Question #1 of 58

Question ID: 1457095

In the context of foreign trade, limits on the amounts of imports a country allows over some period are *best* described as:

A) tariffs.

B) quotas.

C) subsidies.

Explanation

Quotas are limits on the amounts of imports allowed into a country in a period of time. Government payments to firms that export goods are known as export subsidies. Taxes on imported goods collected by the government are known as tariffs.

(Module 14.2, LOS 14.e)

Question #2 of 58

Question ID: 1457127

In a country that has a current account surplus, it is *most likely* that:

A) domestic investment is greater than domestic government savings.

B) total domestic savings are greater than domestic investment.

C) private domestic savings are greater than the budget deficit.

Explanation

The relationship between saving, investment, and the trade deficit can be expressed as:

(exports – imports) = private savings + government savings – investment

With a current account surplus (exports > imports), total domestic savings (the sum of private savings and government savings) are greater than domestic investment.

(Module 14.2, LOS 14.i)

Question #3 of 58

Question ID: 1457126

Other things equal, a current account deficit will tend to narrow if:

A) taxes decrease.

B) domestic investment decreases.

C) private savings decrease.

Explanation

The relation between the trade deficit (the current account), savings (both private and government) and domestic investments is stated as (X – M) = private savings + government savings – investment. A current account deficit will tend to narrow if private savings increase, government savings increase (either taxes increase or government spending decreases), or domestic investment decreases.

(Module 14.2, LOS 14.i)

Question #4 of 58

Question ID: 1457108

Regional trade agreements exist primarily to:

A) improve economic welfare for their members.

B) lower currency volatility for their members.

C) protect their members from unfair trading practices by non-members.

Explanation

The primary reason countries join regional trade agreements is to improve economic welfare by reducing or eliminating trade restrictions.

(Module 14.2, LOS 14.f)

Question #5 of 58

Question ID: 1457105

Which group is *most likely* to benefit from a quota imposed on imports of a good?

A) Domestic producers of the good.

B) Foreign consumers of the good.

C) Domestic consumers of the good.

Explanation

Quotas restrict the supply of imported goods, which increases the price domestically, benefiting domestic producers but harming domestic consumers. While some specific foreign producers may also benefit from the higher prices created by the quota if they receive the revenue transfer (due to higher prices received for all goods sold under the import license), foreign producers as a whole are likely to experience decreased sales in the country that imposes a quota.

(Module 14.2, LOS 14.e)

Question #6 of 58

Question ID: 1457097

An anti-dumping restriction on trade:

A) prohibits foreign firms from selling products below cost to gain market share. ✓

B) keeps some highly sensitive products in the country. ✗

C) protects infant industries. ✗

Explanation

Firms dump their goods at a price lower than cost in order to drive out the competition. Once this is complete, they will be able to raise prices to much higher levels in order to gain abnormal profits. Of course, once prices are increased, new competitors may arise.

(Module 14.2, LOS 14.e)

Question #7 of 58

Question ID: 1457089

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	Units of Output Per Day	
	Country A	**Country B**
Food	9	5
Drink	7	5

Which of the following statements is *most* accurate?

A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible. ✗

B) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.

C) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.

Explanation

Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production. The reason centers on comparative advantage. Country A must give up 7/9th unit of drink to produce one unit of food. Country B must give up 1 unit of drink to produce one unit of food. Therefore, the opportunity cost of producing food is greater for B than for A. If B produces 5 units of drink and A produces 9 units of food, total production will be greater than it would be if both countries produced both goods. By trading, both countries benefit.

(Module 14.1, LOS 14.c)

Question #8 of 58

Question ID: 1457107

The *least likely* result of import quotas and voluntary export restraints is:

A) a decrease in the quantity of imports of the product.

B) a shift in production toward higher-cost suppliers.

C) increased revenue for the government.

Explanation

Import quotas and voluntary export restraints, unlike tariffs, do not necessarily generate tax revenue. The other choices describe effects that result from tariffs, quotas, and VERs.

(Module 14.2, LOS 14.e)

Question #9 of 58

Question ID: 1457093

In the Ricardian model of trade, the source of comparative advantage is:

A) capital productivity.

B) labor productivity.

C) the difference between labor productivity and capital productivity.

