

For each of the following questions, select the choice that BEST corresponds with the answer. You will receive 10 points for each correct answer; 5 points will be deducted for each incorrect answer. Points will be neither awarded or taken away if you do not attempt to answer a question.

1. When does the law of comparative advantage indicate that mutually beneficial international trade can take place?
 - A. When tariffs are eliminated
 - B. When transportation costs are almost zero
 - C. When relative costs of production differ between nations
 - D. When a country can produce more of some product than other nations can
 - E. When a country can produce a product in less time than another nation can

2. According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in nations where which of the following is true?
 - A. Opportunity costs are lowest.
 - B. Absolute advantages are highest.
 - C. The balance of trade is in a surplus position.
 - D. The exchange rate is falling.
 - E. The exchange rate is rising.

3. What does a balance-of-trade surplus imply?
 - A. Merchandise exports exceed merchandise imports.
 - B. Merchandise imports exceed merchandise exports.
 - C. Exports of services exceed imports of services.
 - D. Imports of services exceed exports of services.
 - E. Investment by foreigners exceeds domestic investment in other countries.

4. What can an increase in U.S. interest rates be expected to do?
 - A. Adversely affect U.S. importers
 - B. Encourage investment spending by U.S. firms
 - C. Decrease the international value of the dollar
 - D. Cause a net outflow of foreign capital from the United States
 - E. Increase the international value of the dollar

5. Which of the following would contribute to a U.S. balance-of-trade deficit?

- A. Brazil pays interest on its debt to a U.S. bank.
 - B. A Saudi Arabian builds a mansion in Beverly Hills.
 - C. U.S. tourists travel in large numbers to China.
 - D. Kawasaki builds a motorcycle manufacturing plant in Ohio.
 - E. Grain sales to Russia are increased.
6. Which of the following economic questions must all societies deal with?
- A. What goods will be produced and in what quantities?
 - B. How can markets be kept competitive?
 - C. How can the problem of scarcity best be eliminated?
 - D. What will ensure income is distributed equally to all members of society?
 - E. All of the above
7. With freely floating exchange rates, a decrease in the value of a nation's currency will
- A. cause an international shortage of its currency
 - B. contribute to disequilibrium in its balance of payments
 - C. cause its imports to fall
 - D. cause gold to flow out of that nation
 - E. cause the value of other nations' currencies to also decrease
8. A barrier to trade in the form of laws forbidding trade in certain goods is called
- A. a tariff
 - B. an embargo
 - C. a quota
 - D. an import tax
 - E. a voluntary restraint agreement
9. An increase in U.S. tariffs on foreign-produced steel would probably benefit all the following groups EXCEPT
- A. domestic steel producers
 - B. U.S. steelworkers
 - C. users of domestic steel
 - D. domestic iron ore producers
 - E. businesses in steel-producing areas

10. The table below gives the number of tons of widgets and cogs than can be produced in Country X and Country Y by using the exact same amount of productive resources:

	Widgets	Cogs
Country X	10	5
Country Y	8	2

- The theory of comparative advantage suggests that under these conditions, Country Y would find it advantageous to
- A. export widgets and import cogs
 - B. export cogs and import widgets
 - C. export both widgets and cogs and import nothing
 - D. import both widgets and cogs and export nothing
 - E. neither export nor import either widgets or cogs
11. Barriers to trade
- A. increase the number of jobs worldwide
 - B. decrease consumer prices
 - C. increase the amount of global production
 - D. benefit some groups at the expense of others
 - E. are necessary to maintain international competition
12. In Adam Smith's view of capitalism,
- A. having a few large corporations would be more efficient than having many smaller firms
 - B. a country should emphasize exports over imports to enhance its wealth
 - C. people, acting in their own self-interest, unwittingly do good for others
 - D. the government should play a major role in allocating resources
 - E. specialization would lead to worker alienation, not increased productivity
13. Does Cuba, a non-capitalist nation, produce capital?
- A. No, it must import it from capitalistic nations.
 - B. No, it doesn't have a stock market.
 - C. No, it is not needed in a planned economy.
 - D. Yes, but it is owned and controlled by the state.
 - E. Yes, but it is used only to trade for natural resources which Cuba doesn't have.
14. Trade between countries leads to

- A. reduced labor productivity
 - B. increased interdependence
 - C. higher product prices
 - D. job losses in at least one of the countries
 - E. decreased amounts of products in at least one of the countries
15. If Americans decide to buy less Japanese automobiles,
- A. the demand for Japanese yen will shift to the right
 - B. the demand for U.S. dollars will shift to the left
 - C. the supply of Japanese yen will shift to the left
 - D. the demand for Japanese yen will shift to the left
 - E. the supply of U.S. dollars will shift to the right

Answers

1. When relative costs of production differ between nations
2. Opportunity costs are lowest.
3. Merchandise exports exceed merchandise imports.
4. Increase the international value of the dollar
5. U.S. tourists travel in large numbers to China.
6. What goods will be produced and in what quantities?
7. cause its imports to fall
8. an embargo
9. users of domestic steel
10. export widgets and import cogs
11. benefit some groups at the expense of others
12. people, acting in their own self-interest, unwittingly do good for others
13. Yes, but it is owned and controlled by the state.
14. increased interdependence
15. the demand for Japanese yen will shift to the left