Name: _____ Class: _____ Date: _____

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1. Which of the following is NOT a reason why countries trade goods with one another?
   a. differences in technology used in different countries
   b. differences in countries' total amount of resources
   c. the proximity of countries to one another
   d. differences in countries' languages and cultures

ANSWER: d

2. David Ricardo's model explains trade based on:
   a. labor supply.
   b. technology.
   c. population.
   d. government control.

ANSWER: b

3. Which of the following is the MOST likely explanation for a Detroit construction company's imports of concrete blocks made in Windsor, Ontario?
   a. the Ricardian model
   b. offshoring
   c. technology
   d. proximity

ANSWER: d

4. Sometimes, countries take advantage of trade benefits by joining into _____, in which the countries have no restrictions on trade between them.
   a. offshore agreements
   b. embargos
   c. free-trade areas
   d. proximal regions

ANSWER: c

5. A country's factors of production includes:
   a. its labor, capital, natural resources, and markets.
   b. only its labor and capital.
   c. only its capital and natural resources.
   d. its labor, capital, and natural resources.

ANSWER: d

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6. Which of the following is NOT considered to be a factor of production?

a. labor
b. capital
c. natural resources
d. government

ANSWER: d

7. When a firm in one nation purchases unfinished products internationally and adds further processing to sell in the domestic market, this is known as:

a. barter.
b. offshoring.
c. factor movement.
d. marketing arrangements.

ANSWER: b

8. Which of the following is an example of offshoring?

a. An Austrian company builds snowboards in Austria.
b. The U.S. moves the assembly of its iPhones to China.
c. Germany buys oil from Saudi Arabia.
d. Canada purchases iPhones from U.S. suppliers.

ANSWER: b

9. In some cases, a country can export a good without having any advantage in the natural resources needed to produce it. Which of the following is an example of this type of export?

a. United Arab Emirates's exports of high-quality snowboards
b. U. S. exports of Caterpillar bulldozers
c. French exports of wine
d. Canadian exports of lumber

ANSWER: a

10. In trade, if a nation has the technology to produce a good with fewest resources (such as Germany's production of snowboards), it is known as a(n):

a. absolute advantage.
b. technology advantage.
c. comparative advantage.
d. resource advantage.

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ANSWER: a

11. Which of the following is an example of absolute advantage?
    a. The U.S. is one of 13 countries that produced over 1 million tons of soybeans in 2018.
    b. Russia produced more wheat than any other nation in 2018 because it has the most efficient technology.
    c. Spain is second only to Italy in its wine production, but Spain produces more than the U.S.
    d. Indonesia produces rice largely for domestic consumption.

ANSWER: b

12. When a country requires *fewer* resources to produce a product than other countries, it is said to have a(n):
    a. absolute advantage in the production of the product.
    b. comparative advantage in the production of the product.
    c. higher opportunity cost of producing the product.
    d. lower opportunity cost of producing the product.

ANSWER: a

13. Ricardo's approach to trade was a reaction and a repudiation of which school of thought?
    a. mercantilism
    b. classical economics
    c. comparative advantage
    d. absolute advantage

ANSWER: a

14. The primary explanation of trade among nations is Ricardo's theory of:
    a. offshoring.
    b. resource abundance.
    c. absolute advantage.
    d. comparative advantage.

ANSWER: d

15. The Ricardian model focuses on how differences in _____ influence international trade patterns.
    a. demand
    b. comparative costs
    c. absolute costs
    d. transportation costs

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ANSWER: b

16. One early school of economic thought believed inflows of gold or silver as a result of exporting helped a nation, while outflows of gold or silver as a result of importing hurt a nation. This school of economic thought was known as:

a. export preference.
b. mercantilism.
c. monetary economics.
d. price-specie-flow mechanism.

ANSWER: b

17. Ricardo's theory made a number of assumptions, including which of the following?

a. Nations had balanced trade with their partners.
b. There were barriers to trade.
c. There was no transfer of gold or silver.
d. Nations' factors of production consisted of labor and capital.

ANSWER: a

18. According to Ricardo:

a. all countries gain from trade if they export goods for which they have an absolute advantage.
b. one country gain from trade only at the expense of another country.
c. all countries gain from trade if they export goods for which they have a comparative advantage.
d. all countries lose from international trade.

ANSWER: c

19. According to the Ricardian principle of comparative advantage, international trade increases a nation's total output because:

a. the nation's resources are used where they are most productive.
b. the output of the nation's trading partner declines.
c. the nation can produce outside of its production possibilities frontier.
d. the nation is able to increase its consumption.

ANSWER: a

20. David Ricardo believed that:

a. trade is a zero-sum game; that is, a country benefits at the expense of other countries.
b. trade will benefit countries when it generates gold and silver for the national treasury.

c. all nations gain from free international trade.
d. trade cannot increase the world's output of goods.

ANSWER: c

21. Mercantilists believed that:
a. exporting goods will leave fewer goods for the local economy.
b. importing goods is beneficial for the economy.
c. exports and imports are both bad for the economy.
d. exports are good and imports are bad for the economy.

ANSWER: d

22. Ricardo's theory showed that if nations are allowed to trade freely, the result will be that:
a. all trading nations benefit by trade.
b. the manufacturing sector benefits but the consumers lose out.
c. workers benefit but the government loses tax revenue.
d. the gains from trade offset the losses from trade exactly.

ANSWER: a

23. The Ricardian model can be simplified and made more explanatory by assuming that there is only one resource used in producing goods. What did Ricardo assume the resource was?
a. capital
b. technology
c. labor
d. loanable funds

ANSWER: c

24. What is the marginal product of labor?
a. the average output of a unit of labor
b. the extra output obtained by using one more unit of labor
c. the average output obtained by using one more unit of labor
d. the total output obtained by using one more unit of labor

ANSWER: b

25. In the Ricardian model, the marginal product of labor:
a. first rises, then falls, as more labor is employed to produce a good.
b. first falls, then rises, as more labor is employed to produce a good.

c. continuously falls as more labor is employed to produce a good.
d. does not change as more labor is employed to produce a good.

ANSWER: d

26. The Ricardian model assumes that the marginal product of labor is:
a. increasing.
b. decreasing.
c. constant.
d. zero.

ANSWER: c

27. Production possibilities frontiers in the Ricardian model:
a. are linear (i.e., straight lines), with end points showing a country's production when it produces only one or the other good.
b. are bowed out from the origin, with end points showing a country's production when it produces only one or the other good.
c. are linear and begin from the origin.
d. are curvilinear and increase at a decreasing rate.

ANSWER: a

28. When the production possibilities frontier is a straight line, then production occurs under conditions of:
a. increasing costs.
b. decreasing costs.
c. constant costs.
d. increasing, then decreasing, then constant costs.

ANSWER: c

29. The Ricardian model employs the concept of alternate uses of economic resources in production. We refer to this technique as:
a. the production possibilities frontier.
b. the labor theory of value technique.
c. the least-cost option.
d. the labor productivity model.

ANSWER: a

30. In the Ricardian model, the production possibilities frontier is straight and downward-sloping because:

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a. switching labor from production of one good to another has a constant effect on output.
b. switching capital from production of one good to another has a constant effect on output.
c. diminishing marginal returns to labor have a constant effect on output of both goods.
d. diminishing marginal returns to labor have a negative effect on output of both goods.

ANSWER: a

31. Assume the *MPLt* = 5 tennis rackets and *MPLb* = 4 baseball bats. If the economy has 100 workers, then the economy can produce:
a. a maximum of 500 tennis rackets.
b. a maximum of 350 baseball bats.
c. 500 tennis rackets and 400 baseball bats.
d. either 100 tennis rackets only or 100 baseball bats only.

ANSWER: a

32. Assume the *MPLc* = 2 cars and the *MPLb* = 5 boats. There are 150 workers in this hypothetical economy. What is the maximum number of boats that can be produced?
a. 30
b. 300
c. 750
d. 150

ANSWER: c

33. The slope of the PPF can be expressed as:
a. the ratio of abundance of capital to labor.
b. the preferences of consumers in terms of marginal utility.
c. the ratio of the quantities of good 1 and good 2.
d. the negative of the ratio of the marginal products of labor in producing each good.

ANSWER: d

34. If the maximum number of units of cloth produced is 300 and the maximum number of units of corn produced is 600, then with an *MPL*cloth = 2, what is the number of workers in the economy?
a. 100
b. 200
c. 150
d. 600

ANSWER: c

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35. If the maximum number of units of cloth produced is 300 and the maximum number of units of corn produced is 600, then with an *MPL*cloth = 2, what is the *MPL*corn?

a. 4
b. 5
c. 6
d. 7

ANSWER: a

36. To complete the model of international trade using the PPF, we must also use the idea of indifference curves. One of these curves represents:

a. a set of alternate quantities of both goods (sloped negatively), whereby consumers are equally satisfied in their level of utility gained.
b. consumers who are indifferent to everything.
c. producers who do not care which production method is chosen.
d. a fixed quantity of one good (such as wheat) and a varying amount of the other good.

ANSWER: a

37. As a consumer moves down one of her indifference curves, her satisfaction:

a. falls.
b. rises.
c. remains unchanged.
d. first falls, then levels out.

ANSWER: c

38. If a consumer moves to a higher indifference curve, her satisfaction:

a. falls.
b. rises.
c. remains unchanged.
d. first falls, then levels out.

ANSWER: b

39. In the absence of international trade, a country will:

a. produce outside their PPF, at the highest possible indifference curve.
b. consume what is produced at an equilibrium point along their PPF.
c. consume what is produced outside their PPF.
d. consume outside their PPF.

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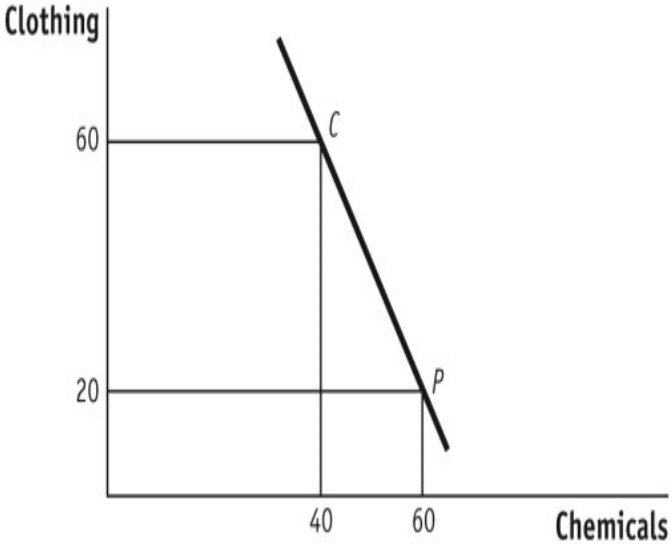
ANSWER: b

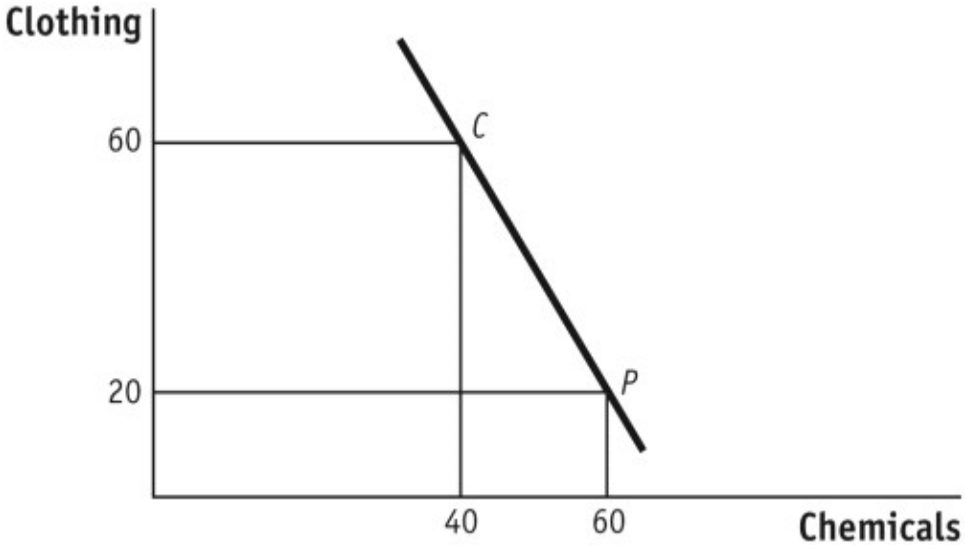
40. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home export?



a. clothing
b. chemicals
c. It exports neither chemicals nor clothing.
d. It exports both chemicals and clothing.

ANSWER: b

41. (Figure: Home Production and Consumption) The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home import?



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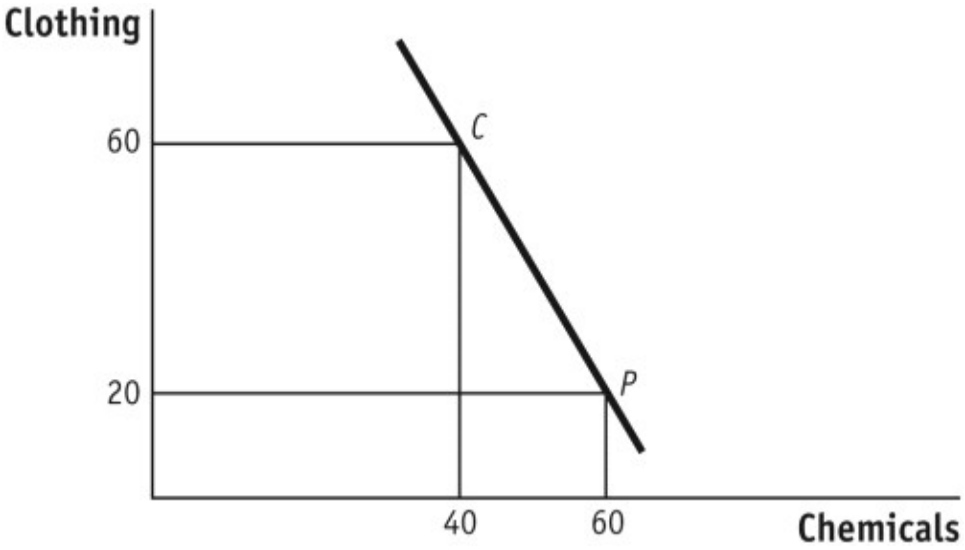
a. clothing
b. chemicals
c. It imports neither chemicals nor clothing.
d. It imports both chemicals and clothing.

ANSWER: a

42. (Figure: Home Production and Consumption)



The figure gives Home's international trading pattern. Point *P* is production with trade and point *C* is consumption with trade. How many units of which product does Home export, and how many units of which product does it import?

a. Home exports 60 units of chemicals and imports 20 units of clothing.
b. Home exports 40 units of chemicals and imports 60 units of clothing.
c. Home exports 40 units of clothing and imports 20 units of chemicals.
d. Home exports 20 units of chemicals and imports 40 units of clothing.

ANSWER: d

43. (Figure: Home Production and Consumption)

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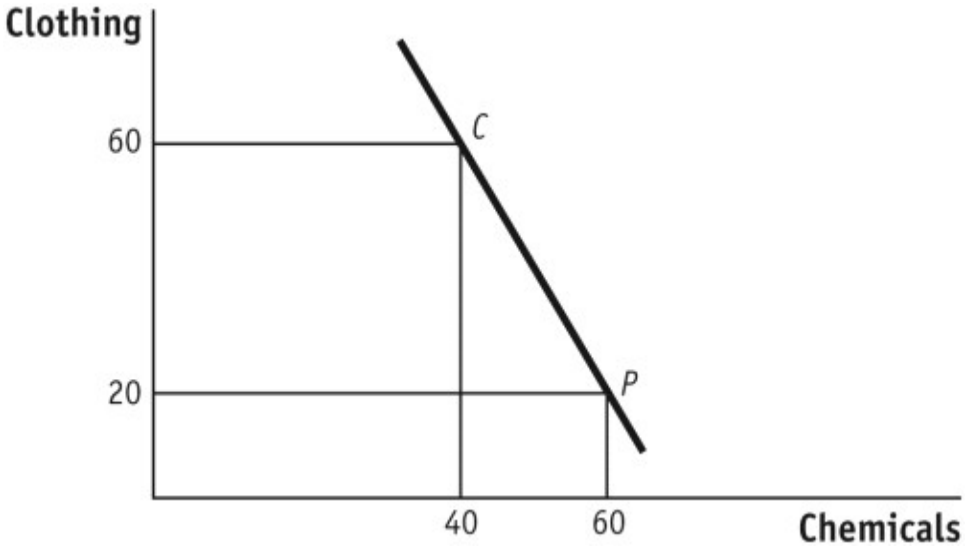

The figure gives Home's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. What is the international price of chemicals according to the figure?

a. 1/2 unit of clothing per unit of chemicals
b. 1 unit of clothing per unit of chemicals
c. 2 units of clothing per unit of chemicals
d. 3 units of clothing per unit of chemicals

ANSWER: c

44. Where will a nation that gains from trade find its consumption point located?

a. inside its production possibilities frontier
b. along its production possibilities frontier
c. outside its production possibilities frontier
d. at the center of its production possibilities frontier

ANSWER: c

45. When a nation is in autarky (a no-trade state) and maximizes its living standard, its consumption and production points are:

a. along its production possibilities frontier.
b. above its production possibilities frontier.
c. beneath its production possibilities frontier.
d. along, above, or beneath its production possibilities frontier.

ANSWER: a

46. Assume the *MPLc* = 2 cars and the *MPLb* = 5 boats. There are 150 workers in this hypothetical economy. If cars are measured on the vertical axis and boats are measured on the horizontal axis, the slope of the PPF for

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this economy is:

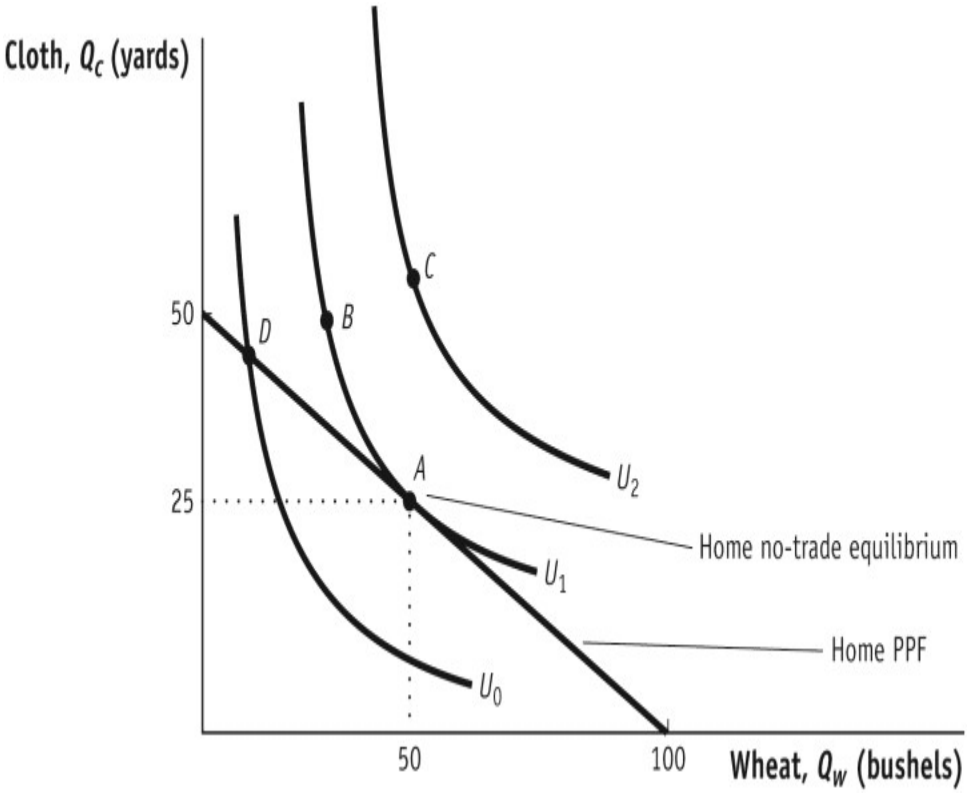
a. –5.
b. –5/2.
c. –2/5.
d. –1/5.