Explanation

The Ricardian model of trade only considers labor as a factor of production. Comparative advantage results from differences in labor productivity. Labor and capital inputs are both considered in the Heckscher–Ohlin model of trade.

(Module 14.1, LOS 14.d)

Question #10 of 58

Question ID: 1457128

Holding other factors constant, a country can reduce its trade deficit by increasing its:

A) domestic capital investment.

B) government budget deficit.

C) private saving.

Explanation

Other things equal, increasing savings would decrease a current account deficit, while increasing a government budget deficit or domestic investment would increase a current account deficit.

(Module 14.2, LOS 14.i)

Question #11 of 58

Question ID: 1462796

The source of comparative advantage, according to the Heckscher-Ohlin model of international trade, is each country's:

A) labor productivity.

B) relative amounts of labor and capital.

C) available natural resources.

Explanation

In the Heckscher-Ohlin model, the source of comparative advantage is the relative amounts of labor and capital that are available in each country. Countries with more capital available relative to labor available will have a comparative advantage in producing capital-intensive goods, while countries with more labor available relative to capital will have a comparative advantage in labor-intensive goods. (Module 14.1, LOS 14.d)

Question #12 of 58

Question ID: 1457118

Sales and purchases of non-produced, non-financial assets are included in which of a country's trade accounts?

A) Capital account.

B) Current account.

C) Financial account.

Explanation

The capital account consists of sales and purchases of non-produced, non-financial assets plus capital transfers.

(Module 14.2, LOS 14.h)

Question #13 of 58

Question ID: 1457075

For a country that produces €100 million more income from foreign capital invested within the country than from domestic investment abroad, and produces €100 million more goods and services by foreign labor within the country than by its citizens abroad, gross national product is:

A) less than gross domestic product.

B) greater than gross domestic product.

C) equal to gross domestic product.

Explanation

GNP measures output produced by a country's citizens and capital owned by its citizens. GDP measures output produced within a country. In this example, production within the country (GDP) is greater than production by the country's citizens (GNP).

(Module 14.1, LOS 14.a)

Question #14 of 58

Question ID: 1457076

For an analyst interested in measuring activity within an economy, the *most appropriate* measure to use is:

A) gross domestic product.

B) gross national product.

C) national income.

Explanation

Gross domestic product measures the economic output produced within a country Gross national product includes output produced by citizens working abroad and output from foreign productive assets owned by a country's citizens and does not include output produced within a country by foreign workers or from productive assets in the domestic economy owned by foreigners. GDP includes production to replace physical capital as it wears out; national income does not.

(Module 14.1, LOS 14.a)

Question #15 of 58

Question ID: 1457116

A government that imposes restrictions on capital flows into or out of its country is *most likely* attempting to:

A) encourage competition among domestic industries.

B) reduce the volatility of domestic asset prices.

C) implement floating exchange rates.

Explanation

Reasons commonly cited by governments for imposing capital restrictions include reducing the volatility of domestic asset prices, maintaining control of exchange rates, keeping domestic interest rates low, and protecting strategic industries from foreign ownership.

(Module 14.2, LOS 14.g)

Question #16 of 58

Question ID: 1457078

The income from a country's citizens working abroad is included in:

A) neither gross domestic product nor gross national product.

B) gross domestic product, but not gross national product.

C) gross national product, but not gross domestic product.

Explanation

Gross domestic product includes the total value of goods and services produced within a country's borders. The income of a country's citizens working abroad is included in its GNP but not in its GDP.

(Module 14.1, LOS 14.a)

Question #17 of 58

Question ID: 1457086

The law of comparative advantage holds that trading partners can be made better off if they:

A) specialize in goods for which they are the low opportunity cost producer. ✓

B) import and export only those goods that other countries can produce at a lower cost. ✗

C) manage their currency exchange rates to remain the low opportunity cost producer. ✗

Explanation

The law of comparative advantage holds that trading partners can be made better off if they specialize in production of goods for which they are the low opportunity cost producer. They should export goods for which they have a comparative advantage and import goods for which their trading partners have a comparative advantage. The concept of comparative advantage compares costs of producing a good in terms of other goods a country might otherwise produce. Currency exchange rates are not relevant to the concept.

