Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Country B can produce 8 yards of textiles or 5 pounds of food per unit of input.

A) Country A is relatively more efficient than Country B in the production of food.

B) Country B is relatively more efficient than Country A in the production of food.

C) Country A has an absolute advantage over Country B in the production of food and textiles.

D) Country B is relatively more efficient than Country A in the production of food, but Country A has an absolute advantage over Country B in the production of food and textiles.

69) Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Country B can produce 8 yards of textiles or 5 pounds of food per unit of input.

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A) Country A is relatively more efficient than Country B in the production of textiles.

B) Country B is relatively more efficient than Country A in the production of food.

C) Country A has an absolute advantage over Country B in the production of food and textiles.

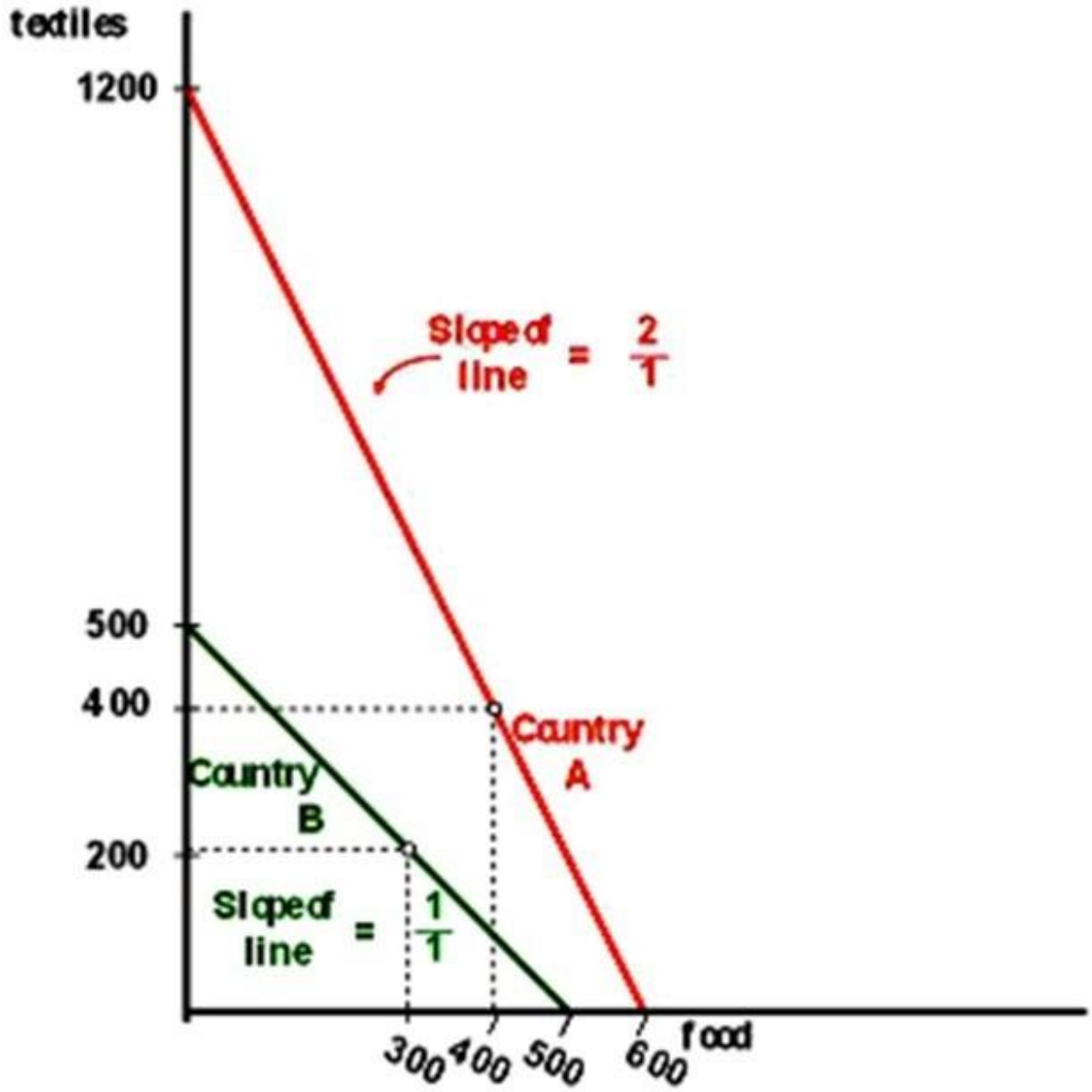
D) all of the options

70) Consider the no-trade input/output situation presented in the following table and graph for countries A and B. Assuming that free trade is legal; develop a scenario that will benefit the citizens of both countries.