ANSWER: c

47. The slope of the PPF can also be expressed as:
a. the ratio of abundance of labor to capital.
b. consumer utility.
c. the opportunity cost of the good measured on the vertical axis.
d. the ratio of the marginal products of labor to the marginal product of capital.

ANSWER: c

48. (Figure: Home Equilibrium with No Trade)



Under the condition of no trade, which attainable combination gives the nation the MOST utility?

a. *A*
b. *B*

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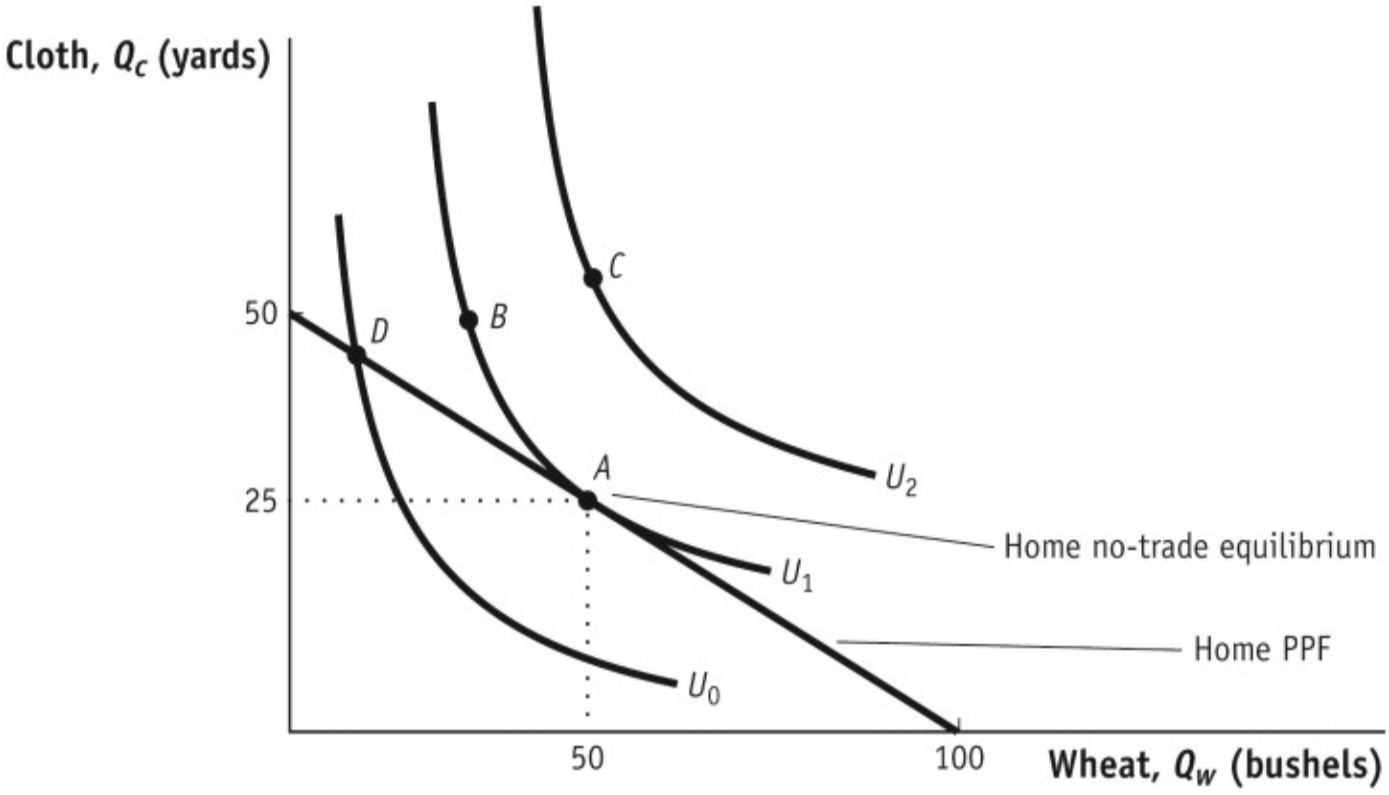
c. *C*
d. *D*

ANSWER: a

49. (Figure: Home Equilibrium with No Trade)



Under the condition of no trade, which combinations are NOT attainable?

a. *A* and *D*
b. *A* and *B*
c. *B* and *D*
d. *B* and *C*

ANSWER: d

50. (Figure: Home Equilibrium with No Trade)

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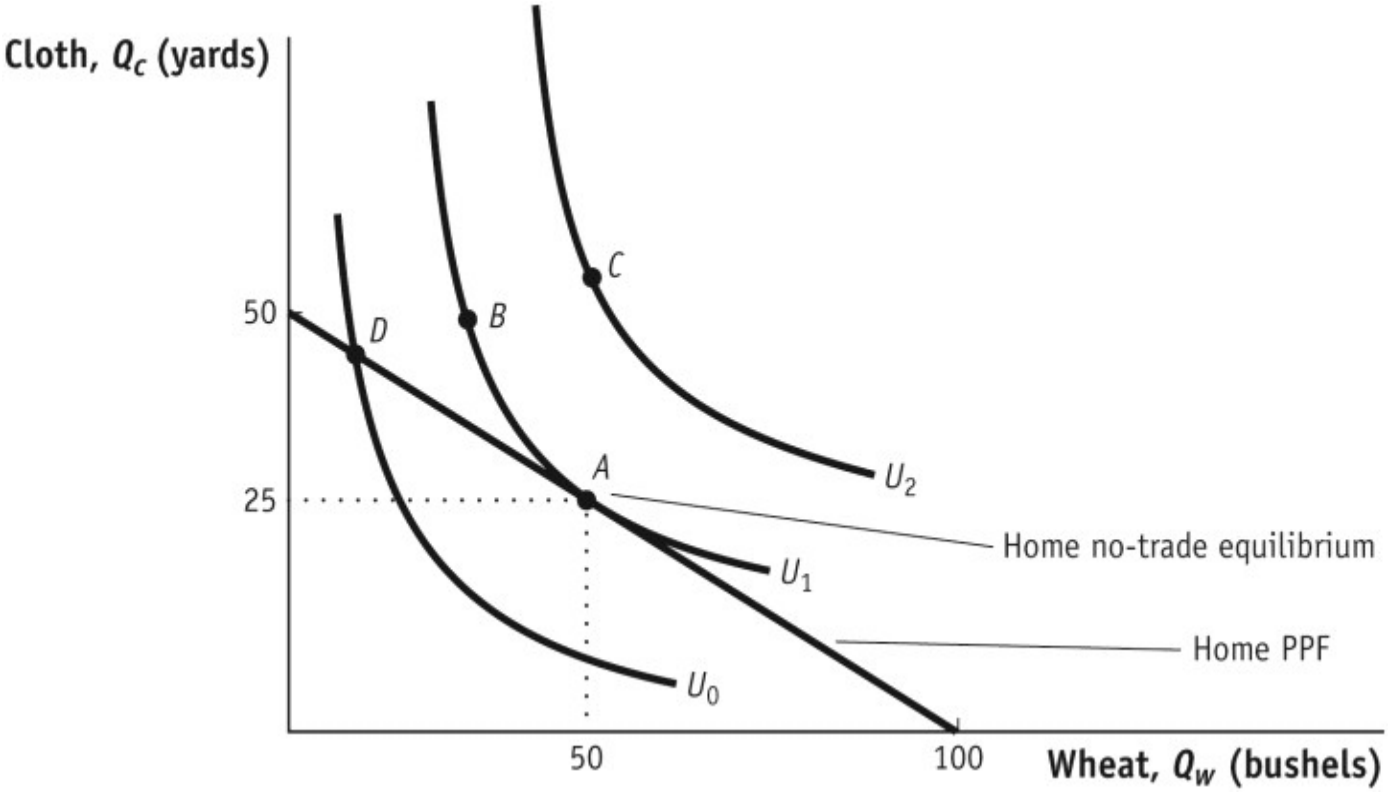

Suppose that trade occurs and Home finds its comparative advantage in the production of wheat. How many bushels of wheat will it produce?

a. 0 bushels
b. 50 bushels
c. 100 bushels
d. between 50 and 100 bushels

ANSWER: c

51. Assume a hypothetical economy where cloth and wheat can be produced. What is the opportunity cost of producing wheat in this economy?

a. the amount of cloth that must be given up to produce one more unit of wheat
b. the amount of money received by selling wheat
c. the number of workers it takes to produce all the wheat
d. More information is needed to answer the question.

ANSWER: a

52. Among the indifference curves for an economy, to achieve higher utility:

a. you must move to the indifference curve farthest away from the origin.
b. you must move to the indifference curve closest to the origin.

c. it is necessary to always close the borders.
d. it does not matter which indifference curve you select; your utility is the same along every curve.

ANSWER: a

53. A situation in which a country does not engage in international trade is called:
a. an embargo.
b. a customs union.
c. a barrier nation.
d. autarky.

ANSWER: d

54. If the opportunity cost is constant (the PPF is a straight line), then a country will:
a. partially specialize in the production of its exported product.
b. completely specialize in the production of its exported product.
c. not benefit from importing goods from another country.
d. benefit by raising trade barriers.

ANSWER: b

55. Moving to a lower indifference curve means that a country is:
a. better off.
b. worse off.
c. indifferent.
d. lowering production.

ANSWER: b

56. In order for the production possibilities frontier to be a straight line, production must exhibit:
a. increasing costs.
b. decreasing costs.
c. constant costs.
d. increasing, then decreasing, then constant costs.

ANSWER: c

57. In the absence of trade, a nation is in equilibrium where an indifference curve:
a. lies above its production possibilities frontier.
b. is tangent to its production possibilities frontier.
c. intersects its production possibilities frontier.

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d. lies below its production possibilities frontier.

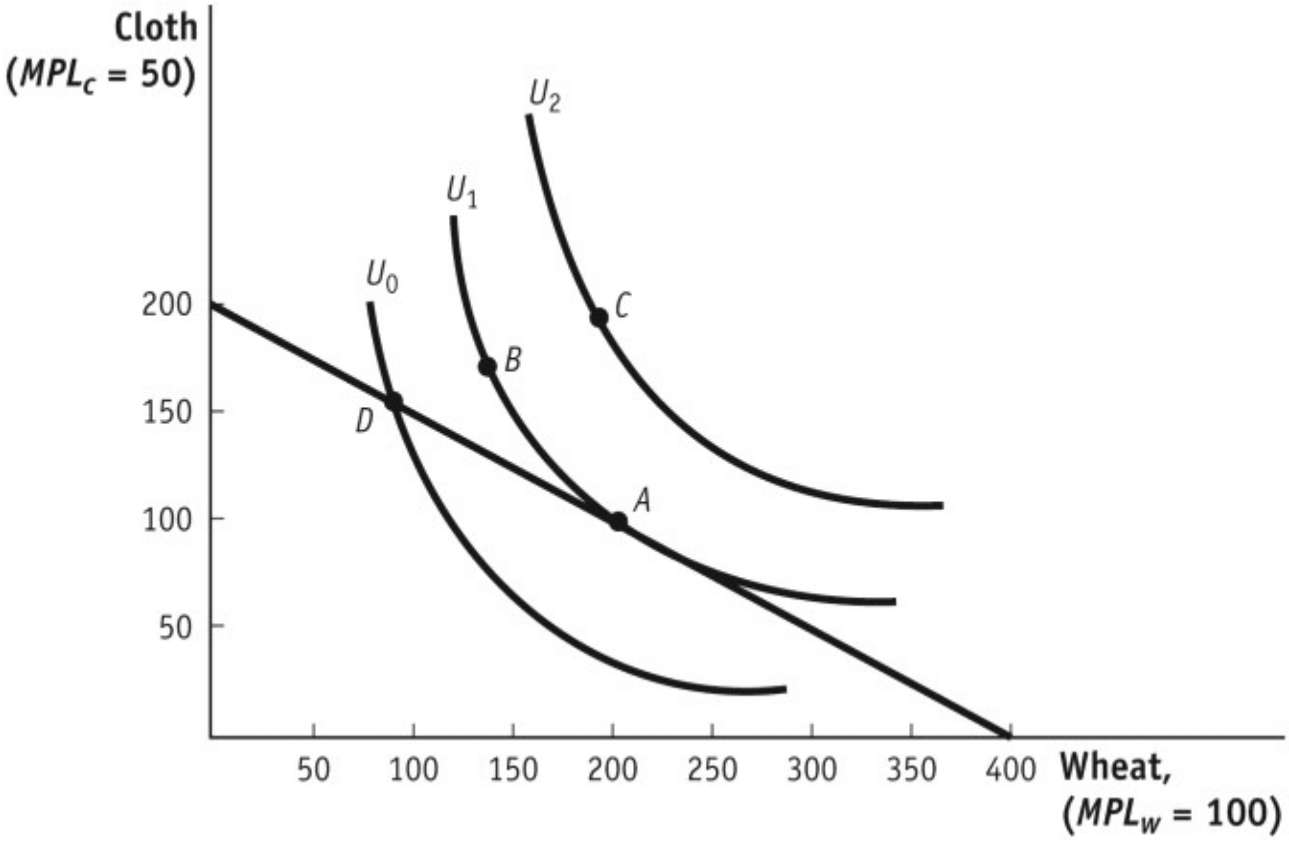
ANSWER: b

58. A country's indifference curve describes combinations of goods that:

a. a country can purchase.
b. yield equal satisfaction to a country.
c. yield satisfaction to a country.
d. a country can produce.

ANSWER: b

59. (Figure: Indifference Curves)



If this economy produces no cloth, how many units of wheat are possible?

a. 50
b. 200
c. 300
d. 400

ANSWER: d

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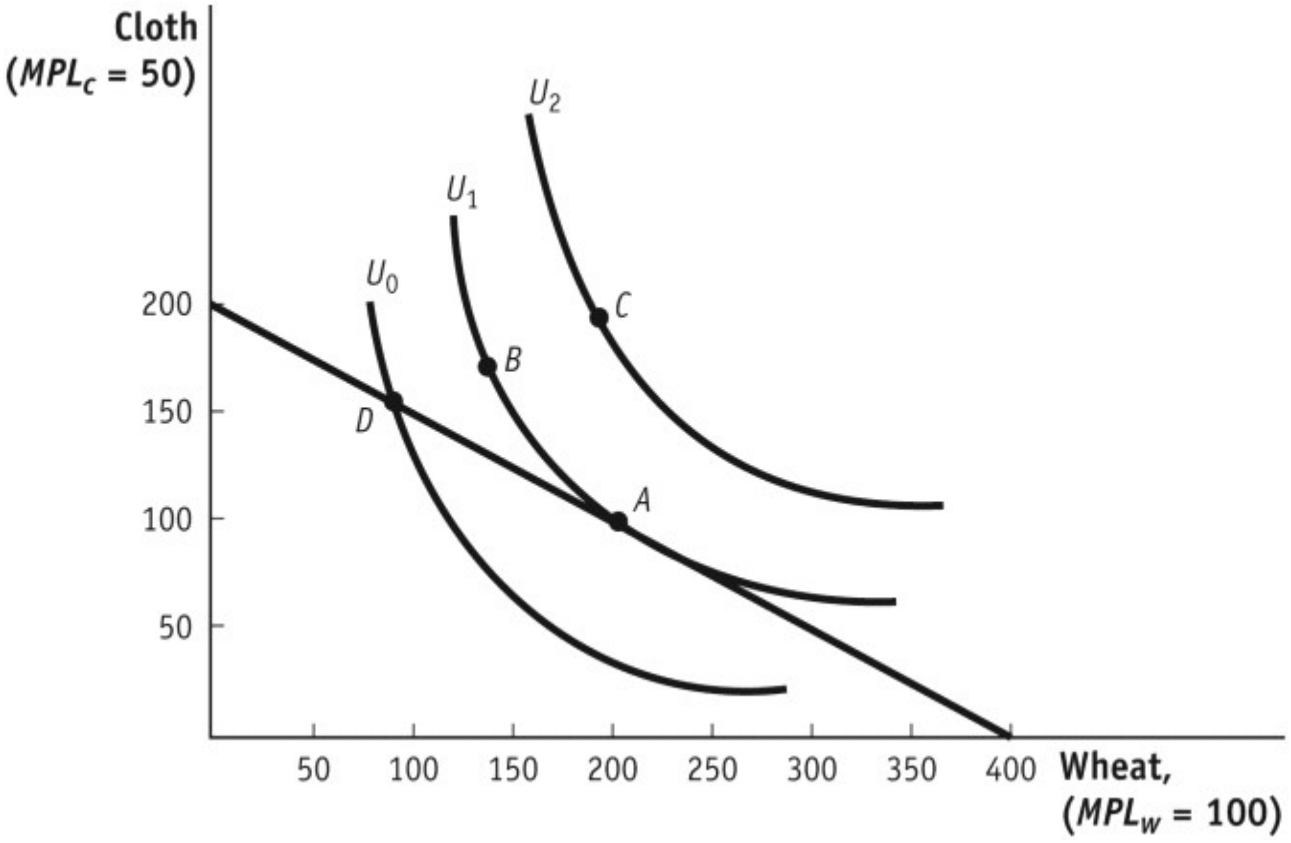
60. (Figure: Indifference Curves)



What is the opportunity cost of cloth in terms of wheat in this example?

a. A unit of cloth may be obtained by foregoing a unit of wheat.
b. A unit of cloth "costs" 2 units of wheat.
c. A unit of cloth "costs" 1/2 unit of wheat.
d. Not enough information is given to answer.