(Module 14.1, LOS 14.c)

Question #18 of 58

Question ID: 1457123

In the balance of payments accounts, goods and financial assets that migrants bring to a country are included in the:

A) capital account. ✓

B) current account. ✗

C) financial account. ✗

Explanation

The capital account includes goods and financial assets that migrants bring when they come to a country or take with them when they leave.

(Module 14.2, LOS 14.h)

Question #19 of 58

Question ID: 1457109

Which form of regional trading agreement is *least likely* to allow free movement of labor?

A) Customs union.

B) Common market.

C) Economic union.

Explanation

Economic unions and common markets remove all barriers to the movement of labor and capital among their members. Customs unions do not have this feature.

(Module 14.2, LOS 14.f)

Question #20 of 58

Question ID: 1457110

Which of the following lists of trading blocs is *most* accurately ordered by degree of economic integration, from least to most integrated?

A) Free trade area, economic union, common market.

B) Customs union, economic union, monetary union.

C) Free trade area, common market, customs union.

Explanation

The order by degree of economic integration (from least to most integrated) is as follows: free trade areas, customs union, common market, economic union, and monetary union.

(Module 14.2, LOS 14.f)

Question #21 of 58

Question ID: 1457125

Government-owned assets abroad and foreign-owned assets in the country are included in which of the balance of payments accounts?

A) Capital account.

B) Current account.

C) Financial account.

Explanation

Government-owned assets abroad and foreign-owned assets in the country are sub-accounts of the financial account.

(Module 14.2, LOS 14.h)

Question #22 of 58

Question ID: 1457104

In what way does a tariff differ from a quota? A tariff is imposed:

A) by world organizations, and quotas are imposed by individual countries.

B) by a single government, and a quota is a worldwide agreement on the total amount of trade allowed.

C) as a tax on imports, and a quota limits the quantity that can be imported.

Explanation

The difference between a tariff and a quota is that a *tariff* is a tax imposed on imported goods, while a *quota* is an import quantity limitation. Both are imposed by individual countries.

(Module 14.2, LOS 14.e)

Question #23 of 58

Question ID: 1457112

In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:

A) currency.

B) set of economic policies.

C) set of trade restrictions with non-members.

Explanation

An economic union is a common market that has also adopted common institutions and economic policy. Both common markets and economic unions adopt a common set of trade restrictions with non-members. Neither requires the adoption of a common currency, which is a characteristic of a monetary union.

(Module 14.2, LOS 14.f)

Question #24 of 58

Question ID: 1457092

The source of comparative advantage in the Heckscher-Ohlin model of trade is differences among countries in:

A) labor productivity.

B) relative scarcity of labor and capital.

C) technological advancement.

Explanation

In the Heckscher-Ohlin model of trade, the source of comparative advantage is the relative scarcity of labor and capital in each country.

(Module 14.1, LOS 14.d)

Question #25 of 58

Question ID: 1457091

In the Heckscher-Ohlin model, whether a country has a comparative advantage relative to another country is determined:

A) only by the productivity of labor in each country.

B) by the amounts of labor and capital the countries possess.

C) by the amount of capital and the level of technology in each country.

Explanation

In the Heckscher-Ohlin model a country that has relatively more capital will export capital-intensive goods and import labor-intensive goods, while a country that has relatively more labor will export labor-intensive goods and import capital-intensive goods. In the Ricardian model, differences in labor productivity are the source of comparative advantage.

(Module 14.1, LOS 14.d)

Question #26 of 58

Question ID: 1457087

According to the law of comparative advantage:

A) Mexico is considered to have a comparative advantage in plastics if Mexico can produce plastic using fewer resources than the U.S.

B) if a foreign government subsidizes the textile industry, the domestic government should impose a tariff.

C) a nation will benefit from trade when it imports goods for which it is the high cost producer and exports goods for which it is the low-cost producer.

Explanation

This statement is the law of comparative advantage.

The other choices are incorrect. The law of comparative advantage supports international trade. According to the law of comparative advantage, both trading partners are better off if they specialize in the production of goods for which they are the low-opportunity cost producer and trade for those goods for which they are the high-opportunity cost producer. Mexico is considered to have *an absolute* advantage in plastics if Mexico can produce plastic using fewer resources than the U.S.

