1 **Which of the following is NOT a reason why countries trade goods with each other?**

- differences in technology used in different countries (*Incorrect*)
- differences in countries' total amount of resources (*Incorrect*)
- the proximity of countries to one another (*Incorrect*)
- differences in countries' languages and cultures (*True Answer Correct*)

2 **David Ricardo's model, which provided an explanation of why nations trade, was based on:**

- labor productivity. (*Incorrect*)
- technology. (*True Answer Correct*)
- population. (*Incorrect*)
- government control. (*Incorrect*)

3 **What is the most likely reason neighboring nations engage in trade?**

- labor availability (*Incorrect*)
- similar tastes and preferences (*Incorrect*)
- proximity (*True Answer Correct*)
- shared membership in a free trade area (*Incorrect*)

4 **Which of the following is the most likely explanation for a Detroit construction company's imports of Canadian concrete blocks made in Windsor, Ontario?**

- the Ricardian model (*Incorrect*)
- offshoring (*Incorrect*)
- technology (*Incorrect*)
- proximity (*True Answer Correct*)

5 **A country's factors of production include:**

- its labor. (*Incorrect*)
- its capital. (*Incorrect*)
- its natural resources. (*Incorrect*)
- its labor, its capital, and its natural resources. (*True Answer Correct*)

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

- labor (*Incorrect*)
- capital (*Incorrect*)
- natural resources (*Incorrect*)
- government (*True Answer Correct*)

7. **When a firm in one nation purchases unfinished products internationally and adds further processing to sell in the domestic market, it is known as:**
   - barter. (*Incorrect*)
   - offshoring. (*True Answer Correct*)
   - factor movement. (*Incorrect*)
   - marketing arrangements. (*Incorrect*)

8. **In trade, if—due to technology—a nation can produce a good (such as Germany in the production of snowboards) with fewest resources, it is known as:**
   - an absolute advantage. (*True Answer Correct*)
   - a technology advantage. (*Incorrect*)
   - a comparative advantage. (*Incorrect*)
   - a resource advantage. (*Incorrect*)

9. **The focus of the Ricardian model is on:**

   - how countries' resource bases explain international trade. (*Incorrect*)
   - how countries' different technologies explain international trade. (*True Answer Correct*)
   - how transportation costs explain international trade. (*Incorrect*)
   - how different languages and cultures explain international trade. (*Incorrect*)

10. **When a country requires *fewer* resources to produce a product than other countries, it is said to have a(n):**

    - absolute advantage in the production of the product. (*True Answer Correct*)
    - comparative advantage in the production of the product. (*Incorrect*)
    - higher opportunity cost of producing the product. (*Incorrect*)
    - lower opportunity cost of producing the product. (*Incorrect*)

11 **When a country requires *more* resources to produce a product than other countries, it is said to have a(n):**

- absolute disadvantage in the production of the product. (*True Answer Correct*)
- comparative disadvantage in the production of the product. (*Incorrect*)
- lower opportunity cost of producing the product. (*Incorrect*)
- higher opportunity cost of producing the product. (*Incorrect*)

12 **The primary explanation of trade among nations is Ricardo's theory of:**

- offshoring. (*Incorrect*)
- resource abundance. (*Incorrect*)
- absolute advantage. (*Incorrect*)
- comparative advantage. (*True Answer Correct*)

13 **The focus of the Ricardian model is on how differences in _____ influence international trade patterns.**

- demand (*Incorrect*)
- comparative costs (*True Answer Correct*)
- absolute costs (*Incorrect*)
- transportation costs (*Incorrect*)

14 **Ricardo's theory of trade discredited the idea that inflows of gold or silver as a result of exporting helped a nation, whereas the outflows of gold or silver as a result of importing hurt a nation; that was known as:**

- export preference. (*Incorrect*)
- mercantilism. (*True Answer Correct*)
- monetary economics. (*Incorrect*)
- price-specie-flow mechanism. (*Incorrect*)

15 **Ricardo's theory made a number of assumptions, including which of the following?**

- Nations had balanced trade with their partners. (*Incorrect*)
- There were no barriers to trade (free trade). (*Incorrect*)
- There was no transfer of gold or silver. (*Incorrect*)
- Nations had balanced trade with their partners, and there were no barriers to trade (free trade). (*True Answer Correct*)

16 **According to Ricardo:**

- all countries can gain from trade if they export goods in which they have an absolute advantage. (*Incorrect*)
- one country can gain from trade only at the expense of another country. (*Incorrect*)
- all countries can gain from trade if they export goods in which they have a comparative advantage. (*True Answer Correct*)
- all countries lose from international trade. (*Incorrect*)

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

- the nation's resources are used where they are most productive. (*True Answer Correct*)
- the output of the nation's trading partner declines. (*Incorrect*)
- the nation can produce to the exterior of its production possibilities frontier. (*Incorrect*)
- the nation is able to increase its consumption. (*Incorrect*)

18 **David Ricardo believed that:**

- trade is a zero-sum game; that is, a country benefits at the expense of other countries. (*Incorrect*)
- trade will benefit countries when it generates gold and silver for the national treasury. (*Incorrect*)
- all nations can gain from free international trade. (*True Answer Correct*)
- trade cannot increase the world's output of goods. (*Incorrect*)

19 **Mercantilists believe that:**

- exporting goods will leave fewer goods for the local economy. (*Incorrect*)
- importing goods is beneficial for the economy. (*Incorrect*)
- any kind of trade is a bad trade. (*Incorrect*)
- exports are good and imports are bad. (*True Answer Correct*)

20 **Ricardo's theory showed that if nations are allowed to trade freely, the result will be that:**

- all trading nations benefit by trade. (*True Answer Correct*)

- the manufacturing sector benefits but the consumers lose out. (*Incorrect*)
- workers benefit but the government loses tax revenue. (*Incorrect*)
- the gains from trade offset the losses from trade exactly. (*Incorrect*)

---

21 **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?**

- capital (*Incorrect*)
- technology (*Incorrect*)
- labor (*True Answer Correct*)
- loanable funds (*Incorrect*)

---

22 **What is the marginal product of labor (MPL)?**

- the average output of a unit of labor (*Incorrect*)
- the extra output obtained by using one more unit of labor (*True Answer Correct*)
- the average output obtained by using one more unit of labor (*Incorrect*)
- the total output obtained by using one more unit of labor (*Incorrect*)

---

23 **In the Ricardian model, the MPL:**

- first rises, then falls, as more labor is employed to produce a good. (*Incorrect*)
- first falls, then rises, as more labor is employed to produce a good. (*Incorrect*)
- continuously falls as more labor is employed to produce a good. (*Incorrect*)
- does not change as more labor is employed to produce a good. (*True Answer Correct*)

---

24 **The Ricardian model assumes that the marginal product of labor is:**

- increasing. (*Incorrect*)
- decreasing. (*Incorrect*)
- constant. (*True Answer Correct*)
- zero. (*Incorrect*)

25 Production possibilities frontiers in the Ricardian model:

- are linear (i.e., straight lines), with end points showing a country's production when it produces only one or the other good. (*True Answer Correct*)
- are bowed out from the origin, with end points showing a country's production when it produces only one or the other good. (*Incorrect*)
- are linear and begin from the origin. (*Incorrect*)
- are curvilinear and increase at a decreasing rate. (*Incorrect*)

26 When the production possibilities frontier is a straight line, then production occurs under conditions of:

- increasing costs. (*Incorrect*)
- decreasing costs. (*Incorrect*)
- constant costs. (*True Answer Correct*)
- increasing, then decreasing, then constant costs. (*Incorrect*)

27 The Ricardian model employs the concept of alternate uses of economic resources in production. We refer to this technique as:

- the production possibilities frontier (PPF). (*True Answer Correct*)
- the labor theory of value technique. (*Incorrect*)
- the least-cost option. (*Incorrect*)
- the labor productivity model. (*Incorrect*)

28 With the assumption that the marginal product of labor is constant and that labor is the only variable resource, the slope of the PPF is:

- positive and increasing. (*Incorrect*)
- negative and decreasing. (*Incorrect*)
- negative and constant. (*True Answer Correct*)
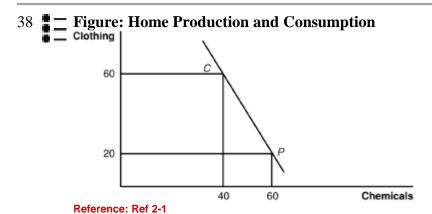- unrelated to the issue at hand. (*Incorrect*)

29 Assume the $MPL_t = 5$ tennis rackets and $MPL_b = 4$ baseball bats. If the economy has 100 workers, then the economy can produce:

- a maximum of 500 tennis rackets. (*True Answer Correct*)
- a maximum of 350 baseball bats. (*Incorrect*)
- 500 tennis rackets and 400 baseball bats. (*Incorrect*)
- either 100 tennis rackets or 100 baseball bats only. (*Incorrect*)

30 Assume the MPL_c = 2 cars and the MPL_b = 5 boats. There are 150 workers in this hypothetical economy. What is the maximum number of boats that can be produced?

- 30 (*Incorrect*)
- 300 (*Incorrect*)
- 750 (*True Answer Correct*)
- 150 (*Incorrect*)

31 The slope of the PPF can be expressed as:

- the ratio of abundance of capital to labor. (*Incorrect*)
- the preferences of consumers in terms of marginal utility. (*Incorrect*)
- the ratio of the quantities of good 1 and good 2. (*Incorrect*)
- the negative of the ratio of the marginal products of labor in producing each good. (*True Answer Correct*)

32 If the maximum number of cloth produced is 300 and the maximum number of corn produced is 600, then with a MPL_{cloth} = 2, what is the number of workers in the economy?

- 100 (*Incorrect*)
- 200 (*Incorrect*)
- 150 (*True Answer Correct*)
- 600 (*Incorrect*)

33 If the maximum number of cloth produced is 300 and the maximum number of corn produced is 600, then with a MPL_{cloth} = 2, what is the MPL_{corn}?