ANSWER: b

61. (Figure: Indifference Curves)

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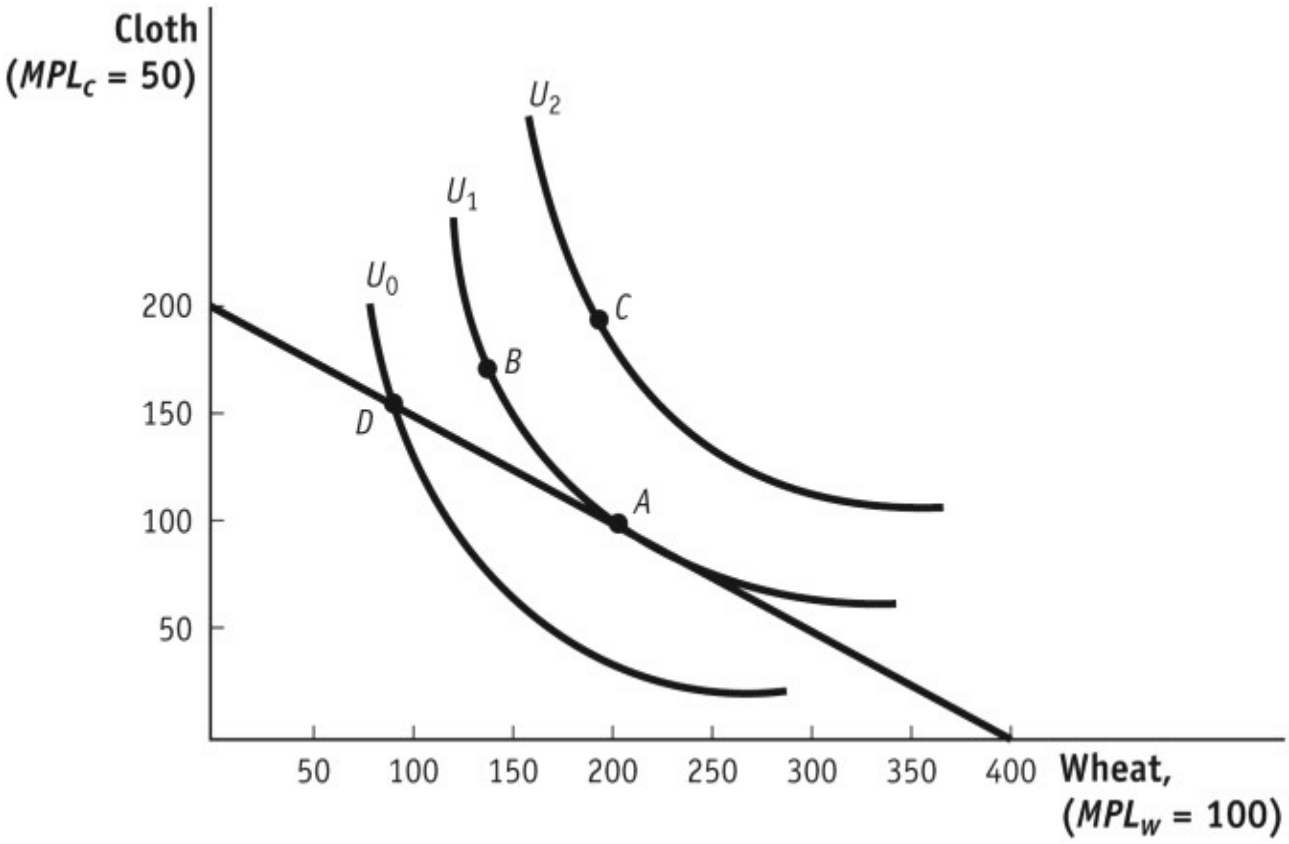

Of the following points of consumption, which is MOST desirable for consumers?

a. *A*
b. *B*
c. *C*
d. *D*

ANSWER: c

62. (Figure: Indifference Curves)

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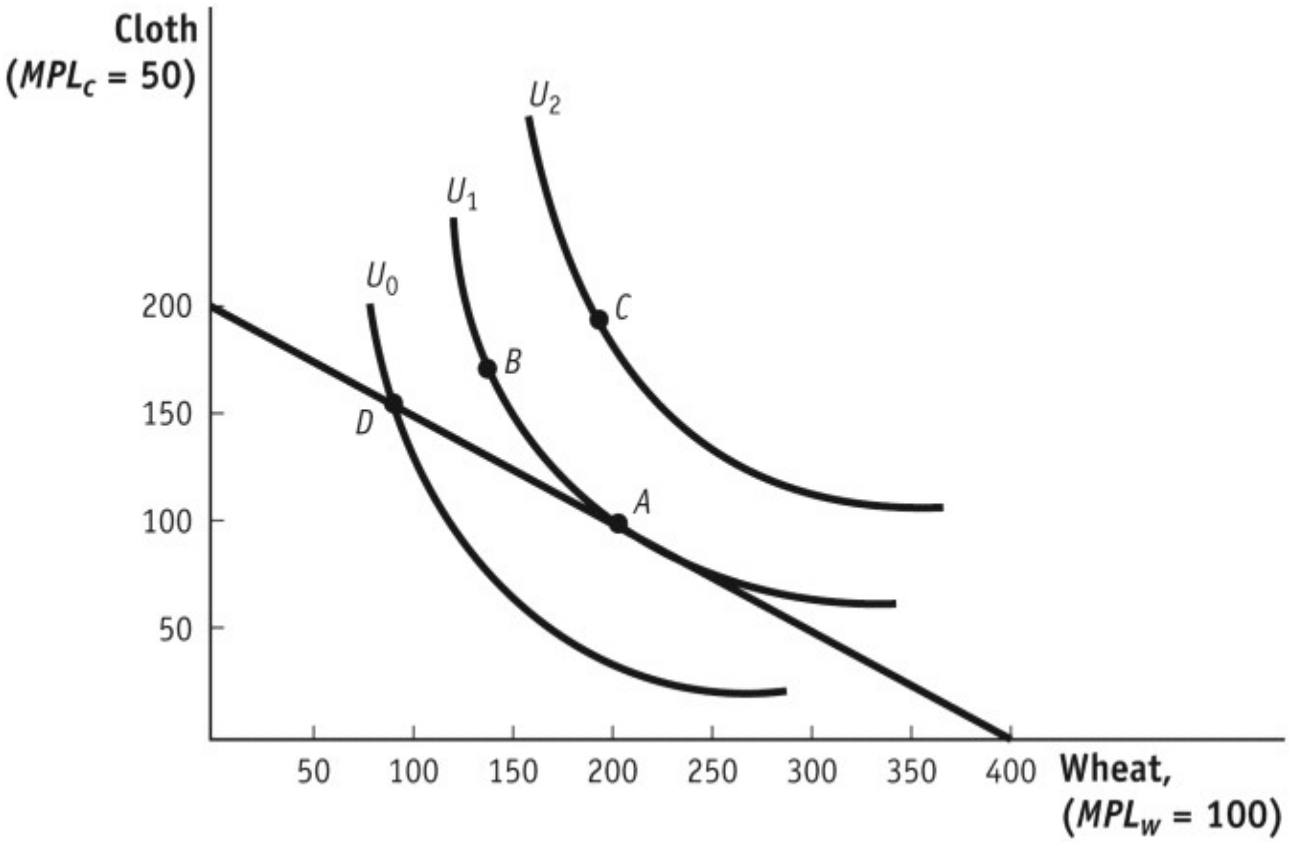

Of the following points of consumption, which is LEAST desirable for consumers?

a. *A*
b. *B*
c. *C*
d. *D*

ANSWER: d

63. (Figure: Indifference Curves)

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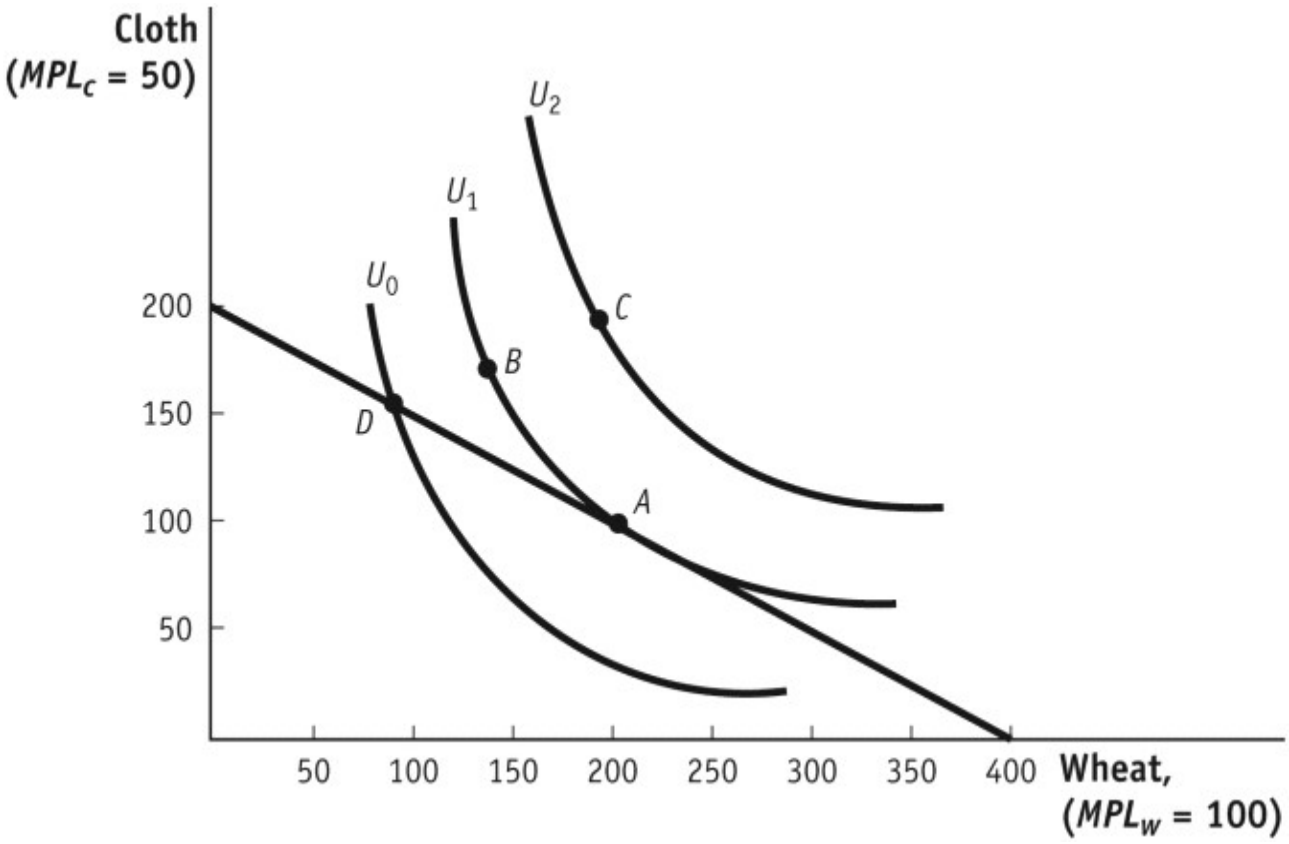

Which point on the diagram represents Home's equilibrium in the absence of international trade?

a. *A*
b. *B*
c. *C*
d. *D*

ANSWER: a

64. (Figure: Indifference Curves)

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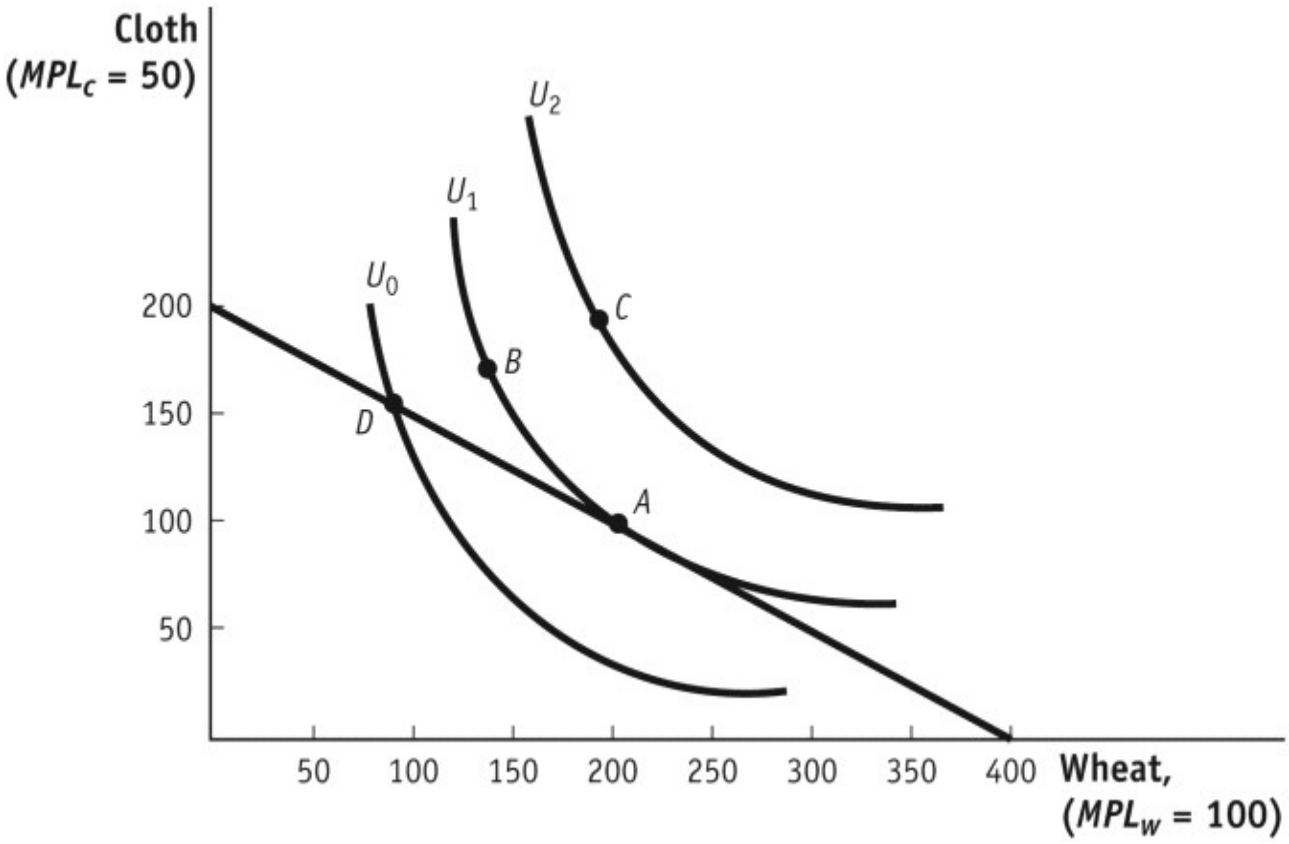

Which combination of wheat and cloth is represented by point *A* in the diagram?

a. 200 units of cloth and 400 units of wheat
b. 100 units of cloth and 200 units of wheat
c. 200 units of cloth and 100 units of wheat
d. 300 units of cloth and 150 units of wheat

ANSWER: b

65. A nation will gain from trade if it:

a. produces and consumes along its PPF.
b. produces outside its PPF and consumes along its PPF.
c. consumes outside its PPF and produces along its PPF.
d. produces and consumes outside its PPF.

ANSWER: c

66. A country will benefit from trade if it is able to:

a. produce and consume where its PPF and an indifference curve share a single tangency point.
b. consume at a point along an indifference curve that lies above its PPF.
c. consume along an indifference curve that shares two tangency points with its PPF.

d. produce and consume outside its PPF.

ANSWER: b

67. The pre-trade Home equilibrium will provide the highest level of consumer satisfaction from domestic resources whenever:

a. the marginal products of labor are equal.
b. capital and technology are not factors in the decision of what to produce.
c. perfect competition exists in product and labor markets.
d. Adam Smith's "invisible hand" is not an interfering factor.

ANSWER: c

68. In competitive labor markets, the wage equals:

a. the marginal product of labor times the price of output.
b. the marginal product of labor plus the price of output.
c. the marginal product of labor.
d. the price of output.

ANSWER: a

69. Which of the following statements describes the way the pre-trade home equilibrium reflects the concepts of competitive markets?

a. The opportunity cost of good 1 is the ratio of labor productivity of good 1 to good 2.
b. Prices of each good reflect their opportunity cost.
c. Wages are not equal for each good.
d. The value of the marginal product of labor ($MPL \times P$) differs for each good.

ANSWER: b

70. In the home equilibrium situation, the relative price of wheat (when wheat is on the horizontal axis) is the same as:

a. the relative price of cloth.
b. the slope of the PPF.
c. the marginal product of wheat.
d. the cost of labor to produce wheat.

ANSWER: b

71. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has an *absolute advantage* in the production of steel?

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a. the United States
b. Canada
c. neither the United States nor Canada
d. both the United States and Canada

ANSWER: c

72. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has an *absolute advantage* in the production of lumber?

a. the United States
b. Canada
c. neither the United States nor Canada
d. both the United States and Canada

ANSWER: b

73. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has a *comparative advantage* in the production of steel?

a. the United States
b. Canada
c. neither the United States nor Canada
d. both the United States and Canada

ANSWER: a

74. The United States requires 20 hours of labor to produce 1 ton of steel and 30 hours of labor to produce 1,000 board feet of lumber. In Canada, 20 hours of labor are required to produce 1 ton of steel and 25 hours of labor to produce 1,000 board feet of lumber. Which country has a *comparative advantage* in the production of lumber?

a. the United States
b. Canada
c. neither the United States nor Canada
d. both the United States and Canada

ANSWER: b

75. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has an *absolute advantage* in the production of wheat?

a. Poland

b. the Czech Republic
c. neither country
d. both countries

ANSWER: c

76. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has an *absolute advantage* in the production of coal?

a. Poland
b. the Czech Republic
c. neither country
d. both countries

ANSWER: a

77. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has a *comparative advantage* in the production of coal?

a. Poland
b. the Czech Republic
c. neither country
d. both countries

ANSWER: a

78. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Which country has a *comparative advantage* in the production of wheat?

a. Poland
b. the Czech Republic
c. neither country
d. both countries

ANSWER: b

79. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. What is the opportunity cost of coal in Poland?

a. 0.25 hour of labor per ton of coal
b. 0.25 bushel of wheat per ton of coal

c. 4 hours of labor per ton of coal
d. 4 bushels of wheat per ton of coal

ANSWER: d

80. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The international price of wheat must fall between which of the following two prices?

a. between 1/6 ton and 1/4 ton of coal per bushel of wheat
b. between 1/4 ton and 1/3 ton of coal per bushel of wheat
c. between 1/3 ton and 1.5 tons of coal per bushel of wheat
d. between 4 tons and 6 tons of coal per bushel of wheat

ANSWER: a

81. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Suppose that the international price of coal is 4 1/4 bushels of wheat per ton of coal. Which country is likely to have the larger gain from trade?

a. Poland
b. the Czech Republic
c. neither country
d. both countries

ANSWER: b

82. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. Suppose that Poland has 1,000 hours of labor and that it completely specializes according to its comparative advantage. How many units of which product will it produce?

a. 250 tons of coal
b. 1,000 bushels of wheat
c. 100 bushels of wheat
d. 4,000 tons of coal

ANSWER: a

83. Poland requires 4 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. The Czech Republic requires 6 hours of labor to produce 1 ton of coal and 1 hour of labor to produce a bushel of wheat. In Poland, what is the marginal product of labor in coal production?

a. 0.25 ton per hour
b. 0.4 ton per hour

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c. 2.5 tons per hour
d. 4 tons per hour

ANSWER: a

84. To explain why some nations purchase products from abroad, even when they have an absolute advantage in production, the Ricardian model employs the theory of:
a. absolute advantage.
b. relative pricing.
c. comparative advantage.
d. industrial advantage.

ANSWER: c

85. Whenever a nation has a lower opportunity cost of producing any good or service in relative terms, that nation is said to have:
a. an absolute advantage.
b. a comparative advantage.
c. low labor costs.
d. better technology to produce that good or service.

ANSWER: b

86. Table: Output in the United States and China

	U.S. Output per Worker	**Chinese Output per Worker**
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

Which of the following statements is CORRECT?
a. The United States has an absolute advantage in both apparel and wheat and a comparative disadvantage in wheat.
b. China has an absolute advantage in both apparel and wheat and a comparative advantage in apparel.
c. The United States has an absolute disadvantage in both apparel and wheat and a comparative advantage in wheat.
d. China has an absolute disadvantage in both apparel and wheat and a comparative advantage in apparel.

ANSWER: d

87. Table: Output in the United States and China

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	U.S. Output per Worker	Chinese Output per Worker
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

Which product(s) will the United States export to China?

a. wheat
b. apparel
c. neither wheat nor apparel
d. both wheat and apparel

ANSWER: a

88. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	Chinese Sales/Employee
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The average worker in the United States produced _____ times more apparel than the average worker in China.

a. 3.97
b. 1.66
c. 5,800
d. 23,000

ANSWER: b

89. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	Chinese Sales/Employee
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

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In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The table shows that the United States had an absolute advantage in:

a. textile manufacturing.
b. apparel manufacturing.
c. neither textile nor apparel manufacturing.
d. both textile and apparel manufacturing.

ANSWER: d

90. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	**Chinese Sales/Employee**
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

In the upper part of the table, the productivity of workers in the textile and apparel sectors is given for the United States and China. The table shows that China had a comparative advantage in:

a. textile manufacturing.
b. apparel manufacturing.
c. neither textile nor apparel manufacturing.
d. both textile and apparel manufacturing.

ANSWER: b

91. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	**Chinese Sales/Employee**
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

Consider the productivity of workers in all three sectors. In the United States, what is the dollar value of apparel foregone to produce an additional bushel of wheat?

a. $0.04
b. $0.23
c. $4.30
d. $10.00

ANSWER: c

92. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	**Chinese Sales/Employee**
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

Consider the productivity of workers in all three sectors. In the United States, what is the dollar value of textiles foregone to produce an additional bushel of wheat?

a. $0.04
b. $0.23
c. $4.30
d. $10.00

ANSWER: d

93. Table: U.S. and Chinese Production per Worker in Apparel, Textiles, and Wheat, 2018

	U.S. Sales/Employee	**Chinese Sales/Employee**
Apparel	$58,000	$35,000
Textiles	$135,000	$34,000
	Bushels/Employee	**Bushels/Employee**
Wheat	13,500	450

Consider the productivity of workers in all three sectors. In China, how many dollars of textile production must be given up to produce an additional bushel of wheat?

a. $66.67
b. $75.56
c. $300
d. $1.01

ANSWER: b

94. It can be shown that differences in before-trade relative prices will determine:

a. which nation has the absolute advantage.
b. which good each nation will export or import.

c. the quantity traded by each nation.
d. the equilibrium trade price.

