



Economics: Chapter 9- International Trade - Multiple Choice Questions

Principles of Economics 1 (Universiteit van Amsterdam)



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1. The benefits of trade include:
 - I. greater productivity due to specialization.
 - II. higher output due to specialization according to comparative advantage.
 - III. increased welfare when preferences differ.
 - A) I and II only
 - B) II and III only
 - C) I and III only
 - D) I, II, and III

2. International trade is similar to local trade because:
 - A) specialization does not occur in either case.
 - B) both are based on the concept of comparative advantage.
 - C) both are always efficient.
 - D) neither have political considerations.

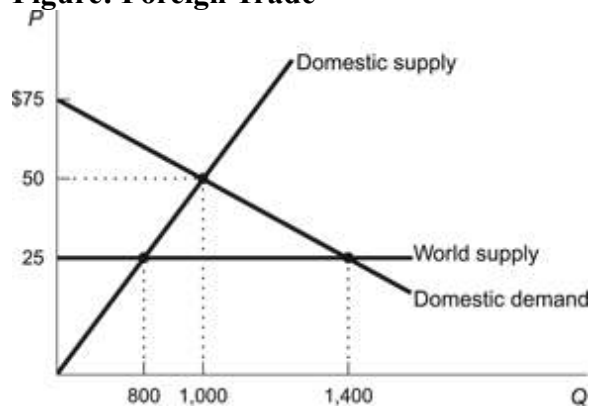
3. If Tyler and Alex are trading partners, do their gains from trade depend on whether Tyler and Alex live in the same country?
 - A) It is better if Tyler and Alex are both Americans.
 - B) It is better if one of them is American and one is not.
 - C) It is better if neither of them is American.
 - D) It doesn't matter in which country Tyler and Alex live.

4. Which of the following statements regarding trade is NOT true?
 - A) Trade increases productivity through specialization and production according to comparative advantage.
 - B) Trade raises the price of goods for both trading partners.
 - C) Trade increases productivity through specialization and the division of knowledge.
 - D) Trade makes people better off when preferences differ.

5. Consider the following statements:
 - I. Relative to a no-trade situation, if the United States exported wheat, the U.S. domestic wheat price would rise and domestic production of wheat would expand.
 - II. Relative to a no-trade situation, international trade causes the prices of all goods to rise.
 - A) I is true; II is false.
 - B) I is false; II is true.
 - C) Both I and II are true.
 - D) Both I and II are false.

Use the following to answer questions 6-9:

Figure: Foreign Trade

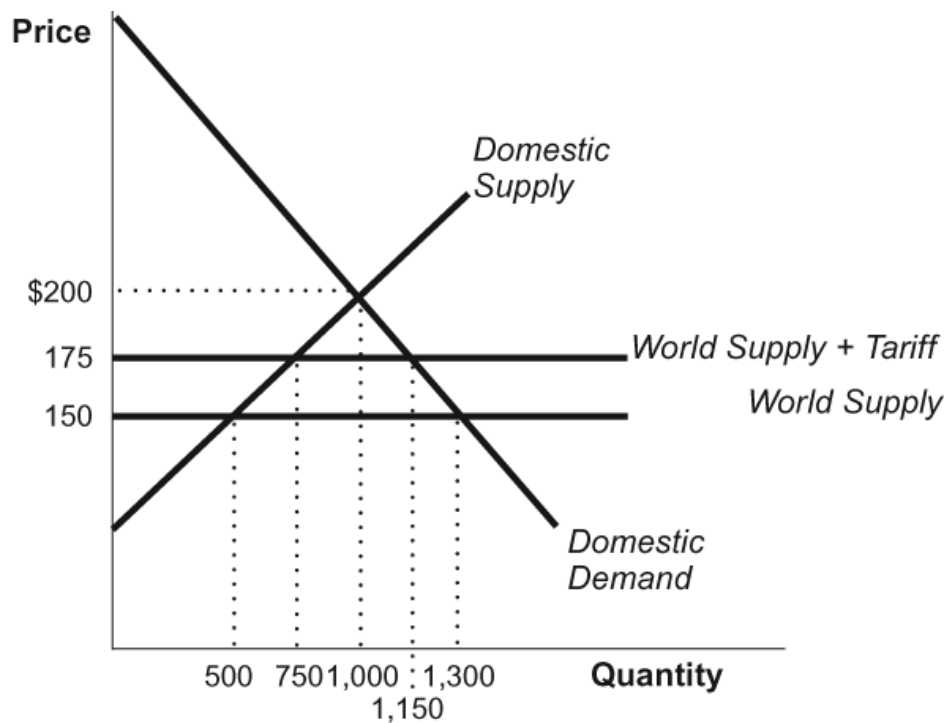


6. (Figure: Foreign Trade) Refer to the figure. What quantity would be traded in a free-trade environment?
- A) 600
 - B) 1,400
 - C) 1,000
 - D) 800
7. (Figure: Foreign Trade) Refer to the figure. What quantity would be produced domestically?
- A) 600
 - B) 1,400
 - C) 1,000
 - D) 800
8. (Figure: Foreign Trade) Refer to the figure. What quantity would be imported?
- A) 600
 - B) 1,400
 - C) 1,000
 - D) 800
9. (Figure: Foreign Trade) Refer to the figure. What quantity would be traded in the absence of any international trade?
- A) 600
 - B) 1,400
 - C) 1,000
 - D) 800

10. If the world price of cotton is less than the price that would occur domestically without trade, then a country will:
- A) decrease its demand for cotton, and increase its demand for cotton substitutes.
 - B) increase its demand for cotton, and decrease its demand for cotton substitutes.
 - C) import cotton.
 - D) export cotton.

Use the following to answer questions 11-13:

Figure: Trade

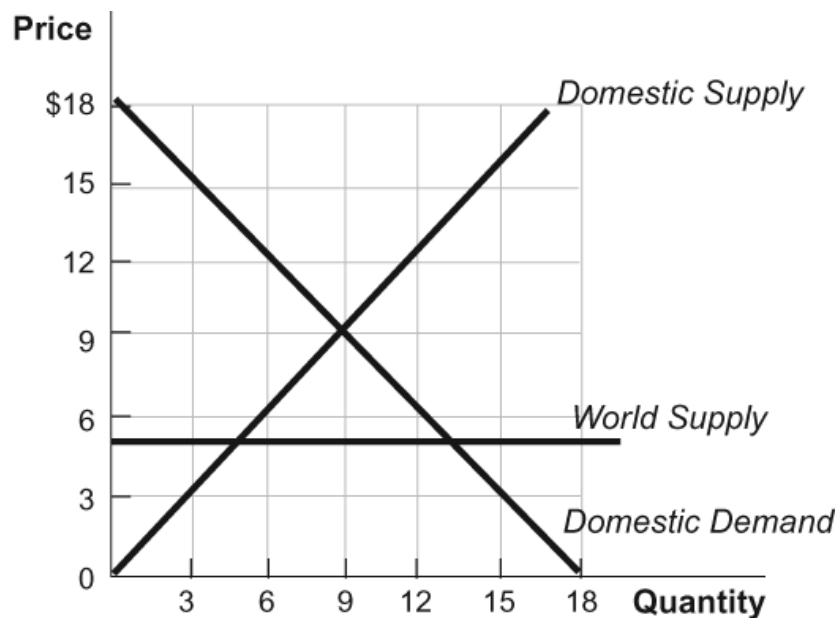


11. (Figure: Trade) Refer to the figure. If this figure represents the market for oil and the country imposes no tariffs on international trade, domestic consumption will be:
- A) 500 units.
 - B) 1,000 units.
 - C) 1,150 units.
 - D) 1,300 units.
12. (Figure: Trade) Refer to the figure. With free international trade, the country in this figure will find that the good:
- A) becomes cheaper for domestic consumers.

- B) becomes more expensive for domestic consumers.
 - C) does not change in price.
 - D) may get cheaper or more expensive for domestic consumers but it is impossible to tell.
13. (Figure: Trade) Refer to the figure. If the world price for the good in this figure were higher than the domestic price, a move to free international trade means that the domestic economy would become:
- A) a net importer of the good.
 - B) a net exporter of the good.
 - C) neither a net importer nor a net exporter of the good.
 - D) either a net importer or a net exporter of the good but it is impossible to say which.
14. When a country adopts free trade and becomes a net exporter of a good, that good:
- A) becomes cheaper for domestic consumers.
 - B) becomes more expensive for domestic consumers.
 - C) does not change in price.
 - D) may get cheaper or more expensive for domestic consumers.
15. Protectionism:
- A) benefits domestic consumers and foreign producers.
 - B) places a tax on exports.
 - C) restricts trade through policies that favor domestic producers.
 - D) restricts the quantity of goods that can be exported.