Input/Output without Trade

	Country		
	A	B	Total
I. Total Potential Output			
(lbs. or yard; 000,000s)			
Food	600	500	1,100
Textiles	1,200	500	1,700
II. Consumption			
(lbs. or yard; 000,000s)			
Food	300	400	700
Textiles	200	400	600

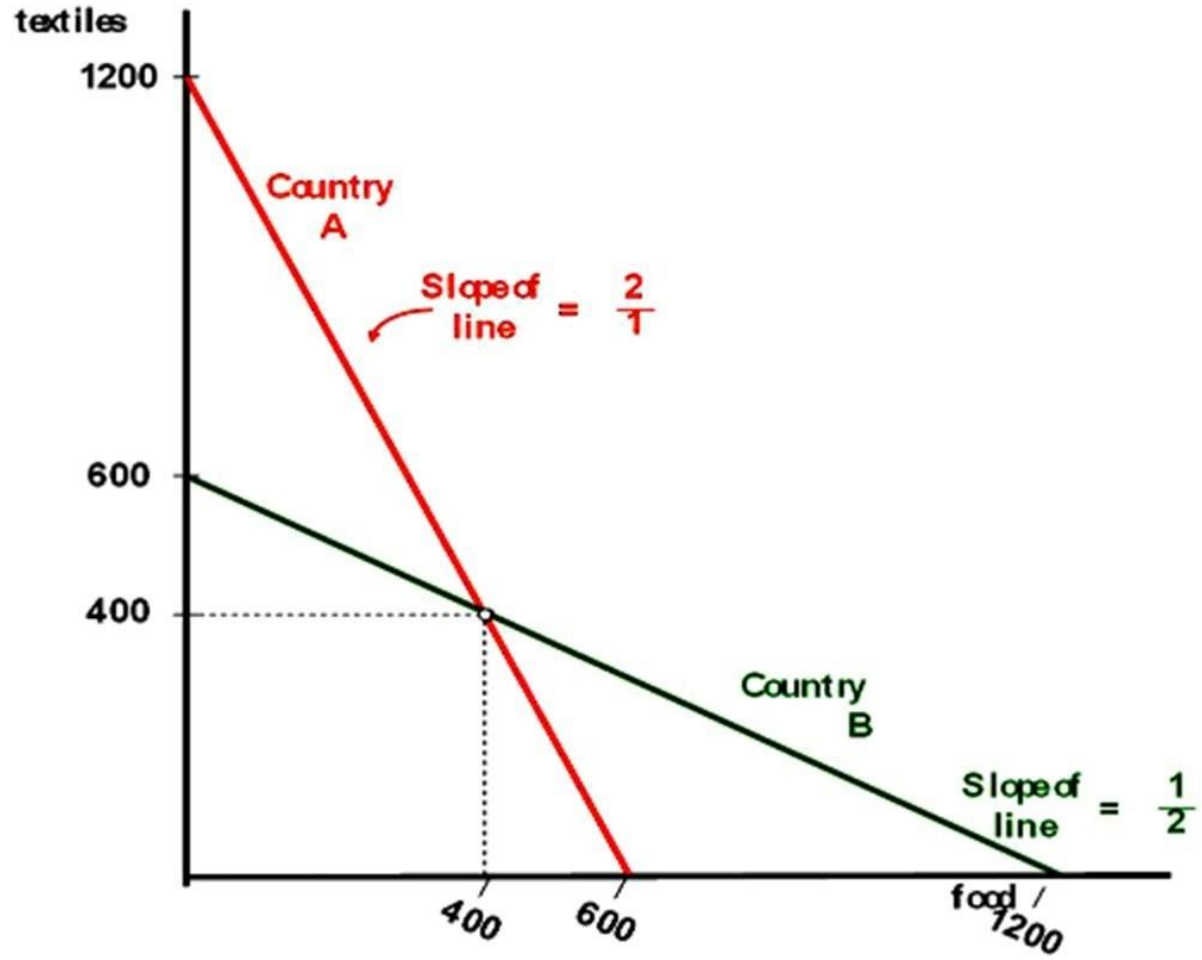
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A) Country B should make all the textiles and trade with Country A for food.
B) Country A should make nothing but textiles and trade with Country B for food.
C) Country B should make all the textiles and Country A should make all the food.
D) Country B should make nothing but textiles and trade with Country A for food.

