MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Comparative advantage implies that a country will
   A) export goods produced by domestic industries with low wages relative to its trading partners.
   B) export those goods in which the country has a comparative advantage.
   C) import those goods in which the country has a comparative advantage.
   D) find it difficult to conclude free trade agreements with other nations.

2) Economists argue that to protect industries vital to national defense,
   A) quotas should be imposed.
   B) those industries should receive subsidies.
   C) tariffs should be imposed.
   D) Both answers A and C are correct.

3) The effect of a quota is to
   A) increase the supply of the good and increase its price.
   B) decrease the supply of the good and raise its price.
   C) increase the demand for the good and increase its price.
   D) increase the supply of the good and lower its price.

4) In the above figure, if the countries agree to trade,
   A) the price paid for a truck in Carland will rise.
   B) the price of a truck is 2 cars per truck, if trade is free.
   C) 3 trucks per year are exported from Truckland, if trade is free.
   D) Both answers B and C are true.
5) Voluntary export restraints (VERs)
   A) raise revenue for the governments involved.
   C) raise the prices paid by domestic consumers.
   B) do not protect domestic producers.
   D) Both answers B and C are correct.

6) Lowering the tariff on good X will
   A) have no effect unless the nation's trading partner lowers its tariff on good X.
   B) increase domestic employment in industry X.
   C) increase the domestic price of good X.
   D) increase the domestic imports of good X.

7) The gains of trade can be demonstrated by a consumption point that is
   A) beyond the production possibilities frontier.
   B) inside the production possibilities frontier.
   C) on the production possibilities frontier.
   D) none of the above

8) Increasing a tariff will _______ the domestic quantity consumed of the good, while _______ the domestic production of the good.
   A) decrease; increasing
   B) decrease; decreasing
   C) increase; decreasing
   D) increase; increasing

9) The reason tariffs and quotas are imposed is that
   A) they reduce import dependence.
   B) they create net benefits in the long run.
   C) their costs are spread among many people and their benefits are concentrated.
   D) their costs are concentrated and their benefits are spread among many people.

10) Which of the following are valid reasons advanced by economists in favor of trade protection? Protection
    A) saves jobs.
    B) is a good way for governments in developed nations to raise revenue.
    C) prevents rich countries from exploiting poorer countries.
    D) Economists would not support any of the above reasons.

11) If two countries produce wool and cotton, we know that the country with the lower opportunity cost for cottor (in terms of wool) will also have
    A) an absolute advantage in the production of cotton.
    B) a comparative advantage in the production of cotton.
    C) an absolute advantage in the production of wool.
    D) a comparative advantage in the production of wool.

12) The Uruguay Round of GATT led to _______.
    A) fewer countries agreeing to free trade
    C) the creation of the WTO
    B) an increase in agreed upon quota levels
    D) the elimination of the WTO
13) In the above figure, as a result of the U.S. imposition of a tariff on Japanese cars, the quantity of Japanese cars imported into the United States will
A) be 0 cars per year.
B) be 3 million cars per year.
C) be 2 million cars per year.
D) no longer be represented by the demand curve illustrated in the figure.

14) Imposition of a U.S. tariff on imported shoes
A) benefits foreign production of shoes by increasing the amount available for their production.
B) benefits consumers in the United States by guaranteeing a high-quality product.
C) harms shoe workers in the United States who now face a more hectic production schedule.
D) benefits shoe producers in the United States by reducing competition.

15) Countries can resort to _______ to protect domestic industries from foreign competition.
A) the use of tariffs
B) comparative advantage
C) voluntary export restraints
D) Both answers A and C are correct.

16) According to the principle of comparative advantage, the gains from trade
A) can be obtained only by a country with an absolute advantage in the production of some good.
B) can be obtained by only one of two trading countries.
C) can be obtained by both trading countries.
D) can be obtained by both trading countries only if they both export all the goods being traded.

17) When NAFTA was approved, Congress attempted to soften the losses suffered by some industries by
A) setting aside funds to support and retrain workers who lost their jobs because of NAFTA.
B) imposing quotas.
C) creating new jobs to hire workers who lost their jobs because of NAFTA.
D) reducing tariffs.
18) Which of the following are TRUE regarding the argument that trade barriers protect U.S. workers from cheap foreign labor?
   I. Low-wage foreigners are just as productive as U.S. workers.
   II. U.S. workers have a comparative advantage in low-wage jobs.
   A) I only
   B) Neither I nor II is correct.
   C) I and II
   D) II only

19) The key difference between a quota and a tariff is that
   A) a tariff generates a higher price than does a quota.
   B) the government collects revenues from a tariff, which does not happen with a quota.
   C) a quota increases profits of domestic producers more.
   D) a tariff generates a greater reduction in exports.

20) Restricting imports leads to
   A) a decrease in exports and employment.
   B) a country producing beyond its production possibilities frontier.
   C) a country consuming even further beyond its production possibilities frontier.
   D) a higher per capita level of real consumption.

21) Using the above figure, suppose towel manufacturers convince the U.S. government to protect its industries firms by imposing a quota on towel imports. Which of the following statements is CORRECT?
   A) The demand curve shifts leftward.
   B) The supply curve shifts rightward.
   C) If the quota is set at 8 million towels, the price of towels will be at least $15 per towel.
   D) Importers of towels will earn larger profits.
22) The General Agreement on Tariffs and Trade (GATT) is an international agreement
   A) to encourage world trade by lowering tariffs and other trade barriers.
   B) to encourage peaceful settlements of trade disputes, but has no particular point of view about the
derisability of higher or lower tariffs.
   C) to make all tariffs illegal.
   D) to establish North American as a free trade area.

23) In the above figure, suppose point X represents the "no-trade production and consumption" point for Carland
    Point ______ represents a typical consumption point for Carland if it decides to trade.
    A) A   B) B   C) C   D) D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

24) Define comparative advantage and discuss its role in international trade.

25) Explain the effects of a quota.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) B
2) B
3) B
4) D
5) C
6) D
7) A
8) A
9) C
10) D
11) B
12) C
13) C
14) D
15) D
16) C
17) A
18) B
19) B
20) A
21) D
22) A
23) A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

24) Comparative advantage is the factor that drives international trade. A country has a comparative advantage in the production of a good if the country can produce it at a lower opportunity cost than any other country. Because the cost of production of a good is lower in the nation with the comparative advantage in the good, that country will export the good. The country will then gain by buying the goods from other nations that those nations produce at the lowest opportunity cost, that is, those goods in which the other nations have a comparative advantage.

25) A quota is a quantitative restriction on the maximum amount of a good that can be imported. Because quotas limit the supply of the good, they raise the prices of imported goods and decrease the quantities imported. Unlike a tariff, however, the government gets no revenue from a quota; the revenue from the higher price goes to importers.