(Module 14.1, LOS 14.c)

Question #27 of 58

Question ID: 1457114

Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is *best* described as a(n):

A) customs union.

B) monetary union.

C) economic union.

Explanation

The two countries are a part of an economic union. In an economic union, there is (1) free trade among members, (2) common restrictions (tariffs) on imports from non-members, (3) free movement of production factors (labor), and (4) common economic institutions and coordination of economic policies. While a customs union has common tariffs on imports from non-union countries and free trade, it does not allow workers to cross the borders freely and does not have common economic institutions. A monetary union requires all of the listed items and a common currency.

(Module 14.2, LOS 14.f)

Question #28 of 58

Question ID: 1457103

Which of the following arguments in favor of trade restrictions is *least likely* to be supported by economists?

A) Infant industries should be protected. ✗

B) National defense industries should be protected. ✗

C) Trade with low-wage countries depresses wage rates in high-wage countries. ✓

Explanation

Trade with low-wage countries does not in itself depress wage rates since productivity must be considered. The other arguments have some support among economists.

(Module 14.2, LOS 14.e)

Question #29 of 58

Question ID: 1457113

The most integrated type of trading bloc or regional trade agreement is a(n):

A) common market. ✗

B) economic union. ✗

C) monetary union. ✓

Explanation

A monetary union, such as the Euro zone, is the most integrated type of trading bloc or regional trade agreement because the members adopt a common currency.

(Module 14.2, LOS 14.f)

Question #30 of 58

Question ID: 1457132

Settling trade disputes and establishing agreements between trading partners *most accurately* describe the activities of the:

A) World Bank.

B) World Trade Organization.

C) International Monetary Fund.

Explanation

The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

(Module 14.2, LOS 14.j)

Question #31 of 58

Question ID: 1457121

Capital transfers and sales of non-financial assets are included in which of the balance of payments accounts?

A) Capital account.

B) Current account.

C) Financial account.

Explanation

Capital transfers and sales of non-financial assets are sub-accounts of the capital account.

(Module 14.2, LOS 14.h)

Question #32 of 58

Question ID: 1457129

The primary goals of the International Monetary Fund (IMF) include:

A) promoting exchange rate stability. ✓

B) reducing global poverty. ✗

C) resolving trade-related disputes among nations. ✗

Explanation

The primary goals of the IMF are to promote international monetary cooperation, facilitate growth of international trade, promote exchange rate stability, assist in establishing a multilateral payment system, and provide resources to members with balance of payments difficulties. Reducing global poverty is a role of the World Bank. Resolving trade disputes is a role of the World Trade Organization.

(Module 14.2, LOS 14.j)

Question #33 of 58

Question ID: 1457082

The table below outlines the possible output per unit of labor input of producing beer and cheese for Germany and Holland.

Germany		Holland	
Cheese	**Beer**	**Cheese**	**Beer**
5	10	4	6

Which of the following statements is *most accurate*?

A) Both countries would gain if Germany traded beer for Holland's cheese. ✓

B) Both countries would gain if Germany traded cheese for Holland's beer. ✗

C) Germany would not gain from trade, because it has an absolute advantage in the production of both goods. ✗

Explanation

Germany has an absolute advantage in both beer and cheese because it can produce more of both per unit of labor input than Holland. The opportunity cost of producing beer is 5/10 = 0.5 in Germany and 4/6 = 0.67 in Holland. The opportunity cost of producing cheese is 10/5 = 2 in Germany and 6/4 = 1.5 in Holland. Holland has a comparative advantage in producing cheese and Germany has a comparative advantage in producing beer. Both countries can gain if Germany trades beer for Holland's cheese.

(Module 14.1, LOS 14.c)

Question #34 of 58

Question ID: 1457115

A government that wishes to reduce the volatility of domestic asset prices and protect domestic industries is *most likely* to:

A) participate in regional trading agreements. ✗

B) impose capital restrictions. ✓

C) adopt voluntary export restraints. ✗

Explanation

Objectives commonly cited for imposing capital restrictions include reducing the volatility of domestic asset prices, protecting domestic industries, maintaining fixed exchange rates, and keeping domestic interest rates low.