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71) Countries A and B currently consume 400 units of food and 400 units of textiles each and currently do not trade with one another. The citizens of country A have to give up one unit of food to gain two units of textiles, while the citizens of country B have to give up one unit of textiles to gain two units of food. Their production possibilities curves are shown.



Under the theory of comparative advantage

A) The citizens of country A should make food and trade with the citizens of country B for textiles.

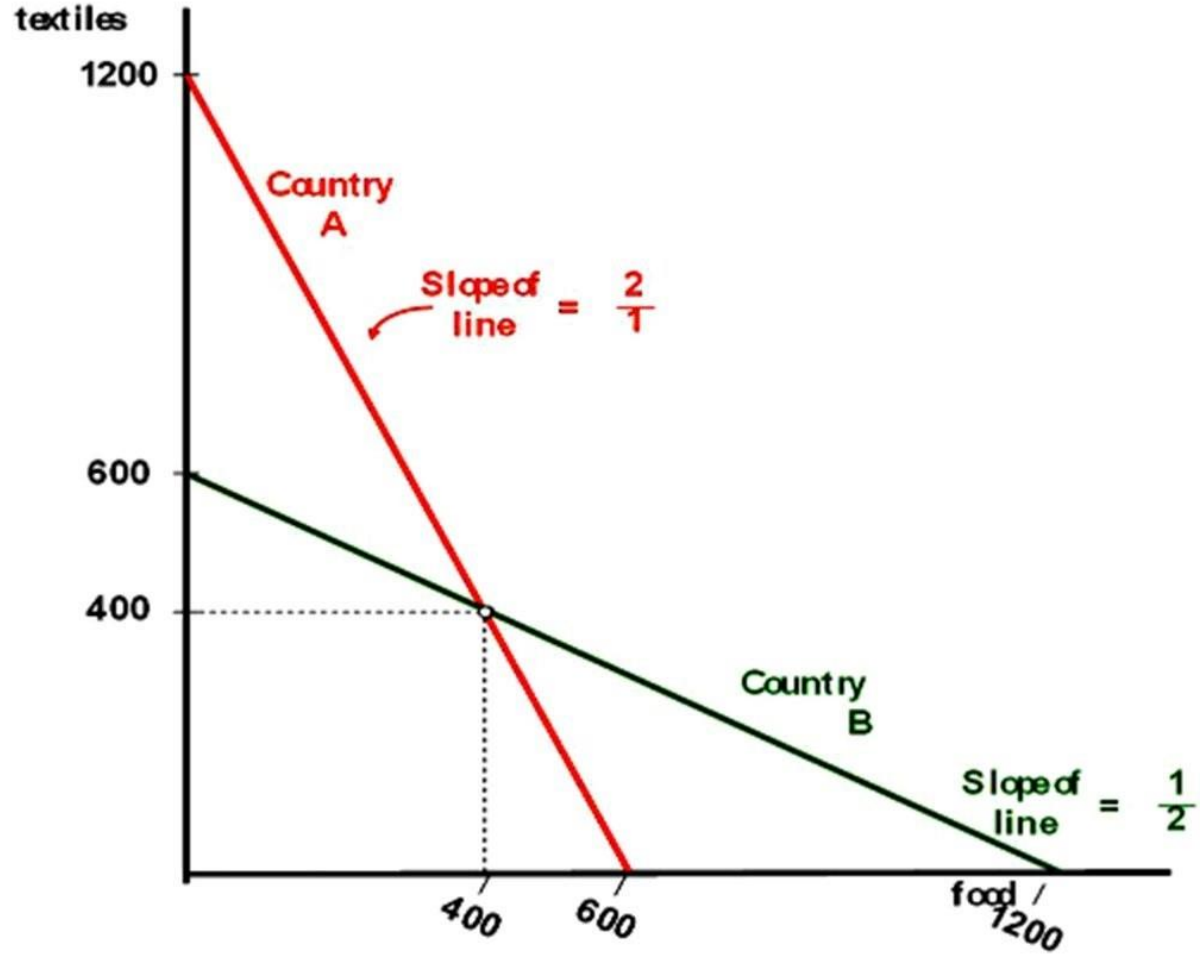
B) The citizens of country A should make textiles and trade with the citizens of country B for food.