Use the following to answer questions 16-17:

Figure: International Trade 1



16. (Figure: International Trade 1) Refer to the figure. According to the figure, which of the following statements is TRUE?
- A) After international trade, price falls by \$4 and consumption increases by 4 units.
 - B) After international trade, price falls by \$4 and consumption decreases by 4 units.
 - C) After international trade, price rises by \$4 and consumption increases by 8 units.
 - D) After international trade, price stays the same and consumption increases by 8 units.
17. (Figure: International Trade 1) Refer to the figure. With the international trade in this figure, domestic consumption is _____ units, and _____ of those units are imported.
- A) 9; 5
 - B) 13; 5
 - C) 13; 8
 - D) 20; 9

18. **Table: Semiconductors**

Price (per unit in dollars)	Quantity Demanded of Semiconductors (Domestic)	Quantity Supplied of Semiconductors (Domestic)
\$3.00	500	700
2.50	580	650
2.00	600	600
1.50	700	550
1.00	850	500

If the domestic economy in this table opens up to international trade at the world price of \$1.50 per semiconductor, this economy will:

- A) export 550 semiconductors.
 - B) export 150 semiconductors.
 - C) import 550 semiconductors.
 - D) import 150 semiconductors.
19. World supply of a good _____ domestic supply.
- A) is less elastic than
 - B) is more elastic than
 - C) is equally elastic to
 - D) has indeterminate elasticity compared with
20. An increase in import trade tends to _____ domestic prices.
- A) increase
 - B) decrease
 - C) hold constant
 - D) have an indeterminate effect on
21. Import trade tends to _____ domestic quantity of a good exchanged.
- A) increase
 - B) decrease
 - C) hold constant
 - D) have an indeterminate effect on
22. According to the supply and demand framework in the text, an increase in import trade tends to _____ domestic production of a good.
- A) increase
 - B) decrease
 - C) hold constant

- D) have an indeterminate effect on
23. Which of the following is TRUE about the economic policy of protectionism?
- A) It raises the prices of foreign goods in domestic markets.
 - B) It restricts competitive forces in domestic markets.
 - C) It can be achieved through quotas and tariffs.
 - D) All of the statements are correct.
24. Economic policies of protectionism include:
- I. reduced trade barriers.
 - II. tariffs.
 - III. quotas.
- A) I and II only
 - B) II and III only
 - C) I and III only
 - D) I, II, and III
25. Imposing a restrictive quota on the import of sugar will likely:
- A) increase the price of sugar and decrease the quantity consumed.
 - B) increase the price of sugar and increase the quantity consumed.
 - C) leave the price of sugar unchanged and decrease the quantity consumed.
 - D) leave the price of sugar unchanged and increase the quantity consumed.
26. Protectionism refers to government policies that:
- A) restrict imports of foreign products.
 - B) give foreign producers tax credits in an effort to increase their exports.
 - C) stimulate trade between countries and increase domestic producers profit.
 - D) restrict the output of domestic producers to keep their prices high.
27. The U.S. government restricting the quantity of sugar imports into the country is an example of a(n):
- A) trade quota.
 - B) embargo.
 - C) trade settlement.
 - D) market hanger.
28. A tariff is a:
- A) tax on imports.
 - B) subsidy on exports.

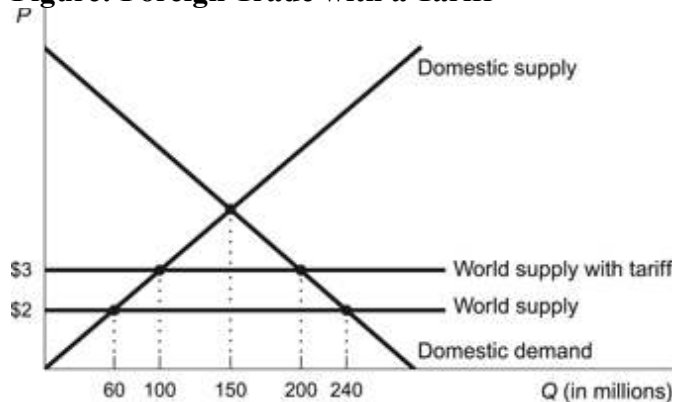
- C) restriction on the quantity of domestic goods consumed by foreigners.
- D) restriction on the quantity of imports from foreign producers.

29. A tariff is a:

- A) tax credit for domestic exports.
- B) tax on imports.
- C) temporary grant of monopoly rights.
- D) renewable subsidy to the energy industry.

Use the following to answer questions 30-32:

Figure: Foreign Trade with a Tariff

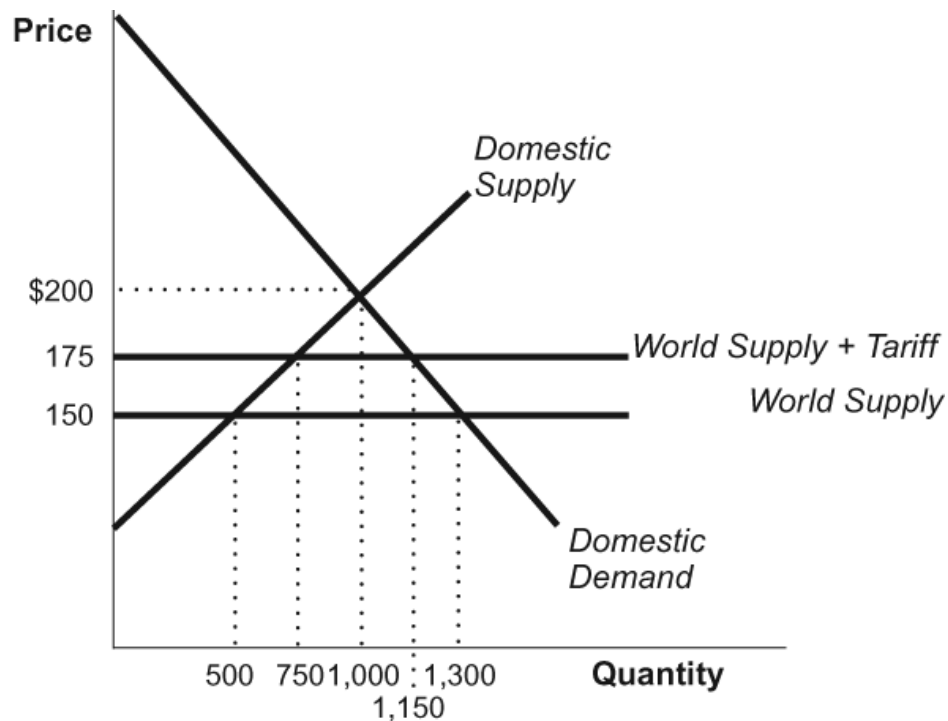


30. (Figure: Foreign Trade with a Tariff) Refer to the figure. A \$1 tariff results in:
- A) an increase in imports of 80 million units.
 - B) a decrease in imports of 80 million units.
 - C) an increase in imports of 100 million units.
 - D) a decrease in imports of 100 million units.
31. (Figure: Foreign Trade with a Tariff) Refer to the figure. A \$1 tariff generates government revenue of:
- A) \$100 million.
 - B) \$140 million.
 - C) \$180 million.
 - D) \$200 million.
32. (Figure: Foreign Trade with a Tariff) Refer to the figure. A \$1 tariff generates increased domestic production by:
- A) \$40 million units.
 - B) \$90 million units.

- C) \$140 million units.
- D) \$180 million units.

Use the following to answer questions 33-34:

Figure: Trade 2

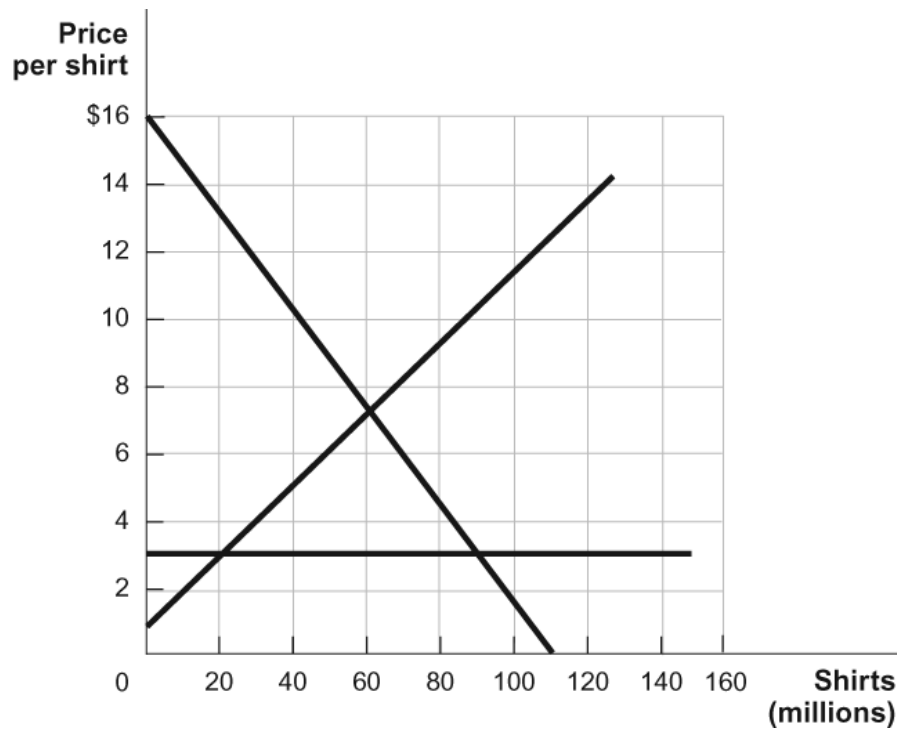


33. (Figure: Trade 2) Refer to the figure. In this figure representing the market for oil, by how much will domestic oil consumption increase or decrease following a tariff on imported oil?
- A) increase by 250 units
 - B) increase by 300 units
 - C) decrease by 500 units
 - D) decrease by 150 units
34. (Figure: Trade 2) Refer to the figure. In this figure representing the market for oil, what are the total revenues generated by the tariff?
- A) \$25,000
 - B) \$20,000
 - C) \$10,000
 - D) \$5,000

35. Which of the following results from a tariff on imported goods?
- I. domestic production increases
 - II. domestic consumption increases
 - III. government revenues increase
- A) I and III only
 - B) II and III only
 - C) I and II only
 - D) I, II, and III
36. A tariff is:
- A) the restriction of trade through regulations on domestic producers.
 - B) a restriction on the quantity of goods that can be imported.
 - C) equal to exports minus imports.
 - D) a tax on imports.
37. A trade quota is:
- A) a restriction on the quantity of goods that can be imported.
 - B) a tax on imports.
 - C) a tax on exports.
 - D) the restriction of trade through regulations on domestic producers.
38. A tariff on a good when the world price is lower than the domestic price leads to:
- A) tariff revenues that will be lower than under free trade.
 - B) domestic imports that will be higher than under free trade.
 - C) lower domestic consumption of the good than under free trade.
 - D) lower domestic production of the good than under free trade.