(Module 14.2, LOS 14.g)

Question #35 of 58

Question ID: 1457120

Two of the balance of payments accounts are:

A) capital account and currency account. ✗

B) financial account and non-financial account. ✗

C) current account and financial account. ✓

Explanation

According to the U.S. Federal Reserve, "The BOP [balance of payments] includes the current account, which mainly measures the flows of goods and services; the capital account, which consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets; and the financial account, which records investment flows."

(Module 14.2, LOS 14.h)

Question #36 of 58

Question ID: 1457119

In 20X5, Carthage's merchandise imports exceeded the value of its merchandise exports. In this case, Carthage would *most likely* have which of the following?

A) Balance of trade surplus.

B) Capital account surplus.

C) Current account surplus.

Explanation

If a country is running a current account deficit, it must have an inflow of foreign capital, creating a surplus in the capital account.

(Module 14.2, LOS 14.h)

Question #37 of 58

Question ID: 1457111

The form of regional trading agreement (RTA) *least likely* to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:

A) free trade area.

B) customs union.

C) common market.

Explanation

A free trade area removes barriers to trade among its members but does not require any of its members to change their trade policies with non-members. A common market and a customs union both impose uniformity on trade rules with non-member nations, which could restrict a member's low-cost imports from a nation that is not a member.

(Module 14.2, LOS 14.f)

Question #38 of 58

Question ID: 1457106

Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:

A) benefits the Japanese government and domestic producers.

B) will protect the jobs and high wages of Japanese chain saw industry workers.

C) is more harmful than if the government had limited the amount of chain saws imported.

Explanation

The Japanese government's action is an example of a *tariff*. A tariff is a tax imposed on imports and benefits the Japanese government because it collects the tariff. Domestic producers benefit because the reduction in the supply of imported goods means a higher domestic price.

The other choices are incorrect. A tariff is considered *less* harmful than a quota (an import quantity limitation) because under a quota, the domestic government does *not* receive any funds as it would under a tariff (the foreign producers receive the revenue transfer). In the long run, trade restrictions do not protect the net number of jobs in the country. The number of jobs protected by import restrictions will be offset by jobs lost in the import/export industry. Import/export firms will be unable to sell the overpriced domestic products abroad or import and sell the lower priced restricted foreign-made product.

(Module 14.2, LOS 14.e)

Question #39 of 58

Question ID: 1457117

Which of the following is *least likely* a common objective of governmental capital restrictions?

A) Keep domestic interest rates high.

B) Maintain fixed exchange rates.

C) Reduce the volatility of domestic asset prices.

Explanation

A common objective of capital restrictions is to keep domestic interest rates low (not high), by eliminating competition by other countries for investor funds. The other two choices are common objectives of capital restrictions.

(Module 14.2, LOS 14.g)

Question #40 of 58

Question ID: 1457079

Country P begins importing goods from Country Q. In the long run, benefits from this trade relationship will *most likely* accrue to:

A) Country P only.

B) both Country P and Country Q.

C) Country Q only.

Explanation

Both countries in an international trade relationship benefit in the long run. Costs of international trade tend to be short-run effects in specific domestic industries.

(Module 14.1, LOS 14.b)

Question #41 of 58

Question ID: 1457124

A country that has imports valued more than its exports is said to have a:

A) capital account deficit.

B) current account deficit.

C) current account surplus.

Explanation

A country that has imports valued more than its exports is said to have a current account (trade) deficit, while countries with more exports than imports are said to have a current account surplus.

(Module 14.2, LOS 14.h)

Question #42 of 58

Question ID: 1457100

David Forsythe and Linda Novak are discussing the advantages and disadvantages of import restrictions. They state the following:

> Forsythe: One of the groups that benefits from import restrictions is often the government that imposes them.
>
> Novak: Import restrictions impose costs on specific groups, such as the country's import industries, but these costs are more than offset by the benefits to other groups and to the economy as a whole.

With respect to these statements:

A) both are incorrect.

B) both are correct.

C) only one is correct.

Explanation

Forsythe is correct. A primary reason why trade restrictions remain widespread is the revenue that governments receive from tariffs. Novak is incorrect. Trade restrictions benefit specific groups, such as workers in the protected industries, but those benefits are most often less than the costs imposed on consumers and other industries as a whole.