C) There are no gains from trade in this example.

D) A is twice as good as B at making food and B is twice as good as A at making textiles.

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72) Counties A and B currently consume 400 units of food and 400 units of textiles each and currently do not trade with one another. The citizens of country A have to give up one unit of food to gain two units of textiles, while the citizens of country B have to give up one unit of textiles to gain two units of food. Their production possibilities curves are shown.



Under the theory of comparative advantage, if free trade is allowed, the market clearing price (or exchange rate, if you will) between food and textiles will be

A) one unit of food for one unit of textiles.

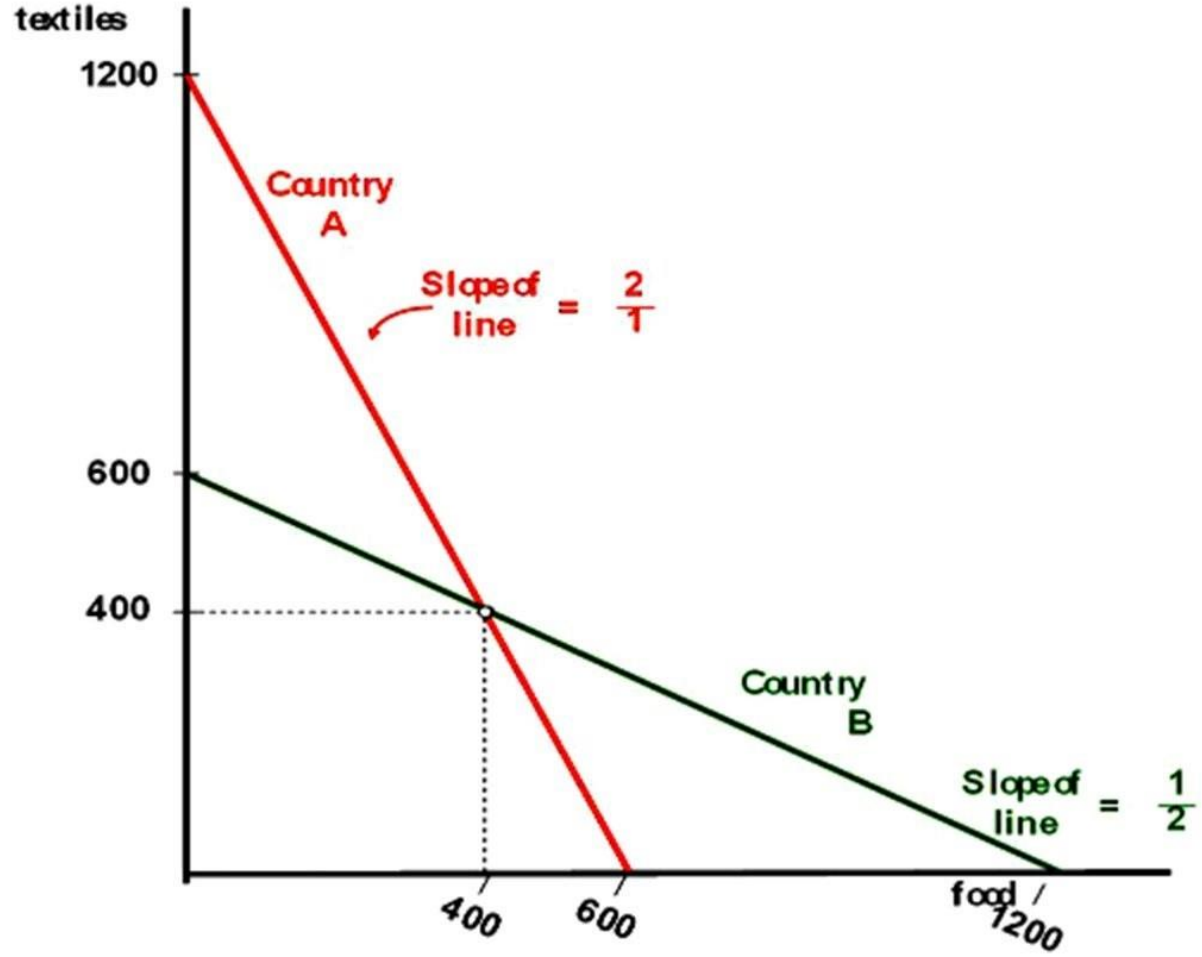
B) somewhere between one unit of food for two units of textiles and two units of food for one unit of textiles.