- 4 (*True Answer Correct*)
- 5 (*Incorrect*)
- 6 (*Incorrect*)
- 7 (*Incorrect*)

34 To complete the model of international trade using the PPF, we must also use the idea of indifference curves. These curves represent:

- a set of alternate quantities of both goods (sloped negatively), whereby consumers are equally satisfied in their level of utility gained. (*True Answer Correct*)
- consumers who are indifferent to everything. (*Incorrect*)
- producers who do not care which production method is chosen. (*Incorrect*)

- a fixed quantity of one good (such as wheat) and a varying amount of the other good. (*Incorrect*)

---

35 **As a consumer moves down one of her indifference curves, her satisfaction:**

- falls. (*Incorrect*)
- rises. (*Incorrect*)
- remains unchanged. (*True Answer Correct*)
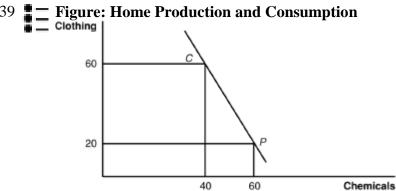- first falls, then levels out. (*Incorrect*)

---

36 **If a consumer moves to a higher indifference curve, her satisfaction:**

- falls. (*Incorrect*)
- rises. (*True Answer Correct*)
- remains unchanged. (*Incorrect*)
- first falls, then levels out. (*Incorrect*)

---

37 **International trade allows countries to:**

- produce outside their PPF. (*Incorrect*)
- produce inside their PPF. (*Incorrect*)
- consume inside their PPF. (*Incorrect*)
- consume outside their PPF. (*True Answer Correct*)

---

38 **Figure: Home Production and Consumption**

Reference: Ref 2-1

(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?
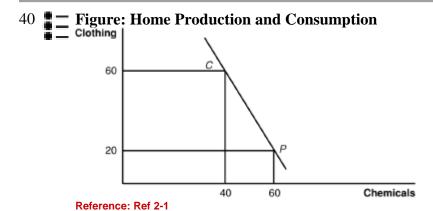
- clothing (*Incorrect*)
- chemicals (*True Answer Correct*)

- both chemicals and clothing (*Incorrect*)
- neither chemicals nor clothing (*Incorrect*)

---

39 **Figure: Home Production and Consumption**

Reference: Ref 2-1

(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?

- clothing (*True Answer Correct*)
- chemicals (*Incorrect*)
- both chemicals and clothing (*Incorrect*)
- neither chemicals nor clothing (*Incorrect*)

---

40 **Figure: Home Production and Consumption**

Reference: Ref 2-1

(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. What is the international price of chemicals according to the figure?

-     unit of clothing per unit of clothing (*Incorrect*)
- 1 unit of clothing per unit of chemicals (*Incorrect*)
- 2 units of clothing per unit of chemicals (*True Answer Correct*)
- 3 units of clothing per unit of chemicals (*Incorrect*)

---

41 **Where will a nation that gains from trade find its consumption point located?**

- inside its production possibilities frontier (*Incorrect*)
- along its production possibilities frontier (*Incorrect*)
- outside its production possibilities frontier (*True Answer Correct*)
- at the center of its production possibilities frontier (*Incorrect*)

---

42 **When a nation is in autarky (a no-trade state) and maximizes its living standard, its consumption and production points are:**
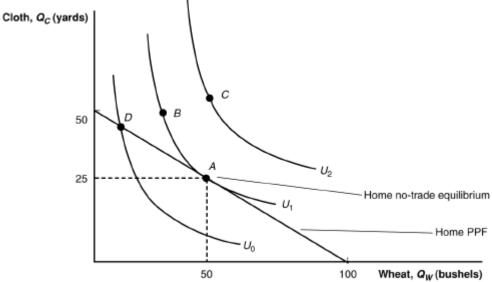
- along its production possibilities frontier. (*True Answer Correct*)
- above its production possibilities frontier. (*Incorrect*)
- beneath its production possibilities frontier. (*Incorrect*)
- along, above, or beneath its production possibilities frontier. (*Incorrect*)

---

43 **Assume the MPL_c = 2 cars and the MPL_b = 5 boats. There are 150 workers in this hypothetical economy; the slope of the PPF for this economy is:**

- 20/500. (*Incorrect*)
- 200/50. (*Incorrect*)
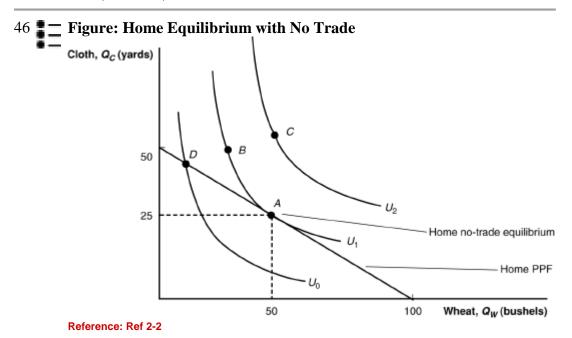- 2/5. (*True Answer Correct*)
- 1/5. (*Incorrect*)

---

44 **Because the marginal product of labor measures the quantity of labor required to produce a unit of a good, the slope of the PPF can also be expressed as:**

- the ratio of abundance of labor to capital. (*Incorrect*)
- consumer utility. (*Incorrect*)
- the opportunity cost (in units of labor) to obtain an additional unit of good 1 in terms of what we give up of good 2. (*True Answer Correct*)
- the ratio of the marginal products of labor to the marginal product of capital. (*Incorrect*)

---

45 **Figure: Home Equilibrium with No Trade**

Cloth, Q_C (yards)

50

25

U_2

Home no-trade equilibrium

U_1

U_0

Home PPF

50   100   Wheat, Q_W (bushels)

Reference: Ref 2-2

(Figure: Home Equilibrium with No Trade) Under the condition of no trade, which combination gives the nation the most utility?

- A (*True Answer Correct*)
- B (*Incorrect*)
- C (*Incorrect*)
- D (*Incorrect*)

---

46 **Figure: Home Equilibrium with No Trade**

Cloth, Q_C (yards)

50

25

U_2

Home no-trade equilibrium

U_1

U_0

Home PPF

50   100   Wheat, Q_W (bushels)

Reference: Ref 2-2

(Figure: Home Equilibrium with No Trade) Under the condition of no trade, which combination of the following is not attainable?

- A (*Incorrect*)

- *B* (*True Answer Correct*)
- *C* (*Incorrect*)
- *D* (*Incorrect*)

---

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

- the amount of cloth that must be given up to produce one more unit of wheat (*True Answer Correct*)
- the amount of money received by selling wheat (*Incorrect*)
- the number of workers it takes to produce all the wheat (*Incorrect*)
- More information is needed to answer the question. (*Incorrect*)

---

48 **Among the indifference curves for an economy, to achieve higher utility:**

- you must move to the indifference curve farthest away from the origin. (*True Answer Correct*)
- you must move to the indifference curve closest to the origin. (*Incorrect*)
- it does not matter; you are indifferent. (*Incorrect*)
- one must always close the borders. (*Incorrect*)

---

49 **If the opportunity cost is constant (the PPF is a straight line), then a country will:**

- partially specialize in the production of its exported product. (*Incorrect*)
- completely specialize in the production of its exported product. (*True Answer Correct*)
- not benefit from importing goods from another country. (*Incorrect*)
- benefit by raising trade barriers. (*Incorrect*)

---

50 **Moving to a lower indifference curve means that a country is:**

- better off. (*Incorrect*)
- worse off. (*True Answer Correct*)
- indifferent. (*Incorrect*)
- lowering production. (*Incorrect*)

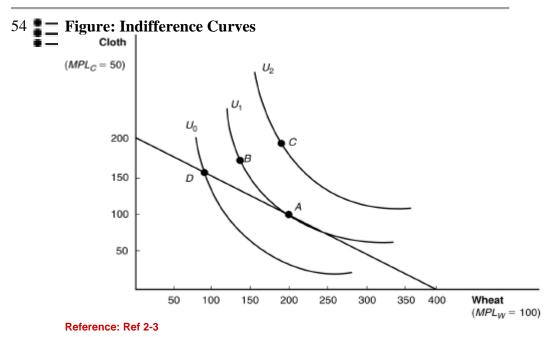51 **In order for the production possibilities frontier to be a straight line, production must exhibit:**

- increasing costs. (*Incorrect*)
- decreasing costs. (*Incorrect*)
- constant costs. (*True Answer Correct*)
- increasing, then decreasing, then constant costs. (*Incorrect*)

---

52 **In the absence of trade, a nation is in equilibrium where an indifference curve:**

- lies above its production possibilities frontier. (*Incorrect*)
- is tangent to its production possibilities frontier. (*True Answer Correct*)
- intersects its production possibilities frontier. (*Incorrect*)
- lies below its production possibilities frontier. (*Incorrect*)

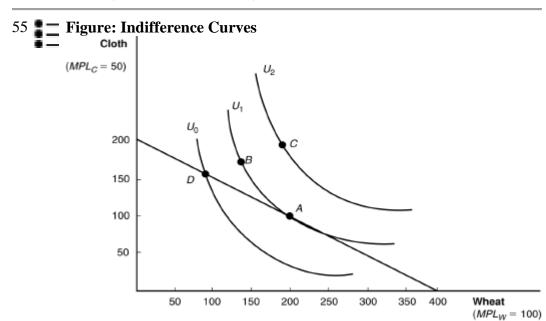53 **A country's indifference curve describes:**

- combinations of goods that a country can purchase. (*Incorrect*)
- combinations of goods that yield equal satisfaction to a country. (*True Answer Correct*)
- combinations of goods that yield satisfaction to a country. (*Incorrect*)
- combinations of goods that a country can produce. (*Incorrect*)

---

54 **Figure: Indifference Curves**

(Figure: Indifference Curves) If this economy produces no cloth, how many units of wheat are possible?
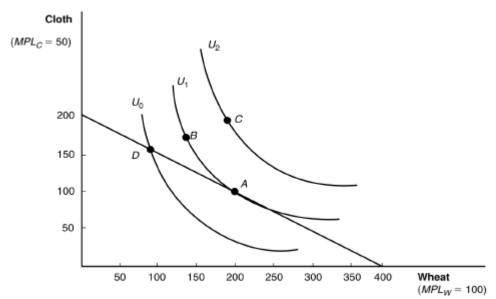
- 50 (*Incorrect*)

- 200 (*Incorrect*)
- 300 (*Incorrect*)
- 400 (*True Answer Correct*)

---

55 ▪▪ **Figure: Indifference Curves**

Reference: Ref 2-3

(Figure: Indifference Curves) What is the opportunity cost of cloth in terms of wheat in this example?
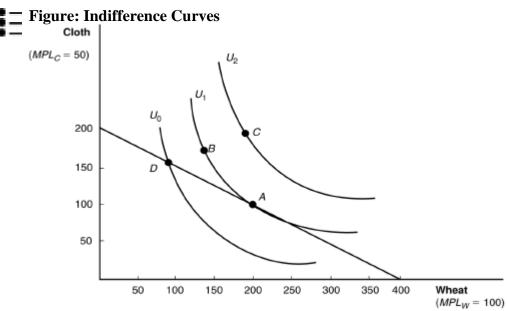
- 1 unit of cloth may be obtained by foregoing 1 unit of wheat. (*Incorrect*)
- 1 unit of cloth "costs" 2 units of wheat. (*True Answer Correct*)
- 1 unit of cloth "costs" 1/2 unit of wheat. (*Incorrect*)
- Not enough information is given. (*Incorrect*)

---

56 ▪▪ **Figure: Indifference Curves**

Cloth

(MPL$_C$ = 50)

(Figure: Indifference Curves) Of the following points of consumption, which is most desirable for consumers?

