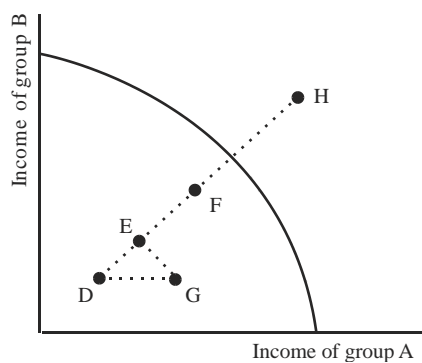


Homework 7

1. Which of the following can be used by the government to influence the private economy?
 - A) Taxes on goods and services.
 - B) Expenditures on certain goods and services.
 - C) Regulations that direct people to perform or refrain from certain activities.
 - D) All of the above.
 - E) None of the above.
2. Which of the following is an appropriate economic goal for government in a mixed economy?
 - A) Improving economic efficiency.
 - B) Reducing economic inequality.
 - C) Stabilizing the economy through macroeconomic policies.
 - D) Conducting international economic policy.
 - E) All of the above.
3. Which of the following are conditions that bind the invisible hand?
 - A) All goods must be produced efficiently by perfectly competitive firms.
 - B) All goods must be private goods.
 - C) No externalities like pollution.
 - D) Consumers and firms must be fully informed about the prices and goods they buy and sell.
 - E) All of the above.

Use the following to answer questions 4-7:

Figure 16-1



4. Which point in Figure 16-1 could represent an income distribution under a

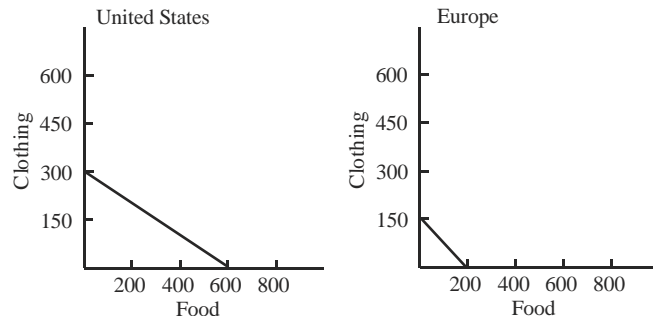
laissez-faire economy?

- A) E
 - B) F
 - C) G
 - D) D
 - E) All of the above.
5. What type of government activity would move the economy from E to F in Figure 16-1?
- A) Nuclear war.
 - B) High taxes.
 - C) Public health spending.
 - D) Building of highways.
 - E) C and D.
6. What type of event could move the economy from E to D in Figure 16-1?
- A) Inefficient dictator takes over government.
 - B) Nuclear war.
 - C) New income taxes on A.
 - D) A and B
 - E) None of the above.
7. What type of event could move the economy from point E to G in Figure 16-1?
- A) A tax which redistributes income from rich to poor.
 - B) Massive highway construction
 - C) Tax on rich which subsidizes income support programs.
 - D) A and B
 - E) A and C
8. An example of a regressive tax is:
- A) the personal income tax.
 - B) a general sales tax.
 - C) the graduated corporation income tax.
 - D) the inheritance tax.
 - E) none of the above.
9. The best technical description of a progressive tax is a:
- A) tax which takes more money from the rich than from the poor.
 - B) tax likely to discourage incentive.
 - C) more equitable tax than a regressive one.
 - D) tax which takes a higher proportion of extra dollars received as income rises.
 - E) tax which falls directly on those in the high income brackets.
10. A general sales tax is:

- A) a progressive tax because it applies to luxuries as well as necessities
 - B) a progressive tax because wealthy people spend more than poor people.
 - C) a regressive tax because wealthy people spend a smaller percentage of their total income on taxed commodities.
 - D) a regressive tax because more money is collected from a poor person than from a rich one.
 - E) a proportional tax because everybody pays the same tax percentage on each purchase.
11. If one of two countries has an absolute advantage in the production of every commodity, then:
- A) there is no comparative advantage and therefore no trade.
 - B) trade would be profitable for the inefficient country, but not for the efficient one.
 - C) trade would be profitable for the efficient country, but not the inefficient one.
 - D) total world production cannot be increased by specialization and trade.
 - E) none of the above are true.
12. Two areas, Europe and America, can produce only goods A and B, under constant costs as indicated below. What will be the result of free trade between the two areas (assuming no transportation costs)?
- | | <u>In Europe</u> | <u>In America</u> |
|-------------|------------------|-------------------|
| 1 good of A | 1 hour of labor | 2 hours of labor |
| 1 good of B | 3 hours of labor | 4 hours of labor |
- A) Europe will export A and B to America.
 - B) Europe will import A and export B.
 - C) Europe will import B and export A.
 - D) Europe will import A and B from America.
 - E) No trade will take place.
13. Each person in Country X can produce 1 ton of steel or 1 ton of coal. Each person in Country Y can produce 3 tons of steel or 4 tons of coal. Assuming constant costs, X will:
- A) export steel and import coal.
 - B) import steel and export coal.
 - C) import both coal and steel.
 - D) export both coal and steel.
 - E) not trade at all.