(Module 14.2, LOS 14.e)

Question #43 of 58

Question ID: 1457096

Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:

A) prohibit foreign firms from increasing market share by selling products below cost.

B) protect industries that are highly sensitive to national security.

C) protect industries in which they have a comparative advantage.

Explanation

If a particular country enjoys a comparative advantage in a particular industry, no protection is needed.

(Module 14.2, LOS 14.e)

Question #44 of 58

Question ID: 1457080

Which of the following statements about the costs and benefits of international trade is *most accurate*?

A) Increased international trade benefits all groups in the trading countries.

B) The costs of trade are greater than the benefits with regard to domestic employment.

C) The costs of trade primarily affect those in domestic industries that compete with imports.

Explanation

The benefits of trade are greater than the costs for the overall economy, but those in domestic industries competing with imports may suffer costs in the form of reduced profits or employment.

(Module 14.1, LOS 14.b)

Question #45 of 58

Question ID: 1457088

A country has a comparative advantage over another when it can produce:

A) a good with fewer resources than another nation.

B) more output with a given amount of input than another nation.

C) a good at a lower opportunity cost than another nation.

Explanation

A nation has a comparative advantage in producing a good when its opportunity cost of producing that good, in terms of other goods it could produce, is lower compared to another country.

(Module 14.1, LOS 14.c)

Question #46 of 58

Question ID: 1457102

Which of the following groups in the country of Minidonia would *least likely* be helped by the imposition of tariffs on Minidonian imports of transportation equipment?

A) Trucking companies.

B) Automotive manufacturers.

C) Minidonia's government.

Explanation

Tariffs on transportation equipment benefit the government in the form of tariff revenue, and benefit domestic producers and industry workers in the form of higher prices for transportation equipment. The users of transportation equipment, such as trucking companies, suffer from higher costs due to the higher prices of transportation equipment.

(Module 14.2, LOS 14.e)

Question #47 of 58

Question ID: 1457122

Income receipts and unilateral transfers are included in which of the balance of payments accounts?

A) Current account.

B) Capital account.

C) Financial account.

Explanation

Merchandise and services, income receipts, and unilateral transfers are sub-accounts of the current account.

(Module 14.2, LOS 14.h)

Question #48 of 58

Question ID: 1457081

Costs of international trade are *most likely* borne by:

A) consumers who have fewer choices of goods.

B) consumers who pay higher prices for consumer goods.

C) industries competing with imported goods.

Explanation

Industries competing with imported goods may experience lower profit and employment due to international trade.

(Module 14.1, LOS 14.b)

Question #49 of 58

Question ID: 1457083

The table below outlines the possible tradeoffs of producing units of cloth and corn, using one hour of labor input, for Country A and Country B.

Country A		Country B	
Units of Cloth	**Units of Corn**	**Units of Cloth**	**Units of Corn**
14	4	16	8

Country A has a comparative advantage in producing:

A) cloth.

B) corn.

C) neither cloth nor corn.

Explanation

To produce a unit of cloth, Country A must give up 4/14 = 0.29 units of corn, while Country B must give up 8/16 = 0.50 units of corn. Therefore Country A has a comparative advantage (i.e., a lower opportunity cost) in producing cloth.

To produce a unit of corn, Country A must give up 14/4 = 3.5 units of cloth, while Country B must give up 16/8 = 2.0 units of cloth. Therefore Country B has a comparative advantage in producing corn.

Note that this question gives output per unit of labor. In other questions you may see labor hours per unit of output. For this question that would be 1/14 units of labor per unit of cloth and 1/4 unit of labor per unit of corn for Country A, and 1/16 unit of labor per unit of corn and 1/8 unit of labor per unit of cloth for Country B. No matter how the data are presented, just focus on the trade-off, what each country must give up of one good to produce one unit of the other good.

(Module 14.1, LOS 14.c)

Question #50 of 58

Question ID: 1457098

If a country imposes a tariff on an imported good, which groups will *most likely* be harmed by the tariff?

A) Domestic consumers.

B) Foreign consumers.

C) Domestic producers.

Explanation

Domestic consumers in the country that imposes a tariff are harmed because they must pay higher prices for the good. Tariffs benefit domestic producers of the good by effectively imposing a price increase on competing imports. A tariff does not affect foreign consumers of the good.