C) one unit of food for two units of textiles.

D) two units of food for one unit of textiles.

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73) Countries A and B currently consume 400 units of food and 400 units of textiles each and currently do not trade with one another. The citizens of country A have to give up one unit of food to gain two units of textiles, while the not trade citizens of country B have to give up one unit of textiles to gain two units of food. Their production possibilities curves are shown.



Suppose that trade is allowed and that the international exchange rate between food and textiles is one-for-one. The increased consumption following trade will be

A) an increase of 400 units of food and 400 units of textiles.
B) an increase of 1,200 units of food and 1,200 units of textiles.
C) an increase of 800 units of food and 800 units of textiles.
D) there are no gains from trade in this example.

74) In modern times, it is not a country per se but rather a controller of capital and know-how that gives the country in which it is domiciled a comparative advantage over another country. These controllers of capital and technology are

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A) the state.
B) the multinational corporations (MNCs).
C) portfolio managers of international mutual funds.
D) none of the options

75) International trade is

A) a "zero-sum" game in which one country benefits at the expense of another country.
B) an "increasing-sum" game at which all players become winners.
C) prone to both countries being worse off than had they not participated in international trade.
D) none of the options

76) The doctrine of comparative advantage was first put forth by

A) Adam Smith.
B) David Ricardo.
C) Ricky Ricardo.
D) none of the options

77) The comparative advantage argument in free trade

A) ignores the cost of readjustment.
B) is a short-run argument.
C) only works for two goods at a time.
D) none of the options

78) If you can make a good product at a low *opportunity* cost,

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A) you would be well served to produce that good and trade for other goods.
B) you should make something else that has a higher value.
C) you should make something else that has a higher opportunity cost.
D) none of the options

79) A country like North Korea

A) likely rejects the notion of increased opportunity presented by free trade.
B) engages in free trade.
C) lies on a production possibilities curve superior to South Korea, since North Korea protects its international producers.
D) none of the options

80) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

Which state has an absolute advantage in producing wheat in Case I?

A) South Dakota
B) North Dakota
C) Neither state
D) Both states

81) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I	Case II

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	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

Which state has an absolute advantage in producing beer in Case I?

A) South Dakota
B) North Dakota
C) Neither state
D) Both states

82) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

Which state has an absolute advantage in producing beer in Case II?

A) South Dakota
B) North Dakota
C) Neither state
D) Both states

83) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

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Which state has a comparative advantage in producing beer in Case I?

A) South Dakota
B) North Dakota
C) Neither state
D) Both states

84) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

Which state has a comparative advantage in wheat production in Case I?

A) South Dakota
B) North Dakota
C) Neither state
D) Both states

85) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

Which state has a comparative advantage in wheat production in Case II?

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A) South Dakota
B) North Dakota
C) Neither state
D) Both states

86) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

What is the relative price of wheat in North Dakota prior to trade in Case II?

A) 2 bushels of wheat = ½ bottle of beer
B) ½ bushel of wheat = 2 bottles of beer
C) 1 bushel of wheat = ½ bottle of beer
D) 1 bushel of wheat = 2 bottles of beer

87) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

For case II, in what range must the "international" price of wheat fall? (*i.e.*, if North and South Dakota trade only with each other, what is the possible range of prices?)

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A) Between 1 bushel of wheat = 4/3 bottles of beer and 1 bushel of wheat = 2 bottles of beer

B) Between 1 bushel of wheat = 3/4 bottles of beer and 1 bushel of wheat = 2 bottles of beer

C) Between 1 bushel of wheat = 3/4 bottles of beer and 1 bushel of wheat = ½ bottles of beer

D) none of the options

88) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota
Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

For case II, let the international price be 1 bottle = 1 bushel. Derive South Dakota's "trading possibilities curve."