Use the following to answer questions 14-15:

Figure 18-1



14. Which of the following could emerge as the ratio of the price of food to the price of clothing if trade were opened between the U.S. and Europe as depicted in Figure 18-1?
- 0.4.
 - 0.7.
 - 1.0.
 - 1.2.
 - 3.0.
15. Note that in Figure 18-1, the production possibilities frontier is closer to the origin for Europe than for the U.S. This is because:
- it is assumed that there are more people in the United States.
 - it is assumed that Europe has lower output in both industries.
 - it is assumed that the citizens of the United States are generally much better off than their European counterparts.
 - it is assumed that there is more inefficiency in Europe.
 - it is assumed that American labor is less productive than European labor.
16. With constant labor costs (L), the two countries, X and Y produce units of A and B as shown below. It is clear that with free trade, money wage rates in X will be:
- | | X | Y |
|---|----|----|
| A | 1L | 3L |
| B | 2L | 4L |
- 3 times those in Y.
 - more than 3 times those in Y.
 - between 2 and 3 times those in Y.
 - less than twice those in Y but how much less is unknown.
 - one-fourth those in Y.
17. Assume that the two nations described below produce only the goods listed. What will be the result of opening the door to free trade?

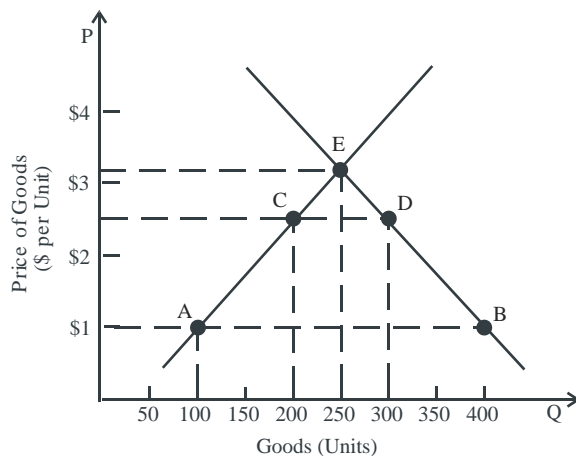
NECESSARY LABOR

Product	Nation A	Nation B
1 Unit of X	1 Labor Hr.	4 Labor Hr.
1 Unit of Z	3 Labor Hr.	8 Labor Hr.

- A) A will export both X and Z to B.
 B) A will import X and export Z.
 C) A will export X and import Z.
 D) A will import both X and Z.
 E) No trade will take place.
18. In terms of comparative advantage, the most correct explanation of why bananas are imported into the U.S. is that
- A) bananas cannot be produced in temperate climates.
 B) it would take too much irrigation to produce bananas in the United States.
 C) bananas can be produced only with more effort elsewhere.
 D) U.S. resources are better employed in producing commodities that are relatively more expensive to produce in other countries and relatively less expensive to produce in the U.S.
 E) bananas are in relatively low demand in the United States.

Use the following to answer questions 19-25:

Figure 18-3



19. Which of the points labeled in Figure 18-3 could be considered to be a point of no trade?
- A) A.
 B) B.

- C) C.
 - D) D.
 - E) E.
20. At what price level in Figure 18-3 would domestic production levels exactly satisfy demand?
- A) \$1.00.
 - B) \$2.50.
 - C) \$3.00.
 - D) \$3.25.
 - E) Domestic production exceeds demand at all points.
21. Utilizing Figure 18-3, what would be the smallest prohibitive tariff if the world price were \$1.00?
- A) \$1.75.
 - B) \$2.25.
 - C) \$3.25.
 - D) Over \$4.00.
 - E) A prohibitive tariff cannot be determined.
22. If the world price in Figure 18-3 were \$1.00, how much revenue would be collected by a tariff that maintained a domestic supply of 200 units?
- A) \$50
 - B) \$100.
 - C) \$150.
 - D) \$200.
 - E) None of the above.
23. If the world price were \$1.00 in Figure 18-3, what size quota would be required to maintain domestic supply of 200 units?
- A) 0 units.
 - B) 50 units.
 - C) 100 units.
 - D) 150 units.
 - E) 200 units.
24. If the world price in Figure 18-3 were \$1.00, what size tariff would be required to maintain domestic supply of 200 units?
- A) \$0.50.
 - B) \$1.00.
 - C) \$1.50.
 - D) \$2.00.
 - E) \$2.50.

25. If the world price in Figure 18-3 were \$2.50, what size quota would be required to keep domestic supply at the no-trade levels?
- A) 0 units.
 - B) 50 units.
 - C) 100 units.
 - D) 150 units.
 - E) 200 units.
26. Quotas are:
- A) economically better than tariffs.
 - B) economically inferior to tariffs.
 - C) equivalent to tariffs if the government auctions off the limited supply of quota licenses to the highest bidders.
 - D) less likely than tariffs to generate retaliation from trading partners.
 - E) never used.
27. It is likely that a tariff will:
- A) improve world welfare.
 - B) increase the physical volume of trade flows.
 - C) be the most efficient source of government revenue.
 - D) improve relations with trading partners.
 - E) do none of the above.

Questions for discussion P364

Q7