International Economics, 10e Global Edition **(Krugman/Obstfeld/Melitz)**

Chapter 1 Introduction

1.1 What Is International Economics About?

1. Historians of economic thought often describe ________ written by ________ and published in ________ as the first real exposition of an economic model.
   A) "Of the Balance of Trade," David Hume, 1758
   B) "Of the Balance of Trade," David Hume, 1776
   C) "Wealth of Nations," David Hume, 1758
   D) "Wealth of Nations," Adam Smith, 1758
   E) "Wealth of Nations," Adam Smith, 1776
   Answer: A
   Page Ref: 33
   Difficulty: Easy

2. From 1960 to 2012
   A) the share of US Trade in the global economy roughly tripled in size.
   B) U.S. exports roughly tripled in size.
   C) U.S. Imports roughly tripled as compared to U.S. exports.
   D) U.S. imports roughly tripled in size.
   E) the U.S. economy roughly tripled in size.
   Answer: A
   Page Ref: 33
   Difficulty: Easy

3. The United States is less dependent on trade than most other countries because
   A) the military power of the United States makes it less dependent on anything.
   B) the United States is a relatively large country with diverse resources.
   C) the United States is a "Superpower."
   D) the United States invests in many other countries.
   E) many countries invest in the United States.
   Answer: B
   Page Ref: 34
   Difficulty: Easy

4. Theories of international economics from the 18th and 19th Centuries are
   A) not well understood by modern mathematically oriented theorists.
   B) only of moderate relevance in today's modern international economy.
   C) highly relevant in today's modern international economy.
   D) the only theories that actually relevant to modern international economy.
   E) not relevant to current policy analysis.
   Answer: C
   Page Ref: 34
   Difficulty: Easy

5. An important insight of international trade theory is that when two countries engage in voluntary trade
   A) it is almost never beneficial to both countries.
   B) one country always benefits at the expense of the other.

C) it only benefits the high wage country.
D) it only benefits the low wage country.
E) it is almost always beneficial to both countries.

Answer: E
Page Ref: 36
Difficulty: Easy

6. If there are large disparities in wage levels between countries, then
A) trade is likely to be harmful to the country with the low wages.
B) trade is likely to be harmful to the country with the high wages.
C) trade is likely to be harmful to both countries.
D) trade is likely to have no effect on either country.
E) trade is likely to be harmful to neither country.

Answer: E
Page Ref: 36
Difficulty: Easy

7. The benefits of international trade are derived from trade in
A) services but not goods.
B) tangible goods only.
C) intangible goods only.
D) goods but not services.
E) anything of value.

Answer: E
Page Ref: 36
Difficulty: Easy

8. Which of the following does NOT belong?
A) non-tariff barriers
B) Uruguay Round
C) NAFTA
D) World Trade Organization
E) major free trade agreements of the 1990s

Answer: A
Page Ref: 37-38
Difficulty: Easy

9. International economics ________ use the same fundamental methods of analysis as other branches of economics, because ________.
A) does, the motives and behavior of individuals are the same in international trade as they are in domestic transactions
B) does not, the level of complexity of international issues is unique
C) does not, international economic policy requires cooperation with other countries
D) does not, the interactions associated with international economic relations is highly mathematical
E) does not, international economics takes a different perspective on economic issues

Answer: A
Page Ref: 35
Difficulty: Easy

10. Because the Constitution forbids restraints on interstate trade
    A) the U.S. may not disrupt commerce between Florida and Hawaii.
    B) the U.S. may not impose tariffs on imports from NAFTA countries.
    C) the U.S. may not put restraints on foreign investments in California if it involves a financial intermediary in New York State.
    D) the U.S. may not affect the international value of the $ U.S.
    E) the U.S. may not impose export duties.

Answer: A
Page Ref: 35
Difficulty: Easy

11. Which of the following is NOT a major concern of international economic theory?
    A) exchange rate determination
    B) protectionism
    C) bilateral trade relations with China
    D) the international capital market
    E) the balance of payments

Answer: C
Page Ref: 35
Difficulty: Easy

12. "Trade is generally harmful if there are large disparities between countries in wages."
    A) This is true if the trade partner uses prison labor.
    B) This is true if the trade partner ignores child labor laws.
    C) This is generally false.
    D) Trade theory has nothing to say about this issue.
    E) This is generally true.

Answer: C
Page Ref: 36
Difficulty: Easy

13. Who sells what to whom
    A) is determined by political rather than economic factors.
    B) has been a major preoccupation of international economics.
    C) is not a valid concern of international economics.
    D) is not considered important for government foreign trade policy since such decisions are made in the private competitive market.
    E) is less important than international economic theory.