	South Dakota			
	A	**B**	**C**	**D**
Wheet (bushels)	3	3	4	1
Beer (bottles)	4	3	4	2

A) Option A
B) Option B
C) Option C
D) Option D

89) The table below shows the bushels of wheat and the bottles of beer that North and South Dakota can produce per day of labor under two different hypothetical situations (Cases I and II).

	Case I		Case II	
	South Dakota	North Dakota	South Dakota	North Dakota

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Wheat (bushels)	4	1	3	1
Beer (bottles)	1	2	4	2

For case II, let the international price be 1 bottle = 1 bushel. Derive North Dakota's "trading possibilities curve."

	North Dakota			
	A	**B**	**C**	**D**
Wheat (bushels)	2	3	1	2
Beer (bottles)	4	3	2	2

A) Option A
B) Option B
C) Option C
D) Option D

90) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Whiskey consumption without trade
Northern Ireland	500 kegs	1500 kegs	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 kegs	600 kegs	400 bottles

What is the price of beer without trade in Southern Ireland?

A) 2 bottles of whiskey = 3 kegs of beer
B) 5 bottles of whiskey = 12 kegs of beer
C) 1 bottle of whiskey = 1 kegs of beer
D) none of the options

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91) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Beer consumption without trade
Northern Ireland	500 kegs	1500 bottles	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 bottles	600 kegs	400 bottles

What is the price of beer without trade in Northern Ireland?

A) 2 bottles of whiskey = 3 kegs of beer
B) 5 bottles of whiskey = 12 kegs of beer
C) 3 bottles of whiskey = 1 keg of beer
D) none of the options

92) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Beer consumption without trade
Northern Ireland	500 kegs	1500 bottles	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 bottles	600 kegs	400 bottles

In which product does Northern Ireland have a comparative advantage in producing?

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A) Beer
B) Whiskey
C) Neither
D) Both

93) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Beer consumption without trade
Northern Ireland	500 kegs	1500 bottles	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 bottles	600 kegs	400 bottles

Suppose that trade occurs. Each country completely specializes and 500 kegs of beer are traded for 500 bottles of whiskey. What is the international price of beer?

A) 1 bottle of whiskey = 1 keg of beer
B) 3 bottles of whiskey = 1 keg of beer
C) 2/3 bottle of whiskey = 1 keg of beer
D) 1 bottle of whiskey = 3 kegs of beer

94) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Beer consumption without trade
Northern Ireland	500 kegs	1500 bottles	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 bottles	600 kegs	400 bottles

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What is the cost of Northern Ireland producing one additional bottle of whiskey?

A) 0.33 kegs of beer
B) 0.66 kegs of beer
C) 1 kegs of beer
D) 3 kegs of beer

95) The first two columns give the maximum daily amounts of beer and whiskey that Southern Ireland and Northern Ireland can produce when they completely specialize in one or another product. The last two columns give each country's consumption without trade.

	Maximum beer production	Maximum whiskey production	Beer consumption without trade	Whiskey consumption without trade
Northern Ireland	500 kegs	1500 bottles	300 kegs	600 bottles
Southern Ireland	1200 kegs	800 bottles	600 kegs	400 bottles

What is the increased number of goods available in Northern Ireland after trade?

A) 400 more bottles of whiskey and 200 more kegs of beer
B) 1,000 more bottles of whiskey and 500 more kegs of beer
C) 200 more bottles of whiskey and 400 more kegs of beer
D) 300 more bottles of whiskey and 300 more kegs of beer

96) Consider a dentist and a 14-year old boy. The dentist can make $100 per hour drilling teeth and the 14-year old boy can make $2 per hour picking up used aluminum cans. The dentist can mow his half-acre lot in one hour. The 14-year old boy can mow the lawn in two hours. If the dentist hires the boy to mow his lawn at any price less than $100, but more than $4

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A) both he and the boy are better off.
B) the dentist would be exploiting the boy.
C) the boy would be exploiting the dentist.
D) all of the options

97) Consider the no-trade input/output situation presented in the following table and graph for South and North Carolina. Assume that free trade is legal.

Input/Output without Trade

	Country		
	South Carolina	North Carolina	Total
I. Total Potential Output			
(lbs. or yards; 000,000s)			
Guns	500	250	750
Butter	1,000	750	1,750
II. Consumption			
(lbs. or yards; 000,000s)			
Guns	250	200	450
Butter	500	150	650

Which state is better at making guns?