Use the following to answer questions 39-41:

Figure: Shirts



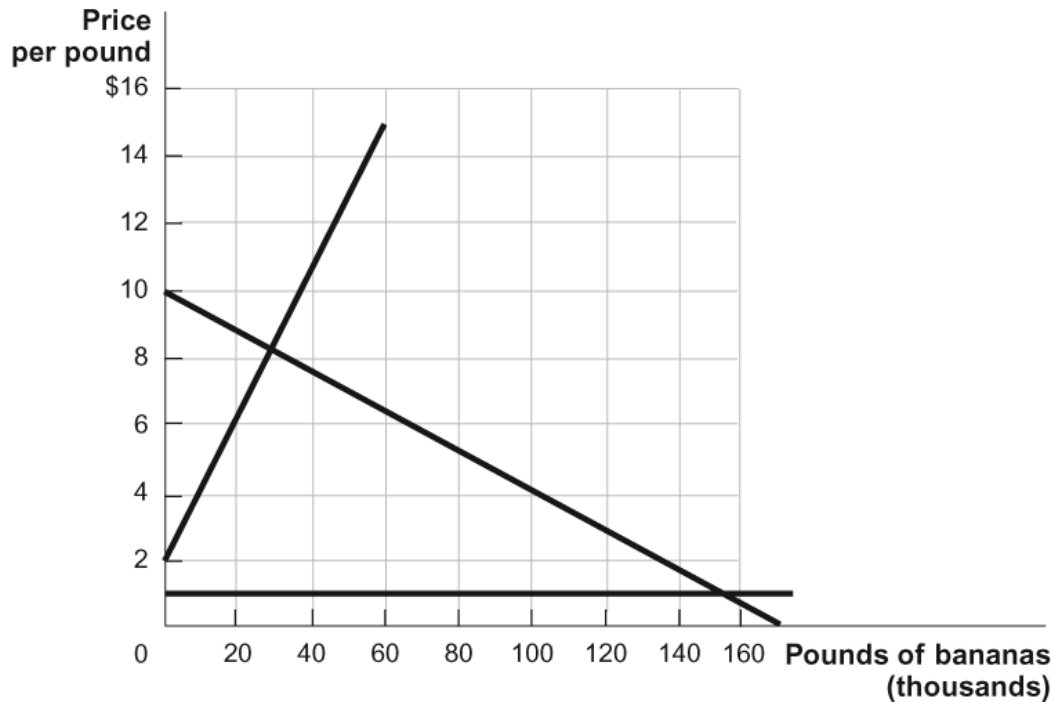
39. (Figure: Shirts) Refer to the figure. If a \$5 tariff was levied on shirts, how much tax revenue would the government collect?
- A) \$0
 - B) \$100 million
 - C) \$200 million
 - D) \$375 million
40. (Figure: Shirts) Refer to the figure. If a tariff raised the world price to \$4 a shirt, how much deadweight loss would it create?
- A) \$5,000,000
 - B) \$10,000,000
 - C) \$120,000,000
 - D) \$200,000,000
41. (Figure: Shirts) Refer to the figure. If a tariff raised the world price to \$4 a shirt, how much consumer surplus would be lost?
- A) \$5,000,000
 - B) \$10,000,000

- C) \$85,000,000
- D) \$30,000,000

42. Dividing the total tariff revenue in the trade diagram introduced in this chapter by the size of the tariff yields:
- A) imports with free trade.
 - B) imports with tariff.
 - C) the size of increase in domestic production.
 - D) the size of decrease in domestic consumption.

Use the following to answer questions 43-45:

Figure: Bananas



43. (Figure: Bananas) Refer to the figure. If there is a \$3 tariff on bananas, domestic consumers buy _____ fewer bananas and domestic producers grow _____ additional bananas.
- A) 50,000; 10,000
 - B) 75,000; 10,000
 - C) 50,000; 20,000
 - D) 75,000; 20,000

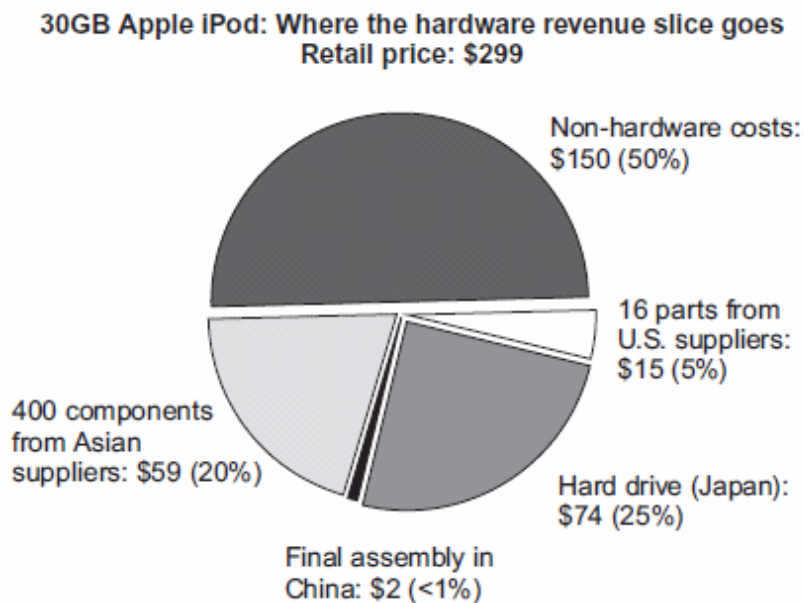
44. (Figure: Bananas) Refer to the figure. If there is a \$3 tariff on bananas, approximately what percent of banana consumption comes from imports?

- A) 8%
- B) 10%
- C) 90%
- D) 93%

45. (Figure: Bananas) If there is a \$3 tariff on bananas, what is the total tariff revenue?

- A) \$135,000
- B) \$180,000
- C) \$270,000
- D) \$360,000

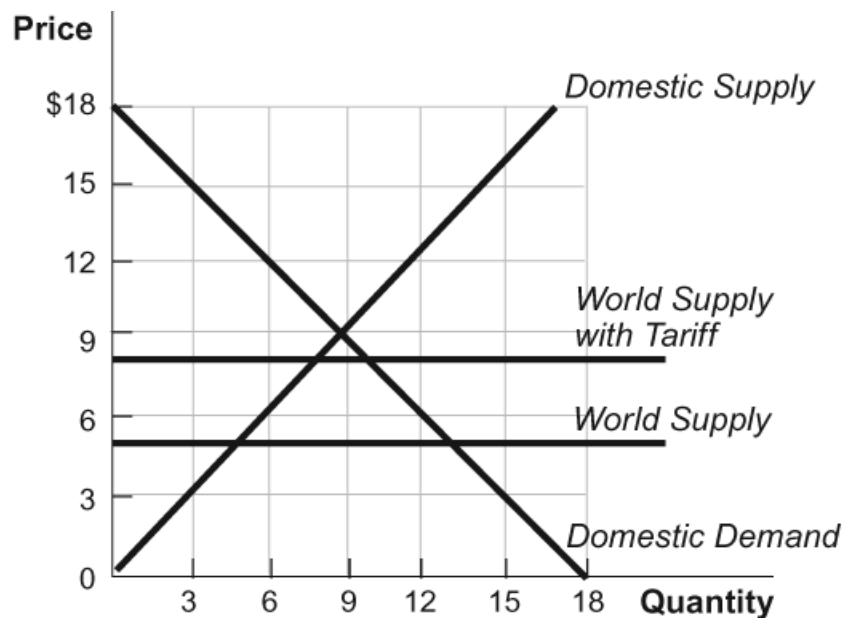
46. The diagram indicates the revenue distribution of a \$299 30GB Apple iPod. Most of the non-hardware costs are product development (e.g., software and R&D), but also includes advertising and retail costs. If the key industry argument has merit, what does this diagram suggest about which industries are actually key?



- A) hard drives
- B) electronic parts
- C) advertising
- D) product development

Use the following to answer questions 47-50:

Figure: International Trade 2

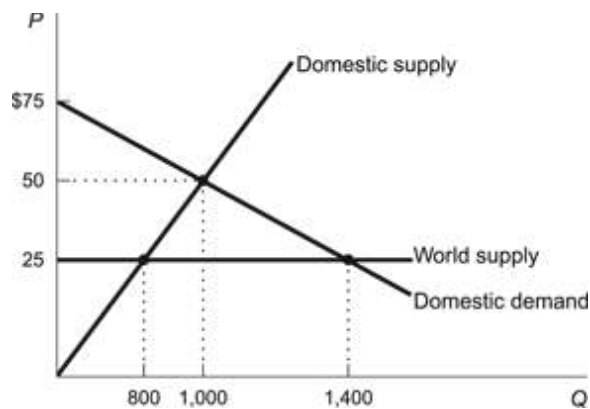


47. (Figure: International Trade 2) Refer to the figure. What is the size of the tariff in this figure?
- A) \$8
 - B) \$3
 - C) \$5
 - D) \$1
48. (Figure: International Trade 2) Refer to the figure. With the tariff in this figure, the domestic quantity demanded is _____, and the quantity supplied domestically is _____.
- A) 10; 8
 - B) 8; 8
 - C) 10; 10
 - D) 9; 7
49. (Figure: International Trade 2) Refer to the figure. At the tariff equilibrium in this figure, the quantity of imports is _____, which is _____ than at the free trade equilibrium.
- A) 2; 10 units fewer
 - B) 2; 6 units fewer
 - C) 10; 2 units more
 - D) 10; 2 units fewer

