Multiple Choice Questions

1. In 2006, trade made up ____ percent of the U.S. economy.
   a. 1.3
   b. 5.0
   C. 11.5
   d. 22.7

2. In 2005, the U.S. experienced a deficit in its balance of trade with
   a. Europe
   b. Africa
   c. OPEC
   D. All of the above

3. In 2005, the U.S. experienced a deficit in its balance of trade with
   a. China
   b. Mexico
   c. Canada
   D. All of the above

4. Which of the following are prominent exports of the U.S.?
   a. Petroleum
   B. Financial services
   c. Clothing
   d. All of the above

5. Which of the following are prominent imports into the U.S.?
   a. Petroleum
   b. Audio and video equipment
   c. Motor vehicles
   D. All of the above
6. In 2005, the trading partner to whom the U.S. shipped the greatest volume of exports was
   a. Mexico
   B. Canada
   c. OPEC
   d. China

7. In 2005, the trading partner from whom the U.S. received the greatest volume of imports was
   a. Mexico
   b. OPEC
   C. Canada
   d. England

8. In 2005, the area of the world with which the U.S. had the largest trade deficit was
   A. Asia
   b. Europe
   c. The Americas
   d. The Middle East

9. In 2005, the U.S. trade deficit with the world was approximately
   a. $470 million
   B. $767 billion
   c. $4.7 trillion
   d. $13.4 trillion

10. Between 1995 and 2005 the U.S. trade with China
    a. Went from a small surplus to a larger surplus
    b. Went from a small surplus to a small deficit
    c. Went from a small deficit to a small surplus
    D. Went from a large deficit to an even larger deficit
11. The U.S. both imports and exports significant quantities of
   a. Coffee
   b. Industrial equipment
   c. Services
   D. Both B and C

12. The U.S. both imports and exports significant quantities of
   a. Aerospace products and parts
   b. Petroleum and coal products
   C. Electrical machinery and audio/video equipment
   d. Both B and C

13. In 2005, the U.S. imports from the rest of the world were approximately
   a. $1.67 billion
   b. $1,671 million
   C. $1.67 trillion
   d. $1,671 trillion

14. In 2005, the volume of U.S. imports from China were
   a. Larger than the volume of U.S. imports from Canada
   B. Larger than the volume of U.S. imports from Mexico
   c. Larger than the volume of U.S. imports from Europe
   d. None of the above

15. If a country can, with a single unit of labor, produce more of both clothing and computers
    than another country, then the first country has
   a. A comparative advantage in both goods
   B. An absolute advantage in both goods
   c. Both a comparative and absolute advantage in both goods
   d. An absolute advantage in one good and a comparative advantage in the other
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16. Determining the comparative advantage of a country requires that you look at the economic notion of
   a. Opportunity cost
   b. Ceteris paribus
   c. Accounting and economic profit
   d. External costs

17. Determining the absolute advantage of a country requires that you look at
   a. Opportunity cost
   b. The output per worker in each country
   c. Accounting and economic profit
   d. External costs

18. If it takes one country one unit of labor to produce either a computer or a TV but it takes the other country two units of labor to produce a computer and only one to produce a TV, then the first country has
   a. A comparative advantage in both goods
   b. An absolute advantage in both goods
   c. Both a comparative and absolute advantage in both goods
   d. An absolute and comparative advantage in production of computers

19. If it takes one country one unit of labor to produce either a computer or a TV but it takes the other country three units of labor to produce a computer and four to produce a TV, then the first country has
   a. A comparative advantage in both goods
   b. An absolute advantage in TVs but a comparative advantage in computers
   c. An absolute advantage in TVs and computers but a comparative advantage in computers only
   d. An absolute advantage in TVs and computers but a comparative advantage in TVs only
20. If it takes one country two units of labor to produce a computer and three units of labor to produce a TV but it takes the other country three units of labor to produce a computer and four to produce a TV, then the first country has
   a. A comparative advantage in both goods
   b. An absolute advantage in TVs but a comparative advantage in computers
   C. An absolute advantage in TVs and computers but a comparative advantage in computers only
   d. An absolute advantage in TVs and computers but a comparative advantage in TVs only

21. If it takes one country three units of labor to produce a computer and two units of labor to produce a TV but it takes the other country four units of labor to produce a computer and five to produce a TV, then the first country has
   a. A comparative advantage in both goods
   b. An absolute advantage in TVs but a comparative advantage in computers
   c. An absolute advantage in TVs and computers but a comparative advantage in computers only
   D. An absolute advantage in TVs and computers but a comparative advantage in TVs only

22. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 4 units of software and 4 units of hardware then
   a. The United States has a comparative and absolute advantage in both goods
   b. China has a comparative and absolute advantage in both goods
   C. The United States has an absolute advantage in both goods
   d. The United States has a comparative advantage in both goods

23. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 5 units of software and 5 units of hardware then
   a. The United States has a comparative and absolute advantage in both goods
   b. China has a comparative and absolute advantage in both goods
   C. China has a comparative advantage in hardware and the U.S. has a comparative advantage in software
   d. The United States has a comparative advantage in both goods
24. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 6 units of software and 6 units of hardware then trade can make
   a. The U.S. better off but not China
   b. China better off but not the U.S
   c. Neither better off
   **D.** Both better off

25. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 5 units of software and 5 units of hardware then
   a. The United States has a comparative and absolute advantage in both goods
   b. China has a comparative and absolute advantage in both goods
   c. The United States has an absolute advantage in both goods
   d. The United States has a comparative advantage in both goods

26. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 6 units of software and 4 units of hardware then
   a. The United States has a comparative and absolute advantage in both goods
   b. China has a comparative and absolute advantage in both goods
   c. China has a comparative advantage in hardware and the U.S. has a comparative advantage in software
   d. The United States has a comparative advantage in both goods

27. If with one unit of labor the U.S. can produce 20 units of computer software and 10 units of computer hardware and China can produce 6 units of software and 4 units of hardware then trade can make
   a. The U.S. better off but not China
   b. China better off but not the U.S
   c. Neither better off
   **D.** Both better off
28. One of the reasons economists approve of limiting trade would be
A. The protection of national security
b. The preservation of a high employment company
c. The preservation of a high wage company
d. The preservation of a large production company

29. One of the reasons economists approve of limiting trade would be
A. The protection of the environment
b. The preservation of a high employment company
c. The preservation of a high wage company
d. The preservation of a large production company

30. One of the reasons economists approve of limiting trade would be
A. The desire not to encourage the employment of children
b. The preservation of a high employment company
c. The preservation of a high wage company
d. The preservation of a large production company

31. In the language of international trade, "dumping" is the act of
a. Selling goods of substandard quality
b. Selling goods cheaper than the competition
C. Selling goods below cost so as to drive competitors out of business
d. Producing goods without consideration of their environmental consequences

32. Limiting trade can be accomplished with
a. Tariffs
b. Quotas
c. Non-tariff regulatory barriers
D. All of these
33. Which of the following works to limit trade by explicitly raising prices (i.e. as a tax)?
   A. Tariffs
   b. Quotas
   c. Non-tariff regulatory barriers
   d. Buy "American advertising"

34. A country that is limiting imports of a good by requiring a lengthy inspection process is using
   a. Tariffs
   b. Quotas
   C. Non-tariff regulatory barriers
   d. Buy "American advertising"

35. A country that is limiting imports of a good by allowing only a certain number to be imported is using
   a. Tariffs
   B. Quotas
   c. Non-tariff regulatory barriers
   d. Buy "American advertising"

36. On a supply and demand diagram, a tariff works by
   a. Moving the supply curve vertically down by the amount of the tariff
   B. Moving the supply curve vertically up by the amount of the tariff
   c. Limiting the amount that can be sold to a specific amount
   d. Moving the demand curve vertically up by the amount of the tariff

37. A tariff will typically
   A. Increase the price paid by consumers
   b. Increase the price, net of the tariff, that is received by sellers
   c. Reduce the price paid by consumers
   d. Have no effect on price
38. A quota will typically
A. Increase the price received by sellers
b. Reduce the price received by sellers
c. Reduce the price paid by consumers
d. Have no effect on price

39. A tariff will typically
a. Increase the price, net of the tariff, that is received by sellers
b. Reduce the price, net of the tariff, that is received by sellers
c. Increase the price paid by consumers
D. B and C

40. A quota will typically
a. Increase the price received by sellers
b. Reduce the price received by sellers
c. Increase the price paid by consumers
D. A and C

