

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Historians of economic thought often describe \_\_\_\_\_ written by \_\_\_\_\_ and published in \_\_\_\_\_ as the first real exposition of an economic model. 1) \_\_\_\_\_
- A) "Wealth of Nations," Adam Smith, 1758
  - B) "Of the Balance of Trade," David Hume, 1776
  - C) "Of the Balance of Trade," David Hume, 1758
  - D) "Wealth of Nations," David Hume, 1758
  - E) "Wealth of Nations," Adam Smith, 1776
- 2) From 1950 to 2015 2) \_\_\_\_\_
- A) the share of U.S. trade in the global economy roughly tripled in size.
  - B) the U.S. economy 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) U.S. exports roughly tripled in size.
- 3) The United States is less dependent on trade than most other countries because 3) \_\_\_\_\_
- A) the United States invests in many other countries.
  - B) the United States is a relatively large country with diverse resources.
  - C) the United States is a "Superpower."
  - D) the military power of the United States makes it less dependent on anything.
  - E) many countries invest in the United States.
- 4) Theories of international economics from the 18th and 19th centuries are 4) \_\_\_\_\_
- A) highly relevant in today's modern international economy.
  - B) not well understood by modern mathematically oriented theorists.
  - C) only of moderate relevance in today's modern international economy.
  - D) the only theories that are actually relevant to modern international economy.
  - E) not relevant to current policy analysis.
- 5) An important insight of international trade theory is that when two countries engage in voluntary trade 5) \_\_\_\_\_
- A) it only benefits the high wage country.
  - B) one country always benefits at the expense of the other.
  - C) it is almost always beneficial to both countries.
  - D) it is almost never beneficial to both countries.
  - E) it only benefits the low wage country.
- 6) If there are large disparities in wage levels between countries, then 6) \_\_\_\_\_
- A) trade is likely to be harmful to the country with the low wages.
  - B) trade is likely to be harmful to neither country.
  - C) trade is likely to have no effect on either country.
  - D) trade is likely to be harmful to both countries.
  - E) trade is likely to be harmful to the country with the high wages.

- 7) The benefits of international trade are derived from trade in 7) \_\_\_\_\_  
A) goods but not services.  
B) intangible goods only.  
C) services but not goods.  
D) tangible goods only.  
E) anything of value.
- 8) Which of the following does NOT belong? 8) \_\_\_\_\_  
A) World Trade Organization  
B) non-tariff barriers  
C) major free trade agreements of the 1990s  
D) Uruguay Round  
E) NAFTA
- 9) International economics \_\_\_\_\_ use the same fundamental methods of analysis as other branches 9) \_\_\_\_\_  
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, international economics takes a different perspective on economic issues  
C) does not, the level of complexity of international issues is unique  
D) does not, the interactions associated with international economic relations is highly  
mathematical  
E) does not, international economic policy requires cooperation with other countries
- 10) Because the Constitution forbids restraints on interstate trade 10) \_\_\_\_\_  
A) the U.S. may not impose export duties.  
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 disrupt commerce between Florida and Hawaii.
- 11) Which of the following is NOT a major concern of international economic theory? 11) \_\_\_\_\_  
A) exchange rate determination  
B) the balance of payments  
C) bilateral trade relations with China  
D) protectionism  
E) the international capital market
- 12) "Trade is generally harmful if there are large disparities between countries in wages." 12) \_\_\_\_\_  
A) Trade theory has nothing to say about this issue.  
B) This is true if the trade partner ignores child labor laws.  
C) This is generally true.  
D) This is true if the trade partner uses prison labor.  
E) This is generally false.

- 13) Who sells what to whom 13) \_\_\_\_\_  
A) is determined by political rather than economic factors.  
B) is less important than international economic theory.  
C) is not a valid concern of international economics.  
D) has been a major preoccupation of international economics.  
E) is not considered important for government foreign trade policy since such decisions are made in the private competitive market.
- 14) The insight that patterns of trade are primarily determined by international differences in labor productivity was first proposed by 14) \_\_\_\_\_  
A) Eli Heckscher.  
B) David Ricardo.  
C) Adam Smith.  
D) David Hume.  
E) Lerner and Samuelson.
- 15) After World War II, the United States has pursued a broad policy of 15) \_\_\_\_\_  
A) protecting the U.S. from the economic impact of oil producers.  
B) strengthening "Fortress America" protectionism.  
C) removing barriers to international trade.  
D) restricting trade of manufactured goods.  
E) isolating Iran and other members of the "axis of evil."
- 16) The balance of payments has become a central issue for the United States because 16) \_\_\_\_\_  
A) the U.S. has run huge trade deficits in every year since 1982.  
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) when the balance of payments is not balanced, society is unbalanced.  
E) the U.S. never experienced a surplus in its balance of payments.
- 17) The study of exchange rate determination is a relatively new part of international economics, since 17) \_\_\_\_\_  
A) economic theory developed by David Hume demonstrated that real exchange rates remain fixed over time.  
B) the calculations required for this were not possible before modern computers became available.  
C) the exchange rate never fluctuates.  
D) dynamic overshooting asset pricing models are a recent theoretical development.  
E) for much of the past century, exchange rates were fixed by government action.
- 18) A fundamental problem in international economics is how to produce 18) \_\_\_\_\_  
A) a counter-cyclical monetary policy so that all countries will not be adversely affected by a financial crisis in one country.  
B) an acceptable degree of harmony among the international trade policies of different countries.  
C) a world government that can harmonize trade and monetary policies  
D) a worldwide form of currency.  
E) a perfect degree of monetary harmony.