A) South Carolina
B) North Carolina
C) The states are equally good at making guns.

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98) Consider the no-trade input/output situation presented in the following table and graph for South and North Carolina. Assume that free trade is legal.

Input/Output without Trade

	Country		
	South Carolina	North Carolina	Total
I. Total Potential Output			
(lbs. or yards; 000,000s)			
Guns	500	250	750
Butter	1,000	750	1,750
II. Consumption			
(lbs. or yards; 000,000s)			
Guns	250	200	450
Butter	500	150	650

How much does it cost for North Carolina to produce one gun?

A) 3 pounds of butter
B) .33 pounds of butter
C) 1.33 pounds of butter
D) none of the options

99) Consider the no-trade input/output situation presented in the following table and graph for South and North Carolina. Assume that free trade is legal.

Input/Output without Trade

	Country		
	South Carolina	North Carolina	Total

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I. Total Potential Output			
(lbs. or yards; 000,000s)			
Guns	500	250	750
Butter	1,000	750	1,750
II. Consumption			
(lbs. or yards; 000,000s)			
Guns	250	200	450
Butter	500	150	650

What is the relative price of a gun in terms of butter in South Carolina?

A) 1 gun costs 3 pounds of butter.
B) 3 guns cost 1 pounds of butter.
C) 1 gun costs 2 pounds of butter.
D) 2 guns cost 1 pounds of butter.

100) Consider the no-trade input/output situation presented in the following table and graph for South and North Carolina. Assume that free trade is legal.

Input/Output without Trade

	Country		
	South Carolina	North Carolina	Total
I. Total Potential Output			
(lbs. or yards; 000,000s)			
Guns	500	250	750
Butter	1,000	750	1,750
II. Consumption			
(lbs. or yards; 000,000s)			
Guns	250	200	450

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Butter	500	150	650

What is the relative price of a pound of butter in terms of guns in North Carolina?

A) 1 pound of butter costs 0.33 guns.
B) 1 gun costs 0.33 pounds of butter.
C) 1 pound of butter costs 0.66 guns.
D) 2 guns costs 0.66 pounds of butter.

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Answer Key

Test name: 001

1) D
2) D
3) C
4) A
5) B
6) B
7) A
8) D
9) D
10) A
11) A
12) D
13) D
14) D
15) A
16) B
17) B
18) D
19) C
20) B
21) C
22) A
23) A
24) D
25) D
26) A

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27) C
28) B
29) D
30) D
31) D
32) A
33) D
34) D
35) D
36) B
37) D
38) A
39) B
40) A
41) D
42) A
43) A
44) D
45) A
46) C
47) D
48) A
49) D
50) D
51) D
52) D
53) D
54) A
55) A
56) A

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57) D
58) A
59) A
60) B
10 yards of textiles / 6 pounds of food = 1.67 yards of textiles per pound of food

61) A
62) D
63) C
64) D
65) C
To find the opportunity cost of producing one additional pound of food for either country, divide the textile output by food output for each country for one unit of production. For Country A, it costs 10/6 = 1.67 yards of textiles to produce one additional pound of food, and for Country B, it costs 8/5 = 1.6 yards of textiles to produce one additional pound of food. Thus, Country B is relatively more efficient than Country A in producing food as evidenced by the fact that 1.6 < 1.67. To find the opportunity cost of producing one additional yard of textiles for either country, divide the food output by textile output for each country for one unit of production. For Country A, it costs 6/10 = 0.6 pounds of food to produce one additional yard of textiles, and for Country B, is costs 5/8 = 0.625 pounds of food to produce one additional yard of textiles. Thus, Country A is relatively more efficient than Country B in producing textiles, as evidenced by the fact that 0.6 < 0.625.

66) D
67) A
68) D

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To find the opportunity cost of producing one additional pound of food for either country, divide the textile output by food output for each country for one unit of production. For Country A, it costs 10/6 = 1.67 yards of textiles to produce one additional pound of food, and for Country B, it costs 8/5 = 1.6 yards of textiles to produce one additional pound of food. Thus, Country B is relatively more efficient than Country A in producing food as evidenced by the fact that 1.6 < 1.67. To find the opportunity cost of producing one additional yard of textiles for either country, divide the food output by textile output for each country for one unit of production. For Country A, it costs 6/10 = 0.6 pounds of food to produce one additional yard of textiles, and for Country B, is costs 5/8 = 0.625 pounds of food to produce one additional yard of textiles. Thus, Country A is relatively more efficient than Country B in producing textiles, as evidenced by the fact that 0.6 < 0.625.