- A (*Incorrect*)
- B (*Incorrect*)
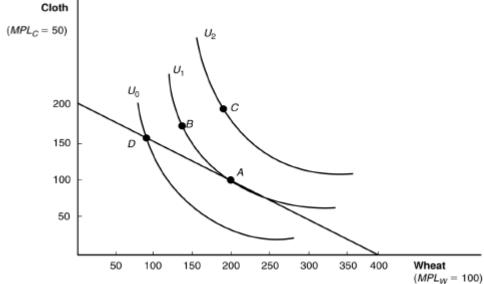- C (*True Answer Correct*)
- D (*Incorrect*)

---

57 **Figure: Indifference Curves**

Cloth

(MPL$_C$ = 50)

(Figure: Indifference Curves) Of the following points of consumption, which is least desirable for consumers?

- A (*Incorrect*)

- *B* (*Incorrect*)
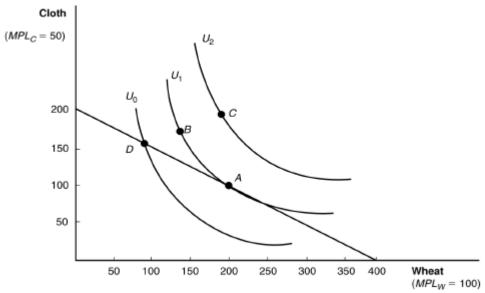- *C* (*Incorrect*)
- *D* (*True Answer Correct*)

---

58 **Figure: Indifference Curves**

Cloth

$(MPL_C = 50)$

U_2

U_1

U_0

200

C

B

150

D

100

A

50

50   100   150   200   250   300   350   400   **Wheat**

$(MPL_W = 100)$

Reference: Ref 2-3

(Figure: Indifference Curves) Which point on the diagram represents the "home" equilibrium in the absence of international trade?

- *A* (*True Answer Correct*)
- *B* (*Incorrect*)
- *C* (*Incorrect*)
- *D* (*Incorrect*)

---

59 **Figure: Indifference Curves**

Cloth
$(MPL_C = 50)$

Wheat
$(MPL_W = 100)$

Reference: Ref 2-3

(Figure: Indifference Curves) Which combination of wheat and cloth is represented by Point A in the diagram?

- 200 units of wheat and 400 units of cloth (*Incorrect*)
- 100 units of cloth and 200 units of wheat (*True Answer Correct*)
- 200 units of cloth and 100 units of wheat (*Incorrect*)
- 300 units of cloth and 150 units of wheat (*Incorrect*)

---

60 **A nation will gain from trade if it:**

- produces and consumes along its PPF. (*Incorrect*)
- produces outside its PPF and consumes along its PPF. (*Incorrect*)
- consumes outside its PPF and produces along its PPF. (*True Answer Correct*)
- produces and consumes outside its PPF. (*Incorrect*)

---

61 **The "home" equilibrium will provide the highest level of consumer satisfaction from domestic resources whenever:**

- the marginal products of labor are equal. (*Incorrect*)
- capital and technology are not factors in the decision of what to produce. (*Incorrect*)
- perfect competition in product and labor markets exists. (*True Answer Correct*)
- Adam Smith's "invisible hand" is not an interfering factor. (*Incorrect*)

62 In competitive labor markets, the wage equals:

- the marginal product of labor times the price of output. (*True Answer Correct*)
- the marginal product of labor minus the price of output. (*Incorrect*)
- the marginal product of labor plus the price of output. (*Incorrect*)
- the price of output. (*Incorrect*)

63 Which statement describes the way our home equilibrium reflects the concepts of competitive markets?

- The opportunity cost of each good is the inverse of the ratio of labor productivity. (*Incorrect*)
- Prices of each good reflect opportunity cost. (*Incorrect*)
- The opportunity cost of each good is the inverse of the ratio of labor productivity, prices of each good reflect opportunity cost, and wages are equal and reflect the value of the marginal product ($MPL \times P$) for each good. (*True Answer Correct*)
- Wages are equal and reflect the value of the marginal product ($MPL \times P$) for each good. (*Incorrect*)

64 In the home equilibrium situation, the relative price of wheat is the same as:

- the relative price of cloth. (*Incorrect*)
- the slope of the PPF. (*True Answer Correct*)
- the marginal product of wheat. (*Incorrect*)
- the cost of labor to produce wheat. (*Incorrect*)

65 In equilibrium, the relative price of a tomato versus a book measures:

- the opportunity cost of a tomato. (*Incorrect*)
- the opportunity cost of a tomato, how much production of books must fall in order to produce another tomato, and how much consumers value a tomato relative to a book. (*True Answer Correct*)
- how much production of books must fall in order to produce another tomato. (*Incorrect*)
- how much consumers value a tomato relative to a book. (*Incorrect*)

66 ■ *SCENARIO: ABSOLUTE ADVANTAGE*
The United States requires 20 hours of labor to produce a 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 a ton of steel and 25 hours of labor to produce 1,000 board feet of lumber.
Reference: Ref 2-4

(Scenario: Absolute Advantage) Which country has an absolute advantage in the production of steel?

- the United States (*Incorrect*)
- Canada (*Incorrect*)
- neither the United States nor Canada (*True Answer Correct*)
- both the United States and Canada (*Incorrect*)

---

67 ■ *SCENARIO: ABSOLUTE ADVANTAGE*
The United States requires 20 hours of labor to produce a 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 a ton of steel and 25 hours of labor to produce 1,000 board feet of lumber.
Reference: Ref 2-4

(Scenario: Absolute Advantage) Which country has an absolute advantage in the production of lumber?

- the United States (*Incorrect*)
- Canada (*True Answer Correct*)
- neither the United States nor Canada (*Incorrect*)
- both the United States and Canada (*Incorrect*)

---

68 ■ *SCENARIO: ABSOLUTE ADVANTAGE*
The United States requires 20 hours of labor to produce a 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 a ton of steel and 25 hours of labor to produce 1,000 board feet of lumber.
Reference: Ref 2-4

(Scenario: Absolute Advantage) Which country has a comparative advantage in the production of steel?

- the United States (*True Answer Correct*)
- Canada (*Incorrect*)
- neither the United States nor Canada (*Incorrect*)
- both the United States and Canada (*Incorrect*)

---

69 ■ *SCENARIO: ABSOLUTE ADVANTAGE*
The United States requires 20 hours of labor to produce a 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 a ton of steel and 25 hours of labor to produce 1,000 board feet of lumber.

(Scenario: Absolute Advantage) Which country has a comparative advantage in the production of lumber?

- the United States (*Incorrect*)
- Canada (*True Answer Correct*)
- neither the United States nor Canada (*Incorrect*)
- both the United States and Canada (*Incorrect*)

---

70 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.

(Scenario: Absolute and Comparative Advantage) Which country has an absolute advantage in the production of wheat?

- Poland (*Incorrect*)
- the Czech Republic (*Incorrect*)
- neither country (*True Answer Correct*)
- both countries (*Incorrect*)

---

71 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.

(Scenario: Absolute and Comparative Advantage) Which country has an absolute advantage in the production of coal?

- Poland (*True Answer Correct*)
- the Czech Republic (*Incorrect*)
- neither country (*Incorrect*)
- both countries (*Incorrect*)

---

72 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.

(Scenario: Absolute and Comparative Advantage) **Which country has a comparative advantage in the production of coal?**

- Poland (*True Answer Correct*)
- the Czech Republic (*Incorrect*)
- neither country (*Incorrect*)
- both countries (*Incorrect*)

---

73 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) **Which country has a comparative advantage in the production of wheat?**

- Poland (*Incorrect*)
- the Czech Republic (*True Answer Correct*)
- neither country (*Incorrect*)
- both countries (*Incorrect*)

---

74 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) **What is the opportunity cost of coal in Poland?**

- hour of labor/ton of coal (*Incorrect*)
- 2 bushels of wheat/ton of coal (*True Answer Correct*)
- 4 hours of labor/ton of coal (*Incorrect*)
- 4/10 bushels of wheat/ton of coal (*Incorrect*)

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75 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) **The**

international price of wheat must fall between which two prices below?

- between ___ ton and ___ ton of coal per bushel of wheat (*True Answer Correct*)

- between 1 ___ ton and 2 ___ tons of coal per bushel of wheat (*Incorrect*)

- between ___ hour and ___ hour of labor per bushel of wheat (*Incorrect*)

- between 4 tons and 6 tons of coal per bushel of wheat (*Incorrect*)

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76 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) Suppose that the international price of coal is 4 ___ bushels of wheat per ton of coal. Which country is likely to have the largest gains from trade?

- Poland (*Incorrect*)
- the Czech Republic (*True Answer Correct*)
- neither country (*Incorrect*)
- both countries (*Incorrect*)

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77 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) 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?

- 250 tons of coal (*True Answer Correct*)
- 1,000 bushels of wheat (*Incorrect*)
- 100 bushels of wheat (*Incorrect*)
- 4,000 tons of coal (*Incorrect*)

78 *SCENARIO: ABSOLUTE AND COMPARATIVE ADVANTAGE*
Poland requires 4 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat. The Czech Republic requires 6 hours of labor to produce a ton of coal and 10 hours of labor to produce 10 bushels of wheat.
Reference: Ref 2-5

(Scenario: Absolute and Comparative Advantage) In Poland, what is the marginal product of labor in coal production?