41. In 2005, the trading partner with whom we had the largest trade deficit was
A. China
b. Europe
c. OPEC
d. Japan

42. In 2005, U.S. exports to the rest of the world were approximately
a. $904.3 million
b. $211.1 billion
C. $904.3 billion
d. $1,671.1 billion
43. If France limits the showing of U.S. produced television shows to 2 hours per day
   A. This is the same as a quota
   b. This is the same as a tariff
   c. This make U.S. producers of television wealthier that they would otherwise be
   d. Economists would not call this a limit on trade since it is a service

44. If England limits the playing of U.S. music to no more than 5 hours per day
   A. This is the same as a quota
   b. This is the same as a tariff
   c. This make U.S. producers of television wealthier that they would otherwise be
   d. Economists would not call this a limit on trade since it is a service

45. If the opportunity cost of producing a ton of coffee in the U.S. is twenty tons of rice, while
    the opportunity cost of producing coffee in Costa Rica is two tons of rice,
    A. The U.S. has a comparative advantage in rice production
    b. Costa Rica has a comparative advantage in rice production
    c. The U.S. has a comparative advantage in coffee production
    d. The U.S. would be better off not trading with Costa Rica

46. The country with a comparative advantage in production of a good or service is the
    country with the
   a. Absolute advantage in production of that good or service
   b. Absolute advantage in production of some other good or service
   C. Lowest opportunity cost of producing that good or service
   d. Ability to produce the largest quantity of that good or service

47. If the opportunity cost of producing a ton of coffee in the U.S. is sixteen tons of rice,
    while the opportunity cost of producing a ton of coffee in Costa Rica is four tons of rice, the
    U.S. and Costa Rica could both benefit from specialization and trade if the terms of trade
    (measured in tons of rice delivered per ton of coffee received) were any number between
    a. One and four
    b. One and sixteen
    C. Four and sixteen
    d. Eight and sixteen
48. If the opportunity cost of producing a ton of coffee in the U.S. is twenty tons of rice, while the opportunity cost of producing a ton of coffee in Costa Rica is four tons of rice and the terms of trade is ten tons of rice delivered per ton of coffee received,
   a. The U.S. can benefit by trading rice to Costa Rica for coffee
   b. Costa Rica can benefit by trading rice to the U.S. for coffee
   c. Costa Rica can benefit by trading coffee to the U.S. for rice
   **D. Both A and C**

49. Comparative advantage in production of the good measured on the horizontal axis is identified with a straight-line production possibilities frontier that has a
   a. Slope that is larger in magnitude (or absolute value.)
   b. Slope that is smaller in magnitude (or absolute value.)
   c. Slope that is positive
   d. Both A and C

50. A quota that limits U.S. imports of cane sugar
   a. Harms U.S. sugar consumers
   b. Helps U.S. cane sugar producers
   c. Helps U.S. corn syrup (sweetener) producers
   **D. All of the above**

51. A quota that limits U.S. imports of cane sugar
   **A. Harms U.S. consumers more than it helps U.S. producers**
   b. Helps U.S. producers more than it hurts U.S. consumers
   c. Harms foreign producers more than it helps U.S. producers
   d. Helps both U.S. consumers and U.S. producers at the expense of foreign producers

52. Of approximately 145 million jobs in the U.S., each year approximately
   a. 31 million are eliminated and 30 million are created
   **B. 30 million are eliminated and 31 million are created**
   c. All jobs eliminated are attributable to global outsourcing
   d. All jobs eliminated pay lower wages than the new jobs created
53. Jobs in the U.S. textile industry can be saved by imposing tariffs upon textiles imported into the U.S., but the cost to U.S. consumers is estimated to be approximately
   a. $23,000 annually per job saved
   B. $49,000 annually per job saved
   c. $94,000 annually, per job saved
   d. $148,000 annually, per job saved

54. If a textile worker earns $38,000 per year working in the textile mill on a job that was saved by a protective tariff costing consumers $148,000 per year (for that job alone), the textile worker could be paid $48,000 to stay at home all day watching TV when the protective tariff is eliminated, and consumers would still be better off by
   a. $38,000 per year
   b. $48,000 per year
   C. $100,000 per year
   d. $148,000 per year

True / False Questions

55. It is impossible to export or import services.
   FALSE

56. Protectionism is generally a cost effective method of saving jobs.
   FALSE

57. Trade sanctions have generally been an effective diplomatic weapon in changing the behavior of rogue countries.
   FALSE
58. If, with a single unit of labor, a country can produce more of both clothing and computers than another country, economics suggests that there is no opportunity for mutually beneficial trade between the countries.

**FALSE**