Answer: B
Page Ref: 37
Difficulty: Easy

14. The insight that patterns of trade are primarily determined by international differences in labor productivity was first proposed by
    A) Lerner and Samuelson.
    B) David Hume.
    C) Adam Smith.
    D) Eli Heckscher.

E) David Ricardo.
Answer: C
Page Ref: 37
Difficulty: Easy

15. After World War II, the United States has pursued a broad policy of
A) removing barriers to international trade.
B) restricting trade of manufactured goods.
C) isolating Iran and other members of the "axis of evil."
D) protecting the U.S. from the economic impact of oil producers.
E) strengthening "Fortress America" protectionism.
Answer: A
Page Ref: 37
Difficulty: Easy

16. The balance of payments has become a central issue for the United States because
A) when the balance of payments is not balanced, society is unbalanced.
B) the U.S. economy cannot grow when the balance of payments is in deficit.
C) the U.S. once ran a large trade surplus of about $40 billion.
D) the U.S. has run huge trade deficits in every year since 1982.
E) the U.S. never experienced a surplus in its balance of payments.
Answer: D
Page Ref: 38
Difficulty: Easy

17. The euro, a common currency for most of the nations of Western Europe, was introduced
A) before 2000.
B) before 1900.
C) in order to fix currencies in terms of the U.S dollar.
D) in order to snub the pride of the U.S.
E) before 1990.
Answer: A
Page Ref: 38
Difficulty: Easy

18. During the first three years of its existence, the euro
A) depreciated against the $U.S.
B) exported exclusively to the U.S.
C) strengthened against the $U.S.
D) proved to be an impossible dream.
E) maintained a strict parity with the $U.S.
Answer: A
Page Ref: 38
Difficulty: Easy

19. The study of exchange rate determination is a relatively new part of international economics, since
    A) for much of the past century, exchange rates were fixed by government action.
    B) the exchange rate never fluctuates.
    C) the calculations required for this were not possible before modern computers became available.
    D) economic theory developed by David Hume demonstrated that real exchange rates remain fixed over time.
    E) dynamic overshooting asset pricing models are a recent theoretical development.

Answer: A
Page Ref: 39
Difficulty: Easy

20. A fundamental problem in international economics is how to produce
    A) a world government that can harmonize trade and monetary policies
    B) a worldwide form of currency.
    C) a counter-cyclical monetary policy so that all countries will not be adversely affected by a financial crisis in one country.
    D) an acceptable degree of harmony among the international trade policies of different countries.
    E) a perfect degree of monetary harmony.

Answer: D
Page Ref: 39
Difficulty: Easy

21. For almost 70 years international trade policies have been governed
    A) by an international treaty known as the General Agreement on Tariffs and Trade (GATT).
    B) by the International Monetary Fund.
    C) by the World Trade Organization.
    D) by the North American Free Trade Agreement (NAFTA).
    E) by the World.

Answer: A
Page Ref: 39
Difficulty: Easy

22. The international capital market is
    A) a set of arrangements by which individuals and firms exchange money now for promises to pay in the future.
    B) the place where emerging economies accept capital invested by banks.
    C) the arrangement where banks build up their capital by borrowing from the Central Bank.
    D) the place where you can rent earth moving equipment anywhere in the world.
    E) exclusively concerned with the debt crisis that ended in the 1990s.

Answer: A
Page Ref: 40
Difficulty: Easy

23. International capital markets experience a kind of risk not faced in domestic capital markets, namely
    A) the risk of unexpected downgrading of assets by Standard and Poor.
    B) the risk of exchange rate fluctuations.
    C) Flood and hurricane crisis risk.
    D) the risk of political upheaval.

E) "economic meltdown" risk.
Answer: B
Page Ref: 38-39
Difficulty: Easy

24. Since 1994, trade rules have been enforced by
    A) The U.S. Congress.
    B) the WTO.
    C) the GATT.
    D) the European Union.
    E) the G10.
    Answer: B
    Page Ref: 37-38
    Difficulty: Easy

25. In 1998 an economic and financial crisis in South Korea caused it to experience
    A) an unbalanced balance of payments.
    B) a balanced balance of payments.
    C) a deficit in their balance of payments.
    D) a surplus in their balance of payments.
    E) a lull in international trade.
    Answer: D
    Page Ref: 38
    Difficulty: Easy

26. In 1999, demonstrators representing a mix of traditional and new ideologies disrupted a major international trade meeting in Seattle of
    A) NAFTA.
    B) the G8.
    C) GATT.
    D) the OECD.
    E) the WTO.
    Answer: E
    Page Ref: 38
    Difficulty: Easy

27. International Economists cannot discuss the effects of international trade or recommend changes in government policies toward trade with any confidence unless they know
    A) their theory accounts for China's unique position in international trade.
    B) their theory is the best available.
    C) their theory is internally consistent.
    D) their theory is good enough to explain the international trade that is actually observed.
    E) their theory passes the "reasonable person" legal criteria.
    Answer: D
    Page Ref: 37
    Difficulty: Easy