50. (Figure: International Trade 2) Refer to the figure. How much revenue does the tariff in this figure generate for the government?
- A) \$30
 - B) \$24
 - C) \$6
 - D) \$54
51. What is the difference between a tariff and a trade quota?
- A) A tariff is a tax on imported goods, and a trade quota is a quantity restriction on imported goods.
 - B) A tariff is a cash payment to domestic exporters, and a trade quota restricts the quantity of domestically produced goods foreigners can buy.
 - C) A tariff is a lump-sum tax on imported goods, and a trade quota is a sales tax on imported goods.
 - D) A tariff is a quantity trade restriction on imported goods, and a trade quota is a quantity tax on imported goods.
52. A tariff _____ the amount of output produced by domestic firms and _____ the amount of goods bought by domestic consumers.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
53. The U.S. price of sugar is higher than the world price of sugar due primarily to a:
- A) subsidy.
 - B) quota.
 - C) local content requirement.
 - D) tariff.
54. A tariff _____ the world supply of a good.
- A) reduces
 - B) increases
 - C) does not change
 - D) has no measurable effect on

Use the following to answer questions 55-58:

Figure: Foreign Trade 2

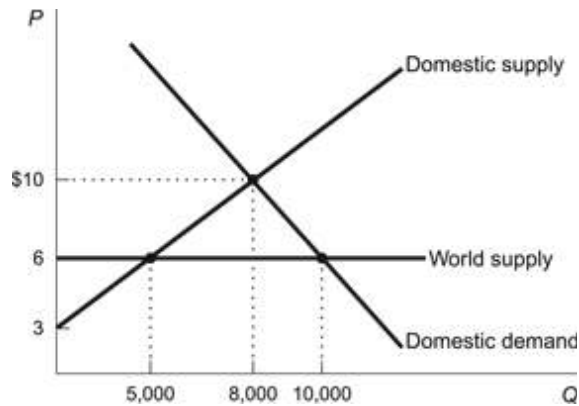


55. (Figure: Foreign Trade 2) Refer to the figure. What is the dollar value of wasted resources as a result of prohibiting trade in this market?
- A) \$30,000
B) \$5,000
C) \$2,500
D) \$22,500
56. (Figure: Foreign Trade 2) Refer to the figure. What is the dollar value of the deadweight loss created as a result of prohibiting trade in this market?
- A) \$2,500
B) \$10,000
C) \$7,500
D) \$5,000
57. (Figure: Foreign Trade 2) Refer to the figure. What is the dollar value of the producer surplus gained as a result of prohibiting trade in this market?
- A) \$15,000
B) \$30,000
C) \$12,500
D) \$22,500
58. (Figure: Foreign Trade 2) Refer to the figure. What is the dollar value of the consumer surplus that consumers could gain if the trade restriction were removed?
- A) \$35,000
B) \$22,500
C) \$30,000

D) \$25,000

Use the following to answer questions 59-61:

Figure: Foreign Trade Market

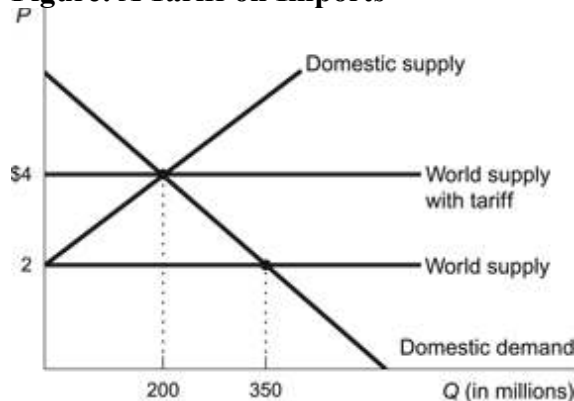


59. (Figure: Foreign Trade Market) Refer to the figure. What is the dollar value of wasted resources as a result of prohibiting trade in this market?
- A) \$10,000
 - B) \$4,000
 - C) \$7,500
 - D) \$6,000
60. (Figure: Foreign Trade Market) Refer to the figure. What is the dollar value of the deadweight loss created by the loss of foreign trade?
- A) \$10,000
 - B) \$4,000
 - C) \$36,000
 - D) \$6,000
61. (Figure: Foreign Trade Market) Refer to the figure. What is the dollar value of the lost consumer surplus as a result of prohibiting trade in this market?
- A) \$26,000
 - B) \$28,000
 - C) \$32,000
 - D) \$36,000

62. If quotas on sugar were eliminated in the United States, domestic production of sugar would fall. Why is this a benefit in economic terms for the United States?
- I. Resources are freed up that could be used more efficiently elsewhere.
 - II. It is beneficial because it allows foreign producers of sugar to earn income and thus those countries are better off.
 - III. U.S. consumers are able to enjoy increased consumer surplus because of the lower prices of imported sugar.
- A) I and II only
 - B) I and III only
 - C) II and III only
 - D) I, II, and III
63. Which, if any, of the following conditions for efficient market functioning do tariffs and quotas violate?
- I. demanders with the highest willingness to pay purchase the supply of goods
 - II. producers with the lowest costs produce and sell the supply of goods
 - III. the sum of consumer and producer surplus is maximized
- A) I only
 - B) II and III only
 - C) I, II, and III
 - D) III only

Use the following to answer questions 64-65:

Figure: A Tariff on Imports

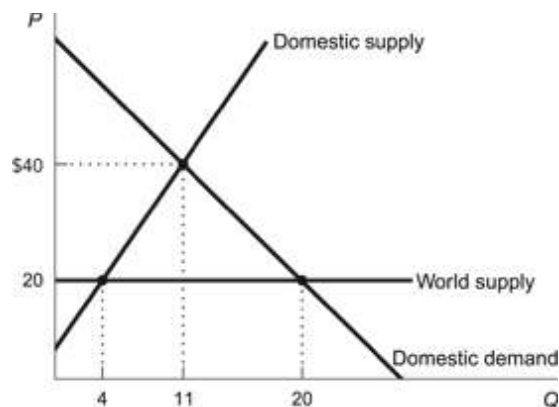


64. (Figure: A Tariff on Imports) Refer to the figure. Suppose the government intervenes with a \$2 tariff; the total value of deadweight loss as a result of the tariff is:
- A) \$150 million.
 - B) \$200 million.
 - C) \$400 million.
 - D) \$550 million.

65. (Figure: A Tariff on Imports) Refer to the figure. Suppose the government intervenes with a \$2 tariff; the total cost of the tariff to the citizens in that country is:
- A) \$350 million.
 - B) \$400 million.
 - C) \$550 million.
 - D) \$700 million.
66. Economists consider tariffs to be:
- A) necessary.
 - B) beneficial to domestic consumers.
 - C) harmful to domestic producers.
 - D) obstacles that reduce gains from trade.
67. Which of the following decreases the volume of international trade?
- A) increasing tariffs
 - B) decreasing quotas
 - C) lower transportation costs
 - D) stable monetary conditions
68. One of the costs of protectionism is:
- A) increases in total national output.
 - B) a reduction in the variety of goods in domestic markets.
 - C) greater competition.
 - D) lower opportunity costs of domestic production.
69. Which of the following statements is TRUE?
- I. If the United States bans the importation of bananas, consumer surplus will decrease.
 - II. If the United States bans the importation of bananas, producer surplus will decrease.
 - III. If the United States bans the importation of bananas, it will produce bananas at a cost exceeding their world purchase price.
- A) I, II, and III
 - B) I and II only
 - C) I and III only
 - D) II and III only

Use the following to answer questions 70-72:

Figure: World Imports



70. (Figure: World Imports) Refer to the figure. The solution for a country without trade restrictions is where the equilibrium price and quantity are _____, respectively.
- \$20 and 4
 - \$40 and 11
 - \$20 and 11
 - \$20 and 20
71. (Figure: World Imports) Refer to the figure. An imposition of extreme trade restrictions that eliminated all trade in that market, would generate wasted resources of:
- \$70.
 - \$530.
 - \$90.
 - \$160.
72. (Figure: World Imports) Refer to the figure. The imposition of a \$20 tariff would generate a value of lost gains from trade of:
- \$45.
 - \$90.
 - \$70.
 - \$160.
73. Without trade restrictions the price of tennis shoes is \$30, and with trade restrictions the price of tennis shoes is \$45. The difference in the two prices reflects:
- per-unit profits.
 - the value of the extra resources for domestic production of an additional pair of tennis shoes.

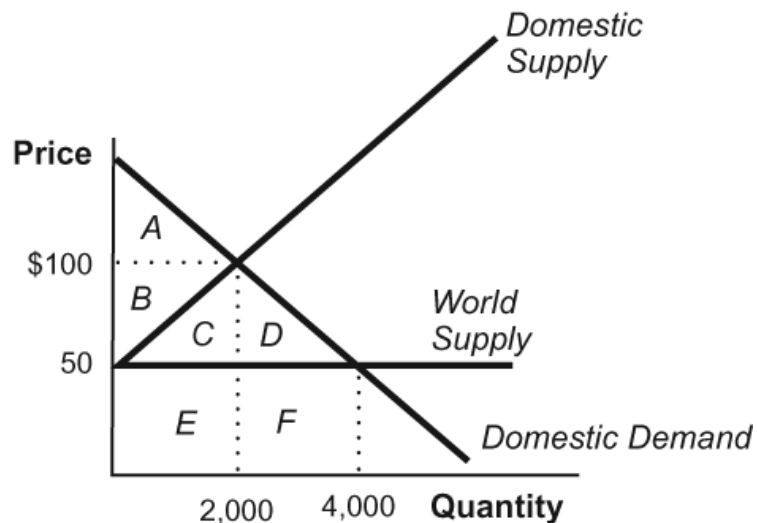
- C) the gain in consumer surplus from free trade.
- D) All of the answers are correct.

74. As a result of tariffs:

- A) the opportunity cost of domestic production falls.
- B) domestic producers waste resources producing goods for which they are not low-cost producers.
- C) foreign producers gain additional profits at the expense of domestic consumers.
- D) both domestic producers and consumers are protected from international competition.

Use the following to answer questions 75-78:

Figure: Costs of Tariffs



75. (Figure: Costs of Tariffs) Refer to the figure. In the figure representing the market for leather, domestic suppliers are the high-cost producers of leather. However, import restrictions push domestic prices up to \$100. Which area represents the value of wasted resources?