- 2.5 tons per hour (*Incorrect*)
- 0.4 tons per hour (*True Answer Correct*)
- 4 tons per hour (*Incorrect*)
- 0.4 tons per bushel of wheat (*Incorrect*)

79 **To explain why some nations purchase products from abroad, even when they have an absolute advantage in production, we have to use the theory of:**

- absolute advantage. (*Incorrect*)
- relative pricing. (*Incorrect*)
- comparative advantage. (*True Answer Correct*)
- industrial advantage. (*Incorrect*)

80 **Whenever a nation has a lower opportunity cost of producing any good or service in relative terms, that nation is said to have:**

- an absolute advantage. (*Incorrect*)
- a comparative advantage. (*True Answer Correct*)
- low labor costs. (*Incorrect*)
- better technology to produce that good or service. (*Incorrect*)

81 **Comparative advantage in production of a product is reflected in:**

- a lower relative price. (*Incorrect*)
- a lower opportunity cost. (*Incorrect*)
- higher labor productivity. (*Incorrect*)
- a lower relative price and a lower opportunity cost. (*True Answer Correct*)

82 **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

Reference: Ref 2-6

(Table: Output in the United States and China) Which statement is correct?

- The United States has an absolute advantage in both apparel and wheat and a comparative disadvantage in wheat. (*Incorrect*)
- China has an absolute advantage in both apparel and wheat and a comparative advantage in apparel. (*Incorrect*)
- The United States has an absolute advantage in both apparel and wheat and a comparative advantage in neither apparel nor wheat. (*Incorrect*)
- China has an absolute disadvantage in both apparel and wheat and a comparative advantage in apparel. (*True Answer Correct*)

---

83 **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

Reference: Ref 2-6

(Table: Output in the United States and China) Which product will the United States export to China?

- wheat (*True Answer Correct*)
- apparel (*Incorrect*)
- both wheat and apparel (*Incorrect*)
- neither wheat nor apparel (*Incorrect*)

---

84 **Table: Production in the United States and China**

	United StatesSales/Employee	**ChinaSales/Employee**
Apparel	$120,000	$13,500
Textiles	$40,000	$9,000

	Bushels/Hour	**Bushels/Hour**
Wheat	27.5	0.1

Reference: Ref 2-7

(Table: Production in the United States and China) In the table above the productivity of workers in the textile and apparel and wheat sectors is given for the United States and China. The average worker in the United States produces _____ more apparel sales than the average worker in China.

- 0.88 (*Incorrect*)
- 8.8 (*True Answer Correct*)
- 80 (*Incorrect*)

- 10.9 (*Incorrect*)

85 **Table: Production in the United States and China**

	United StatesSales/Employee	ChinaSales/Employee
Apparel	$120,000	$13,500
Textiles	$40,000	$9,000

	Bushels/Hour	Bushels/Hour
Wheat	27.5	0.1

Reference: Ref 2-7

(Table: Production in the United States and China) In the table, the productivity of workers in the textile and apparel and wheat sectors is given for the United States and China. The table shows that the United States has an absolute advantage in:

- both textiles and apparel manufacturing. (*True Answer Correct*)
- only textile manufacturing. (*Incorrect*)
- only apparel manufacturing. (*Incorrect*)
- neither textile nor apparel manufacturing. (*Incorrect*)

86 **Table: Production in the United States and China**

	United StatesSales/Employee	ChinaSales/Employee
Apparel	$120,000	$13,500
Textiles	$40,000	$9,000

	Bushels/Hour	Bushels/Hour
Wheat	27.5	0.1

Reference: Ref 2-7

(Table: Production in the United States and China) Consider the productivity of workers in the table. In the United States to produce an additional $1,000 worth of apparel sales, _____ bushels of wheat must be forgone. In China to produce an additional $1,000 worth of apparel sales, _____ bushels of wheat must be forgone.

- 0.23; 7.0 (*Incorrect*)
- 0.23; 0.007 (*True Answer Correct*)
- 0.10; 0.7 (*Incorrect*)
- 6.9; 70 (*Incorrect*)

87 **It can be shown that differences in "before-trade" relative prices will determine:**

- which nation has the absolute advantage. (*Incorrect*)
- which good each nation will export or import. (*True Answer Correct*)
- the quantity traded by each nation. (*Incorrect*)
- which nation has the comparative advantage. (*Incorrect*)

88 **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.**

- cheaper (*True Answer Correct*)
- more expensive (*Incorrect*)
- lower quality (*Incorrect*)
- less available (*Incorrect*)

89 **At some point, as the price of exported products is bid up and the price of the product imported falls, the prices of the products in both nations:**

- become more unequal. (*Incorrect*)
- approach zero. (*Incorrect*)
- approach infinity. (*Incorrect*)
- equalize. (*True Answer Correct*)

90 **When two nations have achieved identical relative prices of the two traded products, we have:**

- a standoff. (*Incorrect*)
- a stalemate. (*Incorrect*)
- international trade equilibrium. (*True Answer Correct*)
- absolute advantage once again. (*Incorrect*)

91 **Compared with constant cost production, if production occurs under increasing cost conditions, it is more likely that countries will:**

- completely specialize. (*Incorrect*)
- incompletely specialize. (*True Answer Correct*)
- not engage in international trade. (*Incorrect*)
- trade with one another. (*Incorrect*)

92 **As a nation increases the quantity produced and exports a product, to attract labor resources it must:**

- pay higher wages. (*True Answer Correct*)
- lay off workers. (*Incorrect*)
- borrow capital abroad. (*Incorrect*)
- find new sites for production near population centers. (*Incorrect*)

---

93 **The Ricardian model (with constant opportunity costs) predicts that a nation will _____ in the production of the good it exports.**

- have a comparative disadvantage (*Incorrect*)
- develop shortages (*Incorrect*)
- lower the cost of production (*Incorrect*)
- specialize completely (*True Answer Correct*)

---

94 **Output in the United States and China**
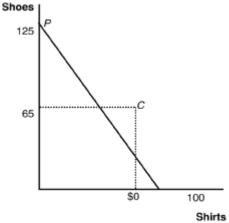
	U.S. Output per Worker	Chinese Output per Worker
Apparel	$100,000	$10,000
Wheat	$200,000	$5,000

Reference: Ref 2-8

(Table: Output in the United States and China) Using the data in the table, what will happen to the U.S. labor force after trade occurs with China?
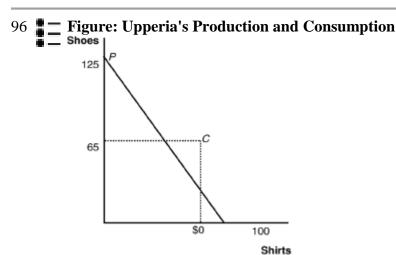
- U.S. labor will move from apparel to agriculture, where its marginal productivity is higher. (*Incorrect*)
- U.S. jobs in apparel will be exported to China, and wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase. (*Incorrect*)
- The value of output produced by U.S. labor will increase. (*Incorrect*)
- 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, and wheat exports will create additional jobs in agriculture, and the value of output produced by U.S. labor will increase. (*True Answer Correct*)

---

95 **Figure: Upperia's Production and Consumption**

(Figure: Upperia's Production and Consumption) The figure gives Upperia's international trading pattern. Point _P_ is production with trade, and point _C_ is consumption with trade. Which product does Home export?
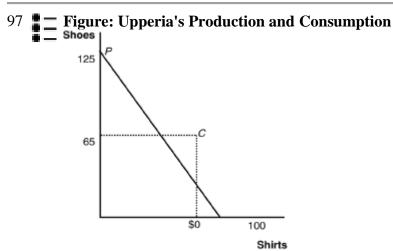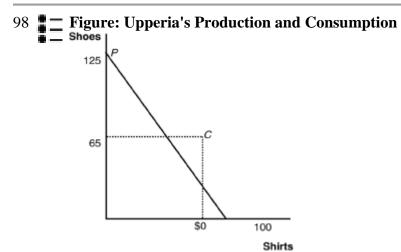
- shoes (*True Answer Correct*)
- shirts (*Incorrect*)
- both shirts and shoes (*Incorrect*)
- neither shirts nor shoes (*Incorrect*)

96 **Figure: Upperia's Production and Consumption**

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

- shoes (*Incorrect*)
- shirts (*True Answer Correct*)
- both shirts and shoes (*Incorrect*)

- neither shirts nor shoes (*Incorrect*)

---

97 **Figure: Upperia's Production and Consumption**

(**Figure: Upperia's Production and Consumption**) **The figure gives 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)?**

- 125/80 shirts per unit of pair of shoes (*Incorrect*)
- 4/3 shirts per unit of pair of shoes (*True Answer Correct*)
- 5/4 shirts per unit of pair of shoes (*Incorrect*)
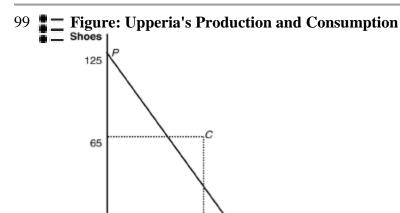- 3/4 shirt per unit of pair of shoes (*Incorrect*)

---

98 **Figure: Upperia's Production and Consumption**

(**Figure: Upperia's Production and Consumption**) **The figure gives 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 are there in**

Upperia?

- 125 (*True Answer Correct*)
- 100 (*Incorrect*)
- 80 (*Incorrect*)
- 65 (*Incorrect*)

---

99 **Figure: Upperia's Production and Consumption**

Reference: Ref 2-9

(Figure: Upperia's Production and Consumption) The figure gives Upperia's international trading pattern. What is the autarkic price of shirts in Upperia?

- 5/4 shirts per unit of pair of shoes (*Incorrect*)
- 4/5 shirts per unit of pair of shoes (*True Answer Correct*)
- 5/4 pair of shoes per shirt (*Incorrect*)
- 4/5 pair of shoes per shirt (*Incorrect*)

---

100 **With trade, a country will maximize its economic well-being when it:**

- moves to the highest possible indifference curve. (*True Answer Correct*)
- forces the marginal rate of substitution to its lowest possible value. (*Incorrect*)
- consumes more of both goods than it does in autarky. (*Incorrect*)
- finds its marginal rate of substitution exceeding its marginal rate of transformation. (*Incorrect*)

---

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

- there is no basis for gainful trade for either country. (*Incorrect*)
- both countries gain from trade. (*True Answer Correct*)
- only one country gains from trade. (*Incorrect*)
- one country gains and the other country loses from trade. (*Incorrect*)

---

102 **Trade between two nations is NOT possible if they have:**

- identical indifference curves but different production possibilities frontiers. (*Incorrect*)
- identical production possibilities frontiers but different indifference curves. (*Incorrect*)
- different production possibilities frontiers and different indifference curves. (*Incorrect*)
- identical production possibilities frontiers and identical indifference curves. (*True Answer Correct*)

---

103 **As nations trade, their total level of utility (satisfaction from consuming goods):**

- equalizes. (*Incorrect*)
- levels out. (*Incorrect*)
- decreases. (*Incorrect*)
- increases. (*True Answer Correct*)

---

104 **The increase in total utility derived from trading products is called:**

- trade patterns. (*Incorrect*)
- gains from trade. (*True Answer Correct*)
- comparative advantage. (*Incorrect*)
- labor productivity. (*Incorrect*)

---

105 *SCENARIO: CHILE AND ARGENTINA*
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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) Which country has an absolute advantage in jellybean production?

