Practice final

Question I (50 points) Circle the best answer on the scantron.

(1) When the United States imposed a VER (Voluntary Export Restraint) on cars from Japan

- **(a)** Japanese firms were the recipients of the rents from the quantitative restriction.
- **(b)** Japanese car companies responded by lowering the U.S. prices of their cars.
- **(c)** Japanese car companies responded by lowering the quality of the cars they sold in the U.S.
- **(d)** It was implemented by the U.S. levying a 25% tariff on cars from Japan.

(2) The difference between a Customs Union and a Free Trade Area lies in the fact that

- **(a)** both internal and external tariffs are zero in the former
- **(b)** both internal and external tariffs are zero in the latter
- **(c)** external tariffs are same for all members in the former but not so in the latter
- **(d)** external tariffs are same for all members in the latter but not so in the former
- **(e)** there is no difference at all

(3) According to the Ricardian model, the comparative advantage is based on

(a) differences in tastes between countries

(b) differences in endowments between countries

(c) differences in productivity between countries

(d) economies of scale in production

(e) none of the above

(4) Stolper-Samuelson Theorem captures the relationship between

(a) product prices and factor prices

(b) factor supplies and product prices

(c) factor supplies and commodity outputs

(d) factor supplies and pattern of trade

(e) all of the above

(5) International labor migration does the following

(a) leads to a convergence of real wage rates

(b) yields an increase in the world output

(c) hurts workers in the host country and capital owners in the source country

(d) all of the above

(6) Which of the following is a Direct Foreign Investment (DFI)?

(a) A Saudi businessman buys $ 1 million worth of Microsoft stocks

(b) Same businessman buys a New York apartment building and rents it out

(c) Salomon Brothers invests $1 million in Bonds issued by Kia Motors of Korea

(d) World Bank loan for a power plant in India

(e) All of the above

(7) An import tariff for a large country causes

(a) terms of trade gains

(b) loss in consumers' surplus

(c) gain in producers' surplus

(d) all of the above

(e) none of the above

(8) Which of the following is the most compelling argument for intervening in trade (same as restricting trade)

(a) a huge trade deficit

(b) potential terms of trade gains

(c) interest of domestic import competing sector

(d) interest of exporters

(e) none of the above

(9) The theory of trade based on increasing returns tells us that

(a) countries can gain from trade if they are very different.

(b) countries cannot gain from trade if they are very similar

(c) countries cannot gain from trade if they are very different.

(d) countries can gain from trade even if they are similar

(e) none of the above.

(10) The simultaneous export and import of golf clubs by the United States is an example of

(a) constant returns to scale.

(b) perfect competition.

(c) intra-industry trade.

(d) inter-industry trade.

(e) None of the above.

(11) A product is produced in a monopolistically competitive industry with scale economies. If this industry exists in two countries, and these two countries engage in trade, one with the other, then we would expect

(a) the country in which the price of the product is higher will export the product.

(b) the country with a relative abundance of the factor of production in which production of the product is intensive will export this product.

(c) each of the countries will export different varieties of the product to the other.

(d) neither country will export this product since there is no comparative advantage.

(e) None of the above.

(12) External economies of scale arises due to

(a) the ability to support specialized suppliers

(b) labor market pooling

(c) knowledge spillover

(d) all of the above

(e) none of the above.

(13) The Rybczynski theorem describes:

(a) how commodity price changes influence real factor rewards

(b) how commodity price changes influence relative factor rewards.

(c) how changes in factor endowments cause changes in commodity outputs.

(d) how trade leads to factor price equalization.

(14) The Leontief Paradox

(a) supported the validity of the Ricardian theory of comparative advantage.

(b) supported the validity of the Heckscher-Ohlin model.

(c) failed to support the validity of the Ricardian theory.

(d) failed to support the validity of the Heckscher-Ohlin model.

(e) proved that the U.S. economy is different from all others.

(15) Assume that labor is the only factor of production and that wages in the United States equal \$20 per hour while wages in Japan are \$10 per hour. Production costs would be lower in the United States as compared to Japan if

(a) U.S. labor productivity equaled 40 units per hour and Japan's 15 units per hour.

(b) U.S. productivity equaled 30 units per hour whereas Japan's was 20.

(c) U.S. labor productivity equaled 20 and Japan's 30.

(d) U.S. labor productivity equaled 15 and Japan's 25 units per hour.

(e) None of the above.

(16) Suppose that there are two factors, capital and land, and that the United States is relatively land endowed while the European Union is relatively capital-endowed. According to the Heckscher-Ohlin model,

(a) European landowners should support U.S.-European free trade.

(b) European capitalists should support U.S.-European free trade.

(c) all capitalists in both countries should support free trade.

(d) all landowners should support free trade.

(e) None of the above.

(17) In the two-country model of international labor mobility,

(a) migration results in increased global output, although some groups are made worse off.

(b) migration results in increased global output, and all groups are made better off.

(c) migration has no effect on global output, although some groups are made worse off.

(d) migration has no effect on global output, although some groups are made better off.

(e) migration may reduce global output, although some groups are made better off.

(18) Complaints are often made to the International Trade Commission concerning foreign "dumping" practices. These complaints typically claim that

(a) foreign companies are charging exorbitant prices that are higher than the true value of the products.

(b) foreign companies are charging prices that are lower than prices they charge countries other than the U.S.

(c) U.S. consumers are harmed by the lack of quality control or health concerns in foreign countries.

(d) U.S. consumers cannot differentiate between the foreign and domestic goods.

(19) Consider the following two cases. In the first, a U.S. firm purchases a majority stake in a foreign firm. In the second, a U.S. firm builds a new production facility in a foreign country. Both are ________, with the first referred to as ________ and the second as ________.

(a) foreign direct investment (FDI) outflows; greenfield; mergers and acquisitions

(b) foreign direct investment (FDI) inflows; mergers and acquisitions; greenfield

(c) foreign direct investment (FDI) outflows; mergers and acquisitions; greenfield

(d) foreign direct investment (FDI) inflows; greenfield; mergers and acquisitions

(20) An export subsidy for a small country causes

(a) loss of government revenue

(b) loss in consumers' surplus

(c) gain in producers' surplus

(d) all of the above

(21) Which of the following is true about the welfare implications of a Free Trading Agreement?

(a) It always increases welfare.

(b) It always reduces welfare.

(c) The welfare implications are ambiguous.

(22) Which of the following is true about the terms of trade effect of a tariff and a production subsidy for a large country.

(a) Both improve the terms of trade.

(b) Both worsen the terms of trade.

(c) The former improves the terms of trade the latter worsens it.

(d) The former worsens the terms of trade and the latter improves it.

(23) If a good is imported into (large) country H from country F, then the imposition of a tariff in country H does which of the following compared to the free trade situation.

(a) raises the price of the good in both countries.

(b) raises the price in country H and cannot affect its price in country F.

(c) lowers the price of the good in both countries.

(d) lowers the price of the good in H and could raise it in F.

(e) raises the price of the good in H and lowers it in F.

(24) Which of the following would lead a multinational firm to engage in Direct Foreign Investment rather than export?

(a) Low cost of production in the foreign country

(b) High tariffs in the foreign country

(c) High cost of transporting goods

(d) All of the above

(25) If a country runs a trade surplus, it means

(a) It is a borrower in the international capital market.

(b) It is a lender in the international capital market.

(c) It has a balanced trade.

(d) It produces less than it consumes.