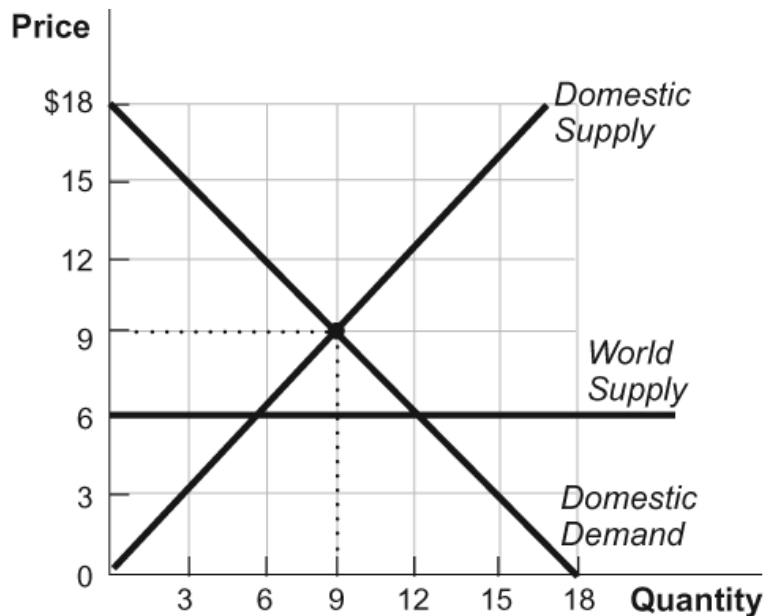
- A) *A*
- B) *B*
- C) *C*
- D) *D*

76. (Figure: Costs of Tariffs) Refer to the figure. In the figure representing the market for leather, domestic suppliers are the high-cost producers of leather. However, import restrictions push the domestic price up to \$100. Which area represents the deadweight loss that results?
- A) *A*
 - B) *B*
 - C) *C*
 - D) *D*
77. (Figure: Costs of Tariffs) Refer to the figure. In the figure representing the market for leather, what price would consumers pay for leather in the absence of a tariff or other import restrictions?
- A) a price less than \$50
 - B) \$50
 - C) a price somewhere between \$50 and \$100
 - D) \$100
78. (Figure: Costs of Tariffs) Refer to the figure. From left to right, the first triangle, rectangle, and second triangle in the diagram for analyzing a tariff represent:
- A) unexploited gains from trade due to decreased domestic consumption, wasted resources from increased domestic production, and tariff revenues, respectively.
 - B) tariff revenues, wasted resources from increased domestic production, and unexploited gains from trade due to decreased domestic consumption, respectively.
 - C) wasted resources from increased domestic production, unexploited gains from trade due to decreased domestic consumption, and tariff revenues, respectively.
 - D) wasted resources from increased domestic production, tariff revenues, and unexploited gains from trade due to decreased domestic consumption, respectively.
79. As a result of U.S. quotas on sugar imports, all of the following are true, EXCEPT:
- A) the United States pays about twice the world price for sugar.
 - B) the gains to American producers are greater than the losses to American consumers.
 - C) foreign sugar producersómostly in poor countriesó suffer.
 - D) a small group of domestic sugar producers benefit.
80. Suppose that a tariff increases domestic production of a good from 25 million units to 75 million units and raises the domestic price by \$1.50. Assuming a linear domestic supply curve and a perfectly elastic world supply curve, what is the value of the resources wasted by increased domestic production?
- A) \$37.5 million
 - B) \$50 million
 - C) \$75 million

- D) \$150 million
81. If a tariff decreases domestic consumption of a good from 230 million units to 150 million units and raises the domestic price by \$1.50, given a linear domestic demand curve and a perfectly elastic world supply curve, what is the value of the unexploited gains from trade caused by decreased domestic consumption?
- A) \$45 million
 - B) \$60 million
 - C) \$80 million
 - D) \$120 million
82. When the world price is below the domestic price, the elimination of a tariff decreases domestic production and provides a benefit because:
- A) it causes unemployment when workers are laid off.
 - B) it makes producers better off.
 - C) no one is harmed by the decreased production, and everybody pays lower prices.
 - D) it frees up resources that can be used to produce other goods and services.
83. Who does protectionism hurt?
- A) domestic producers only
 - B) domestic consumers only
 - C) international producers only
 - D) international producers and domestic consumers
84. In 1845, French economist Frédéric Bastiat famously compared tariffs to blocking out the sun since both low-priced imports and free sunlight discourage domestic industry. What part of the trade diagram best describes the encouragement of domestic industry if Bastiat's *iblockade* was taken seriously?
- A) deadweight loss
 - B) fall in consumer surplus
 - C) fall in producer surplus
 - D) wasted resources
85. The U.S. government's policies on foreign-made sugar:
- A) result in U.S. consumers paying more than double the world price of sugar.
 - B) result in U.S. consumers paying less than half the world price of sugar.
 - C) make it difficult for domestic sugar growers to compete with foreign-made sugar.
 - D) results in U.S. consumers buying inefficiently large quantities of sugar.

Use the following to answer questions 86-87:

Figure: International Trade 3



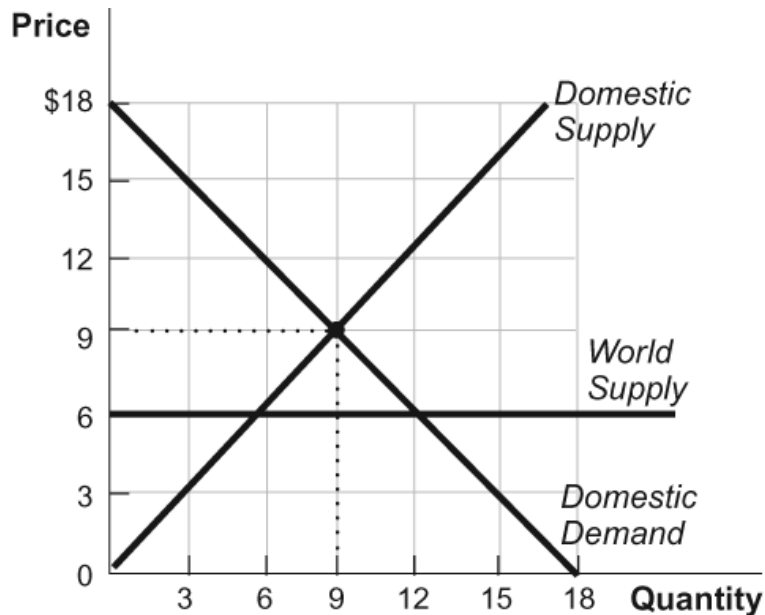
86. (Figure: International Trade 3) Refer to the figure. If the government in this diagram eliminates all imports with a tariff, the value of the wasted resources will be:
- A) \$4.50.
 - B) \$81.
 - C) \$27.
 - D) \$36.
87. (Figure: International Trade 3) Refer to the figure. If the government in this diagram eliminates all imports with a tariff, the value of the lost gains from trade is:
- A) \$4.50.
 - B) \$81.
 - C) \$27.
 - D) \$36.
88. When the government increases tariffs:
- A) production switches from low-cost foreign producers to high-cost domestic producers, causing resources to be wasted.
 - B) domestic consumers buy more goods, increasing the gains from trade.
 - C) domestic producers produce more output, increasing the gains from trade.
 - D) deadweight losses are eliminated because foreign producers sell their product below cost.

89. Eliminating tariffs on imported sugar would:
- A) cause resources in the sugar industry to be allocated to inferior uses.
 - B) allow U.S. producers to sell more sugar.
 - C) cause resources to be reallocated from sugar production to higher-valued uses.
 - D) harm domestic consumers.
90. The losses from trade protection include:
- A) deadweight loss only.
 - B) wasted resources only.
 - C) neither deadweight loss nor wasted resources.
 - D) both deadweight loss and wasted resources.
91. _____ have a similar effect upon domestic consumption levels.
- A) Subsidies and tariffs
 - B) Tariffs and quotas
 - C) Quotas and subsidies
 - D) Subsidies, tariffs, and quotas
92. According to the text, the sugar tariff wastes _____ worth of resources.
- A) \$0.9 billion
 - B) \$1.0 billion
 - C) \$1.1 billion
 - D) \$1.2 billion
93. A tariff results in a higher:
- I. consumer surplus.
 - II. producer surplus.
 - III. government revenue.
- A) I and II only
 - B) II and III only
 - C) I and III only
 - D) I, II, and III
94. A trade quota on imports:
- A) benefits domestic producers and hurts domestic consumers.
 - B) benefits domestic consumers and hurts domestic producers.
 - C) benefits both domestic producers and domestic consumers.
 - D) hurts both domestic producers and domestic consumers.

95. Which of the following statements describes reasons why free trade is beneficial for the United States?
- A) Free trade increases consumer surplus for imported goods that are cheaper than U.S. goods.
 - B) Free trade directs U.S. resources to those goods and services for which the United States has a comparative advantage.
 - C) Through specialization, the United States and its trading partners can use the same overall amount of resources to produce and consume a larger amount of goods.
 - D) All of the statements are correct.
96. Restricting the importation of foreign automobiles will:
- A) raise the price of foreign automobiles but decrease the price of domestic automobiles.
 - B) raise the price of both foreign and domestic automobiles.
 - C) cause domestic producers to sell their automobiles at lower prices because of reduced competition.
 - D) lower the price of foreign automobiles but raise the price of domestic automobiles.
97. As a result of tariffs, domestic producers tend to:
- A) gain more than domestic consumers lose.
 - B) spend less money on lobbying.
 - C) have a greater incentive to lower their production costs.
 - D) lose more than the government gains.
98. Which statement provides an explanation for tariffs decreasing market efficiency?
- A) The supply of goods is not purchased by the buyers with the highest willingness to pay.
 - B) The supply of goods is not produced by the lowest-cost suppliers.
 - C) Prices are not equal to the equilibrium price.
 - D) Deadweight loss is equal to zero.
99. Although domestic consumers gain more from free trade than domestic producers lose, the matter may not be that simple. Why might domestic producers also gain from free trade policies over those that impose tariffs on all goods?
- A) because foreign producers will be even worse off
 - B) because domestic prices are higher under free trade than under protectionism
 - C) because domestic producers also consume at least some imported goods that cost less
 - D) because the gains from free trade are random. It is impossible to say who will get them

Use the following to answer questions 100-101:

Figure: International Trade 4



100. (Figure: International Trade 4) Refer to the figure. If, in this figure, the government allowed free trade, consumer surplus would:
- A) increase by \$118.
 - B) increase by \$31.50.
 - C) decrease by \$81.
 - D) increase by \$66.50.
101. (Figure: International Trade 4) Refer to the figure. If, in this figure, the government eliminated free trade, producer surplus would:
- A) increase by \$18.
 - B) increase by \$50.
 - C) decrease by \$36.
 - D) increase by \$22.50.
102. If the government eliminated tariffs:
- A) the gains in consumer surplus would outweigh the losses in producer surplus.
 - B) the gains in producer surplus would outweigh the losses in consumer surplus.
 - C) the gains in consumer surplus would equal the losses in producer surplus.
 - D) the gains in producer surplus would equal the gains in consumer surplus.