ANSWER: b

95. A nation will export the product in which it has a comparative advantage, which results from the good being relatively ____ than in the importing nation.
a. less expensive
b. more expensive
c. lower in quality
d. less available

ANSWER: a

96. At some point, as the price of the exported product is bid up and the price of the imported product falls, the price of the product in both nations:
a. becomes more unequal.
b. approaches zero.
c. approaches infinity.
d. equalizes.

ANSWER: d

97. When two nations have achieved identical relative prices for two traded products, we have:
a. a standoff.
b. a stalemate.
c. international trade equilibrium.
d. absolute advantage once again.

ANSWER: c

98. Suppose a nation increases the quantity of a product it exports. To attract the labor resources needed to support the increased production, it must:
a. pay higher wages.
b. lay off workers.
c. borrow capital abroad.
d. find new sites for production near population centers.

ANSWER: a

99. The Ricardian model (with constant opportunity costs) predicts that a nation will _____.

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a. have a comparative disadvantage in the production of the good it exports
b. develop shortages in the good it exports
c. lower the cost of production in the good it exports
d. specialize completely

ANSWER: d

100. Table: Output in the United States and China

	U.S. Output per Worker	**Chinese Output per Worker**
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

Using the data in the table, what will happen to the U.S. labor force after trade occurs with China?

a. U.S. labor will move from agriculture to apparel, where its marginal productivity is higher. U.S. jobs in agriculture will be exported to China.
b. U.S. jobs in apparel will be exported to China, wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase.
c. The value of output produced by U.S. labor will increase, so U.S. labor employed in both apparel and agriculture will increase.
d. U.S. labor will move from apparel to agriculture, where its marginal productivity is higher. U.S. jobs in apparel will be exported to China, wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase.

ANSWER: d

101. (Figure: Upperia's Production and Consumption)

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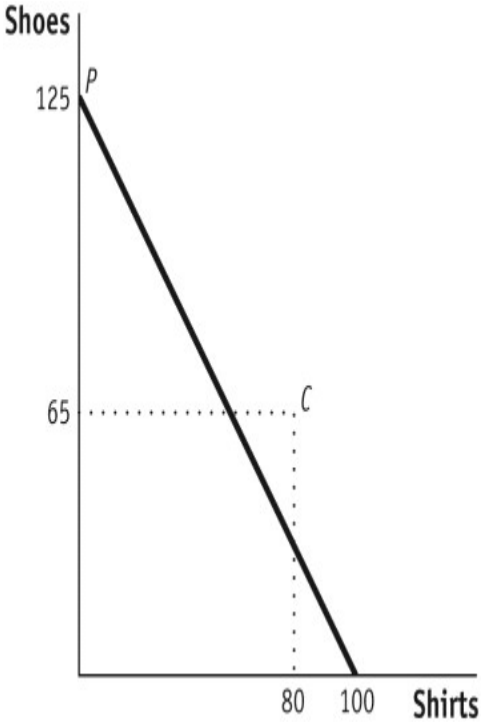

The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home export?

a. shoes
b. shirts
c. neither shirts nor shoes
d. both shirts and shoes

ANSWER: a

102. (Figure: Upperia's Production and Consumption)

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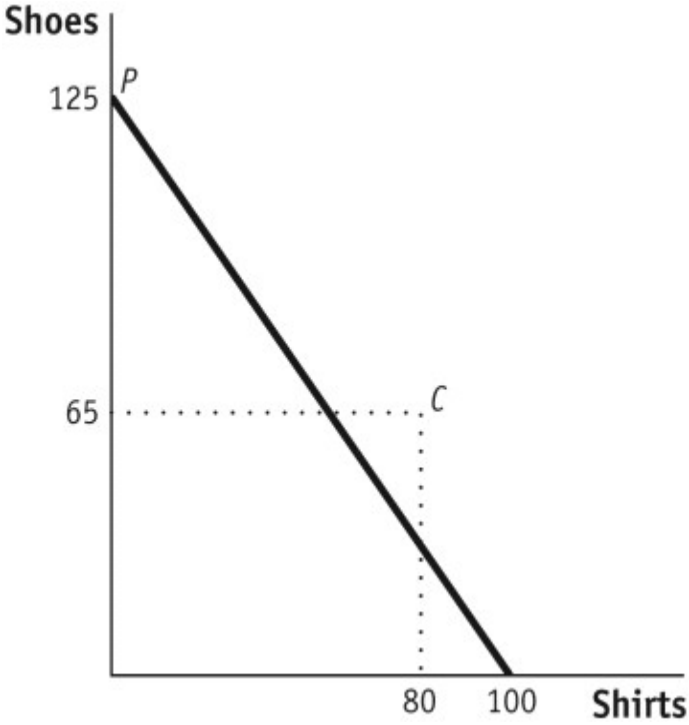

The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Which product does Home import?

a. shoes
b. shirts
c. neither shirts nor shoes
d. both shirts and shoes

ANSWER: b

103. (Figure: Upperia's Production and Consumption)

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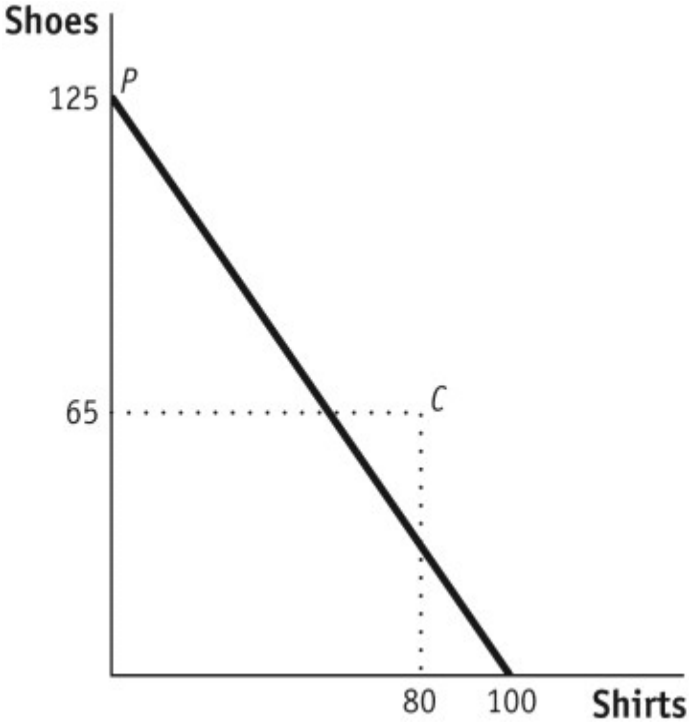

The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. What is the international price of shoes (shirts/pair of shoes)?

a. 125/80 shirts per pair of shoes
b. 4/3 shirts per pair of shoes
c. 5/4 shirts per pair of shoes
d. 3/4 shirt per pair of shoes

ANSWER: b

104. (Figure: Upperia's Production and Consumption)

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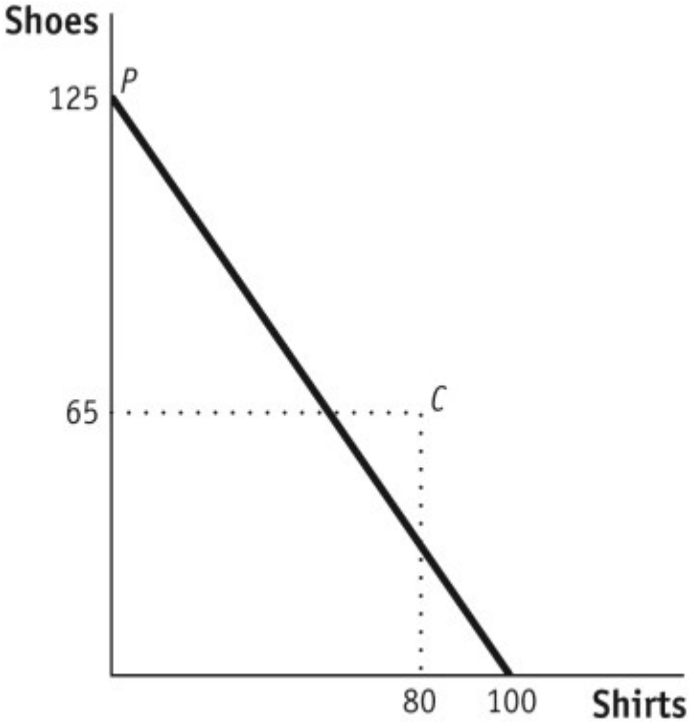

The graph shows Upperia's international trading pattern. Point *P* is production with trade, and point *C* is consumption with trade. Assume that the marginal product of labor in producing shoes is one pair per hour. How many hours of labor occur in Upperia?

a. 125
b. 100
c. 80
d. 65

ANSWER: a

105. (Figure: Upperia's Production and Consumption)

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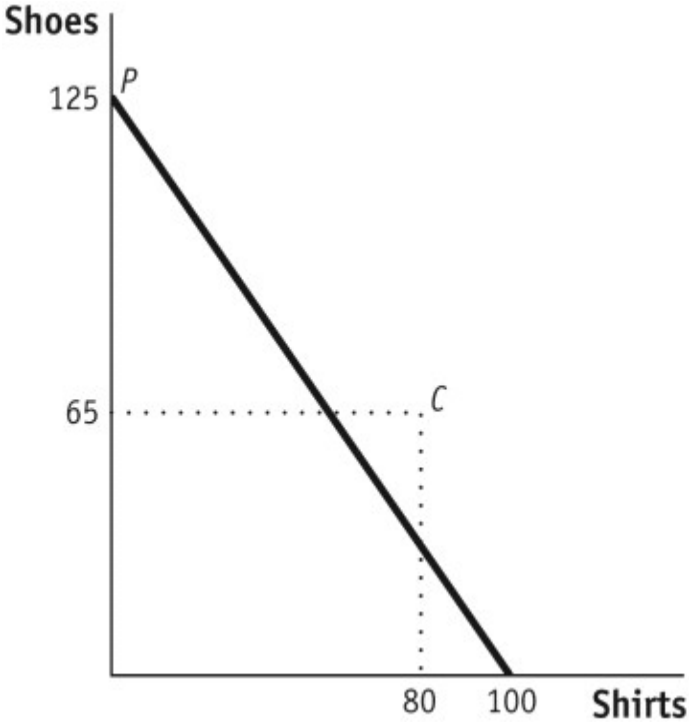

The graph shows Upperia's international trading pattern. What is the autarky relative price of shirts in Upperia?

a. 4/3 pairs of shoes per shirt
b. 3/4 pair of shoes per shirt
c. 5/4 pairs of shoes per shirt
d. 4/5 pair of shoes per shirt

ANSWER: c

106. (Figure: Upperia's Production and Consumption)

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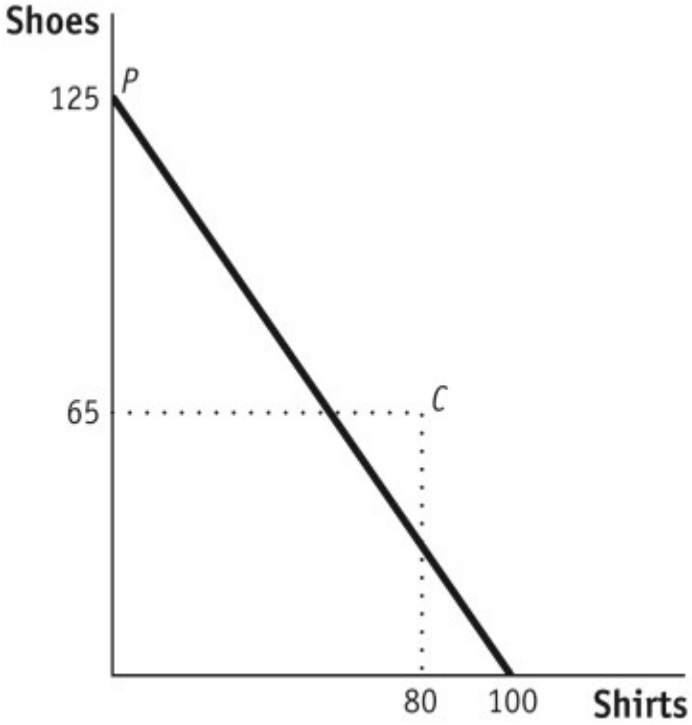

The graph shows Upperia's international trading pattern. With free trade, how many shoes and shirts does Upperia import and/or export?

a. Upperia imports 65 shoes and exports 80 shirts.
b. Upperia imports 60 shoes and exports 20 shirts.
c. Upperia exports 65 shoes and imports 20 shirts.
d. Upperia exports 60 shoes and imports 80 shirts.

ANSWER: d

107. With trade, a country will maximize its economic well-being when it:

a. moves to the highest possible indifference curve.
b. forces the marginal rate of substitution to its lowest possible value.
c. consumes more of both goods than it does in autarky.
d. finds its marginal rate of substitution exceeding its marginal rate of transformation.

ANSWER: a

108. If the international terms of trade settle at a level that is between each country's opportunity cost:

a. there is no basis for gainful trade for either country.
b. both countries gain from trade.
c. only one country gains from trade.
d. one country gains and the other country loses from trade.

ANSWER: b

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109. Trade between two nations is NOT possible if they have:
a. identical indifference curves but different production possibilities frontiers.
b. identical production possibilities frontiers but different indifference curves.
c. different production possibilities frontiers and different indifference curves.
d. identical production possibilities frontiers and identical indifference curves.

ANSWER: d

110. As nations trade, their total level of utility (satisfaction from consuming goods):
a. equalizes.
b. levels out.
c. decreases.
d. increases.

ANSWER: d

111. The increase in total utility derived from trading products is called:
a. trade patterns.
b. gains from trade.
c. comparative advantage.
d. labor productivity.

ANSWER: b

112. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which country has an absolute advantage in jellybean production?
a. Chile
b. Argentina
c. neither Argentina nor Chile
d. both Argentina and Chile

ANSWER: c

113. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of

peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which country has a comparative advantage in jellybean production?

a. Chile
b. Argentina
c. neither Argentina nor Chile
d. both Argentina and Chile

ANSWER: b

114. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What are the endpoints of Chile's production possibilities frontier?

a. 1,000 pounds of jellybeans and 500 pounds of peanut butter
b. 1,000 pounds of jellybeans and 2,000 pounds of peanut butter
c. 600 pounds of jellybeans and 200 pounds of peanut butter
d. 1,000 pounds of jellybeans and 333 pounds of peanut butter

ANSWER: a

115. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What is the price of peanut butter in Argentina before the two countries begin to trade with each other?

a. 1/3 pound of jellybeans per pound of peanut butter
b. 1/2 pound of jellybeans per pound of peanut butter
c. 2 pounds of jellybeans per pound of peanut butter
d. 3 pounds of jellybeans per pound of peanut butter

ANSWER: d

116. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. In order for Chile to gain from trade, the price of jellybeans must be less than:

a. 2 pounds of peanut butter per pound of jellybeans.

b. 3 pounds of peanut butter per pound of jellybeans.
c. 1/3 pound of peanut butter per pound of jellybeans.
d. 1/2 pound of peanut butter per pound of jellybeans.

ANSWER: d

117. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Argentina's gains from trade will be *largest* (and still feasible) when the price of jellybeans is:

a. 2 pounds of peanut butter per pound of jellybeans.
b. 3 pounds of peanut butter per pound of jellybeans.
c. 1/3 pound of peanut butter per pound of jellybeans.
d. 1/2 pound of peanut butter per pound of jellybeans.

ANSWER: d

118. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. What is the opportunity cost of a pound of peanut butter in Chile?

a. 2 pounds of jellybeans
b. 3 pounds of jellybeans
c. 1/3 pound of jellybeans
d. 1/2 pound of jellybeans

ANSWER: a

119. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Suppose that Chile and Argentina begin to trade with each other. Each completely specializes in the product in which it finds its comparative advantage. How many pounds of peanut butter and jellybeans do the two countries jointly produce?

a. 1,000 pounds of jellybeans and 400 pounds of peanut butter
b. 1,000 pounds of jellybeans and 500 pounds of peanut butter

c. 500 pounds of jellybeans and 1,000 pounds of peanut butter
d. 333.33 pounds of jellybeans and 500 pounds of peanut butter

ANSWER: b

120. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Suppose that Chile and Argentina begin to trade with each other. Each completely specializes in the product in which it finds its comparative advantage. How many more pounds of peanut butter and jellybeans do the two countries jointly produce compared with production before they began to trade?

a. 1,000 pounds of jellybeans and 500 pounds of peanut butter
b. 0 pounds of jellybeans and 500 pounds of peanut butter
c. 1,000 pounds of jellybeans and 0 pounds of peanut butter
d. 0 pounds of jellybeans and 100 pounds of peanut butter

ANSWER: d

121. Chile and Argentina each produce jellybeans and peanut butter, using labor as their only resource. Each country has 1,000 hours of labor. In Chile, an hour produces a pound of jellybeans and 2 hours produce a pound of peanut butter. In Argentina, an hour produces a pound of jellybeans and 3 hours produce a pound of peanut butter. When they do not trade with each other, Chile consumes 600 pounds of jellybeans and 200 pounds of peanut butter, and Argentina consumes 400 pounds of jellybeans and 200 pounds of peanut butter. Which of the following groups will benefit from trade between Chile and Argentina?

a. Chilean consumers
b. Argentinean consumers
c. both Argentinean consumers and Chilean consumers
d. neither Chilean consumers nor Argentinean consumers

ANSWER: c

122. According to the principle of comparative advantage, specialization and trade increase a nation's total output because:

a. resources are directed to their highest productivity.
b. the output of the nation's trading partner declines.
c. the nation can produce outside its production possibilities frontier.
d. the problem of unemployment is eliminated.

ANSWER: a

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123. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. What is Home's price of corn in autarky?

a. 0.5 ton of wheat
b. 20 tons of wheat
c. 10 tons of wheat
d. 2 tons of wheat

ANSWER: d

124. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. How large is Home's labor force?

a. 50 workers
b. 40 workers
c. 30 workers
d. 20 workers

ANSWER: b

125. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. Now suppose that Home has the opportunity to trade with Foreign at an international price of 1 ton of wheat per ton of corn. In which product will Home find its comparative advantage?

a. wheat
b. corn
c. neither corn nor wheat
d. both corn and wheat

ANSWER: a

126. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. Suppose that Home completely specializes, and it consumes 20 tons of wheat after it begins trading with Foreign. Home trades with Foreign at a 1-to-1 ratio of corn for wheat. How many tons of corn does Home consume when it trades with Foreign?

a. 10 tons of corn
b. 20 tons of corn
c. 30 tons of corn

d. 40 tons of corn

ANSWER: b

127. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Foreign produces 1 ton of corn and 0.5 ton of wheat. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. At which international price will Home's gains from trade be largest?

a. 1/2 ton of wheat per ton of corn
b. 1 ton of wheat per ton of corn
c. 1.5 tons of wheat per ton of corn
d. 2 tons of wheat per ton of corn

ANSWER: a

128. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant cost production. Home produces 1/2 ton of corn or 1 ton of wheat with a day of labor. Foreign produces 1 ton of corn and 1/2 ton of wheat. Suppose that, after trade occurs, the international price actually becomes 1.5 tons of wheat per ton of corn. Which of the following statements is TRUE?

a. Home will gain from trade but Foreign will not.
b. Foreign will gain from trade but Home will not.
c. Neither home nor Foreign will gain from trade.
d. Both Home and Foreign will gain from trade.