- Chile (*Incorrect*)
- Argentina (*Incorrect*)
- both Argentina and Chile (*Incorrect*)
- neither Argentina nor Chile (*True Answer Correct*)

---

106 *SCENARIO: CHILE AND ARGENTINA*
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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) Which country has a comparative advantage in jellybean production?

- Chile (*Incorrect*)
- Argentina (*True Answer Correct*)
- both Argentina and Chile (*Incorrect*)
- neither Argentina nor Chile (*Incorrect*)

---

107 *SCENARIO: CHILE AND ARGENTINA*
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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) What are the endpoints of Chile's production possibilities frontier?

- 1,000 pounds of jellybeans and 500 pounds of peanut butter (*True Answer Correct*)
- 1,000 pounds of jellybeans and 2,000 pounds of peanut butter (*Incorrect*)

- 600 pounds of jellybeans and 200 pounds of peanut butter (*Incorrect*)
- There are no endpoints to Chile's production possibilities frontier. (*Incorrect*)

---

108 *SCENARIO: CHILE AND ARGENTINA*

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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) What is the price of peanut butter in Argentina before the two countries begin to trade with each other?

- $^1/_3$ pound of jellybeans per pound of peanut butter (*Incorrect*)
- $^1/_2$ pound of jellybeans per pound of peanut butter (*Incorrect*)
- 2 pounds of jellybeans per pound of peanut butter (*Incorrect*)
- 3 pounds of jellybeans per pound of peanut butter (*True Answer Correct*)

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109 *SCENARIO: CHILE AND ARGENTINA*

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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) In order for Chile to gain from trade, the price of jellybeans must be less than:

- 2 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 3 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 0.33 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 0.50 pounds of peanut butter per pound of jellybeans. (*True Answer Correct*)

110 *SCENARIO: CHILE AND ARGENTINA*

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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.

Reference: Ref 2-10

(Scenario: Chile and Argentina) Argentina's gains from trade will be largest when the price of jellybeans is:

- 2 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 3 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 0.33 pounds of peanut butter per pound of jellybeans. (*Incorrect*)
- 0.50 pounds of peanut butter per pound of jellybeans. (*True Answer Correct*)

111 *SCENARIO: CHILE AND ARGENTINA*

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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.

Reference: Ref 2-10

(Scenario: Chile and Argentina) What is the opportunity cost of a pound of peanut butter in Chile?

- 2 pounds of jellybeans per pound of peanut butter (*True Answer Correct*)
- 3 pounds of jellybeans per pound of peanut butter (*Incorrect*)
- 0.33 pounds of jellybeans per pound of peanut butter (*Incorrect*)
- 0.50 pounds of jellybeans per pound of peanut butter (*Incorrect*)

112 *SCENARIO: CHILE AND ARGENTINA*

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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour

produces 1 pound of jellybeans and 3 hours produces 1 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.

(Scenario: Chile and Argentina) Now suppose that the two countries begin to trade with one another. 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?

- 1,000 pounds of jellybeans and 400 pounds of peanut butter (*Incorrect*)
- 1,000 pounds of jellybeans and 500 pounds of peanut butter (*True Answer Correct*)
- 500 pounds of jellybeans and 1,000 pounds of peanut butter (*Incorrect*)
- 333.33 pounds of jellybeans and 500 pounds of peanut butter (*Incorrect*)

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113 *SCENARIO: CHILE AND ARGENTINA*
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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.

(Scenario: Chile and Argentina) Now suppose that the two countries 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?

- 1,000 pounds of jellybeans and 500 pounds of peanut butter (*Incorrect*)
- 0 pounds of jellybeans and 500 pounds of peanut butter (*Incorrect*)
- 1,000 pounds of jellybeans and 0 pounds of peanut butter (*Incorrect*)

- 0 pounds of jellybeans and 100 pounds of peanut butter (*True Answer Correct*)

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114 **SCENARIO: CHILE AND ARGENTINA**
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, 1 hour produces 1 pound of jellybeans and 2 hours produce 1 pound of peanut butter. In Argentina, 1 hour produces 1 pound of jellybeans and 3 hours produces 1 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.
Reference: Ref 2-10

(Scenario: Chile and Argentina) Which group will benefit from trade between Chile and Argentina?

- Chilean consumers (*Incorrect*)
- Argentinean peanut butter producers (*Incorrect*)
- Argentine consumers (*Incorrect*)
- Chilean consumers, Argentinean peanut butter producers, and Argentine consumers (*True Answer Correct*)

---

115 **Suppose that there are two countries (Home and Foreign) that produce two goods. Home's wages are 100% greater than Foreign's wages. Will trade be possible between Home and Foreign?**

- No, because Foreign's wages are lower than Home's wages. (*Incorrect*)
- Yes, Foreign will be able to export both products to Home. (*Incorrect*)
- Yes, as long as Home's marginal productivity of labor in one product is at least 100% higher than Foreign's marginal productivity of labor in the same product. (*True Answer Correct*)
- No, because prices will be the same in each country. (*Incorrect*)

---

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

- resources are directed to their highest productivity. (*True Answer Correct*)
- the output of the nation's trading partner declines. (*Incorrect*)
- the nation can produce outside its production possibilities frontier. (*Incorrect*)

- the problem of unemployment is eliminated. (*Incorrect*)

117 **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?**

- 0.5 ton of wheat per ton of corn (*Incorrect*)
- 20 tons of wheat per ton of corn (*Incorrect*)
- 10 tons of wheat (*Incorrect*)
- 2 tons of wheat (*True Answer Correct*)

118 **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?**

- 50 workers (*Incorrect*)
- 40 workers (*True Answer Correct*)
- 30 workers (*Incorrect*)
- 20 workers (*Incorrect*)

119 **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 corn equal to 1 ton of wheat per ton of corn. In which product will Home find its comparative advantage?**

- wheat (*True Answer Correct*)
- corn (*Incorrect*)
- both corn and wheat (*Incorrect*)
- neither corn nor wheat (*Incorrect*)

120 **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 it consume when it trades with Foreign?

- 10 tons of corn (*Incorrect*)
- 20 tons of corn (*True Answer Correct*)
- 30 tons of corn (*Incorrect*)
- 40 tons of corn (*Incorrect*)

---

121 **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?**

- 0.5 ton of wheat per ton of corn (*True Answer Correct*)
- 1 ton of wheat per ton of corn (*Incorrect*)
- 1.5 tons of wheat per ton of corn (*Incorrect*)
- 2 tons of wheat per ton of corn (*Incorrect*)

---

122 **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, after trade occurs, the international price actually becomes 1.5 tons of wheat per ton of corn. Which statement is true?**

- Both Home and Foreign will gain from trade. (*True Answer Correct*)
- Neither Home nor Foreign will gain from trade. (*Incorrect*)
- Home will gain from trade but Foreign will not. (*Incorrect*)
- Foreign will gain from trade but Home will not. (*Incorrect*)

---

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

- cloth and beer, respectively. (*Incorrect*)
- beer and cloth, respectively. (*True Answer Correct*)
- beer. (*Incorrect*)
- cloth. (*Incorrect*)

124 Assume that Germany and China can produce beer and cloth. If the MPL_c/MPL_b for Germany is 2/5 and MPL_c/MPL_b for China is 1, then China should:

- specialize in producing beer and export beer. (*Incorrect*)
- specialize in producing cloth and export cloth. (*True Answer Correct*)
- not specialize, because they will not benefit from it. (*Incorrect*)
- specialize in producing cloth and import cloth. (*Incorrect*)

125 Assume that Germany and China can produce beer and cloth. If the MPL_c/MPL_b for Germany is 2/5 and MPL_c/MPL_b for China is 1, then Germany should:

- specialize in producing beer and export beer. (*True Answer Correct*)
- specialize in producing cloth and export cloth. (*Incorrect*)
- not specialize, because they will not benefit from it. (*Incorrect*)
- specialize in producing cloth and import cloth. (*Incorrect*)

126 Recalling the marginal product theory of wages, a worker's "real" wage is:

- twice the amount of the "money" wage. (*Incorrect*)
- what the "money" wage will purchase in terms of products. (*True Answer Correct*)
- what she earns after taxes. (*Incorrect*)
- what she would earn if her employer paid her fairly. (*Incorrect*)

127 A worker's "real" wage is related to:

- his productivity in the workplace. (*Incorrect*)
- the value of his production to his employer. (*Incorrect*)
- the nation's absolute advantage in production of that product. (*Incorrect*)
- his productivity in the workplace, the value of his production to his employer, and the nation's absolute advantage in production of that product. (*True Answer Correct*)

128 Which of the following will occur as a nation improves its technology and productivity?

- Its standard of living will rise. (*Incorrect*)
- Wages of its workers will rise. (*Incorrect*)
- It will have more products to sell in international

markets. (*Incorrect*)

- Its standard of living will rise, wages of its workers will rise, and it will have more products to sell in international markets. (*True Answer Correct*)

---

129 **For China, the result of opening its economy was:**

- a decline in its wages. (*Incorrect*)
- an increase in wages. (*True Answer Correct*)
- a reduction in the amount exported. (*Incorrect*)
- a reduction in the amount imported. (*Incorrect*)

---

130 **The case study of wages and productivity in the textbook demonstrates that:**

- workers lose out when international trade takes place. (*Incorrect*)
- internationally, worker productivity varies directly with real wages. (*True Answer Correct*)
- workers who get educated get higher wages. (*Incorrect*)
- workers become more productive, but most of the value added goes to the owners of capital. (*Incorrect*)

---

131 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) The United States has the absolute advantage in the production of:

- steel. (*Incorrect*)
- chemicals. (*Incorrect*)
- both steel and chemicals. (*True Answer Correct*)
- neither steel nor chemicals. (*Incorrect*)

---

132 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) The United Kingdom has the absolute

advantage in the production of:

- steel. (*Incorrect*)
- chemicals. (*Incorrect*)
- both steel and chemicals. (*Incorrect*)
- neither steel nor chemicals. (*True Answer Correct*)

133 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) The United Kingdom has a comparative advantage in the production of:

- steel. (*Incorrect*)
- chemicals. (*True Answer Correct*)
- both steel and chemicals. (*Incorrect*)
- neither steel nor chemicals. (*Incorrect*)

134 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) If trade occurs between the United States and the United Kingdom, American firms should specialize in producing:

- steel. (*True Answer Correct*)
- chemicals. (*Incorrect*)
- both steel and chemicals. (*Incorrect*)
- neither steel nor chemicals. (*Incorrect*)

135 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) International trade will occur between the United States and the United Kingdom so long as 1 ton of

steel trades for:

- at least 1 ton of chemicals, but no more than 2 tons of chemicals. (*Incorrect*)
- at least 2 tons of chemicals, but no more than 3 tons of chemicals. (*True Answer Correct*)
- at least 0.33 ton of chemicals, but no more than 0.5 ton of chemicals. (*Incorrect*)
- at least 0.55 ton of chemicals but no more than 0.75 ton of chemicals. (*Incorrect*)

---

136 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) The United Kingdom will gain the most from trade if:

- 1 ton of steel trades for 2 tons of chemicals. (*Incorrect*)
- 1 ton of steel trades for 3 tons of chemicals. (*Incorrect*)
- 1 ton of steel trades for 0.5 ton of chemicals. (*True Answer Correct*)
- 1 ton of steel trades for 0.33 ton of chemicals. (*Incorrect*)

---

137 *SCENARIO: U.S. VS. U.K.*
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.
Reference: Ref 2-11

(Scenario: U.S. vs. U.K.) Which statement below is correct?

- U.S. wages will be higher than U.K. wages. (*True Answer Correct*)
- U.K. wages will be higher than U.S. wages. (*Incorrect*)
- Wages in the United States and the United Kingdom will be equal. (*Incorrect*)
- There will be no relationship between U.S. and U.K. wages. (*Incorrect*)

---

138 If export prices are higher than the import prices, what can we expect the wages in the export sector to do?

- increase (*True Answer Correct*)
- decrease (*Incorrect*)
- stay the same (*Incorrect*)
- The answer cannot be determined from the information provided. (*Incorrect*)

139 What does the term "value added per hour" help us measure?

- term of trade (*Incorrect*)
- labor productivity (*True Answer Correct*)
- volume of exports (*Incorrect*)
- volume of imports (*Incorrect*)

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

- employers care for their workers. (*Incorrect*)
- workers prefer to work in exporting industries. (*Incorrect*)
- workers are freely mobile between industries. (*True Answer Correct*)
- workers are freely mobile between countries. (*Incorrect*)

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

- rise mainly in the developed countries (*True Answer Correct*)
- rise mainly in the developing countries (*Incorrect*)
- fall mainly in the developed countries (*Incorrect*)
- fall mainly in the developing countries (*Incorrect*)

142 If a home country is exporting corn and importing bikes and if the relative price P_c/P_b is increasing, then:

- the home country will export less corn. (*True Answer Correct*)
- the home country will export more corn. (*Incorrect*)
- the home country will import the same number of bikes. (*Incorrect*)
- there is no change in the trade pattern for the home country. (*Incorrect*)

143 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 schedule is:

- the import demand curve for a nation. (*Incorrect*)
- the export supply curve for a nation. (*True Answer Correct*)
- the production possibilities frontier for a nation. (*Incorrect*)
- the "no-trade" equilibrium. (*Incorrect*)

144 The flat part of Home's export supply curve in the Ricardian model is due to the assumption that:

- Home has a comparative advantage in its export. (*Incorrect*)
- Home has an absolute advantage in its export. (*Incorrect*)
- Production has a constant marginal product of labor. (*True Answer Correct*)
- Home has more labor than Foreign. (*Incorrect*)

145 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 schedule is:

- the import demand curve for a nation. (*True Answer Correct*)
- the export supply curve for a nation. (*Incorrect*)
- the production possibilities frontier for a nation. (*Incorrect*)
- the "no-trade" equilibrium. (*Incorrect*)

146 Because the PPF is a straight line in the Ricardian model, Foreign's import demand curve is:

- upward sloping in parts. (*Incorrect*)
- flat in parts. (*True Answer Correct*)
- downward sloping in parts. (*Incorrect*)
- flat everywhere. (*Incorrect*)

147 International trade equilibrium occurs where:

- there is no further way to increase production of any commodity. (*Incorrect*)
- the excess supply curve intersects with the excess demand curve. (*Incorrect*)
- the total world import demand curve intersects with the total world export supply curve. (*True Answer Correct*)
- the amount produced in each nation is just equal to the amounts

produced in every other nation. (*Incorrect*)

148 **The international relative price and total quantity of a traded good or service is determined by:**

- labor shortages that occur worldwide. (*Incorrect*)
- the World Trade Organization. (*Incorrect*)
- the intersection of the total world import demand curve with the total world export supply curve. (*True Answer Correct*)
- natural resource availability compared with the industrial demand for those products. (*Incorrect*)

149 **If prices of a nation's exported products rise in comparison to prices paid for imports, that nation experiences:**

- a rise in its international terms of trade. (*True Answer Correct*)
- a decline in its international terms of trade. (*Incorrect*)
- a reduction in its imports. (*Incorrect*)
- a reduction in its exports. (*Incorrect*)

150 **Suppose that the U.S. price index for its imports rose from 100 to 120 from 2010 to 2011 and the price index for its exports remained unchanged. Which statement below is correct?**

- The U.S. terms of trade worsened between 2010 and 2011. (*True Answer Correct*)
- The U.S. terms of trade improved between 2010 and 2011. (*Incorrect*)
- The U.S. terms of trade improved in 2010 and worsened in 2011. (*Incorrect*)
- There was no change in the U.S. terms of trade between 2010 and 2011. (*Incorrect*)

151 **Suppose that there is an improvement in a country's terms of trade between 2010 and 2011. This improvement means that:**

- it can purchase more imports in 2011 with the same volume of exports as in 2010. (*True Answer Correct*)
- it can purchase more exports in 2011 with the same volume of exports as in 2010. (*Incorrect*)
- it needs to increase its exports in order to purchase the same volume of imports as in 2011. (*Incorrect*)
- with regard to its international trade, it is worse off in 2011 than it was in 2010. (*Incorrect*)

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

- the home country will suffer a loss from international trade. (*Incorrect*)
- the home country will not gain from trade. (*True Answer Correct*)
- the home country will gain from trade. (*Incorrect*)
- the foreign country will not gain from trade. (*Incorrect*)

153 *SCENARIO: RELATIVE PRICES AND TRADE LEVELS*
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 table supplied gives 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

Reference: Ref 2-12

(Scenario: Relative Prices and Trade Levels) What is the international price of wheat?

- 1 yard / bushel (*Incorrect*)
- 3 yards / bushel (*Incorrect*)
- 5 yards / bushel (*True Answer Correct*)
- 7 yards / bushel (*Incorrect*)

154 *SCENARIO: RELATIVE PRICES AND TRADE LEVELS*
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 table supplied gives 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

Reference: Ref 2-12

(Scenario: Relative Prices and Trade Levels) How many bushels of wheat will Foreign import?

- 900 bushels (*Incorrect*)
- 700 bushels (*Incorrect*)
- 500 bushels (*True Answer Correct*)
- 300 bushels (*Incorrect*)

155 *SCENARIO: HOME'S WILLINGNESS TO TRADE WHEAT FOR CLOTH*

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 table supplied gives 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
650 bushels	350 yards
850 bushels	500 yards
1,000 bushels	600 yards
1,100 bushels	650 yards
1,150 bushels	700 yards
1,175 bushels	800 yards
800 bushels	200 yards
900 bushels	100 yards

Reference: Ref 2-13

(Scenario: Home's Willingness to Trade Wheat for Cloth) If the international price of cloth is 1.5 bushels of wheat per yard, how many bushels of wheat will Home export to Foreign?

- 1,150 bushels (*True Answer Correct*)
- 1,100 bushels (*Incorrect*)
- 850 bushels (*Incorrect*)
- 650 bushels (*Incorrect*)

---

156 *SCENARIO: HOME'S WILLINGNESS TO TRADE WHEAT FOR CLOTH*

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 table supplied gives 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
650 bushels	350 yards
850 bushels	500 yards
1,000 bushels	600 yards
1,100 bushels	650 yards
1,150 bushels	700 yards
1,175 bushels	800 yards
800 bushels	200 yards
900 bushels	100 yards

Reference: Ref 2-13

(Scenario: Home's Willingness to Trade Wheat for Cloth) If the international price of cloth is 1.5 bushels of wheat per yard, how many yards of cloth will Foreign export to Home?

- 500 yards (*Incorrect*)
- 600 yards (*Incorrect*)
- 700 yards (*True Answer Correct*)
- 1,150 yards (*Incorrect*)

---

157 *SCENARIO: HOME'S WILLINGNESS TO TRADE WHEAT FOR CLOTH*

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 table supplied gives 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
650 bushels	350 yards
850 bushels	500 yards
1,000 bushels	600 yards
1,100 bushels	650 yards
1,150 bushels	700 yards
1,175 bushels	800 yards
800 bushels	200 yards
900 bushels	100 yards

Reference: Ref 2-13

(Scenario: Home's Willingness to Trade Wheat for Cloth) Suppose that Home's export price rose from 0.5 bushel of wheat per yard of cloth in 2009 to 1 bushel of wheat per yard of cloth in 2010. What does this movement represent in terms of Home's terms of trade?

- an improvement in Home's terms of trade (*Incorrect*)
- a deterioration in Home's terms of trade (*True Answer Correct*)
- no change in Home's terms of trade (*Incorrect*)
- The answer cannot be determined based on the information provided. (*Incorrect*)

158 *SCENARIO: HOME'S WILLINGNESS TO TRADE WHEAT FOR CLOTH*
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 table supplied gives 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
650 bushels	350 yards
850 bushels	500 yards
1,000 bushels	600 yards
1,100 bushels	650 yards
1,150 bushels	700 yards
1,175 bushels	800 yards

| 800 bushels | 200 yards |
| 900 bushels | 100 yards |

(Scenario: Home's Willingness to Trade Wheat for Cloth) Suppose that Home's export price rose from 0.5 bushel of wheat per yard of cloth in 2009 to 1 bushel of wheat per yard of cloth in 2010. Which of the following statements is *true*?