69) D

To find the opportunity cost of producing one additional pound of food for either country, divide the textile output by food output for each country for one unit of production. For Country A, it costs 10/6 = 1.67 yards of textiles to produce one additional pound of food, and for Country B, it costs 8/5 = 1.6 yards of textiles to produce one additional pound of food. Thus, Country B is relatively more efficient than Country A in producing food as evidenced by the fact that 1.6 < 1.67. To find the opportunity cost of producing one additional yard of textiles for either country, divide the food output by textile output for each country for one unit of production. For Country A, it costs 6/10 = 0.6 pounds of food to produce one additional yard of textiles, and for Country B, is costs 5/8 = 0.625 pounds of food to produce one additional yard of textiles. Thus, Country A is relatively more efficient than Country B in producing textiles, as evidenced by the fact that 0.6 < 0.625.

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70) B
To produce one additional pound of food, it costs Country A 2 yards of textiles (1200/600). Given it only costs Country B 1 yard of textiles (500/500), then Country B has a relative advantage in producing food because 1<2. However, to produce one additional yard of textiles, it costs Country A 0.5 pounds of food (600/1200) and it costs Country B 1 pound of food (500/500). Thus, Country A has a relative advantage in producing textiles because 0.5<1.

71) B
72) B
73) A
74) B
75) B
76) B
77) A
78) A
79) A
80) A
81) B
82) A
83) B
To produce one additional unit of beer, it will cost South Dakota 4 bushels of wheat (4/1) and North Dakota 0.5 bushels of wheat (1/2). Given 0.5<4, North Dakota has the comparative advantage in beer production.

84) A
To produce one additional unit of wheat, it will cost South Dakota 0.25 bottles of beer (1/4) and North Dakota 2 bottles of beer (2/1). Given 0.25<2, South Dakota has the comparative advantage in wheat production.

85) A

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To produce one additional unit of wheat, it will cost South Dakota 1.33 bottles of beer (4/3) and North Dakota 2 bottles of beer (2/1). Given 1.33<2, South Dakota has the comparative advantage in wheat production.

86) D
It costs North Dakota 2 bottles of beer to produce 1 additional unit of wheat, found by 2 bottles of beer/1 bushel of wheat.

87) A
88) C
89) D
90) A
It costs Southern Ireland 0.67 (1200/600) bottles of whiskey to produce one additional keg of beer. Set up a proportion and solve.0.67/1 = x/3;x = 2.

91) C
It costs Northern Ireland 3 (1500/500) bottles of whiskey to produce one additional keg of beer.

92) B
It costs Northern Ireland 0.33 (500/1500) kegs of beer to produce one additional unit of whiskey. It costs Southern Ireland 1.5 (1200/800) kegs of beer to produce one bottle of whiskey. Because 0.33 < 1.5, Northern Ireland has the advantage in producing whiskey.

93) A
94) A
It costs Northern Ireland 0.33 (500/1500) kegs of beer to produce one additional unit of whiskey.

95) A

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Northern Ireland (prior to the trade) produces 1,500 bottles of whiskey. They then trade with Southern Ireland and give away 500 bottles of whiskey for 500 kegs of beer. This leaves them with 1,000 (1,500 − 500) bottles of whiskey and 500 kegs of beer. If they had not traded, they would have been unable to specialize, in which case they would have had 300 kegs of beer and 600 bottles of whiskey. They now have 400 (1,000 − 600) more bottles of whiskey and 200 (500 − 300) more kegs of beer.

96) A
97) A
It costs South Carolina 2 (1,000/500) pounds of butter to produce one additional gun. It costs North Carolina 3 (750/250) pounds of butter to produce one additional gun, and therefore, because 3 > 2, South Carolina has the comparative advantage in making guns.

98) A
It costs NC 3 (750/250) pounds of butter to produce one gun.

99) C
It costs 2 (1,000/500) pounds of butter to produce one gun in South Carolina.

100) A
In North Carolina, it costs 0.33 (250/750) guns to produce one pound of butter.

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