103. Which of the following arguments is valid in the economics of international trade?
- A) Trade restrictions are good ways to raise a country's employment.
 - B) Protectionism increases the well-being of domestic consumers.
 - C) Trade restrictions help to reduce child labor in poor countries.
 - D) Trade can result in a net job gain in the whole country.
104. Which of the following is NOT an argument against international trade?
- A) It is wrong to trade with nations that use child labor.
 - B) International trade reduces the number of jobs in the United States.
 - C) International trade leads to lower prices for domestic consumers.
 - D) Certain key industries should remain at home for the interest of national security.
105. In most cases, trade restrictions will:
- A) save jobs without any other costs.
 - B) save some jobs and destroy other jobs.
 - C) benefit both producers and consumers.
 - D) benefit only the government.
106. Why does economic growth require job destruction?
- A) Economic growth requires international trade, which has been proven to cause short-term job loss.
 - B) Economic growth comes from creating and producing goods that use resources more productively, causing job loss in industries that use outdated technology.
 - C) Excessive job creation can destroy economic growth.
 - D) When economic growth occurs, there are not enough resources left over for worker retraining and re-education programs.
107. Suppose a government is facing accusations of allowing domestic jobs to be lost to foreign labor in other countries. How can the government address these concerns?
- I. Governments can ensure that unemployment insurance and strong education programs exist to help workers retrain for new jobs.
 - II. Governments can stress the importance of job creation in those industries that benefit from international trade, and encourage job creation in those industries.
 - III. Governments can set up extensive trade restrictions to limit the impact of foreign firms on domestic production.
- A) I only
 - B) II and III only
 - C) I and II only
 - D) I, II, and III

108. Which of the following statements is TRUE about the removal of trade barriers?
- A) Consumers are harmed while some suppliers benefit.
 - B) Consumers benefit while some suppliers are harmed.
 - C) Everyone benefits.
 - D) Everyone is harmed.
109. Economic growth requires:
- A) job destruction.
 - B) trade barriers.
 - C) government intervention.
 - D) job creation.
110. Taxes and quotas on imports can _____ jobs in industries that import and _____ jobs in industries that export.
- A) decrease; increase
 - B) increase; increase
 - C) increase; decrease
 - D) decrease; decrease
111. Trade restrictions:
- A) help to save jobs in the protected industry, which causes these workers to spend more money in other industries, netting increased output and job opportunities throughout the economy.
 - B) are a very inexpensive way of saving jobs, cheaper than job retraining programs.
 - C) may save jobs in one industry but at a cost of less job growth in other industries.
 - D) often have little support by politicians, media, and the public.
112. According to the text, in a typical month in the United States:
- A) almost 1.0 million jobs are lost because of unfair international trade.
 - B) several hundred thousand jobs are lost and several hundred thousand jobs are gained.
 - C) the unemployment rate averages 8.7%.
 - D) All of these observations are correct.
113. If the United States bans the importation of Japanese automobiles:
- A) U.S. consumers of cars will be better off because their consumer surplus increases.
 - B) there will likely be more U.S. auto workers but fewer Americans working in other industries.

- C) U.S. producers of cars will be worse off because their producer surplus shrinks.
 - D) everyone in the United States will be much better off.
114. Which of the following is NOT true regarding job destruction due to trade?
- A) Trade does not destroy jobs; it simply moves jobs to different industries.
 - B) Short-run worker transition may be hard, but in the long run the result is increased wages.
 - C) Trade results in the United States over the past 100 years include decreased employment and lower living standards.
 - D) Trade encourages workers to transition to industries that are low-cost producers of goods.
115. During the recent financial crisis many workers lost their jobs. Amy, for example, lost her job as a pharmaceutical salesperson. After five months of unemployment she spent \$6,000 on a class that taught her the skills she would need to sell medical devices. Today Amy makes 25% more than she did in pharmaceutical sales and enjoys her new job much more than her old job. Which of the following concepts best illustrates this scenario?
- A) Trade restrictions result in loss of jobs.
 - B) Trade re-allocates jobs across industries.
 - C) Trade results in a misallocation of resources.
 - D) Unemployment is a bad thing.
116. Under free trade, some jobs will be lost, but increased consumer spending power means there will be more jobs in other industries. However, these new jobs are:
- A) less real than the lost jobs.
 - B) more difficult to see than the lost jobs.
 - C) not likely to be good jobs.
 - D) not very patriotic.
117. Trade:
- A) decreases the number of jobs.
 - B) increases the number of jobs.
 - C) moves jobs from export industries to import-competing industries.
 - D) moves jobs from import-competing industries to export industries.
118. Technology and trade:
- A) both destroy jobs in the short run but increase the standard of living in the long run.
 - B) both create jobs in the short run but decrease the standard of living in the long run.
 - C) cannot continue to increase forever.

- D) are not very similar to each other.
119. After a pair of wars in the late seventeenth and early eighteenth centuries, French-British relations decayed to the point that England began putting high tariffs on French wines. A large part of the support for this law came from British brewers and distillers who feared the return of French competition after the wars. These tariffs help explain why, to this day, the English prefer beer over wine. Of the arguments against free trade, which seems most likely to apply here, given the information provided?
- A) saving domestic jobs
 - B) preventing child labor
 - C) the importance of national security
 - D) alcohol being a key industry
120. Which statement(s) is TRUE?
- I. When U.S. consumers buy lower-priced imports, they have more money to buy other goods, leading to increased jobs in other industries.
 - II. On net, free trade reduces total employment.
 - III. When foreign producers receive U.S. dollars for their exports, some of these dollars are used to buy U.S. goods and assets, increasing employment in U.S. exporting industries.
- A) I only
 - B) II only
 - C) I and III only
 - D) III only
121. The paradox of trade restrictions on countries with child labor is that:
- A) these restrictions aim to reduce child labor, but because they make the countries poorer, they actually cause more child labor.
 - B) children from those countries are actually more efficient than the adults.
 - C) children can be hired at lower wages than adults.
 - D) restrictions on trade cause losses in consumer surplus.
122. History has shown that one of the most effective tools against child labor is:
- A) regulations.
 - B) laws.
 - C) economic growth.
 - D) quotas.
123. Studies show that more openness to trade _____ income and _____ child labor.
- A) increases; increases

- B) increases; decreases
 - C) decreases; decreases
 - D) decreases; increases
124. Because of pressure from the United States, the garment industry in Bangladesh dismissed 30,000 to 50,000 child laborers. This action:
- A) was very beneficial, since most of the children returned to school full time.
 - B) resulted in many of the children turning to prostitution, street begging, or working in jobs with even worse working conditions.
 - C) led to a civil uprising in Bangladesh, claiming the lives of almost 4,000 of these children.
 - D) None of the answers are correct.
125. Which statement is TRUE?
- A) Although inefficient, trade restrictions are effective at reducing child labor.
 - B) Most child labor around the world takes place in factories that export products.
 - C) Rising real GDP per capita has been an important force in reducing child labor.
 - D) About 50% of the world's children aged 10 to 14 work.
126. Child labor is primarily a result of:
- A) increased demand for foreign goods.
 - B) trade restrictions such as tariffs and quotas.
 - C) absence of schools in developing nations.
 - D) poverty in the child's circumstances.
127. In poor countries, when child laborers get laid off they:
- A) have more time to play on the playground.
 - B) start attending school.
 - C) take lower-quality jobs with worse pay.
 - D) don't experience a serious impact.
128. All of the following reduce child labor, EXCEPT:
- A) greater wealth.
 - B) trade restrictions.
 - C) openness to trade.
 - D) a lower opportunity cost of education.

129. Which economic concept best explains why poorer countries have higher concentrations of child labor?
- A) producer surplus
 - B) opportunity cost
 - C) deadweight loss
 - D) marginal cost
130. Because of pressure from Western countries, garment producers in Bangladesh quit employing 30,000 to 50,000 child workers. What happened to these children?
- A) The majority of children found higher-paying jobs, with better labor protections.
 - B) Many children went to work in jobs with worse conditions and lower pay, many in prostitution.
 - C) Almost all the children went back to school to learn a more lucrative trade.
 - D) The majority of the children went back to being children: playing in parks, hanging out with friends, going to the mall, and so forth.
131. Restrictions on trade:
- A) reduce income, increasing the necessity of child labor.
 - B) reduce child labor by making countries more reliant on adult labor.
 - C) will allow children to leave jobs in agriculture for higher-paying jobs in manufacturing.
 - D) lead to higher income for developing countries but not industrialized countries.
132. The real cause of child labor is:
- A) free trade agreements.
 - B) impoverished circumstances in the child's life.
 - C) multinational corporations that are only concerned about profit maximization.
 - D) poor enforcement of existing international child labor treaties.
133. As GDP per capita increases, child labor tends to
- A) increase.
 - B) decrease.
 - C) remain the same.
 - D) change unpredictably.
134. Consider the following two statements and select the best answer.
- I. The national security argument might be a valid argument for trade protection.
 - II. Industries with spillover effects should be protected from foreign competition.
- A) I and II are both true.
 - B) I and II are both false.