ANSWER: d

129. Assume that Germany and China can produce beer and cloth. If the *MPLc*/*MPLb* for Germany is 2/5 and the *MPLc*/*MPLb* for China is 1, then Germany and China have a comparative advantage in:

a. cloth and beer, respectively.
b. beer and cloth, respectively.
c. beer.
d. cloth.

ANSWER: b

130. Assume that Germany and China can produce beer and cloth. If the *MPLc*/*MPLb* for Germany is 2/5 and the *MPLc*/*MPLb* for China is 1, then China should:

a. specialize in producing beer and export beer.
b. specialize in producing cloth and export cloth.
c. not specialize, because China will not benefit from specializing.
d. specialize in producing cloth and import cloth.

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ANSWER: b

131. Assume that Germany and China can produce beer and cloth. If the *MPLc*/*MPLb* for Germany is 2/5 and the *MPLc*/*MPLb* for China is 1, then Germany should:
a. specialize in producing beer and export beer.
b. specialize in producing cloth and export cloth.
c. not specialize, because Germany will not benefit from specializing.
d. specialize in producing cloth and import cloth.

ANSWER: a

132. Assume that Germany and China can produce beer and cloth. If the *MPLc*/*MPLb* for Germany is 2/5 and the *MPLc*/*MPLb* for China is 1, then Germany should:
a. import all of its beer.
b. import all of its cloth.
c. not specialize, because Germany will not benefit from specializing.
d. import half of its beer and half of its cloth.

ANSWER: b

133. Assume that Germany and China can produce beer and cloth. If the *MPLc*/*MPLb* for Germany is 2/5 and the *MPLc*/*MPLb* for China is 1, then China should:
a. import all of its beer.
b. import all of its cloth.
c. not specialize, because China will not benefit from specializing.
d. import half of its beer and half of its cloth.

ANSWER: a

134. Using the marginal product theory of wages, a worker's "real" wage is:
a. twice the amount of the "money" wage.
b. what the "money" wage will purchase in terms of products.
c. what she earns after taxes.
d. what she would earn if her employer paid her fairly.

ANSWER: b

135. A worker's "real" wage is related to:
a. her productivity in the workplace.
b. the value of her production to her employer.
c. the nation's absolute advantage in production of that product.

d. her productivity in the workplace, the value of her production to her employer, and the nation's absolute advantage in production of that product.

ANSWER: d

136. Which of the following statements describes what the Ricardian model predicts as a nation improves its technology and productivity?

a. Its standard of living will rise.
b. Wages of its workers will fall.
c. It will lose its absolute advantage.
d. It will lose its comparative advantage.

ANSWER: a

137. For China, the overall result of opening its economy over the past few decades was:

a. a decline in its wages.
b. an increase in wages.
c. a reduction in the amount exported.
d. a reduction in the amount imported.

ANSWER: b

138. The case study of wages and productivity in the textbook demonstrates that:

a. workers lose out when international trade occurs.
b. internationally, worker productivity varies directly with real wages.
c. workers who get educated get higher wages.
d. workers become more productive, but most of the value-added goes to the owners of capital.

ANSWER: b

139. For India, the overall result of opening its economy was:

a. a large decrease in per capita real income.
b. a large increase in per capita real income.
c. no change in per capita real income.
d. a small increase in per capita real income.

ANSWER: b

140. A comparison of wages and value-added in manufacturing across countries suggests that:

a. there is no relationship between value-added and wages.
b. there is a negative relationship between value-added and wages.

c. wages tend to rise as productivity increases.
d. wages tend to rise as productivity falls.

ANSWER: c

141. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United States has the absolute advantage in the production of:

a. steel.
b. chemicals.
c. neither steel nor chemicals.
d. both steel and chemicals.

ANSWER: d

142. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom has the absolute advantage in the production of:

a. steel.
b. chemicals.
c. neither steel nor chemicals.
d. both steel and chemicals.

ANSWER: c

143. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom has a comparative advantage in the production of:

a. steel.
b. chemicals.
c. neither steel nor chemicals.
d. both steel and chemicals.

ANSWER: b

144. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. If trade occurs between the United States and the United Kingdom, American firms should specialize in producing:

a. steel.
b. chemicals.
c. neither steel nor chemicals.

d. both steel and chemicals.

ANSWER: a

145. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. International trade will occur between the United States and the United Kingdom so long as 1 ton of steel trades for:

a. at least 1 ton of chemicals, but no more than 2 tons of chemicals.
b. at least 2 tons of chemicals, but no more than 3 tons of chemicals.
c. at least 0.33 ton of chemicals, but no more than 0.5 ton of chemicals.
d. at least 0.55 ton of chemicals but no more than 0.75 ton of chemicals.

ANSWER: b

146. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. The United Kingdom will gain the most from trade (and trade will be feasible) if 1 ton of steel trades for:

a. 2 tons of chemicals.
b. 3 tons of chemicals.
c. 1.5 tons of chemicals.
d. 0.5 ton of chemicals.

ANSWER: a

147. In the United States, one worker can produce 10 tons of steel per day or 20 tons of chemicals per day. In the United Kingdom, one worker can produce 5 tons of steel per day or 15 tons of chemicals per day. Which of the following statements is CORRECT?

a. U.S. wages will be higher than U.K. wages.
b. U.K. wages will be higher than U.S. wages.
c. Wages in the United States and the United Kingdom will be equal.
d. There will be no relationship between U.S. and U.K. wages.

ANSWER: a

148. If export prices increase, what can we expect the wages in the export sector to do?

a. increase
b. decrease
c. stay the same
d. The answer cannot be determined from the information provided.

ANSWER: a

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149. What does the term "value-added per hour" help us measure?

a. terms of trade
b. labor productivity
c. volume of exports
d. volume of imports

ANSWER: b

150. In the Ricardian model, wages are equal across industries because:

a. employers care for their workers.
b. workers prefer to work in exporting industries.
c. workers are freely mobile between industries.
d. workers are freely mobile between countries.

ANSWER: c

151. Suppose that the introduction of computers increases the productivity of workers in the developed world. What you would expect wages to do?

a. rise mainly in the developed countries
b. rise mainly in the developing countries
c. fall mainly in the developed countries
d. fall mainly in the developing countries

ANSWER: a

152. If a home country is exporting corn and importing bikes and if the relative price *Pc/Pb* is increasing, then:

a. the home country will export less corn.
b. the home country will export more corn.
c. the home country will import the same number of bikes.
d. there is no change in the trade pattern for the home country.

ANSWER: b

153. It is possible to determine how much a nation will export over and above its domestic consumption at various international prices, other things being equal, by finding a set of equilibria. This is represented by the:

a. import demand curve for a nation.
b. export supply curve for a nation.
c. production possibilities frontier for a nation.
d. "no-trade" equilibrium.

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ANSWER: b

154. The flat part of Home's export supply curve in the Ricardian model is due to the assumption that:
a. Home has a comparative advantage in its export.
b. Home has an absolute advantage in its export.
c. the marginal product of labor is constant in the export good.
d. Home has more labor than Foreign.

ANSWER: c

155. It is possible to determine how much a nation will import at various international prices, other things being equal, by finding a set of equilibria. This is represented by the:
a. import demand curve for a nation.
b. export supply curve for a nation.
c. production possibilities frontier for a nation.
d. "no-trade" equilibrium.

ANSWER: a

156. Because the PPF is a straight line in the Ricardian model, Foreign's import demand curve is:
a. upward sloping in parts.
b. flat in parts.
c. downward sloping in parts.
d. flat everywhere.

ANSWER: b

157. International trade equilibrium occurs where:
a. there is no further way to increase production of any commodity.
b. the home excess supply curve intersects with the home excess demand curve.
c. the total world import demand curve intersects with the total world export supply curve.
d. the amount produced in each nation is just equal to the amounts produced in every other nation.

ANSWER: c

158. The international relative price and total quantity of a traded good or service is determined by:
a. labor shortages that occur worldwide.
b. the World Trade Organization.
c. the intersection of the total world import demand curve with the total world export supply curve.
d. natural resource availability compared with the industrial demand for those products.

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ANSWER: c

159. If prices of a nation's exported products rise in comparison with prices paid for imports, that nation experiences a:

a. rise in its international terms of trade.
b. decline in its international terms of trade.
c. reduction in its imports.
d. reduction in its exports.

ANSWER: a

160. Suppose that there is an improvement in a country's terms of trade between 2010 and 2014. This improvement means that:

a. the country can purchase more imports in 2014, with the same volume of exports as in 2010.
b. the country can purchase more exports in 2014, with the same volume of exports as in 2010.
c. the country needs to increase its exports in order to purchase the same volume of imports as in 2010.
d. regarding its international trade, the country is worse off in 2014 than it was in 2010.

ANSWER: a

161. If the foreign import demand curve intersects the home country's export supply curve in its horizontal portion, then:

a. the home country will suffer a loss from international trade.
b. the home country will not gain from trade.
c. the home country will gain from trade.
d. the foreign country will not gain from trade.

ANSWER: b

162. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,000 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to supply and Foreign is willing to buy at various international prices.

International Price	Home's Wheat Exports	Foreign's Wheat Imports
1 yard/1 bushel	100 bushels	900 bushels
2 yards/1 bushel	200 bushels	800 bushels
3 yards/1 bushel	300 bushels	700 bushels
4 yards/1 bushel	400 bushels	600 bushels
5 yards/1 bushel	500 bushels	500 bushels
6 yards/1 bushel	600 bushels	400 bushels
7 yards/1 bushel	700 bushels	300 bushels

8 yards/1 bushel	800 bushels	200 bushels
9 yards/1 bushel	900 bushels	100 bushels

What is the international price of wheat?

a. 1 yard/bushel
b. 3 yards/bushel
c. 5 yards/bushel
d. 7 yards/bushel

ANSWER: c

163. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,000 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to supply and Foreign is willing to buy at various international prices.

International Price	**Home's Wheat Exports**	**Foreign's Wheat Imports**
1 yard/1 bushel	100 bushels	900 bushels
2 yards/1 bushel	200 bushels	800 bushels
3 yards/1 bushel	300 bushels	700 bushels
4 yards/1 bushel	400 bushels	600 bushels
5 yards/1 bushel	500 bushels	500 bushels
6 yards/1 bushel	600 bushels	400 bushels
7 yards/1 bushel	700 bushels	300 bushels
8 yards/1 bushel	800 bushels	200 bushels
9 yards/1 bushel	900 bushels	100 bushels

In equilibrium, how many bushels of wheat will Foreign import?

a. 900 bushels
b. 700 bushels
c. 500 bushels
d. 300 bushels

ANSWER: c

164. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	**Foreign's Cloth Exports**
400 bushels	200 yards
550 bushels	300 yards

700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

If the international price of cloth is 1.5 bushels of wheat per yard, how many bushels of wheat will Home export to Foreign?

a. 1,050 bushels
b. 800 bushels
c. 700 bushels
d. 550 bushels

ANSWER: a

165. Home has a comparative advantage in wheat, and Foreign has a comparative advantage in cloth. Once trade occurs, Home produces 1,500 bushels of wheat, and Foreign produces 1,000 yards of cloth. The following table shows the amount of wheat that Home is willing to trade to acquire more cloth.

Home's Wheat Exports	**Foreign's Cloth Exports**
400 bushels	200 yards
550 bushels	300 yards
700 bushels	400 yards
800 bushels	500 yards
950 bushels	600 yards
1,050 bushels	700 yards
1,105 bushels	800 yards

If the international price of cloth is 1.5 bushels of wheat per yard, how many yards of cloth will Foreign export to Home?

a. 500 yards
b. 600 yards
c. 700 yards
d. 1,150 yards

ANSWER: c

166. With other things unchanged, a rise in the average price of imports or a fall in the average price of exports will:

a. improve the terms of trade.
b. worsen the terms of trade.
c. expand the production possibilities frontier.

d. contract the production possibilities frontier.

ANSWER: b

167. An increase in the price of imported goods will:
a. increase the volume of imports.
b. decrease the volume of imports.
c. shift the production possibility frontier inward.
d. shift the production possibility frontier outward.

ANSWER: b

168. The Prebisch–Singer hypothesis concludes that:
a. because of unfair trading practices, labor in developing countries is exploited.
b. developing countries experience a long-run decline in their terms of trade, as the demand for primary products in higher-income countries declines relative to their demand for manufactured goods.
c. OPEC has been responsible for a slowdown in the world's standard of living.
d. technology lowers the cost of manufactured products, so developing countries should see an increase in their terms of trade.

ANSWER: b

169. Real-world evidence has led many economists (including the authors of this textbook) to conclude that the Prebisch–Singer hypothesis:
a. is not true.
b. is true.
c. is valid in some instances but showed no consistent trend and cannot be considered a general rule.
d. is valid only since 1995, when the World Trade Organization began its operations.

ANSWER: c

170. Several economists have hypothesized that the terms of trade for developing countries will decline over time. Which of the following might be a cause of this decline?
a. Technological progress in manufactured goods has caused their prices to fall.
b. Some developing countries are able to keep the price of their exports high by restricting supplies on the world market.
c. Increased demand for developing country exports has caused prices of developing country exports to rise.
d. The demand for primary product exports from developing countries has not risen as fast as the demand for manufactured exports from industrialized countries.

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ANSWER: d

171. What are the shapes of production possibilities frontiers in the Ricardian model?

ANSWER: They are linear with endpoints that show a country's production when it completely specializes in producing only one or the other good.

172. What assumption of the Ricardian model results in linear PPFs?

ANSWER: This is the assumption of a constant marginal product of labor (in conjunction with the assumption that labor is the only input to production).

173. In autarky, what will be the relationship between the PPF and the indifference curve in equilibrium?

ANSWER: In autarky, the equilibrium will occur at a point along the PPF that shares one tangency point with an indifference curve. Any higher indifference curve will not share a tangency with the PPF, and any lower indifference curve will cross the PPF at more than one point.

174. In an autarky situation, explain why a country will be at its optimal production if it produces where an indifference curve is tangent to the production possibilities frontier.

ANSWER: If the country produces where an indifference curve is tangent to its production possibilities frontier, then it is impossible to attain a point on a higher indifference curve.

175. Why is a country able to consume outside its production possibilities frontier when it engages in international trade?

ANSWER: It can completely specialize in the good in which it has a comparative advantage, export that good and import the other, and receive a higher relative price for its export and pay a lower relative price for its import.

176. If a country has a comparative advantage in producing rice and a comparative disadvantage in producing pencils, does the Ricardian model predict that the real wage in rice production will fall and the real wage in pencil production will rise as a result of international trade? Explain.

ANSWER: No. The Ricardian model predicts that real wages in both rice and pencil production will increase, since the relative price of rice will increase. If workers are paid the value of their marginal products, then labor will move into rice production with corresponding higher real wages. Since, in equilibrium, wages must be equal across all production, the real wage must then also increase in pencil production.

177. Assume that, in autarky, an economy has 150 workers and the MPL_c is 2 cars and the MPL_b is 5 boats. Explain how one can derive the autarky price of cars in this economy.

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ANSWER: If one worker can produce 2 cars or 5 boats, then moving a worker from boat to car production lowers boat production by 5 and increases car production by 2. So a single car must trade for 5/2 boats.

178. Suppose that:
1. Malaysia requires 1 hour of labor to produce 1 pound of rice and 2 hours of labor to produce 1 pencil;
2. Indonesia requires 2 hours of labor to produce 1 pound of rice and 4 hours of labor to produce 1 pencil;
3. each country has 10,000 hours of labor to allocate between the production of rice and pencils; and
4. in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils.

Which country has an absolute advantage in rice production? In pencil production?
Which country has a comparative advantage in rice production? In pencil production?
Will trade between the two countries be mutually beneficial?

ANSWER: Malaysia has an absolute advantage in both rice and pencil production. Neither country has a comparative advantage in either product, since autarky prices are the same in each country. Trade will not occur between the two countries, since neither has a comparative advantage in either product.

179. Why does the United States import textiles from Asian nations when it has an absolute advantage in textile production?

ANSWER: The United States has a comparative disadvantage in textiles and a comparative advantage in wheat. The opportunity cost of producing a unit of textiles is greater than the same relative cost incurred by other nations, including China, in producing a unit of textiles. Therefore, although in absolute terms the United States has a productivity advantage in both wheat and textiles, it obtains greater gains from exporting wheat and importing textiles.

180. Use the following table to determine the absolute and comparative advantages of China and the United States in producing wheat and textiles.

Output Per Worker		
	United States	**China**
Textiles	$165,000	$27,000
Wheat	12,260 bushels	300 bushels

ANSWER: Comparison of outputs per worker between the United States and China indicates that the United States has absolute advantages in both products. However, the United States is relatively more efficient in wheat production (the ratio of U.S. wheat production per worker to Chinese wheat production per worker is approximately 40.9), and China is relatively less inefficient in textile production (the similar ratio for textile production is approximately 6.1). Hence, the United States has a comparative advantage in wheat production, and China has a comparative advantage in textile production.

181. In the Ricardian model, what is expected to happen to real wages in each country as trade occurs?

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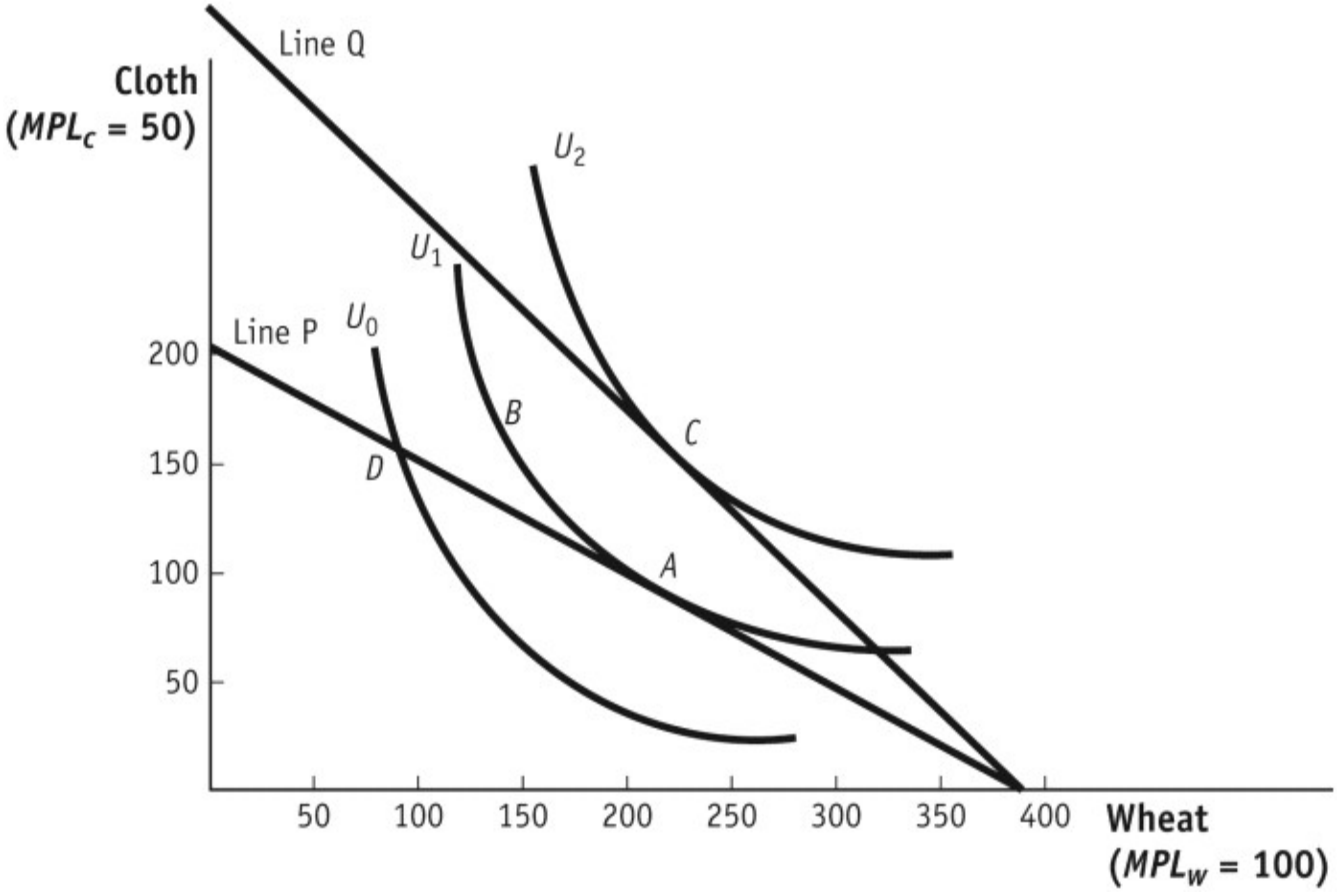
	Country A	Country B
MPL in wheat	1 bushel	2 bushels
MPL in cloth	1 yard	1 yard
Autarky prices	1 bushel = 1 yard	2 bushels = 1 yard
Trade prices	3/2 bushels = 1 yard	3/2 bushels = 1 yard
Real wage with trade	3/2 bushels = 1 yard	2/3 yard = 1 bushel

ANSWER: Real wages (the purchasing power of exports) will increase in both countries. Country A has a comparative advantage in cloth; country B has a comparative advantage in wheat. When trade occurs, country A can obtain more wheat (3/2 bushels) for each yard exported and country B can obtain more cloth (2/3 yard) for each bushel exported. The purchasing power of wages in each country will increase.

