International Economics

Homework 2 (CH6-CH12), due on Nov 7th

1) The meaning of "terms of trade" is

A) the price of a country's exports divided by the price of its imports.

B) the amount of exports sold by a country.

C) the price conditions bargained for in international markets.

D) the quantities of imports received in free trade.

E) the tariffs in place between two trading countries.

2) If the U.S. (a large country) imposes a tariff on its imported good, this will tend to

A) cause a deterioration of U.S. terms of trade.

B) have no effect on terms of trade.

C) improve the terms of trade of all countries.

D) improve the terms of trade of the United States.

E) raise the world price of the good imported by the United States.

3) International borrowing and lending may be interpreted as one form of

A) intertemporal trade.

B) intermediate trade.

C) trade in services.

D) unrequited international transfers.

E) aid to offset trade advantages.

4) If a firm's output more than doubles when all inputs are doubled, production is said to occur under conditions of

A) increasing returns to scale.

B) imperfect competition.

C) intra-industry equilibrium.

D) constant returns to scale

E) decreasing returns to scale.

5) The existence of external economies of scale

A) tends to result in one huge monopoly.

B) cannot be associated with a perfectly competitive industry.

C) may be associated with a perfectly competitive industry.

D) tends to result in large profits for each firm.

E) focuses more on individual firms than the industry as a whole.

6) If two countries begin trade and both produce a product subject to external economies of scale, then the country with the \_\_\_\_\_\_\_\_ rate of production will \_\_\_\_\_\_\_\_ production until it controls \_\_\_\_\_\_\_\_ of the market.

A) higher; increase; 100%

B) higher; increase; 50%

C) lower; increase; 100%

D) lower; increase; 50%

E) higher; decrease; 0%

7) Restaurant meals are an example of a \_\_\_\_\_\_\_\_ good and clothing is an example of a \_\_\_\_\_\_\_\_ good. The pattern of interregional trade is determined primarily by \_\_\_\_\_\_\_\_.

A) nontraded; traded; external economies.

B) traded; nontraded; internal economies

C) nondurable; durable; natural resource

D) durable; nondurable; natural resources

E) consumer; style; population

8) A monopolistic firm

A) will always earn a profit in the long run.

B) can sell as much as it wants for any price it determines in the market.

C) cannot determine the price, which is determined by consumer demand.

D) cannot sell additional quantity unless it raises the price on each unit.

E) will never sell a product whose demand is inelastic at the quantity sold.

9) Intra-industry trade is most common in the trade patterns of

A) the industrial countries of Western Europe.

B) the developing countries of Asia and Africa.

C) raw material producers.

D) China with the rest of the world.

E) labor-intensive products.

10) In the model of monopolistic competition, if firms have \_\_\_\_\_\_\_\_ average cost curves, then opening trade will \_\_\_\_\_\_\_\_ the total number of firms and \_\_\_\_\_\_\_\_ the average price.

A) downward sloping; decrease; decrease

B) downward sloping; decrease; increase

C) downward sloping; increase; decrease

D) upward sloping; decrease; increase

E) upward sloping; increase; decrease

11) The most common form of price discrimination in international trade is

A) Voluntary Export Restraints.

B) non-tariff barriers.

C) dumping.

D) preferential trade arrangements.

E) product boycotts.

12) A corporation is considered a multinational \_\_\_\_\_\_\_\_ if \_\_\_\_\_\_\_\_.

A) parent; it owns more than 10% of a foreign firm

B) parent; more than 10% of its stock is held by a foreign company

C) child; more than 10% of its stock is held by a foreign company

D) child; more than 50% of its stock is held by a foreign company

E) monopolist; it owns more than 50% of a foreign firm

13) A firm is more likely to engage in horizontal foreign direct investment if

A) trade costs are low and there are internal economies of scale.

B) trade costs are high and there are internal economies of scale.

C) trade costs are high and there are external economies of scale.

D) trade costs are low and there are external economies of scale.

E) trade costs are low and firms experience constant returns to scale in production.

14) Specific tariffs are

A) import taxes stated in specific legal statutes.

B) import taxes calculated as a fixed charge for each unit of imported goods.

C) import taxes calculated as a fraction of the value of the imported goods.

D) the same as import quotas.

E) import taxes calculated based solely on the origin country.

15) If a good is imported into (large) country H from country F, then the imposition of a tariff in country H

A) raises the price of the good in both countries (the "Law of One Price").

B) raises the price in country H and cannot affect its price in country F.

C) lowers the price of the good in both countries.

D) lowers the price of the good in H and could raise it in F.

E) raises the price of the good in H and lowers it in F.

16) An important difference between tariffs and quotas is that tariffs

A) raise the price of the good.