- C) I is likely to be true, and II is likely to be false.
 - D) I is likely to be false, and II is likely to be true.
135. Trade restrictions based on national security concerns:
- A) might be beneficial in certain cases, like vaccinations.
 - B) have never been granted in the United States.
 - C) have no merit and are always unwise.
 - D) give little incentive for industry lobbyists to declare their product vital for national security purposes.
136. You are a policymaker and a lobbyist comes to you, arguing that his industry is important for national security and has important spillover benefits. Why might you be suspicious of his claims?
- A) He may not know anything about the industry he represents.
 - B) His industry benefits from tariffs that decrease foreign competition.
 - C) The lobbyist has the same interests as the rest of the country.
 - D) Every industry is important for national security.
137. The flu pandemic of 1918 provides an example of:
- A) a situation for which it makes sense to protect a domestic industry from international competition.
 - B) how trade restrictions lead to deaths and suffering.
 - C) how child labor affects trade flows between countries.
 - D) strategic trade protectionism.
138. Which statement is TRUE?
- A) Import restrictions may be the best policy if production in certain industries generates positive spillover effects to other industries.
 - B) It is usually easy to identify industries that generate positive spillover effects.
 - C) It would be more efficient to subsidize industries that generate positive spillover effects than to implement import restrictions.
 - D) Spillover effects from Silicon Valley were the biggest factor leading to increases in productivity in the 1990s.
139. Lobbyists for many industries argue each of the following, EXCEPT:
- A) their industry is important for national security.
 - B) competing workers in foreign countries are oppressed.
 - C) their industry needs protection and subsidization.
 - D) their industry should face more foreign competition.

140. Some goods generate spillover benefits from production, but it is:
- A) difficult to know in advance which goods those are.
 - B) in the government's interest to hear such arguments.
 - C) not possible to encourage the production of those goods.
 - D) not possible that the spillover benefits are very large.
141. The key industries argument for trade restrictions relies on the notion that:
- A) economies of scale are easier to achieve in exporting industries.
 - B) products with inelastic supply are the major source for job creation.
 - C) some industries deserve protection because they provide positive spillover effects to the rest of the economy.
 - D) war may disrupt trade flows.
142. The biggest factor in the 1990s productivity boom in the United States was:
- A) information technology.
 - B) agriculture.
 - C) education.
 - D) technological advance in the retail sector.
143. The biggest retail contributor to the 1990s productivity boom was:
- A) Target.
 - B) Kroger.
 - C) Walmart.
 - D) Walgreen's.
144. The United States is not competitive with Brazil in sugar production partly because:
- A) the opportunity cost of land suitable for sugar production in the United States is relatively high.
 - B) the opportunity cost of land suitable to sugar production in Brazil is relatively high.
 - C) the United States does not focus upon sugar production.
 - D) Brazil does not focus upon sugar production.
145. The United States is not competitive with Brazil in sugar production partly because:
- A) the average United States climate is not ideal for sugar production.
 - B) the average Brazilian climate is not ideal for sugar production.
 - C) the United States does not focus on sugar production.
 - D) Brazil does not focus on sugar production.

146. Governments can use tariffs to help domestic firms act like a cartel when selling to international buyers:
- A) if it's unlikely that other governments would impose retaliatory tariffs.
 - B) and if all governments do this, greater gains are realized by all countries.
 - C) only if international buyers have few substitutes for the domestic good.
 - D) but there are no actual examples of governments trying to do this.
147. Strategic trade protectionism makes:
- A) all countries better off.
 - B) no one better off.
 - C) foreign countries better off at the expense of the domestic country.
 - D) the domestic country better off at the expense of foreign countries.
148. If the U.S. government wanted to use strategic trade protectionism for U.S.-produced fertilizer it would:
- A) place high taxes on foreign-made fertilizer.
 - B) place a trade quota on foreign-made fertilizer.
 - C) subsidize U.S. producers of fertilizer.
 - D) place a tax or put a limit on the exports of U.S. fertilizer.
149. For strategic trade protectionism to be effective, the:
- A) good in question must be produced with high-tech equipment.
 - B) supply of the good in question must be elastic.
 - C) supply of the good in question must be inelastic.
 - D) good in question must be one of many goods that the country exports.
150. The economics of international trade is substantially different from that of ordinary trade.
- A) True
 - B) False
151. International and intranational trade are very different in terms of economic analysis.
- A) True
 - B) False
152. Both domestic production and consumption increase because of tariffs.
- A) True
 - B) False

153. In the case of sugar, moving from a situation of no trade to free trade causes both domestic consumption and production to increase.
A) True
B) False
154. If, at a world price of \$200, domestic consumers buy 900 units and domestic producers sell 600 units, imports equal 1,500.
A) True
B) False
155. Trade makes people better off when preferences are the same.
A) True
B) False
156. Trade makes people better off through specialization.
A) True
B) False
157. Protectionism protects domestic industries from the competitive forces exerted by foreign firms.
A) True
B) False
158. With free trade, the domestic price of a good must be equal to the world price of a good.
A) True
B) False
159. If the United States imports teacups from other countries, then U.S. producers of teacups are better off, and U.S. consumers of teacups are worse off, as a result of trade.
A) True
B) False
160. Economic benefits to tariffs and import quotas include: more jobs in the protected industry, lower prices to consumers, and increased gains from trade.
A) True
B) False

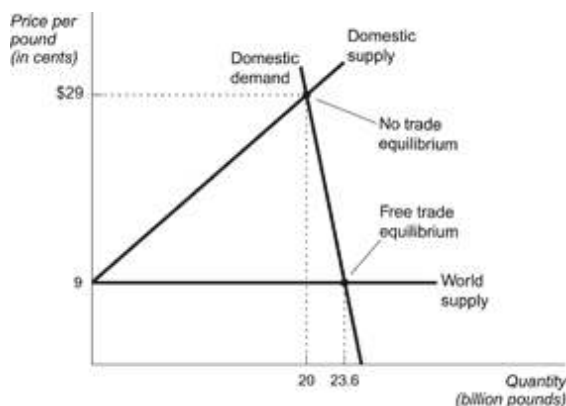
161. Trade increases competition for domestic producers and results in lower prices of domestic goods.
A) True
B) False
162. A quota is a stated quality standard that an imported good must reach before it can be allowed into the borders of the importing country.
A) True
B) False
163. In a demand and supply diagram, the effects of a tariff and a quota on the supply and demand curves are identical.
A) True
B) False
164. If the world price of a good is greater than the domestic price in a country that can engage in international trade, then that country becomes an importer of that good.
A) True
B) False
165. The tariff diagram illustrates that if the absolute value of the slopes of the demand and supply curves are equal, then the deadweight loss of any tariff always equals the wasted resources due to increased domestic production.
A) True
B) False
166. Rising tariffs increase domestic production, but reduce domestic consumption.
A) True
B) False
167. Removing tariffs and quotas will ensure that goods are sold by the low-cost producers and increase the sum of consumer and producer surplus.
A) True
B) False
168. Imposing tariffs results in both wasted resources and lost gains from trade.
A) True

- B) False
169. The United States is the only government that engages in protectionist policies.
A) True
B) False
170. Protectionism tends to create a society that pits one interest group against another and seeds social discord.
A) True
B) False
171. Protectionism policies restrain trade through price controls that burden foreign producers but not domestic producers.
A) True
B) False
172. Protectionism acts to encourage trade.
A) True
B) False
173. A quota caps the quantity of an import.
A) True
B) False
174. A tariff benefits domestic producers but hurts domestic consumers.
A) True
B) False
175. Economic theory supports the existence of specialized majors in college.
A) True
B) False
176. Domestic consumers lose more than domestic producers gain because of import restrictions.
A) True
B) False

177. Reducing tariffs causes consumer surplus to increase but producer surplus to decrease.
A) True
B) False
178. There is strong evidence to support the idea that protectionism increases domestic job growth.
A) True
B) False
179. We pay for our exports with our imports.
A) True
B) False
180. The United States subsidizes mohair (goat fleece) purportedly for national security reasons.
A) True
B) False
181. Economic growth requires job destruction, since the destroyed jobs free up resources for more productive activities.
A) True
B) False
182. Trade moves jobs from import-competing industries to export industries.
A) True
B) False
183. Free trade has reduced the number of jobs in U.S. manufacturing as well as the overall number of jobs in the U.S. economy.
A) True
B) False
184. The prevalence of child labor tends to increase as countries get richer.
A) True
B) False

185. The total number of child laborers is usually smaller for middle-income countries than for very poor countries.
 A) True
 B) False
186. Briefly describe a few activities that a typical student might do on any given day that reflect the effects of globalization.
187. What are the three major benefits of trade? Explain briefly.
188. With the aid of demand and supply curves, compare the amounts of imports and the prices of goods under (i) free trade, (ii) trade with a tariff, and (iii) a closed economy without trade.

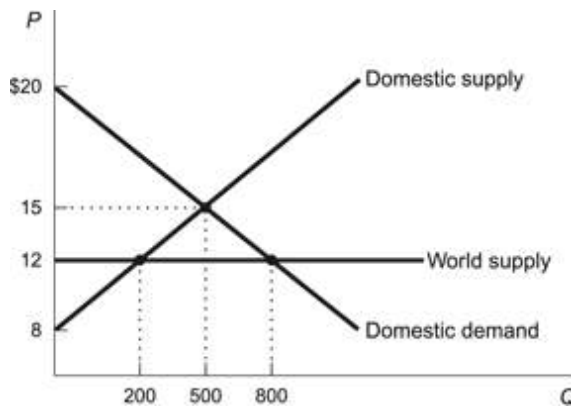
189. **Figure: Consumption with and without Trade**



Refer to the figure. Suppose this diagram represents the market for sugar in the United States.