182. (Figure: International Trade Equilibrium)



Which is the before-trade point of production and consumption?

ANSWER: Point *A*

183. (Figure: International Trade Equilibrium)

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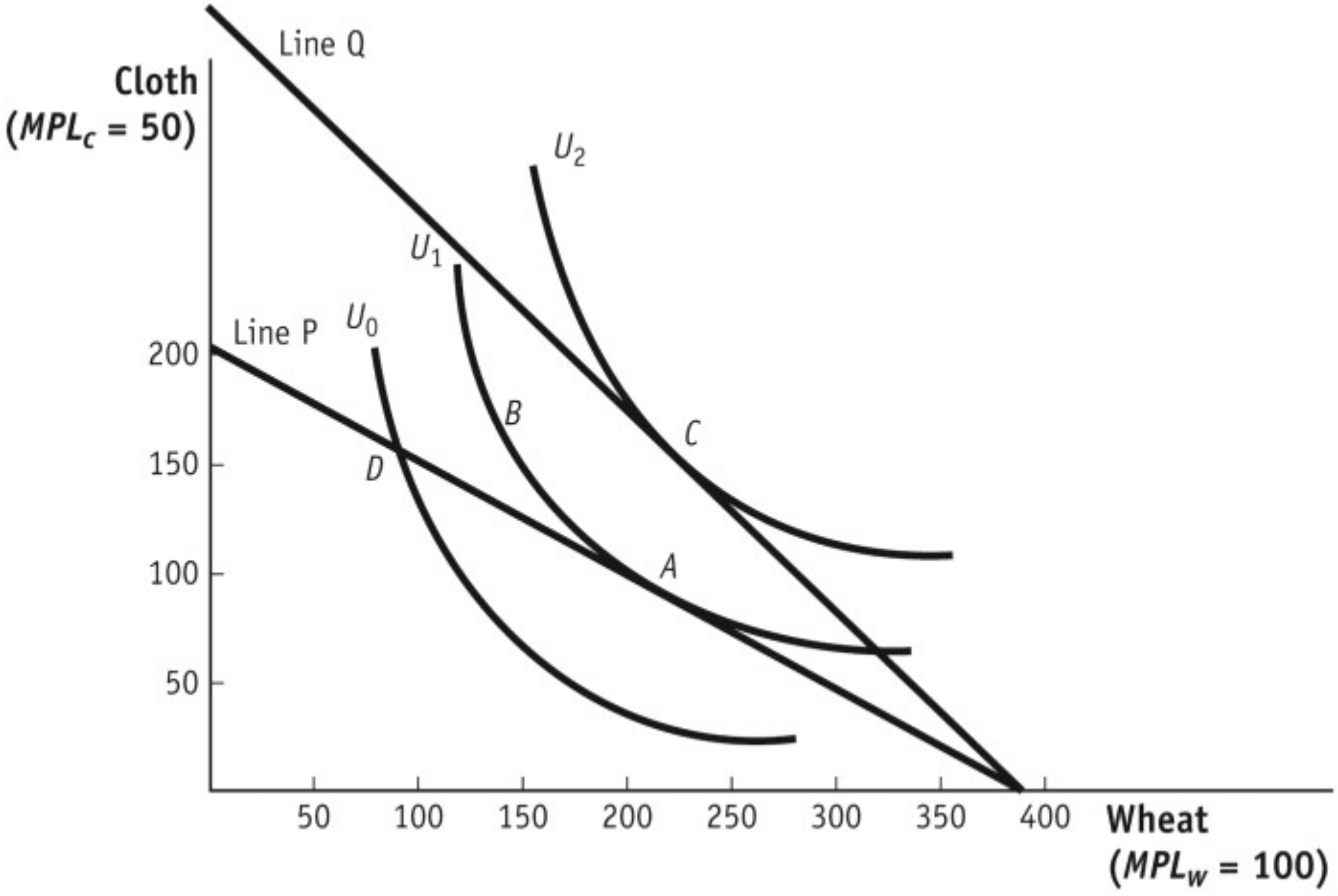

Which line shows the before-trade relative price in this nation?

ANSWER: Line *P*

184. (Figure: International Trade Equilibrium)

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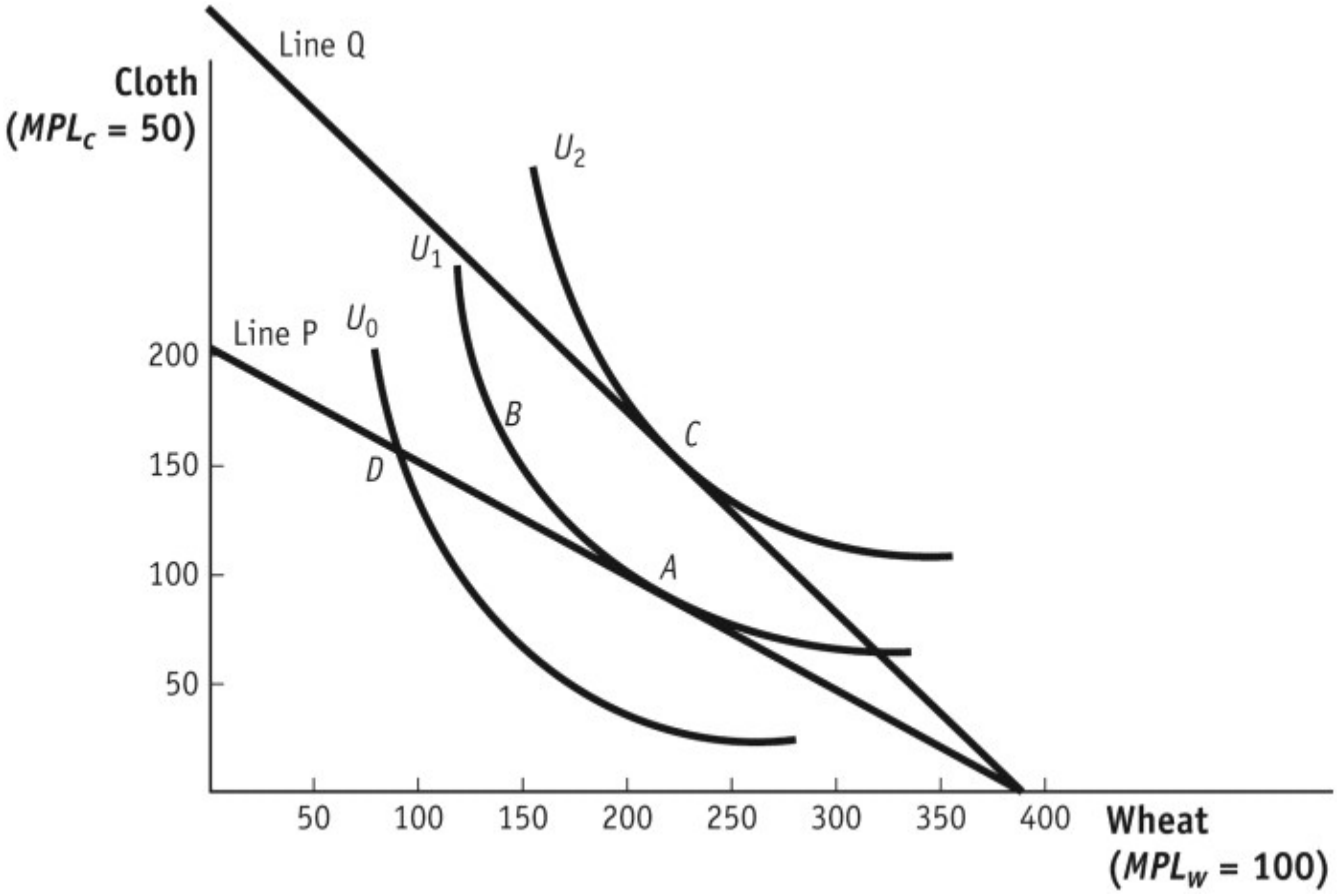

Which point shows the after-trade point of consumption?

ANSWER: Point *C*

185. (Figure: International Trade Equilibrium)

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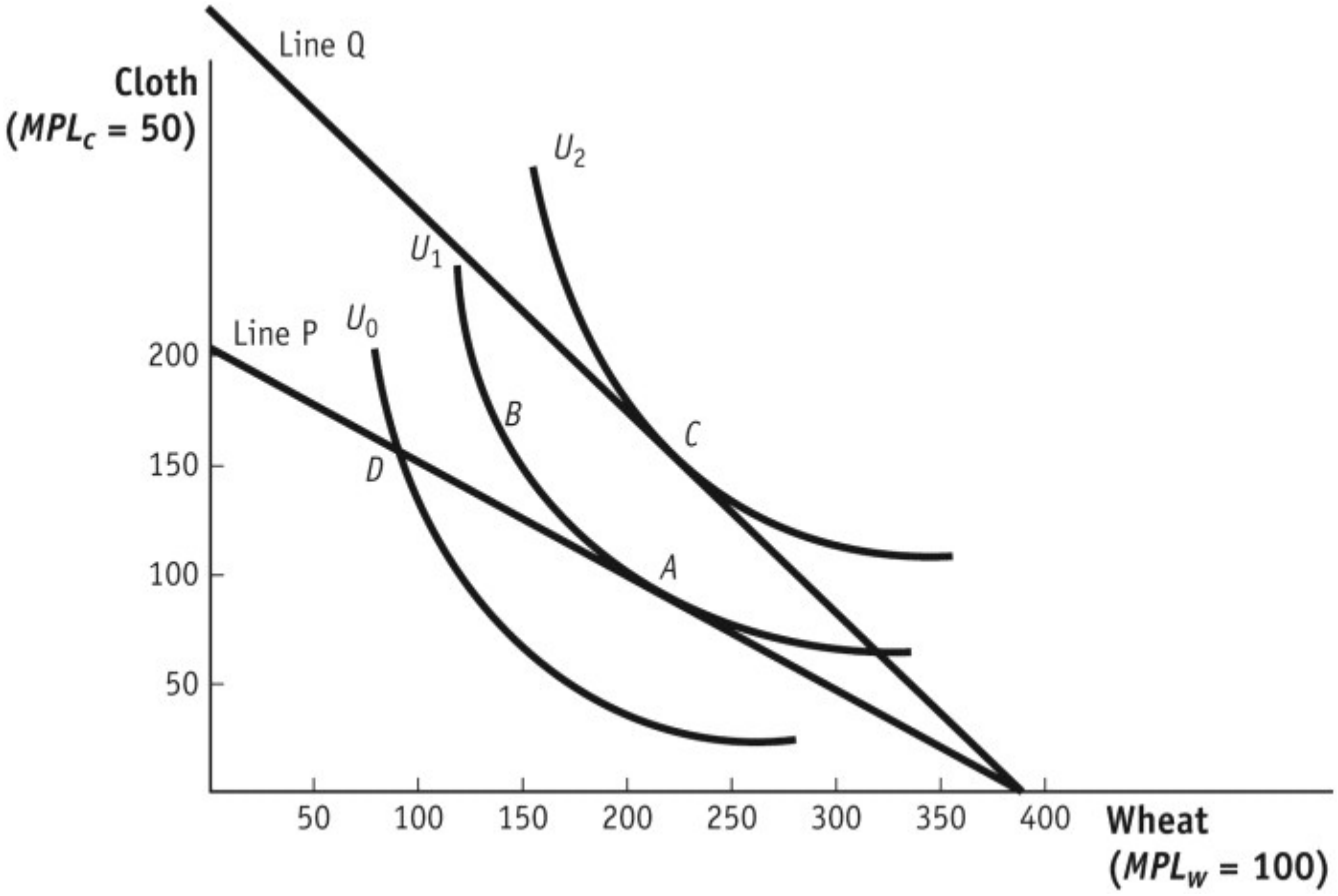

Which line shows the new equilibrium "world" price determined by trade?

ANSWER: Line *Q*

186. (Figure: International Trade Equilibrium)

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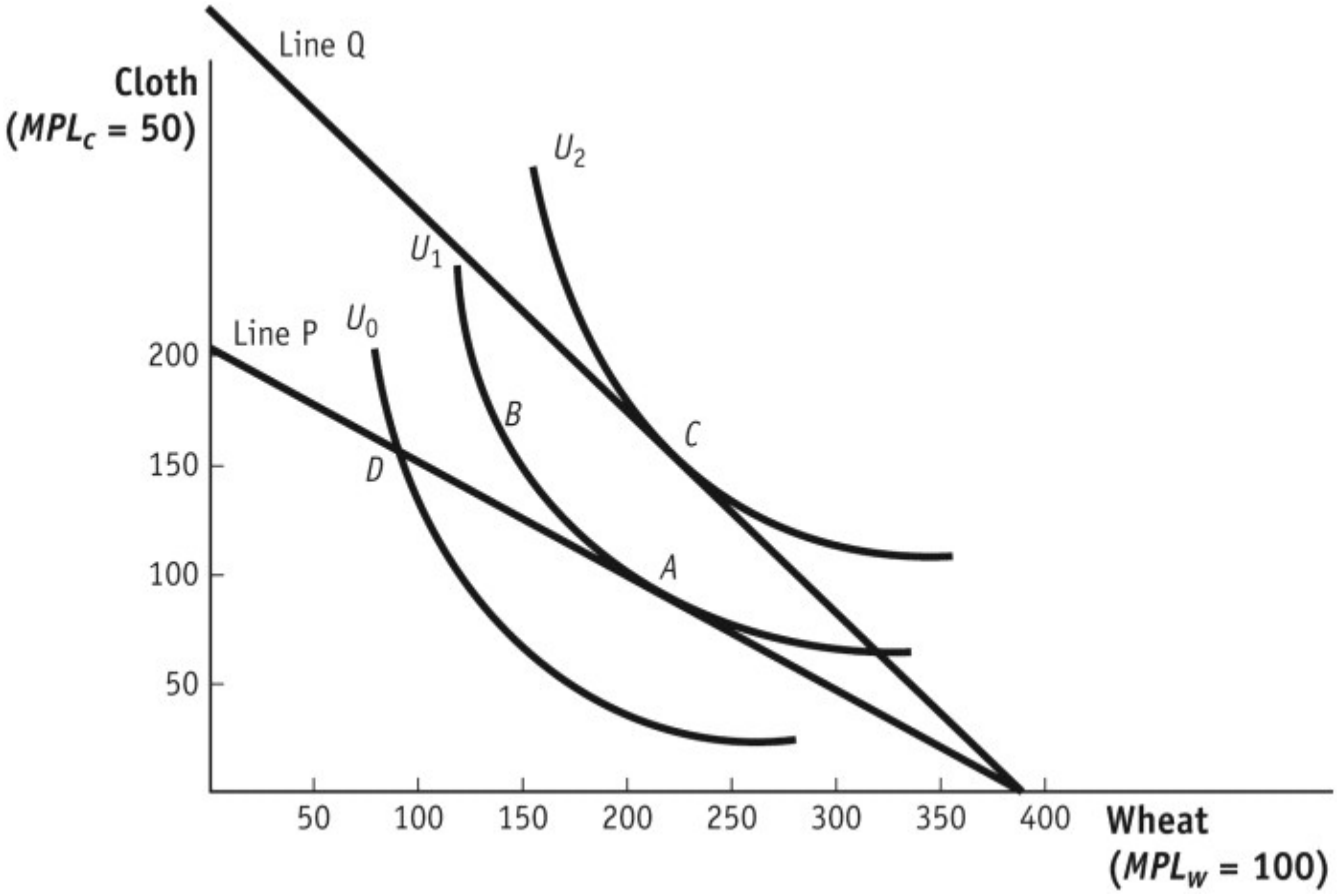

Before trade, how many units of wheat will this nation produce?

ANSWER: 210

187. (Figure: International Trade Equilibrium)

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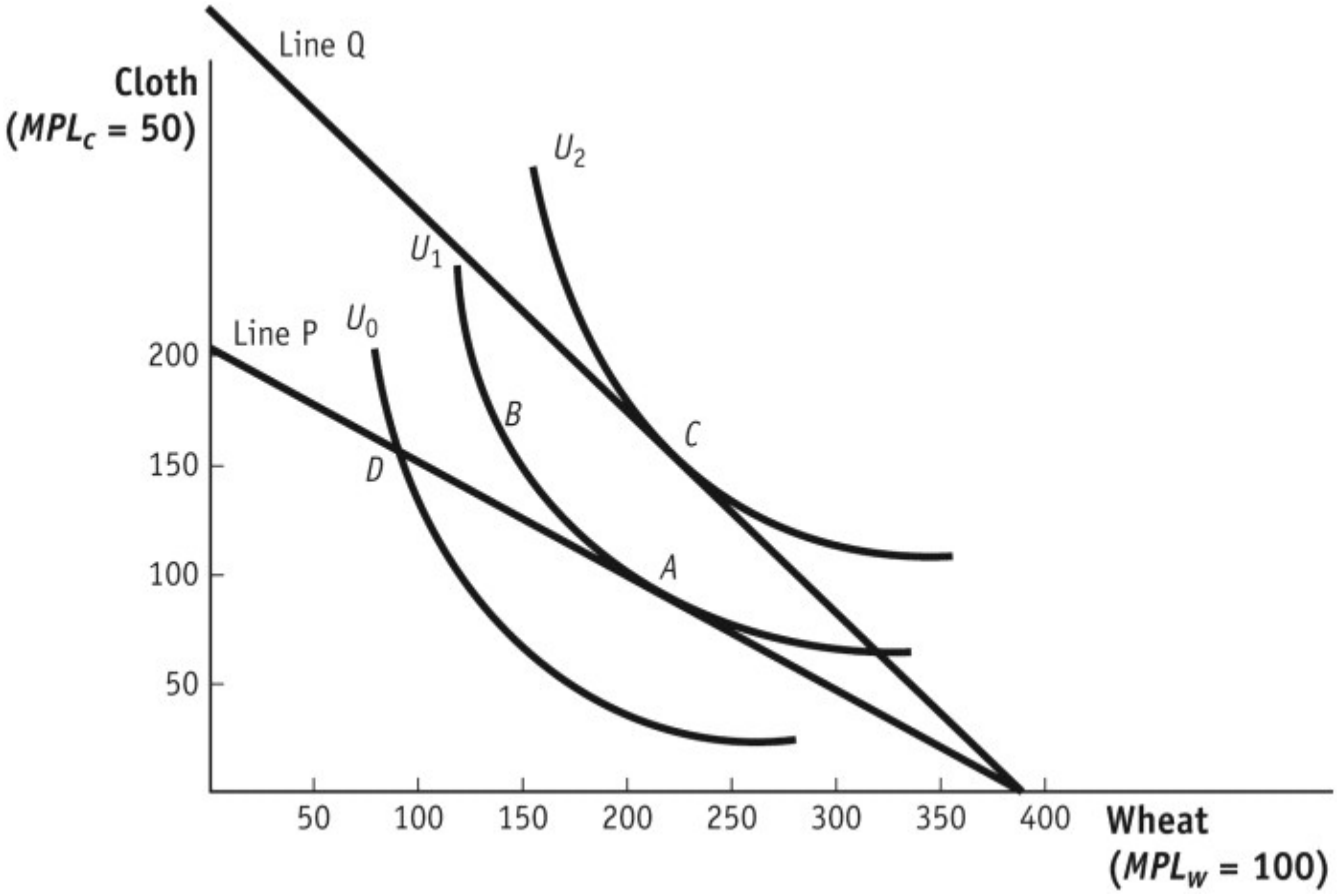

Before trade, how many units of wheat will this nation consume?

