

## VI. Objective Questions

Answer the next 9 questions using figures in the table below.

|      | Production Costs per unit of Output |               |
|------|-------------------------------------|---------------|
|      | Corn per bu.                        | Cloth per yd. |
| U.S. | \$ 2                                | \$ 1          |
| U.K. | £ 4                                 | £ 1           |

1. The opportunity cost of one yard of cloth in the U.S. is
  - (a) 1 bu. corn.
  - \* (b) 1/2 bu. corn.
  - (c) 1/4 bu. corn
  - (d) 4 bu. corn.
2. The opportunity cost of one yard of cloth in the U.K. is
  - (a) 2 bu. corn.
  - (b) 4 bu. corn.
  - (c) 1/2 bu. corn.
  - \* (d) 1/4 bu. corn.
3. The opportunity cost of one bu. of corn in the U.S. is
  - (a) 4 yd. cloth.
  - \* (b) 2 yd. cloth.
  - (c) 1/4 yd. cloth.
  - (d) 1/2 yd. cloth.
4. The opportunity cost of one bu. of corn in the U.K. is:
  - \* (a) 4 yd. cloth.
  - (b) 2 yd. cloth.
  - (c) 1/4 yd. cloth.
  - (d) 1/2 yd. cloth.
5. When trade opens the
  - \* (a) U.S. exports corn and imports cloth.
  - (b) U.S. exports cloth and imports corn.
  - (c) U.K. exports corn and imports cloth.
  - (d) U.K. exports both corn and cloth.
6. The limits to mutually beneficial trade dictate 1 bu. of corn will be worth between:
  - (a) 4 and 1 yd. of cloth.
  - \* (b) 4 and 2 yd. of cloth.
  - (c) 1/2 and 1/4 yd. of cloth.
  - (d) 2 and 1 yd. of cloth.
7. Which of the following is in the U.S. no trade region?
  - (a) 1 bu. corn = 4 yd. cloth.
  - \* (b) 1 bu. corn = 1 yd. cloth.
  - (c) 1 bu. corn = 3 yd. cloth.
  - (d) 1 bu. corn = 5 yd. cloth.

8. Which of the following is in the U.K. no trade region?

- \* (a) 1 bu. corn = 5 yd. cloth.
- (b) 1 bu. corn = 2 yd. cloth.
- (c) 1 bu. corn = 3 yd. cloth.
- (d) 1 bu. corn = 1 yd. cloth.

9. Which of the following exchange rates is sustainable?

- \* (a) \$1 = £ 1.5.
- (b) \$1 = £ 0.5.
- (c) \$1 = £ 3.0.
- (d) \$1 = £ 4.0.

#### Questions 10-13

It takes country A 2 person-hours to produce a microchip and 4 person-hours to produce a yard of cotton.

It takes country B 1 person-hour to produce a microchip or a yard of cotton. Labor is the only factor of production.

10. Both countries would benefit if

- (a) B produced both goods and did not trade with A.
- (b) A produced both goods and did not trade with B.
- \* (c) B exported cotton and A exported microchips.
- (d) B exported microchips and A exported cotton.

11. Both countries would be willing to trade when

- (a) 1 yard of cotton is exchanged for 3 microchips.
- \* (b) 2 yards of cotton are exchanged for 3 microchips.
- (c) 2 yards of cotton are exchanged for 1 microchip.
- (d) none of the above.

12. If productivity in cotton production increases in country A so that it now takes 2 person-hours to produce either a microchip or a yard of cotton, then

- (a) both countries would still benefit from trade.
- (b) trade would be disadvantageous for country B but not A.
- \* (c) neither country would benefit from trade.
- (d) none of the above.

13. If the production process was altered so that both labor and capital were used, then

- (a) B should produce only cotton and A should produce only microchips.
- (b) A should produce only cotton and B should produce only microchips.
- \* (c) specialization may be incomplete.
- (d) trade would be disadvantageous for both countries.

#### Questions 14-15

Per unit costs of computers and wheat are \$1 & \$4 for the U.S. and Rs.5 & Rs.10 for India.

14. From this information, we can say that

- (a) the U.S. and India should not trade.
- \* (b) the U.S. should specialize in the production of computers and India in the production of wheat.
- (c) the U.S. should specialize in the production of wheat and India in the production of computers.
- (d) one cannot determine how the countries should specialize unless the exchange rate is known.

15. A sustainable exchange rate between India and the U.S. is

- \* (a) \$1 = Rs. 3.75.
  - (b) \$1 = Rs. 7.
  - (c) \$1 = Rs. 1.
  - (d) \$2 = Rs. 1.
16. When production costs are constant, as in the Classical Ricardian model, the production possibilities curve is
- (a) convex to the origin.
  - (b) convex from above.
  - \* (c) a straight line.
  - (d) a ray from the origin.
17. The source of comparative advantage in the Ricardian model is
- (a) factor endowments.
  - \* (b) labor productivity.
  - (c) country size.
  - (d) economies of scale.
18. The Ricardian comparative advantage model results in complete specialization due to the assumption of
- (a) labor mobility.
  - (b) identical tastes.
  - \* (c) homogeneous labor.
  - (d) constant technology.
19. Gains from trade come from
- (a) specialization in production.
  - (b) exposure to different prices.
  - (c) providing resources in short supply.
  - \* (d) all of the above.
20. Free trade
- (a) raises the average price level of goods.
  - \* (b) lowers the average price level of goods.
  - (c) lowers real income of all workers.
  - (d) reduces total employment.
21. An important reason for understanding the principle of comparative advantage is
- (a) so governments can tax exports.
  - (b) to reduce total trade.
  - \* (c) so governments can pursue policies to strengthen comparative advantage.
  - (d) so comparative disadvantage industries can be protected.
22. Which of the following policies is likely to distort the "ranking" of industries in order of comparative advantage?
- (a) fiscal policy.
  - (b) monetary policy.
  - \* (c) tariffs and quotas.
  - (d) international investment.