- What is the equilibrium price of sugar before trade?
- What is the equilibrium quantity of sugar before trade?
- What is the price of sugar after trade is allowed?
- What is the quantity of sugar imported after trade is allowed?
- What is the amount of consumer surplus before trade?
- By how much does consumer surplus increase after trade?
- What is the amount of producer surplus before trade?
- What is the amount of producer surplus after trade?

190. **Figure: Market Activity with and without Trade**



Refer to the figure. Using the diagram for market activity with and without trade to consider the effects of a trade restriction that eliminated foreign trade in an economy, answer the following questions.

- What is the dollar amount of deadweight loss created as a result of the trade restriction?
- What is the dollar value of wasted resources as a result of the trade restriction?
- What is the dollar gain in domestic producer surplus as a result of the trade restriction?

191. What are the gains and losses of a trade restriction versus free trade? Explain carefully.

192. Briefly discuss any benefits of protectionism.

193. Sugar production is highly protected in the United States. Sugar importers must pay such high tariffs that it is hardly profitable for them to sell any sugar in the United States. Who are the winners and losers from such protectionism? Is the resulting market economically efficient? Why? If not, why would the government continue import restrictions that promote economic *inefficiency*?

194. What are the arguments in favor of trade restrictions, and what are their counterarguments? According to most economists, do these arguments really justify trade restrictions? Explain.

195. During the recent economic slowdown, many jobs were lost in the Detroit area because of high prices (and therefore low sales) of domestically produced cars. Domestic companies that have succeeded in weathering the storm, such as Ford Motor Company, have done so by cutting unprofitable car lines, moving production toward more fuel-efficient vehicles, and cutting wasteful spending. Still, many workers lost their jobs. In economic terms, explain whether the market is more or less efficient now than before the recession began.

Answer Key

1. D
2. B
3. D
4. B
5. A
6. B
7. D
8. A
9. C
10. C
11. D
12. A
13. B
14. B
15. C
16. A
17. C
18. D
19. B
20. B
21. A
22. B
23. D
24. B
25. A
26. A
27. A
28. A
29. B
30. B
31. A
32. A
33. D
34. C
35. A
36. D
37. A
38. C
39. A
40. A
41. C
42. B
43. A
44. C

- 45. C
- 46. D
- 47. B
- 48. A
- 49. B
- 50. C
- 51. A
- 52. B
- 53. D
- 54. A
- 55. C
- 56. D
- 57. D
- 58. C
- 59. D
- 60. B
- 61. D
- 62. B
- 63. B
- 64. A
- 65. A
- 66. D
- 67. A
- 68. B
- 69. C
- 70. D
- 71. A
- 72. B
- 73. B
- 74. B
- 75. C
- 76. D
- 77. B
- 78. D
- 79. B
- 80. A
- 81. B
- 82. D
- 83. D
- 84. D
- 85. A
- 86. A
- 87. A
- 88. A
- 89. C
- 90. D

- 91. B
- 92. C
- 93. B
- 94. A
- 95. D
- 96. B
- 97. A
- 98. B
- 99. C
- 100. B
- 101. D
- 102. A
- 103. D
- 104. C
- 105. B
- 106. B
- 107. C
- 108. B
- 109. A
- 110. C
- 111. C
- 112. B
- 113. B
- 114. C
- 115. B
- 116. B
- 117. D
- 118. A
- 119. A
- 120. C
- 121. A
- 122. C
- 123. B
- 124. B
- 125. C
- 126. D
- 127. C
- 128. B
- 129. B
- 130. B
- 131. A
- 132. B
- 133. B
- 134. C
- 135. A
- 136. B

- 137. A
- 138. C
- 139. D
- 140. A
- 141. C
- 142. D
- 143. C
- 144. A
- 145. A
- 146. C
- 147. D
- 148. D
- 149. C
- 150. B
- 151. B
- 152. B
- 153. B
- 154. B
- 155. B
- 156. A
- 157. A
- 158. A
- 159. B
- 160. B
- 161. A
- 162. B
- 163. B
- 164. B
- 165. A
- 166. A
- 167. A
- 168. A
- 169. B
- 170. A
- 171. B
- 172. B
- 173. A
- 174. A
- 175. A
- 176. A
- 177. A
- 178. B
- 179. B
- 180. A
- 181. A
- 182. A

183. B

184. B

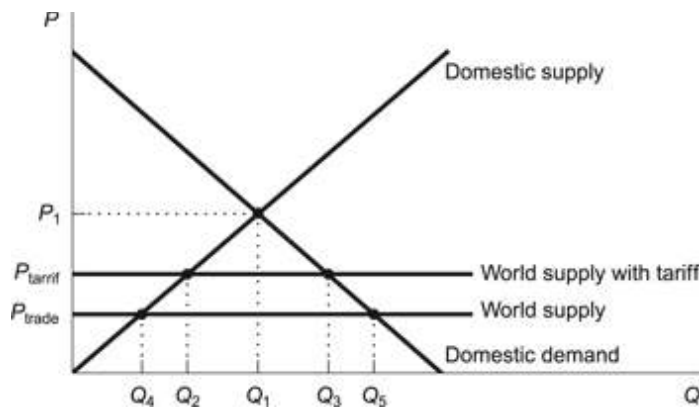
185. A

186. *This answer could of course be personalized, but an example answer might be as follows:*

Globalization allows us to enjoy goods from around the world, and expand the variety of goods we consume as well as interact more with people from other countries and regions. A student perhaps wakes up in the morning to the ring of an alarm clock made in China. That student then has breakfast that includes Colombian coffee, cereal that uses corn made in the United States, and bananas grown in Honduras. The student wears a shirt that has a "Made in Bangladesh" label. The student then picks up his or her textbooks made with paper that came from trees grown in Canada, and goes to class where the teacher is a visiting instructor from Turkey. In class the student sits between two other students from Iraq and Kenya. Later in the evening, the student unwinds by playing games on a Nintendo Wii made in Japan. Dinner might consist of Indian cuisine, and dessert might be Italian tiramisu. Finally, the student goes back to bed and sleeps under a blanket made in Korea.

187. *Trade requires people or countries to specialize. The first benefit of trade comes when people with differing preferences are made better off from their voluntary trades. The second benefit of trade comes from increased productivity as a result of specialization and the division of knowledge. Specialization followed by trade greatly increases productivity. The third benefit of trade comes from taking advantage of differences in opportunity costs. According to the theory of comparative advantage, people or countries can specialize in producing goods that involve the lowest opportunity costs. As a result, everyone can benefit from trade.*

188. *The following diagram shows the domestic supply curve and domestic demand curve. In a closed economy without trade, the equilibrium price of the domestic market is P_1 and the equilibrium quantity is Q_1 . There are no imports. In case of an open economy, if the world supply curve is the horizontal line at P_{trade} , then the amount of imports equals $(Q_5 - Q_4)$ under free trade, and the price of goods equals P_{trade} . A tariff is a tax on imports so that the world supply curve shifts upward to the horizontal line at P_{tariff} . As a result of the tariff, the amount of imports reduces to $(Q_3 - Q_2)$, and the price of goods with the tariff rises from P_{trade} to P_{tariff} .*



189. a. 29 cents per pound

b. 20 billion pounds

- c. 9 cents per pound
d. 23.6 billion pounds
e. Unknown
f. By $(\$.20 \diamond 20 \text{ billion}) + (\$.20 \diamond 3.6 \diamond .50) = \4.36 billion
g. $(\$.20 \diamond 20 \text{ billion} \diamond .50) = \2 billion
h. 0
190. a. \$450
b. \$450
c. \$1,050
191. *There are two types of losses from a trade restriction, such as a tariff or quota. First, it involves a waste of resources that could be freed up to produce other goods and services under free trade. Second, a trade restriction creates a deadweight loss, which is the value of lost gains from trade. In the case of a tariff, the market price increases so that there is a loss in consumer surplus. On the other hand, a higher price raises producer surplus, which is the gain from domestic producers. In other words, domestic producers gain while domestic consumers lose with a trade restriction.*
192. *Protectionism can allow a new industry to gain some time in which to become competitive. Thus, a protected firm is able to sell its products at a price that is higher than the world price, and this provides it a window of opportunity in which to become more efficient. A government may also choose to protect a good if it is essential for national security—for example, the domestic vaccine industry. Import restrictions protect such industry from competition, and the government essentially helps the domestic firms to act as a cartel.*
193. *The winners from tariffs such as those imposed on sugar are the domestic producers. Without these import restrictions, domestic producers would not be able to compete with lower-cost producers worldwide (even if they could compete, the competition would lower prices so that their profits would be significantly lower as well). The losers are domestic consumers that now face much higher sugar prices and end up consuming less than they would without the import restrictions. The sugar market is thus inefficient for two reasons: (1) the low-cost sugar producers are not the ones supplying the market; and (2) there are lost gains from trade between domestic buyers and foreign suppliers. This inefficiency continues to receive support by governments, though, since the benefits to producers are concentrated amongst a relatively small group. The costs, however, fall on all sugar consumers in the United States (lots!), and thus a small group of producers has a much greater incentive to lobby the government to continue the use of these tariffs, especially since the cost of lobbying is much less than the cotton subsidies. Alternatively, the cost to each individual consumer is relatively small (although the TOTAL costs to all consumers is much greater), especially compared to the total level of sugar subsidies.*
194. *Arguments mentioned in the text include the national security argument and the spillover effects argument. The national-security argument balances economic loss from trade restriction against the benefit of long-term national survival, and is probably the argument that economists would most likely accept if it were clear that the industry being protected was crucial to national security. Most economists would dismiss the spillover effects argument on strictly empirical grounds, as no one knows what industries produce spillover effects.*

195. *The market is more efficient now since the car companies that remain operational have cut costs and better utilize resources by producing those types of cars that are most highly valued by consumers.*