B) generate tax revenue for the government.

C) stimulate international trade.

D) help domestic producers.

E) are paid by foreign producers.

17) The efficiency case made for free trade is that as trade distortions such as tariffs are dismantled and removed

A) government tariff revenue will decrease, and therefore national economic welfare will decrease.

B) government tariff revenue will decrease, and therefore national economic welfare will increase.

C) deadweight losses for producers and consumers will decrease, hence increasing national economic welfare.

D) deadweight losses for producers and consumers will decrease, hence decreasing national economic welfare.

E) government tariff revenue will increase, hence increasing national economic welfare.

18) The *optimum tariff is*

A) the best tariff a country can obtain via a WTO negotiated round of compromises.

B) the tariff, which maximizes the terms of trade gains.

C) the tariff, which maximizes the difference between terms of trade gains and terms of trade loses.

D) not practical for a small country due to the likelihood of retaliation.

E) not practical for a large country due to the likelihood of retaliation.

19) It is argued that special interest groups are likely to take over and promote protectionist policies, which may lead to a decrease in national economic welfare. This argument leads to

A) a presumption that in practice a free trade policy is likely to be better than alternatives.

B) a presumption that trade policy should be shifted to Non-Governmental Organizations, so as to limit taxpayer burden.

C) a presumption that free trade is generally a second-best policy, to be avoided if feasible alternatives are available.

D) a presumption that free trade is the likely equilibrium solution if the government allows special interest groups to dictate its trade policy.

E) a presumption that protectionist policies will better serve a country as a whole than free trade policies.

20) The simple model of competition among political parties long used by political scientists tends to lead to the practical solution of selecting the

A) optimal tariff.

B) prohibitive tariff.

C) zero (free-trade) tariff.

D) the tariff rate favored by the median voter.

E) the tariff rate supported by exporters.

21) For most developing countries

A) productivity is high among domestic workers.

B) population growth and illiteracy rates are low.

C) saving and investment levels are high.

D) agricultural goods and raw materials constitute a high proportion of domestic output.

E) pollution emissions are relatively low.

22) The effect of an export tariff on a large country is to \_\_\_\_\_\_\_\_ the terms of trade.

A) always improve

B) sometimes improve

C) leave unchanged

D) sometimes worsen

E) always worsen

23) The infant industry argument was an important theoretical basis for

A) neo-colonialist theory of international exploitation.

B) import-substituting industrialization.

C) historiography of the industrial revolution in Western Europe.

D) the East-Asian miracle.

E) the reduction of tariffs on Western Europe.

24) General equilibrium considerations lead to the realization that import-substituting policies have the effect of

A) discouraging exports.

B) encouraging exports.

C) encouraging an efficient use of a country's resources.

D) generating large tariff revenues for the government.

E) creating competitive manufacturing sectors.

25) The high correlation between rapid growth in exports and rapid economic growth observed in several East Asia countries in recent decades

A) proves that export promoting trade policy leads to relatively rapid economic growth.

B) proves that a free-trade orientation of trade policy results in rapid economic growth.

C) proves that exports help growth, whereas imports impede growth.

D) proves that trade policy is the most important policy area for promotion of economic development.

E) does not prove that trade liberalization always leads to rapid economic growth.

26) Historically those few developing countries which have succeeded in significantly raising their per-capita income levels

A) did not accomplish this with import-substituting industrialization.

B) did accomplish this with import-substituting industrialization.

C) tended to provide heavy protection to domestic industrial sectors.

D) favored industrial to agricultural or service sectors.

E) did so to the detriment of their nearest neighbors.

27) The existence of positive externalities due to the impossibility of full appropriability

A) supports the conclusions of the Heckscher-Ohlin model.

B) rejects the usefulness of government protectionism.

C) supports the concept that the government should support only high-tech industries.

D) provides support for government protectionism.

E) supports arguments for free trade.

28) In today's world markets, poor developing countries tend to rely primarily on exports of

A) agricultural products.

B) primary products.

C) mineral products.

D) manufactured products.

E) high-tech products.

29) Other things being equal, a rise in a country's terms of trade increases its welfare. What would happen if we relax the ceteris paribus assumption, and allow for the law of demand to operate internationally?

30) Some argue that tariffs always hurt the imposing country's economic welfare, and are typically designed to shift resources from one sector to another, protected or preferred one, within an economy. Find and discuss a counter example to this argument.

31) It may be argued that Japan's explicit promotion of its microchip industry was an excellent example of successful *industrial policy*. What criteria would you apply to determine whether such a policy is or is not successful? Judging from your own stated criteria, was Japan's exercise successful? Why or why not? What information would a government require in order to increase the probability that its *industrial policy* would promote long term self-generated economic growth?