2.06 International Trade

Question 1
Trading bloc members would *most likely* use a common currency in a:
A. free trade area.
B. economic union.
C. common market.

Question 2
Several countries have signed an agreement creating a trading bloc. The agreement allows tariff-free trade in goods and services among members and requires that they impose the same tariffs on imports from all nonmembers. However, the movement of people and capital among members is restricted. This trading bloc is *best* described as a:
A. customs union.
B. free trade area.
C. common market.

Question 3
Which of the following trade policies is most appropriate for a country to enact if it is trying to reduce a large trade deficit?
A. Reduce import tariffs on raw materials and manufactured goods by an average of 50%.
B. Impose import quotas limiting foreigners to 20% of a domestic market in which imports constitute 5% of the market.
C. Negotiate a voluntary export restraint agreement with a country running a large trade surplus with the domestic economy.

Question 4
Unlike members of a customs union, members of a common market most likely:
A. have a common currency.
B. maintain uniform trade policies with nonmembers.
C. may freely move factors of production between members.

Question 5
An analyst has compiled the following information:

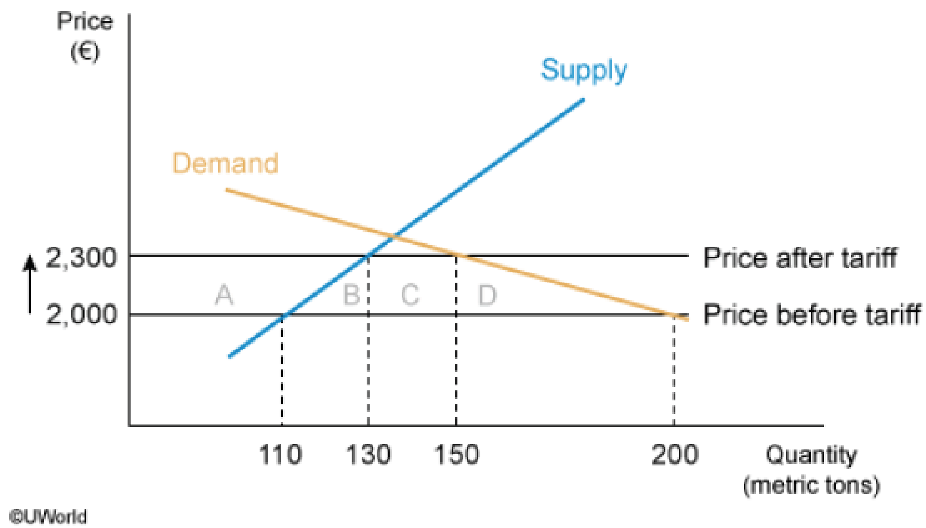
	Economic Model	Coffee Price ($)	Sugar Price ($)
Country A	Autarky	0.70	0.50
Country B	Autarky	1.00	0.45
Country C	Autarky	0.90	0.60
Country Z	Open economy	1.10	0.40

Country Z is an open economy, trading at world prices, and does not currently trade with any of the other three countries. Assuming equal consumption of both commodities, which country will benefit the *most* from a trading relationship with Country Z?
A. Country A
B. Country B
C. Country C

Question 6
A country recently imposed a tariff on apples of €300 per metric ton. The pre-tariff price for apples was €2,000 per metric ton. The table below shows the quantity demanded and the quantity supplied by domestic producers, along with the pre- and post-tariff prices of apples:

	Pre-Tariff	**Post-Tariff**
Quantity demanded (metric tons)	200	150
Quantity supplied (domestic producers)	110	130
Price per metric ton	€2,000	€2,300

The image below shows the market for apples in this country:



The area labeled A in the image represents an increase in:
A. producer surplus.
B. consumer surplus.
C. government revenue.

Question 7
A country that is a price taker in the international market imposes a per-unit tariff of €50 on imported mobile phones. The table below shows domestic consumption, domestic production, and mobile phone prices before and after the tariff's imposition:

	Before Tariff	After Tariff
Domestic quantity demanded (thousands)	8,200	7,000
Quantity supplied (domestic suppliers) (thousands)	4,000	6,500
Price (per phone)	€200	€250

The total deadweight loss (in €) from the imposition of the tariff is *closest* to:
A. 25.0 million
B. 62.5 million
C. 92.5 million

Question 8
A country initiating a free trade agreement with its major trading partners is *least likely* to experience:
A. a wider variety of goods available to consumers.
B. increased employment in industries facing import competition.
C. higher wages in industries that expand due to increased exports.

Question 9
If a government wants to increase its revenue while limiting the quantity of imports of a certain good, it would *least likely* implement a:
A. tariff.
B. import quota.
C. voluntary export restraint.