ANSWER: 210

188. (Figure: International Trade Equilibrium)

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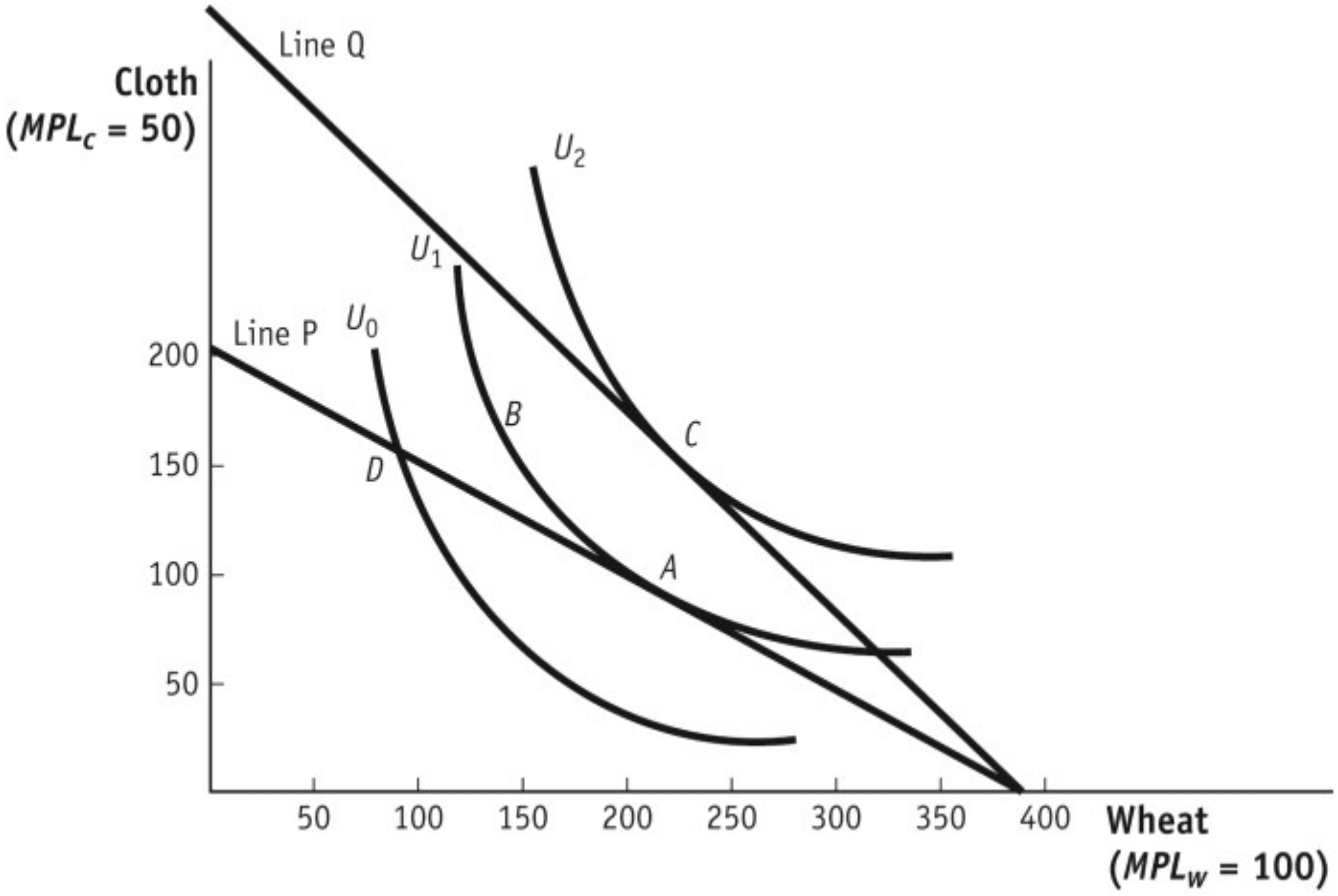

Before trade, how many units of cloth will this nation produce?

ANSWER: 90

189. (Figure: International Trade Equilibrium)

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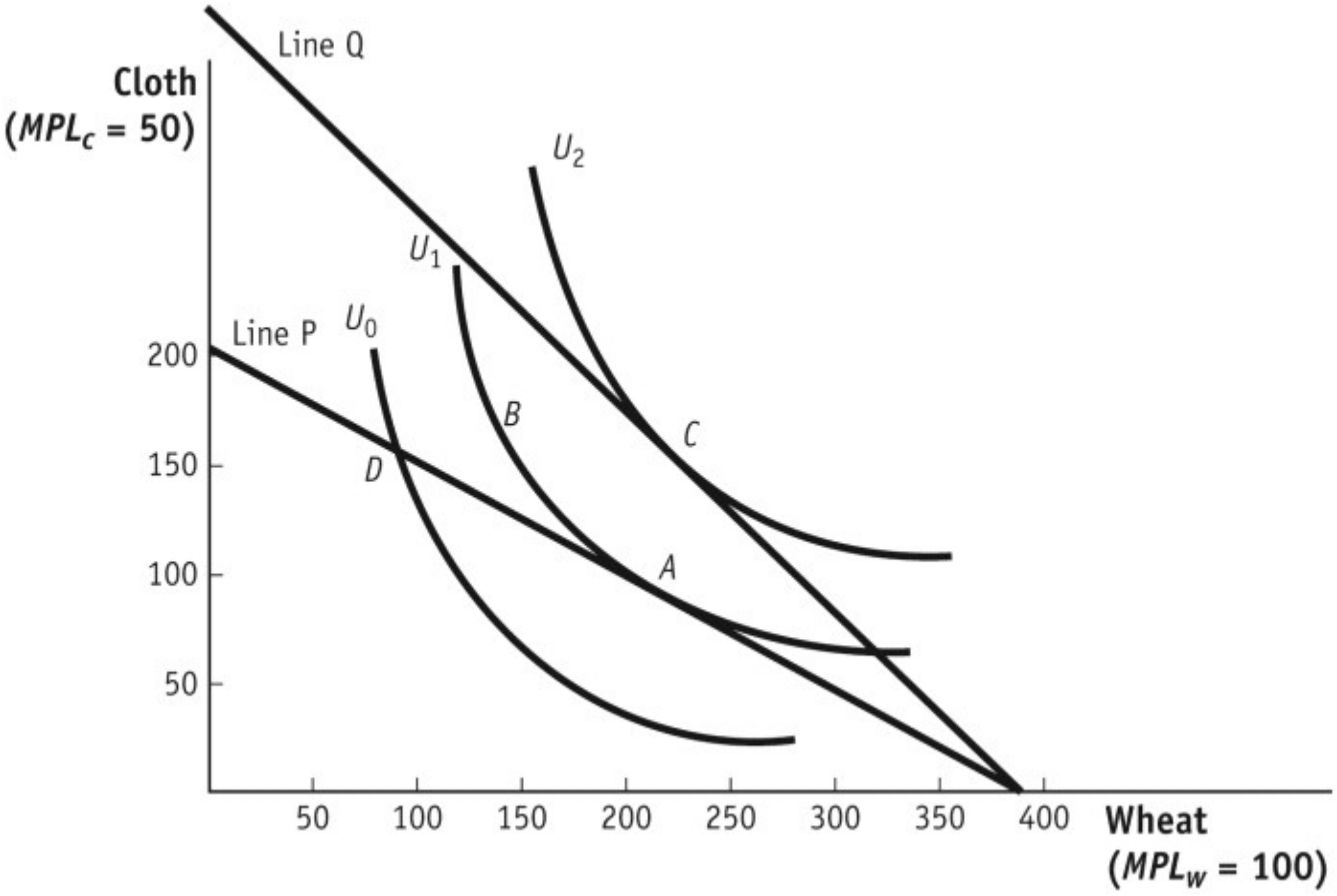

Before trade, how many units of cloth will this nation consume?

ANSWER: 90

190. (Figure: International Trade Equilibrium)

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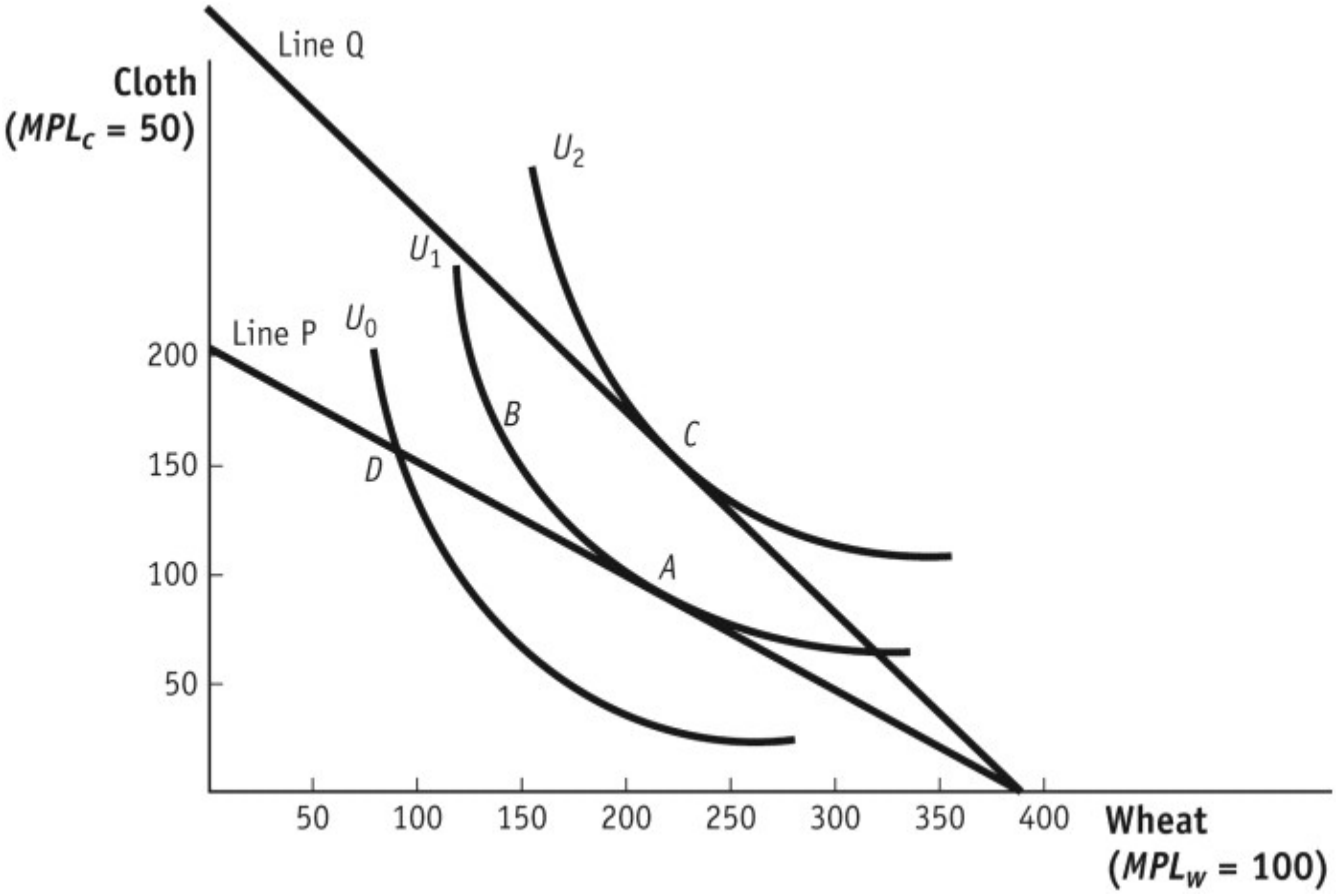

Assume that this country specializes in the good in which it has a comparative advantage. After trade, how many units of wheat will this nation produce?

ANSWER: 400

191. (Figure: International Trade Equilibrium)

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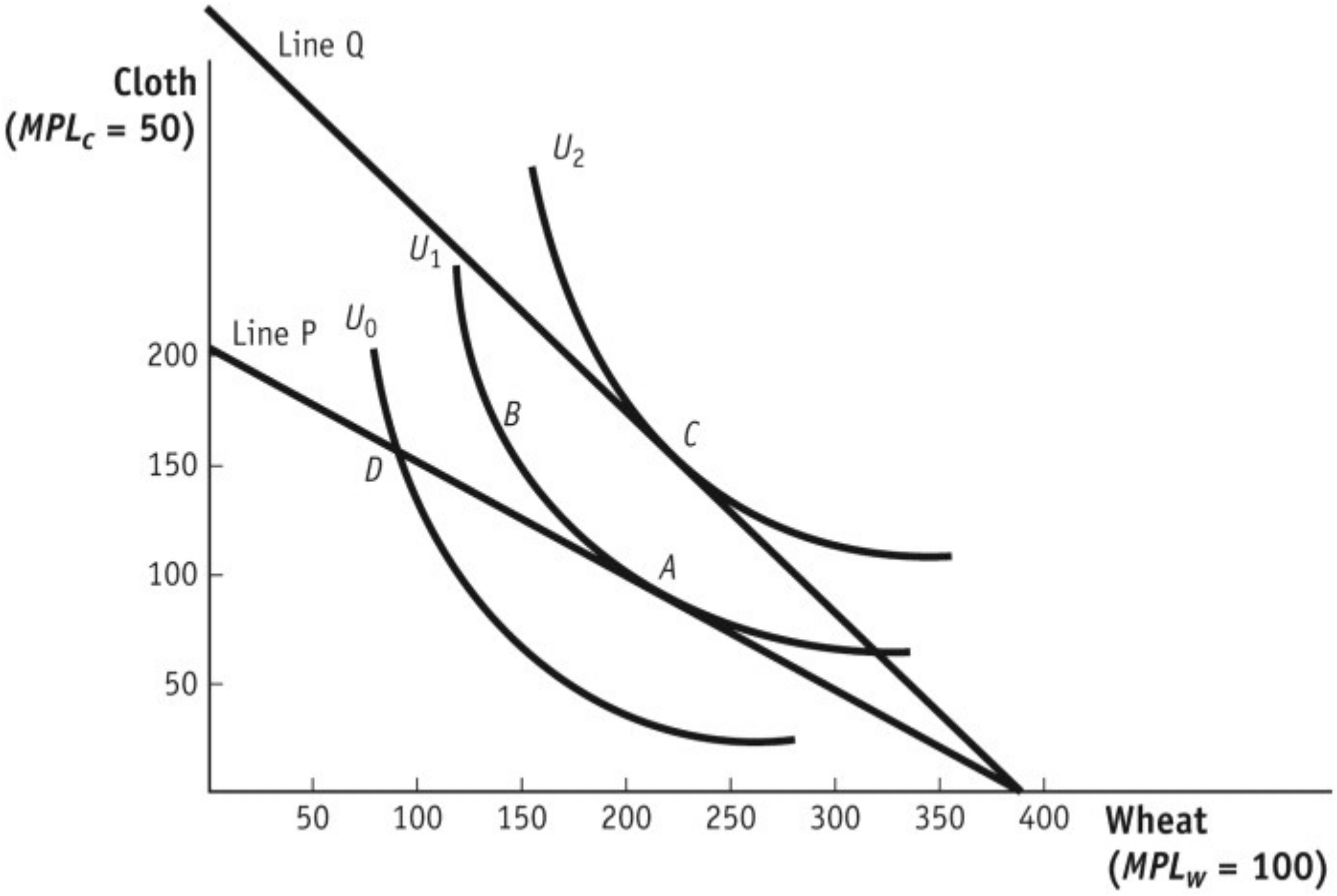

After trade, how many units of wheat will this nation consume?

ANSWER: 225

192. (Figure: International Trade Equilibrium)

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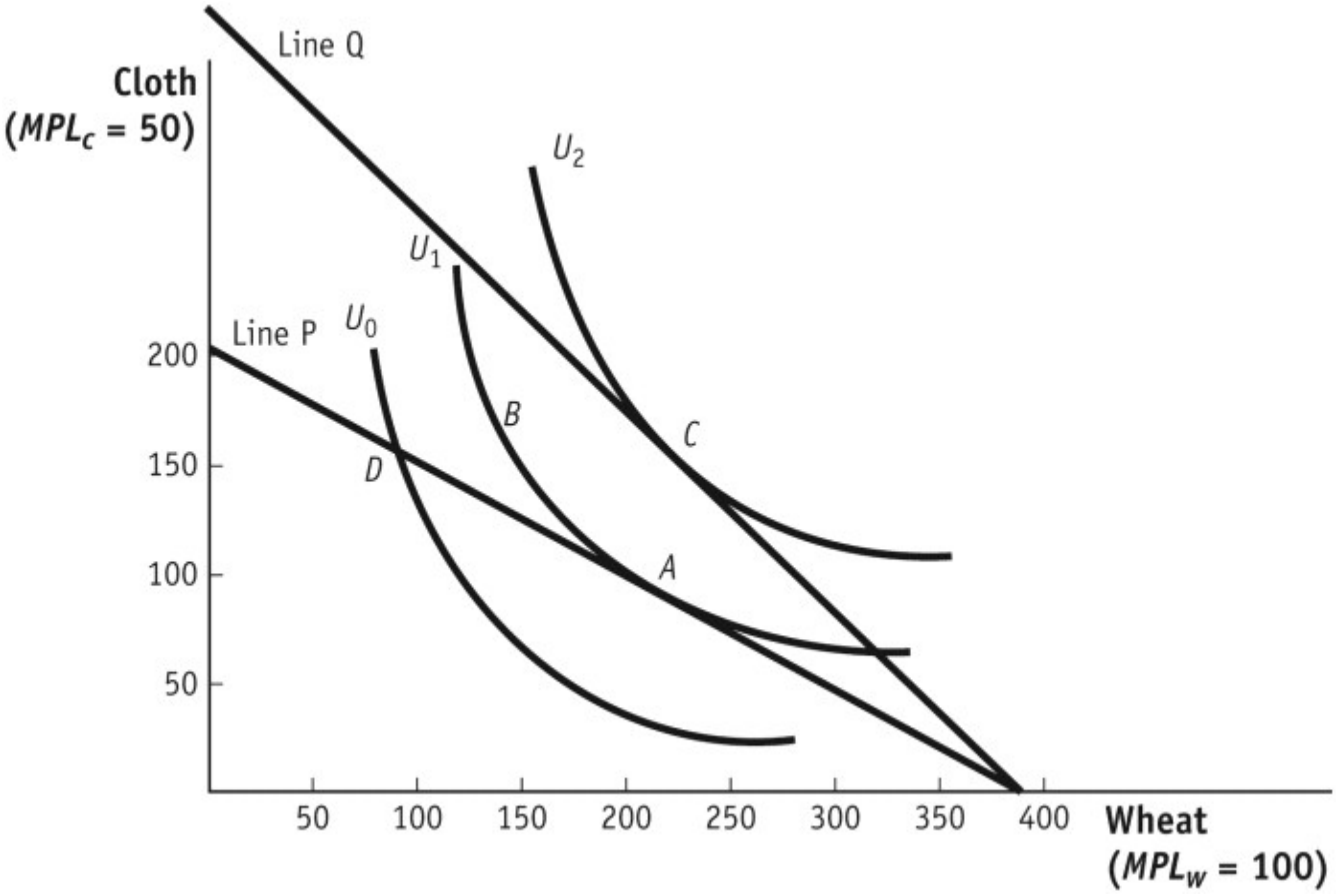

Assume that the country specializes in the good in which it has a comparative advantage. After trade, how many units of cloth will this nation produce?