- Home's situation had greatly improved in 2010. (*Incorrect*)
- Home's situation had deteriorated in 2010. (*True Answer Correct*)
- Home's situation was the same as it was in 2009. (*Incorrect*)
- Home's situation had slightly improved in 2010. (*Incorrect*)

159 *SCENARIO: HOME'S WILLINGNESS TO TRADE WHEAT FOR CLOTH*

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 table supplied gives 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
650 bushels	350 yards
850 bushels	500 yards
1,000 bushels	600 yards
1,100 bushels	650 yards
1,150 bushels	700 yards
1,175 bushels	800 yards
800 bushels	200 yards
900 bushels	100 yards

(Scenario: Home's Willingness to Trade Wheat for Cloth) Suppose that Home's export price rose from 0.5 bushel of wheat per yard of cloth in 2009 to 1 bushel of wheat per yard of cloth in 2010. We conclude that the change in Home's export price means that Home was worse off in 2010 than it was in 2009. Which of the following statements best explains this conclusion?

- Home had to export twice as much wheat to obtain a yard of

cloth in 2010 as it did in 2009. (*True Answer Correct*)
- Home had to export half as much wheat to obtain a yard of cloth in 2010 as it did in 2009. (*Incorrect*)
- Home had to export the same amount of wheat to obtain a yard of cloth in both 2009 and 2010. (*Incorrect*)
- Home had to export three times the amount of wheat to obtain a yard of cloth in 2010 as it did in 2009. (*Incorrect*)

160 **In 2000 the U.S. terms of trade was 1. In 2009 the U.S. export price index was 1.15 and the U.S. import price index was 1.18. Which statement below is the best interpretation of the change in the U.S. terms of trade between 2000 and 2009?**
- In 2009 the United States had to export 2% more in order to obtain the same amount of imports as in 2000. (*True Answer Correct*)
- In 2009 the United States could export 2% less to obtain the same of amount of imports as in 2000. (*Incorrect*)
- Prices of U.S. exports rose more rapidly than prices of U.S. imports. (*Incorrect*)
- The U.S. terms of trade improved between 2000 and 2009. (*Incorrect*)

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

- improve the terms of trade. (*Incorrect*)
- worsen the terms of trade. (*True Answer Correct*)
- expand the production possibilities frontier. (*Incorrect*)
- contract the production possibilities frontier. (*Incorrect*)

162 **Table: The Prices of Ghana's Exports and Imports**

	2006	2007
Export price	100	120
Import price	100	110

Reference: Ref 2-14

(Table: The Prices of Ghana's Exports and Imports) Suppose that the table provided gives values of price indices for Ghana's exports and imports in 2009 and in 2010. Did Ghana's terms of trade improve, deteriorate, or not change between 2009 and 2010?
- improve (*True Answer Correct*)

- deteriorate (*Incorrect*)
- not change (*Incorrect*)

---

163 **An increase in the price of imported goods will:**

- increase the volume of imports. (*Incorrect*)
- decrease the volume of imports. (*True Answer Correct*)
- shift the production possibility frontier inward. (*Incorrect*)
- shift the production possibility frontier outward. (*Incorrect*)

---

164 **The Prebisch-Singer hypothesis concludes that:**

- due to unfair trading practices, labor in lower-income nations is exploited. (*Incorrect*)
- lower-income nations experience a long-run decline in their terms of trade due to increased technology, which reduces the demand for primary products. (*True Answer Correct*)
- OPEC has been responsible for a slowdown in the world's standard of living. (*Incorrect*)
- technology lowers the cost of manufactured products, so lower-income nations should see an increase in their terms of trade. (*Incorrect*)

---

165 **The textbook authors conclude that the Prebisch-Singer hypothesis:**

- is not true. (*Incorrect*)
- is true. (*Incorrect*)
- is valid in some instances but showed no consistent trend and cannot be considered a general rule. (*True Answer Correct*)
- is valid only since 1995, when the World Trade Organization began its operations. (*Incorrect*)

---

166 **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?**

- Technological progress in manufactured goods has caused their prices to fall. (*Incorrect*)
- Some developing countries are able to keep the price of their exports high by restricting supplies on the world market. (*Incorrect*)
- Increased demand for developing country exports has caused prices of developing country exports to rise. (*Incorrect*)

- The demand for food exports from developing countries has not risen as fast as the demand for manufactured exports of industrialized countries. (*True Answer Correct*)

167 ▪ ▪ **In 2009, China was the largest exporter of snowboards to the United States.**

- True (*True Answer*)
- False ()

168 ▪ ▪ **If a nation has resources suitable to produce certain products, it is more likely to export those products.**

- True (*True Answer*)
- False ()

169 ▪ ▪ **A nation's factors of production have little influence on trading patterns.**

- True ()
- False (*True Answer*)

170 ▪ ▪ **Offshoring is trade in any kind of good.**

- True ()
- False (*True Answer*)

171 ▪ ▪ **The focus of the Ricardian model is countries' resource bases as the explanation for international trade.**

- True ()
- False (*True Answer*)

172 ▪ ▪ **According to Ricardo, all countries can gain from trade if they import goods in which they have a comparative disadvantage.**

- True (*True Answer*)
- False ()

173 ▪ ▪ **Mercantilists argued that a country's overall welfare is improved by engaging in open and free trade.**

- True ()
- False (*True Answer*)

174 ▪ ▪ **In a situation of no trade, the home country will be at equilibrium by producing at a point where the indifference**

curves are tangential to the production possibilities frontier.

- True (*True Answer*)
- False ()

---

175 ▪ ▪ **Production possibilities frontiers in the Ricardian model are linear with end points showing a country's production when it produces only one or the other good.**

- True ()
- False (*True Answer*)

---

176 ▪ ▪ **When a country engages in international trade, it is able to consume outside its production possibilities frontier.**

- True (*True Answer*)
- False ()

---

177 ▪ ▪ **When a country engages in international trade, it is able to produce outside its production possibilities frontier.**

- True ()
- False (*True Answer*)

---

178 ▪ ▪ **In the Ricardian model, production possibilities frontiers are bowed out from the origin, with end points showing a country's production when it produces only one or the other good.**

- True ()
- False (*True Answer*)

---

179 ▪ ▪ **If the marginal product of labor is constant and labor is the only variable resource, then the slope of the PPF must be negative and constant.**

- True (*True Answer*)
- False ()

---

180 ▪ ▪ **In autarky (a no-trade state), a country will maximize its living standard if it consumes and produces along its production possibilities frontier.**

- True (*True Answer*)
- False ()

---

181 ▪ ▪ **The Ricardian model predicts that real wages will rise in all countries as a result of international trade.**

- True (*True Answer*)

- False ()

---

182 ■ ■ **If a country has a comparative advantage in producing rice and a comparative disadvantage in producing good pencils, then the Ricardian model predicts that the real wage in rice production will fall and the real wage in pencil production will rise as a result of international trade.**

- True ()
- False (*True Answer*)

---

183 ■ ■ **Even if a nation has an absolute disadvantage in producing both of two goods, it is still possible to trade and to gain from trade.**

- True (*True Answer*)
- False ()

---

184 ■ ■ **A country has comparative advantage in a good when it has a lower opportunity cost of producing it than does the other country.**

- True (*True Answer*)
- False ()

---

185 ■ ■ **The country with the best technology for producing a good always has the comparative advantage in that good.**

- True ()
- False (*True Answer*)

---

186 ■ ■ **If Libertaria has an absolute advantage in producing grain, it must also have a comparative advantage in producing the same product.**

- True ()
- False (*True Answer*)

---

187 ■ ■ **It may be possible for a nation to "engineer" a comparative advantage in some product by investing in technology or resources to decrease its cost per unit.**

- True (*True Answer*)
- False ()

---

188 ■ ■ **A nation can have a comparative advantage in only one good.**

- True ()
- False (*True Answer*)

---

189 ▪ ▪ **A nation with an absolute advantage in producing both of two goods cannot gain from trade.**

- True ()
- False (*True Answer*)

190 ▪ ▪ **A country with a comparative advantage in producing good X must necessarily have an absolute advantage in producing good X.**

- True ()
- False (*True Answer*)

191 ▪ ▪ **In the Ricardian model, a nation can have a comparative advantage in the production of both goods.**

- True ()
- False (*True Answer*)

192 ▪ ▪ **In the Ricardian model, a nation can have an absolute disadvantage in the production of both goods.**

- True (*True Answer*)
- False ()

193 ▪ ▪ **A nation must have comparative advantage in at least one good.**

- True (*True Answer*)
- False ()

194 ▪ ▪ **Low labor productivity is the most likely reason for China's ability to export many products to the United States.**

- True ()
- False (*True Answer*)

195 ▪ ▪ **As nations trade, one nation experiences "gains" from trade while the other nation experiences "losses" from trade.**

- True ()
- False (*True Answer*)

196 ▪ ▪ **Value added per hour is often used to compare labor productivity across countries.**

- True (*True Answer*)
- False ()

197 ▪ ▪ **Over time, upward movements in wages match upward movements in labor productivities.**

- True (*True Answer*)
- False ()

198 ▪ ▪ **The larger the divergence of world prices from no-trade prices, the larger will be the gains from trade.**

- True (*True Answer*)
- False ()

199 ▪ ▪ **The smaller the divergence of world prices from no-trade prices, the larger will be the gains from trade.**

- True ()
- False (*True Answer*)

200 ▪ ▪ **There is no evidence for the Prebisch-Singer hypothesis.**

- True ()
- False (*True Answer*)

201 ▪ ▪ **The empirical evidence indicates that for the past 100 years almost all primary commodity prices are clearly falling.**

- True ()
- False (*True Answer*)

202 ▪ ▪ **Empirical evidence indicates that all primary commodity prices rose in real terms over the past 100 years.**

- True ()
- False (*True Answer*)
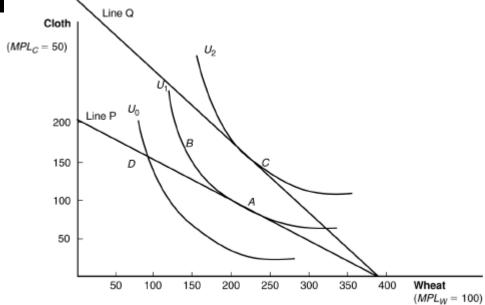
203 **Suppose that:**

i. Malaysia requires 1 hour of labor to produce a pound of rice and 2 hours of labor to produce a pencil;

ii. Indonesia requires 2 hours of labor to produce a pound of rice and 4 hours of labor to produce a pencil;

iii. each country has 10,000 hours of labor to allocate between the production of rice and pencils; and

iv. in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils.

