

QUIZ 2 ANSWERS

- 1) The situation in which a country engages in no foreign trade is known as
A) autarky. C) comparative advantage.
B) isolationism. D) reciprocal absolute advantage.
- 2) The existence of absolute advantage
A) fosters the self-sufficiency of the two nations.
B) refers to a situation in which one country can produce one unit of all goods with fewer resources than can another country.
C) refers to a situation where one country can produce one unit of a given product with fewer resources than the other country.
D) implies that there will be no benefits from trade between two nations.
- 3) Comparative advantage refers to the
A) ability of one region to produce a commodity at a lesser opportunity cost than another region.
B) gains from trade.
C) ability of one region to produce a commodity with less labour input than another region.
D) ability of one region to produce a commodity with fewer total inputs than another region.
- 4) The achievement of gains from trade requires
A) closed economies.
B) absolute advantage.
C) both absolute and comparative advantage.
D) comparative advantage.
- 5) There are no gains from specialization and trade between two countries when
A) neither country has a comparative advantage in the production of any good.
B) opportunity costs differ between the two countries.
C) one country has an absolute advantage in the production of all goods.
D) neither country has an absolute advantage in the production of any good.
- 6) If neither country has an absolute advantage in the production of rice,
A) there is no possibility that either country will import rice from the other.
B) then rice should not be produced.
C) the opportunity cost of producing rice must be identical in the two countries.
D) rice will still be traded as long as one of the countries has a comparative advantage in its production.
- 7) If two countries each produce wool and cotton, we know that the country with the lower opportunity cost for cotton (in terms of wool) will also have
A) an absolute advantage in the production of both wool and cotton.
B) a comparative advantage in the production of cotton.
C) an absolute advantage in the production of cotton.
D) a comparative advantage in the production of wool.
- 8) Spain is currently producing 90 units of wine and 10 units of cheese, but to produce 10 more units of cheese it must sacrifice 30 units of wine. Portugal produces 45 units of wine and 45 units of cheese, but to produce 10 more units of cheese it must sacrifice 10 units of wine. It can be concluded that
A) Spain has comparative advantage in wine production and Portugal has a comparative advantage in cheese production.
B) Portugal has absolute advantage in both wine and cheese production.
C) Portugal has absolute advantage in wine production and Spain has absolute advantage in cheese production.
D) Spain has absolute advantage in both wine and cheese production.

The following production possibilities schedule shows the quantities of soybeans and oil that can be produced in Canada and Mexico with one unit of equivalent resources.

	Soybeans (bushels)	Oil (barrels)
Canada	60	10
Mexico	24	8

TABLE 33-2

- 9) In Table 33-2, the opportunity cost of a barrel of oil in Canada is
 A) 16.67 bushels of soybeans.
 B) 6 bushels of soybeans.
 C) 2.5 bushels of soybeans.
 D) 1.2 barrels of oil.
- 10) In Table 33-2, the opportunity cost of one bushel of soybeans in Mexico is
 A) 3 barrels of oil.
 B) 0.33 barrel of oil.
 C) 0.4 bushels of soybeans.
 D) lower than the opportunity cost of soybeans in Canada.
- 11) In Table 33-2, Canada has an absolute advantage in the production of
 A) both soybeans and oil.
 B) soybeans.
 C) wheat
 D) oil.
- 12) If a country has a *comparative advantage* in the production of soybeans, it will most probably
 A) have an absolute advantage in soybeans.
 B) increase the domestic production of soybeans.
 C) derive no advantage from any trade in soybeans.
 D) specialize in and trade soybeans.
- 13) The gains from trade when two countries have different opportunity costs for wheat and coffee are realized when
 A) each country has an absolute advantage in one of the two commodities.
 B) resources are reallocated within the two countries such that each specializes in the production of the good in which it has a comparative advantage.
 C) the two countries continue to produce the same quantities of wheat and coffee.
 D) production possibility boundaries shift inward.
- 14) A country that has an absolute advantage in good X must also have a comparative advantage in good X.
 A) True B) False
- 15) A country with a linear PPF cannot have a comparative advantage in production over another country.
 A) True B) False