28. Trade theorists have proven that the gains from international trade

A) will always help "winners" by an amount exceeding the losses of "losers."
B) must raise the economic welfare of everyone in every country engaged in trade.
C) usually outweigh the benefits of protectionist policies.
D) must raise the economic welfare of every country engaged in trade.
E) must harm owners of "specific" factors of production.
Answer: C
Page Ref: 36
Difficulty: Easy

29. The international financial crisis of 2007 was the result of
A) runaway inflation in the U.S.
B) defaults on U.S. mortgage-backed securities.
C) a deep global recession.
D) the collapse of global currency markets.
E) failure of the Euro currency.
Answer: B
Page Ref: 40
Difficulty: Easy

30. In September 2010, the finance minister of ________ declared that the world was "in the midst of an international currency war" because of rapid appreciation in the value of the country's currency, the ________.
A) Germany; euro
B) Japan; yen
C) England; pound sterling
D) Brazil; Real
E) China; renminbi
Answer: D
Page Ref: 40
Difficulty: Easy

1.2 International Economics: Trade and Money

1. Cost-benefit analysis of international trade
A) is empirically intractable.
B) never leads to government intervention in international trade.
C) focuses attention primarily on conflicts of interest within countries.
D) is basically useless.
E) focuses attention on conflicts of interest between countries.
Answer: C
Page Ref: 40-41
Difficulty: Easy

2. An improvement in a country's balance of payments means a decrease in its balance of payments deficit, or an increase in its surplus. In fact we know that a surplus in a balance of payments
A) is always beneficial.
B) is usually beneficial.
C) is always harmful.
D) is sometimes harmful.
E) is never harmful.

Answer: D
Page Ref: 40-41
Difficulty: Easy

3. The GATT is
   A) an international IMF agency.
   B) a U.S. government agency.
   C) an international U.N. agency.
   D) a collection of tariffs.
   E) an international treaty.

   Answer: E
   Page Ref: 40-41
   Difficulty: Easy

4. The international debt crisis of early 1982 was precipitated when ________ could not pay its international debts.
   A) China
   B) Mexico
   C) Russia
   D) Brazil
   E) Malaysia

   Answer: B
   Page Ref: 40-41
   Difficulty: Easy

5. International economics can be divided into two broad sub-fields
   A) developed and less developed.
   B) macro and micro.
   C) monetary and barter.
   D) static and dynamic.
   E) international trade and international money.

   Answer: E
   Page Ref: 40-41
   Difficulty: Easy

6. International monetary analysis focuses on
   A) the international trade side of the international economy.
   B) the real side of the international economy.
   C) the international investment side of the international economy.
   D) the monetary side of the international economy, such as currency exchange.
   E) the issues of international cooperation between Central Banks.

   Answer: D
   Page Ref: 40-41
   Difficulty: Easy

7. The distinction between international trade and international money is not entirely clear because
   A) developments caused by purely monetary changes have no real effects.
   B) real developments in the trade accounts do not have monetary implications.

C) most international trade involves monetary transactions.
D) the balance of payments includes only real measures.
E) trade models focus on real, or barter relationships.

Answer: C
Page Ref: 40-41
Difficulty: Easy

8. It is argued that global trade tends to be more important to countries with smaller economies than the U.S. Is this empirically verified?
Answer: Yes. Figure 1-2 shows exports and imports as a percentage of national income in the U.S. and five other countries and notes that "International trade is even more important to most other countries than it is to the U.S."
Page Ref: 40-41
Difficulty: Easy

9. It is argued that if a rich high wage country such as the United States were to expand trade with a relatively poor and low wage country such as Mexico, then U.S. industry would migrate south, and U.S. wages would fall to the level of Mexico's. What do you think about this argument?
Answer: The student may think anything. The purpose of the question is to set up a discussion, which will lead to the models in the following chapters.
Page Ref: 40-41
Difficulty: Moderate

10. How are the patterns of international trade, that is the pattern of what different countries export and import, explained?
Answer: Climate explains why Brazil exports coffee. Natural resources explain why Saudi Arabia exports oil. More generally, differences in labor productivity and in the availability of land, labor, and capital within different countries explain patterns of trade. More recent research suggests that there is a significant random component involved, as well.
Page Ref: 40-41
Difficulty: Moderate

11. International trade theory implies that international trade is beneficial to all trading countries. However, casual observation leads to the conclusion that official obstruction of international trade flows is widespread. How might you reconcile these two facts?
Answer: This question is meant to allow students to offer preliminary discussions of issues, which will be explored in depth later in the book.
Page Ref: 40-41
Difficulty: Moderate