A) Which country has an absolute advantage in rice production? In pencil production?

B) Which country has a comparative advantage in rice production? In pencil

production?

C)   Will trade between the two countries be mutually beneficial?

- ()

---

204 In the case of U.S. textiles, why does the United States import textiles from Asian nations when it has an absolute advantage in production?

- ()

---

205 **Figure: International Trade Equilibrium**

Reference: Ref 2-15
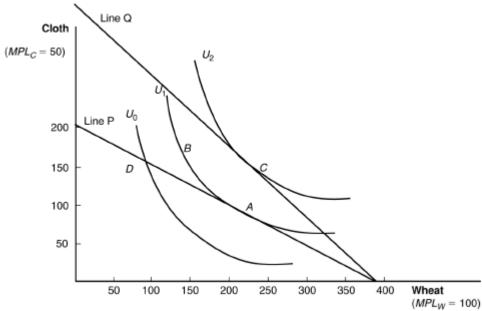
(Figure: International Trade Equilibrium) Which is the "before trade" point of production and consumption?
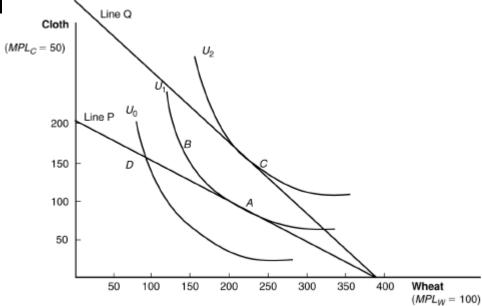
- ()

---

206 **Figure: International Trade Equilibrium**

Line Q

Cloth

$(MPL_C = 50)$

Line P

U_2

U_1

U_0

200

B

150

D

C

100

A

50

50   100   150   200   250   300   350   400   Wheat
$(MPL_W = 100)$

(Figure: International Trade Equilibrium) Which line shows the "before trade" relative price in this nation?

- ()

---

207   **Figure: International Trade Equilibrium**

Line Q

Cloth

$(MPL_C = 50)$

Line P

U_2

U_1

U_0

200

B

150

D

C

100

A

50

50   100   150   200   250   300   350   400   Wheat
$(MPL_W = 100)$
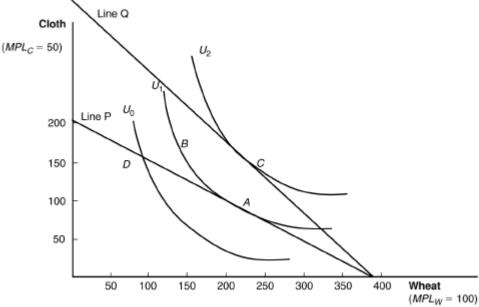
(Figure: International Trade Equilibrium) Which point shows the "after trade" point of consumption?

- ()

208 **Figure: International Trade Equilibrium**

Reference: Ref 2-15
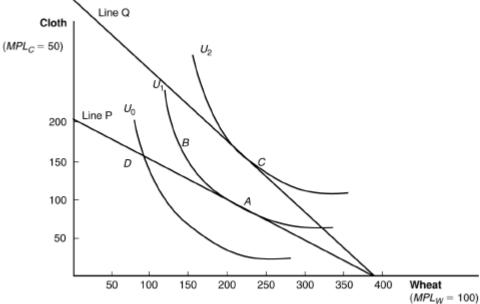
(Figure: International Trade Equilibrium) Which line shows the new equilibrium "world" price determined by trade?

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209 **Figure: International Trade Equilibrium**

Reference: Ref 2-15

(Figure: International Trade Equilibrium) Before trade, how many units of wheat will this nation produce?
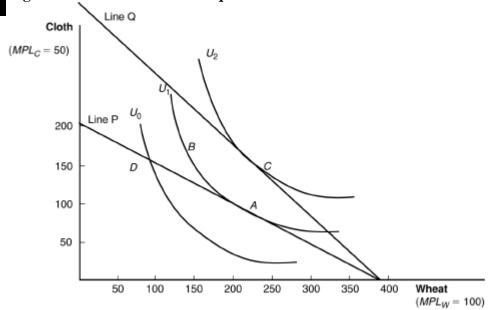
- ()

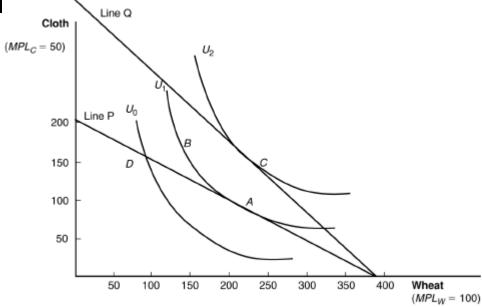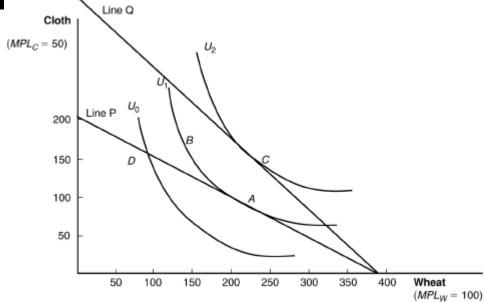**Figure: International Trade Equilibrium**

Reference: Ref 2-15

(Figure: International Trade Equilibrium) Before trade, how many units of wheat will this nation consume?

- ()

Figure: International Trade Equilibrium

Reference: Ref 2-15

(Figure: International Trade Equilibrium) Before trade, how many units of cloth will this nation produce?

- ()

212

Figure: International Trade Equilibrium

Reference: Ref 2-15

(Figure: International Trade Equilibrium) Before trade, how many units of cloth will this nation consume?

- ()

213

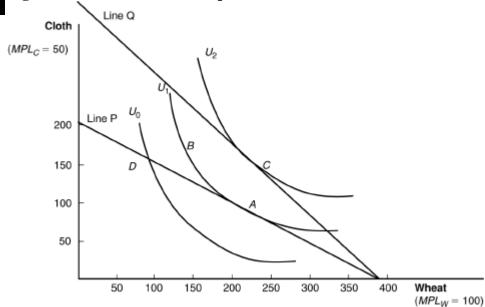**Figure: International Trade Equilibrium**

Reference: Ref 2-15

(Figure: International Trade Equilibrium) Assume that the country specializes in the good in which it has comparative advantage. After trade, how many units of wheat will this nation produce?

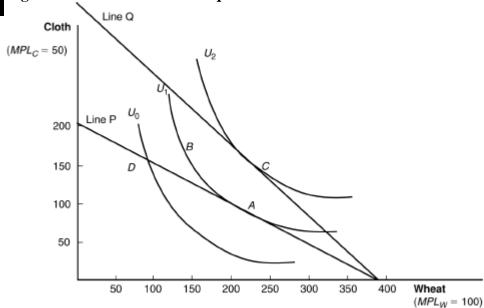214 **Figure: International Trade Equilibrium**

(Figure: International Trade Equilibrium) After trade, how many units of wheat will this nation consume?

215 **Figure: International Trade Equilibrium**

(Figure: International Trade Equilibrium) Assume that the country specializes in the good in which it has comparative advantage. After

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

- ()

Figure: International Trade Equilibrium

(Figure: International Trade Equilibrium) After trade, how many units of cloth will this nation consume?
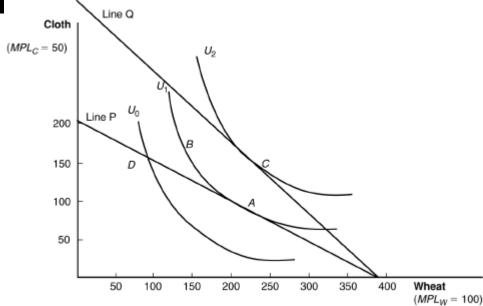
- ()

Figure: International Trade Equilibrium

(Figure: International Trade Equilibrium) How many units of wheat will this nation export or import?

- ()

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218 **Figure: International Trade Equilibrium**

(Figure: International Trade Equilibrium) How many units of cloth will this nation export or import?

- ()

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219 **Compare the absolute advantages in U.S. and Chinese wheat and textile production to explain why the U.S. 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.**
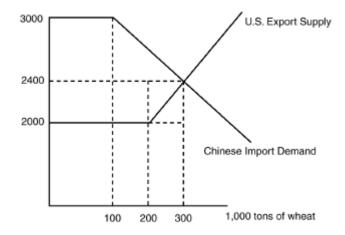
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220 **Suppose that:**

i.   Malaysia requires 1 hour of labor to produce a pound of rice and 2 hours of labor to produce a pencil;

ii. Indonesia requires 2 hours of labor to produce a pound of rice and 3 hours of labor to produce a pencil;

iii. each country has 10,000 hours of labor to allocate between the production of rice and pencils; and

iv. in autarky, Malaysia consumes 5,000 pounds of rice and 2,500 pencils.

A) In Malaysia, what are the marginal productivities of labor in rice and pencil

production?

B) In Indonesia, what are the marginal productivities of labor in rice and pencil production?

C) What are the autarkic prices of rice and pencils in each country?

D) In which product will each specialize?

E) Suppose that, when trade occurs, the international price of rice becomes 3/5 pencils per pound of rice. What will happen to wages in each country?

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22
1

Suppose that the following table gives export and import price indexes for Zimbabwe in 1990, 2000, and 2010 (the base year is 1990 so all values are 100 in that year).

Year	1990	2000	2010
Export price index	100	110	100
Import price index	100	90	110

A) How did Zimbabwe's terms of trade change between 1990 and 2000? Between 2000 and 2010? Between 1990 and 2010?

B) Do these changes represent a deterioration or improvement in Zimbabwe's terms of trade?

C) What are the implications of a terms of trade deterioration for the Zimbabwean economy?

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22
2

Suppose that China and the United States only trade wheat and textiles with each other. The figure below 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 U.S.

Price of Wheat
(yards of textiles/1000 bushels of wheat)

A) How many tons of wheat did the U.S. produce prior to trade with China?

B) How many tons of wheat did China produce prior to trade with the U.S.?

C) What is the international price of wheat in U.S.-Chinese trade?

D) What will happen to the international price of wheat and Chinese imports from the U.S. if there is a severe drought that reduces the size of the U.S. wheat harvest?

E) 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?

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