(Module 14.2, LOS 14.e)

Question #51 of 58

Question ID: 1457084

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	Units of Output Per Day	
	Country A	**Country B**
Food	4	8
Drink	6	7

Which of the following statements about the chart is *most* accurate?

A) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.

B) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.

C) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.

Explanation

Mutual gains could be realized from trade if A specialized in drink production and B specialized in food production. The reason centers on comparative advantage. Country A must give up 1.5 units of drink to produce one unit of food. Country B must give up 0.875 units of drink to produce one unit of food. Therefore, the opportunity cost of producing food is greater for A than for B. If B produces 8 units of food and A produces 6 units of drink, total production will be greater than it would be if both countries produced both goods. By trading, both countries benefit.

(Module 14.1, LOS 14.c)

Question #52 of 58

Question ID: 1457077

In contrast to gross domestic product (GDP), gross national product (GNP) includes income earned by:

A) foreign labor working domestically.

B) foreign capital invested domestically.

C) domestic capital invested abroad.

Explanation

GNP includes goods and services produced outside the country by domestic factors of production, both labor and capital.

(Module 14.1, LOS 14.a)

Question #53 of 58

Question ID: 1457130

The *most accurate* description of the relative roles played by the International Monetary Fund, World Bank, and World Trade Organization is that the only one explicitly focused on:

A) expanding international trade is the World Trade Organization.

B) providing funding to member nations is the International Monetary Fund.

C) reducing poverty is the World Bank.

Explanation

The World Bank has the explicit mission of fighting poverty. Both the WTO and IMF work to expand international trade. Both the World Bank and IMF provide funds to member nations, the World Bank for development and the IMF when member nations experience balance of payments difficulties.

(Module 14.2, LOS 14.j)

Question #54 of 58

Question ID: 1457101

The primary benefits derived from tariffs usually accrue to:

A) domestic producers of export goods.

B) foreign producers of goods protected by tariffs.

C) domestic suppliers of goods protected by tariffs.

Explanation

Tariffs raise domestic prices, benefiting domestic suppliers.

(Module 14.2, LOS 14.e)

Question #55 of 58

Question ID: 1457131

Promoting international monetary cooperation, promoting exchange stability, and assisting members experiencing balance of payments difficulties are the goals of the:

A) World Bank.

B) International Monetary Fund.

C) World Trade Organization.

Explanation

The IMF's main goals are promoting international monetary cooperation; facilitating the expansion and balanced growth of international trade; promoting exchange stability; assisting in the establishment of a multilateral system of payments; and making resources available (with adequate safeguards) to members.

(Module 14.2, LOS 14.j)

Question #56 of 58

Question ID: 1457099

Who benefits least from tariffs?

A) Domestic consumers.

B) Domestic producers.

C) Foreign consumers.

Explanation

A tax imposed on imports is called a tariff, which benefits domestic producers and domestic governments. Domestic consumers lose through higher prices, less choice of products, and lower quality products.

(Module 14.2, LOS 14.e)

Question #57 of 58

Question ID: 1457085

Suppose labor in Venezuela is less productive than labor in the United States in all areas of production. Which of the following statements about trading between Venezuela and the U.S. is *most accurate*?

A) Both nations can benefit from trade.

B) Venezuela can benefit from trade but the U.S. cannot.

C) Venezuela will not have a comparative advantage in any good.

Explanation

Although one country may have an absolute advantage in all areas, trade is based on differences in opportunity costs, or comparative advantage. Any country will always have a comparative advantage in the production of some goods; thus, all countries can benefit from trade.

(Module 14.1, LOS 14.c)

Question #58 of 58

Question ID: 1457090

If a country can produce a good at a lower opportunity cost relative to another country, it is said to have:

A) an absolute advantage only.

B) a comparative advantage only.

C) both an absolute advantage and a comparative advantage.

Explanation

A country is said to have a comparative advantage in the production of a good if its opportunity cost, in terms of other goods that could be produced instead, is lower than that of another country. A country can have a comparative advantage in producing a good even if its trading partner has an absolute advantage in producing that good.

(Module 14.1, LOS 14.c)