- 19) For almost 70 years international trade policies have been governed 19) \_\_\_\_\_  
A) by an international treaty known as the General Agreement on Tariffs and Trade (GATT).  
B) by the World.  
C) by the North American Free Trade Agreement (NAFTA).  
D) by the World Trade Organization.  
E) by the International Monetary Fund.
- 20) The international capital market is 20) \_\_\_\_\_  
A) exclusively concerned with the debt crisis that ended in the 1990s.  
B) a set of arrangements by which individuals and firms exchange money now for promises to pay in the future.  
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) the place where emerging economies accept capital invested by banks.
- 21) International capital markets experience a kind of risk not faced in domestic capital markets, 21) \_\_\_\_\_  
namely  
A) "economic meltdown" risk.  
B) the risk of political upheaval.  
C) the risk of unexpected downgrading of assets by Standard and Poor.  
D) the risk of exchange rate fluctuations.  
E) Flood and hurricane crisis risk.
- 22) Since 1994, trade rules have been enforced by 22) \_\_\_\_\_  
A) the G10.  
B) the European Union.  
C) the WTO.  
D) The U.S. Congress.  
E) the GATT.
- 23) In 1998 an economic and financial crisis in South Korea caused it to experience 23) \_\_\_\_\_  
A) a lull in international trade.  
B) a balanced balance of payments.  
C) an unbalanced balance of payments.  
D) a surplus in their balance of payments.  
E) a deficit in their balance of payments.
- 24) International economists cannot discuss the effects of international trade or recommend changes in 24) \_\_\_\_\_  
government policies toward trade with any confidence unless they know  
A) their theory is the best available.  
B) their theory is good enough to explain the international trade that is actually observed.  
C) their theory is internally consistent.  
D) their theory accounts for China's unique position in international trade.  
E) their theory passes the "reasonable person" legal criteria.
- 25) Trade theorists have proven that the gains from international trade 25) \_\_\_\_\_  
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) must harm owners of "specific" factors of production.  
D) must raise the economic welfare of every country engaged in trade.  
E) usually outweigh the benefits of protectionist policies.

- 26) The international financial crisis of 2007 was the result of \_\_\_\_\_ 26) \_\_\_\_\_  
 A) runaway inflation in the U.S.  
 B) defaults on U.S. mortgage-backed securities.  
 C) the collapse of global currency markets.  
 D) failure of the Euro currency.  
 E) a deep global recession.
- 27) 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 \_\_\_\_\_. 27) \_\_\_\_\_  
 A) England; pound sterling  
 B) Brazil; Real  
 C) Germany; euro  
 D) China; renminbi  
 E) Japan; yen
- 28) Cost-benefit analysis of international trade \_\_\_\_\_ 28) \_\_\_\_\_  
 A) focuses attention on conflicts of interest between countries.  
 B) never leads to government intervention in international trade.  
 C) is basically useless.  
 D) focuses attention primarily on conflicts of interest within countries.  
 E) is empirically intractable.
- 29) 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 \_\_\_\_\_ 29) \_\_\_\_\_  
 A) is sometimes harmful.  
 B) is always harmful.  
 C) is always beneficial.  
 D) is usually beneficial.  
 E) is never harmful.
- 30) The GATT is \_\_\_\_\_ 30) \_\_\_\_\_  
 A) an international agreement.  
 B) a U.S. government agency.  
 C) a collection of tariffs.  
 D) an international IMF agency.  
 E) an international U.N. agency.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 31) It is argued that global trade tends to be more important to countries with smaller economies than the U.S. Is this empirically verified?
- 32) 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?
- 33) How are the patterns of international trade, that is the pattern of what different countries export and import, explained?

34) 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?

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 35) International economics can be divided into two broad sub-fields 35) \_\_\_\_\_
- A) developed and less developed.
  - B) macro and micro.
  - C) international trade and international money.
  - D) static and dynamic.
  - E) monetary and barter.
- 36) International monetary analysis focuses on 36) \_\_\_\_\_
- A) the international investment side of the international economy.
  - B) the real side of the international economy.
  - C) the monetary side of the international economy, such as currency exchange.
  - D) the international trade side of the international economy.
  - E) the issues of international cooperation between Central Banks.
- 37) The distinction between international trade and international money is NOT entirely clear because 37) \_\_\_\_\_
- A) developments caused by purely monetary changes have no real effects.
  - B) real developments in the trade accounts do not have monetary implications.
  - C) trade models focus on real, or barter relationships.
  - D) most international trade involves monetary transactions.
  - E) the balance of payments includes only real measures.

## Answer Key

Testname: UNTITLED1

- 1) C
- 2) A
- 3) B
- 4) A
- 5) C
- 6) B
- 7) E
- 8) B
- 9) A
- 10) E
- 11) C
- 12) E
- 13) D
- 14) C
- 15) C
- 16) A
- 17) E
- 18) B
- 19) A
- 20) B
- 21) D
- 22) C
- 23) D
- 24) B
- 25) E
- 26) B
- 27) B
- 28) D
- 29) A
- 30) A
- 31) 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."
- 32) 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.
- 33) Climate explains why Brazil exports coffee. Natural resources explains 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.
- 34) This question is meant to allow students to offer preliminary discussions of issues, which will be explored in depth later in the book.
- 35) C
- 36) C
- 37) D