ANSWER: 0. This country will specialize in wheat production and trade for all its cloth.

193. (Figure: International Trade Equilibrium)

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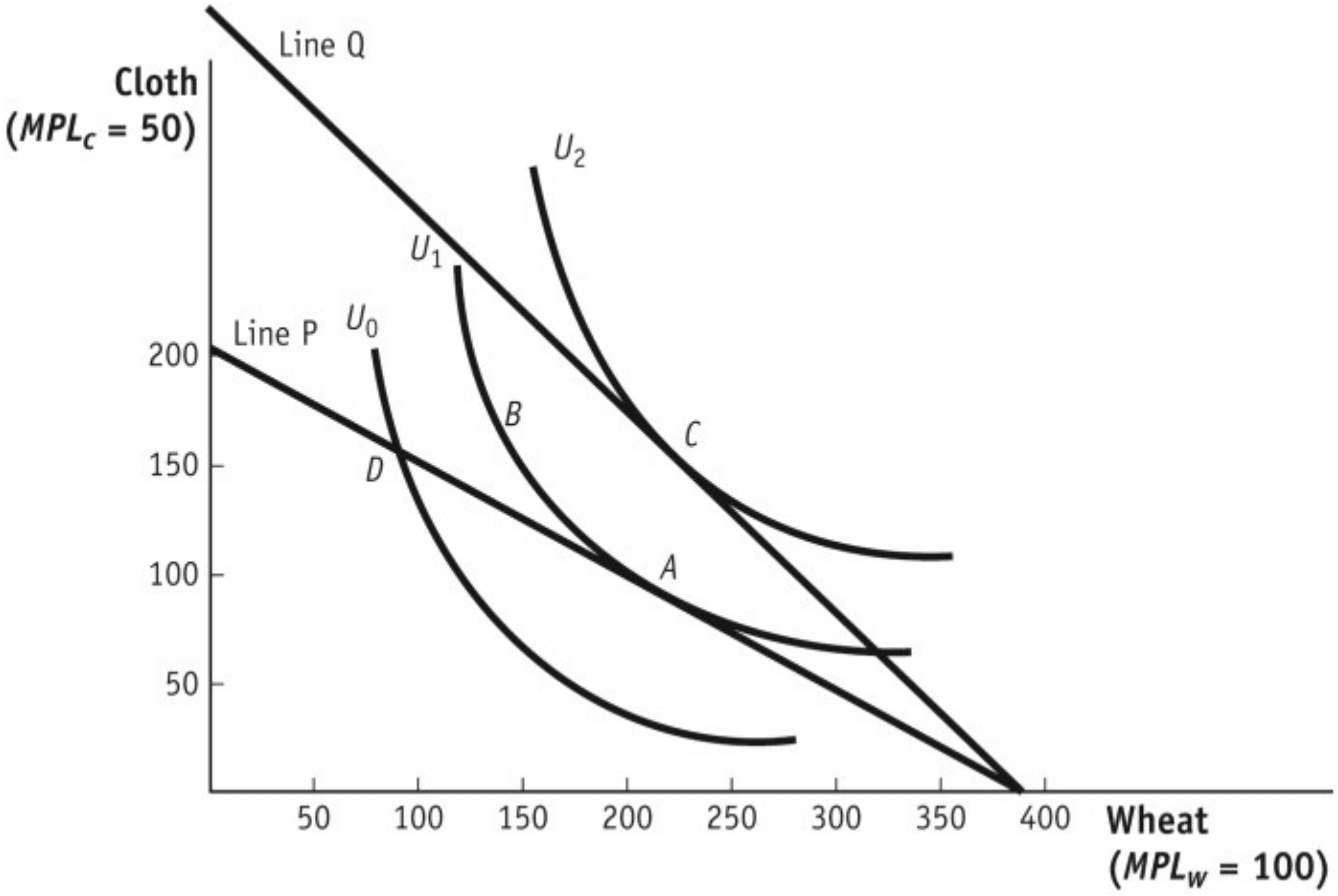

After trade, how many units of cloth will this nation consume?

ANSWER: 150

194. (Figure: International Trade Equilibrium)

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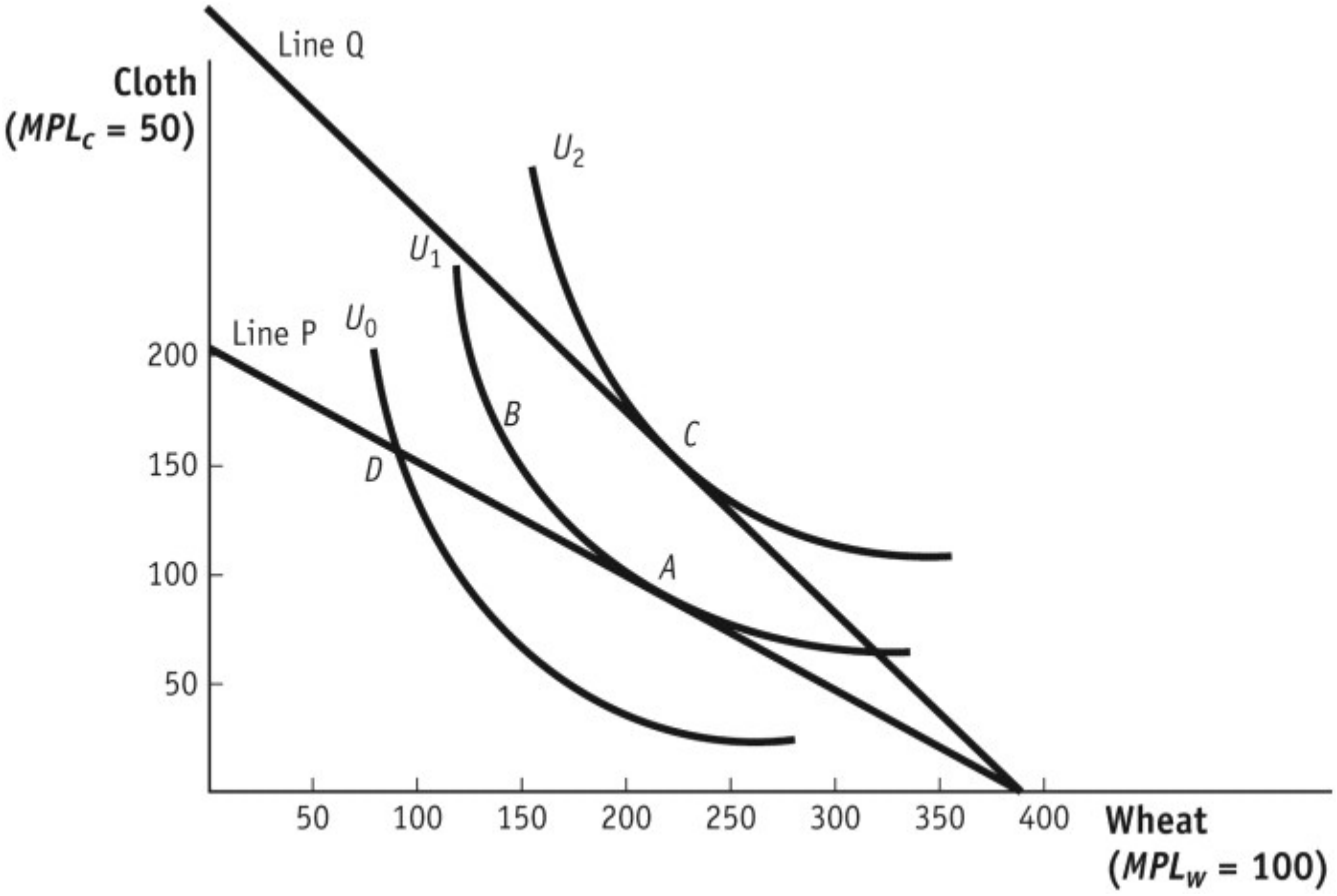

How many units of wheat will this nation export or import?

ANSWER: It will export 175 units of wheat.

195. (Figure: International Trade Equilibrium)

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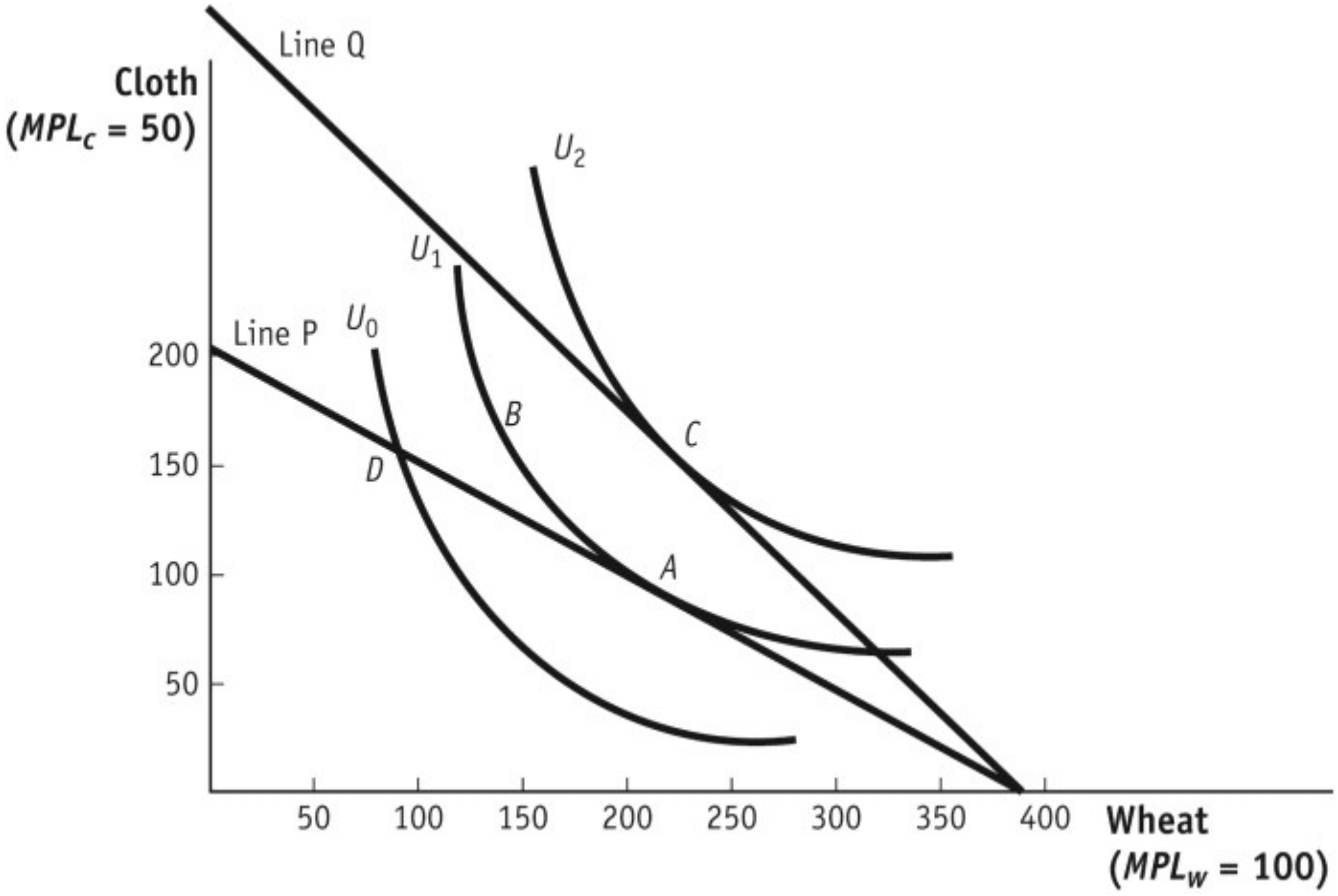

How many units of cloth will this nation export or import?

ANSWER: It will export 150 units of cloth.

196. Trade patterns are determined by comparative advantage in the Ricardian model. How are wages determined in each country?

ANSWER: Wages are determined by absolute advantage.

197. Compare the absolute advantages in U.S. and Chinese wheat and textile production to explain why the United States imports textile products from China, even though the typical U.S. textile worker is 7 to 16 times more productive than the typical Chinese textile worker.

ANSWER: The United States has a comparative disadvantage in textiles and a comparative advantage in wheat. The typical U.S. wheat farmer is 275 times more productive than the typical Chinese wheat farmer. The absolute advantage of the United States is relatively much higher in wheat production than in textile production. So, even though the United States has absolute advantages in both textiles and wheat, its comparative advantage is found in wheat production.

198. Suppose that China and the United States only trade wheat and textiles with each other. The following

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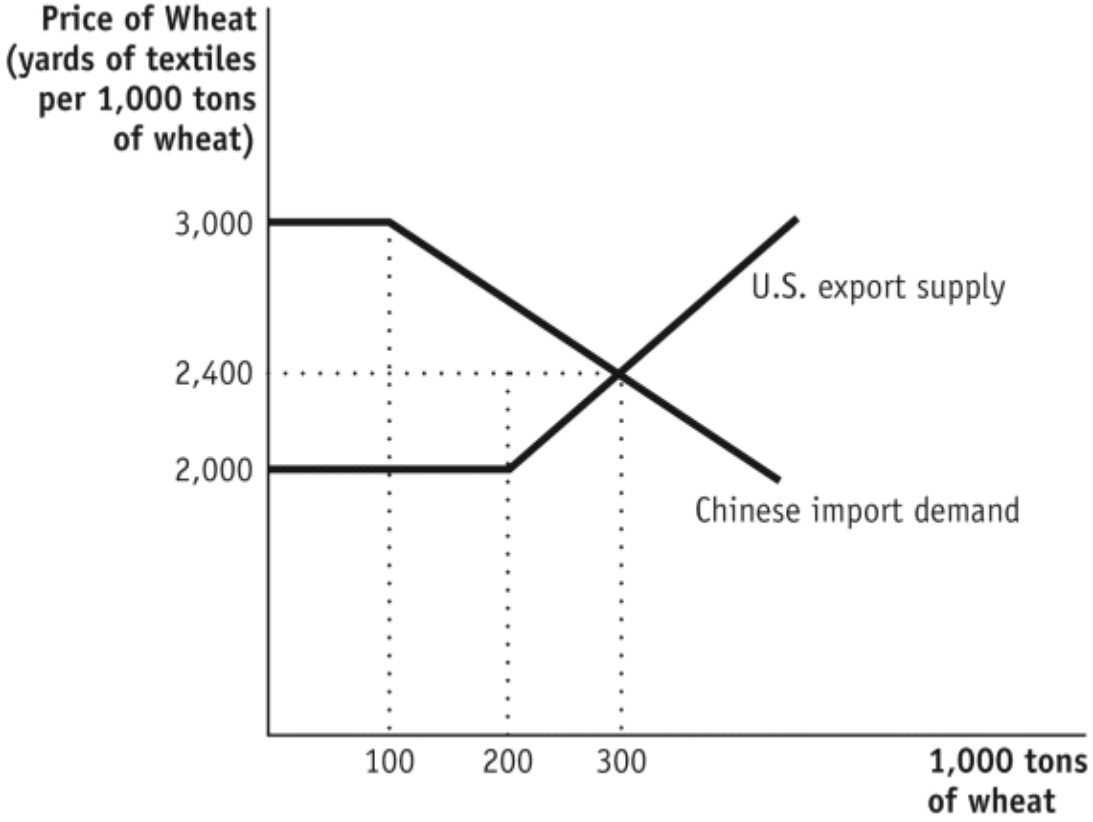
graph gives the U.S. supply curve for its exports of wheat to China and the Chinese demand curve for its imports of wheat from the United States.



I. How many tons of wheat did the United States produce prior to trade with China?
II. How many tons of wheat did China produce prior to trade with the United States?
III. What is the international price of wheat in U.S.–China trade?
IV. What will happen to the international price of wheat and Chinese imports from the United States if there is a severe drought that reduces the size of the U.S. wheat harvest?
V. What will happen to the international price of wheat and Chinese imports if there is a severe drought in China that reduces the size of its wheat harvest?

ANSWER: I. The United States produced 200,000 tons of wheat prior to trade with China.
II. China produced 100,000 tons of wheat prior to trade with the United States.
III. The international price of wheat is 2,400 yards of textiles/ton of wheat.
IV. A drought in the United States will most likely cause an upward shift throughout the U.S. supply curve and probably cause the kink in the curve to shift leftward to, say, 150,000 tons of wheat. These changes will cause a higher international price of wheat, lower U.S. exports, and lower Chinese wheat consumption.
V. A drought in China will cause an upward shift throughout the Chinese import demand curve and probably cause the kink in the curve to shift leftward. These changes will cause a higher international price of wheat, probably larger U.S. wheat exports to China, and reduced Chinese consumption of wheat.

Chapter 02

199. Suppose that the following table shows autarky production and consumption in country A and in country B.

	Country A	Country B
Production of wheat	100 bushels	100 bushels
Production of cloth	100 yards	100 yards

I. What are the autarky prices of wheat and cloth in each country?
II. Suppose that the indifference curves of the two countries are identical. Will trade occur?
III. Suppose that the indifference curves of the two countries are NOT identical, with country A showing a marked preference for wheat and country B a marked preference for cloth. Under these conditions, will trade occur?

ANSWER: I. 1 bushel = 1 yard or 1 yard = 1 bushel
II. No, since any change in relative prices will cause one country to move to a higher indifference curve and the other country to move to a lower curve.
III. Yes; country A will be willing to trade more than 1 yard of cloth per unit of wheat and country B will be willing to accept more than 1 yard of cloth per unit of wheat.

200. The authors provide evidence that wages rose at roughly the same rates as labor productivity in seven countries between 1973 and 2011. In China, many observers believe that wages have been increasing faster than labor productivity in recent years. If true, what are some implications for Chinese trade patterns?

ANSWER: Chinese comparative advantages are changing over time, perhaps to sectors with higher labor productivities; China may be losing its comparative advantages in low-productivity sectors, with resulting production shifts to other Asian countries that have lower labor costs; and some foreign FDI in China may be returning to their home countries (onshoring) as Chinese labor costs per unit of output rise.

201. Consider the following table.

	Country A	Country B
Hours per bushel of wheat	5	8
Hours per yard of cloth	5	5

I. Which country has an absolute advantage in wheat production?
II. Which country has an absolute advantage in cloth production?
III. Which country has a comparative advantage in wheat production?
IV. Which country has a comparative advantage in cloth production?
V. In what range must the international price of wheat fall?
VI. Which country is likely to gain more from trade if the international price of wheat is 7/5 bushels per yard of cloth?

ANSWER: I. Country A has an absolute advantage.
II. Neither country A nor country B has a comparative advantage.
III. Country A has a comparative advantage in wheat production.

IV. Country B has a comparative advantage in cloth production.
V. 1 yard/bushel < international price of wheat < 8/5 yard/bushel
VI. Country A is likely to gain more, since the international price diverges more from its autarky price than it does for country B.

202. If the home relative price of a good is $1.25 and the foreign relative price is $3.50, which country will import the good, which will export it, and what do we know about the world relative price?

ANSWER: The home country will export, the foreign country will import, and the world relative price will fall somewhere between $1.25 and $3.50.

203. Suppose that:

- Malaysia requires 1 hour of labor to produce 1 pound of rice and 2 hours of labor to produce 1 pencil;
- Indonesia requires 2 hours of labor to produce 1 pound of rice and 3 hours of labor to produce 1 pencil;
- each country has 10,000 hours of labor to allocate between the production of rice and pencils;
- in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils; and
- when trade occurs, the international price of rice becomes 3/5 pencil per pound of rice.

I. In Malaysia, what are the marginal productivities of labor in rice and pencil production?
II. In Indonesia, what are the marginal productivities of labor in rice and pencil production?
III. What are the autarky prices of rice and pencils in each country?
IV. In which product will each specialize?
V. What happens to wages in each country when trade occurs?

ANSWER: Malaysia has an absolute advantage in both rice and pencil production. Neither country has a comparative advantage in either product, since autarky prices are the same in each country. Trade will not occur between the two countries, since neither has a comparative advantage in either product.