

Exam

Name \_\_\_\_\_

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

- 1) The insight that patterns of trade are primarily determined by international differences in labor productivity was first proposed by \_\_\_\_\_ 1) \_\_\_\_\_
- A) David Hume.
  - B) Eli Heckscher.
  - C) David Ricardo.
  - D) Lerner and Samuelson.
  - E) Adam Smith.

Answer: E  
Diff: 0 Type: MC

- 2) The distinction between international trade and international money is NOT entirely clear because \_\_\_\_\_ 2) \_\_\_\_\_
- A) the balance of payments includes only real measures.
  - B) trade models focus on real, or barter relationships.
  - C) real developments in the trade accounts do not have monetary implications.
  - D) developments caused by purely monetary changes have no real effects.
  - E) most international trade involves monetary transactions.

Answer: E  
Diff: 0 Type: MC

- 3) 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 \_\_\_\_\_. 3) \_\_\_\_\_
- A) China; renminbi
  - B) Brazil; Real
  - C) Japan; yen
  - D) Germany; euro
  - E) England; pound sterling

Answer: B  
Diff: 0 Type: MC

- 4) The United States is less dependent on trade than most other countries because \_\_\_\_\_ 4) \_\_\_\_\_
- A) the United States is a relatively large country with diverse resources.
  - B) the United States is a "Superpower."
  - C) many countries invest in the United States.
  - D) the military power of the United States makes it less dependent on anything.
  - E) the United States invests in many other countries.

Answer: A  
Diff: 0 Type: MC

- 5) Which of the following is NOT a major concern of international economic theory? 5) \_\_\_\_\_
- A) the balance of payments
  - B) the international capital market
  - C) protectionism
  - D) bilateral trade relations with China
  - E) exchange rate determination

Answer: D  
Diff: 0 Type: MC

- 6) International economists cannot discuss the effects of international trade or recommend changes in government policies toward trade with any confidence unless they know 6) \_\_\_\_\_
- A) their theory is internally consistent.
  - B) their theory passes the "reasonable person" legal criteria.
  - C) their theory is good enough to explain the international trade that is actually observed.
  - D) their theory is the best available.
  - E) their theory accounts for China's unique position in international trade.

Answer: C  
Diff: 0 Type: MC

- 7) After World War II, the United States has pursued a broad policy of 7) \_\_\_\_\_
- A) strengthening "Fortress America" protectionism.
  - 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) removing barriers to international trade.

Answer: E  
Diff: 0 Type: MC

- 8) International economics \_\_\_\_\_ use the same fundamental methods of analysis as other branches of economics, because \_\_\_\_\_. 8) \_\_\_\_\_
- A) does not, the interactions associated with international economic relations is highly mathematical
  - B) does not, the level of complexity of international issues is unique
  - C) does not, international economics takes a different perspective on economic issues
  - D) does, the motives and behavior of individuals are the same in international trade as they are in domestic transactions
  - E) does not, international economic policy requires cooperation with other countries

Answer: D  
Diff: 0 Type: MC

- 9) International economics can be divided into two broad sub-fields 9) \_\_\_\_\_
- A) monetary and barter.
  - B) macro and micro.
  - C) developed and less developed.
  - D) static and dynamic.
  - E) international trade and international money.

Answer: E  
Diff: 0 Type: MC

- 10) The international financial crisis of 2007 was the result of 10) \_\_\_\_\_
- A) a deep global recession.
  - B) defaults on U.S. mortgage-backed securities.
  - C) failure of the Euro currency.
  - D) the collapse of global currency markets.
  - E) runaway inflation in the U.S.

Answer: B  
Diff: 0 Type: MC

- 11) If there are large disparities in wage levels between countries, then 11) \_\_\_\_\_
- A) trade is likely to have no effect on either country.
  - B) trade is likely to be harmful to the country with the low wages.
  - C) trade is likely to be harmful to neither 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.

Answer: C  
Diff: 0 Type: MC

- 12) The study of exchange rate determination is a relatively new part of international economics, since 12) \_\_\_\_\_
- A) for much of the past century, exchange rates were fixed by government action.
  - B) the exchange rate never fluctuates.
  - C) economic theory developed by David Hume demonstrated that real exchange rates remain fixed over time.
  - D) dynamic overshooting asset pricing models are a recent theoretical development.
  - E) the calculations required for this were not possible before modern computers became available.

Answer: A  
Diff: 0 Type: MC

- 13) For almost 70 years international trade policies have been governed 13) \_\_\_\_\_
- A) by the World Trade Organization.
  - B) by the North American Free Trade Agreement (NAFTA).
  - C) by an international treaty known as the General Agreement on Tariffs and Trade (GATT).
  - D) by the International Monetary Fund.
  - E) by the World.

Answer: C  
Diff: 0 Type: MC

- 14) The international capital market is 14) \_\_\_\_\_
- A) exclusively concerned with the debt crisis that ended in the 1990s.
  - B) the arrangement where banks build up their capital by borrowing from the Central Bank.
  - C) a set of arrangements by which individuals and firms exchange money now for promises to pay in the future.
  - D) the place where emerging economies accept capital invested by banks.
  - E) the place where you can rent earth moving equipment anywhere in the world.

Answer: C  
Diff: 0 Type: MC

- 15) Since 1994, trade rules have been enforced by 15) \_\_\_\_\_  
A) The U.S. Congress.  
B) the WTO.  
C) the G10.  
D) the European Union.  
E) the GATT.

Answer: B  
Diff: 0 Type: MC

- 16) 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 16) \_\_\_\_\_  
A) is never harmful.  
B) is sometimes harmful.  
C) is always harmful.  
D) is always beneficial.  
E) is usually beneficial.

Answer: B  
Diff: 0 Type: MC

- 17) The balance of payments has become a central issue for the United States because 17) \_\_\_\_\_  
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. never experienced a surplus in its balance of payments.  
D) when the balance of payments is not balanced, society is unbalanced.  
E) the U.S. once ran a large trade surplus of about \$40 billion.

Answer: A  
Diff: 0 Type: MC

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

- 18) 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 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.

Diff: 0 Type: ES

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

- 19) Who sells what to whom 19) \_\_\_\_\_  
A) is not considered important for government foreign trade policy since such decisions are made in the private competitive market.  
B) is determined by political rather than economic factors.  
C) is less important than international economic theory.  
D) is not a valid concern of international economics.  
E) has been a major preoccupation of international economics.

Answer: E  
Diff: 0 Type: MC

- 20) In 1998 an economic and financial crisis in South Korea caused it to experience 20) \_\_\_\_\_
- A) a lull in international trade.
  - B) a balanced balance of payments.
  - C) a surplus in their balance of payments.
  - D) a deficit in their balance of payments.
  - E) an unbalanced balance of payments.

Answer: C

Diff: 0 Type: MC

- 21) International capital markets experience a kind of risk not faced in domestic capital markets, 21) \_\_\_\_\_  
namely
- A) the risk of exchange rate fluctuations.
  - B) "economic meltdown" risk.
  - C) the risk of unexpected downgrading of assets by Standard and Poor.
  - D) Flood and hurricane crisis risk.
  - E) the risk of political upheaval.

Answer: A

Diff: 0 Type: MC

- 22) Trade theorists have proven that the gains from international trade 22) \_\_\_\_\_
- A) must harm owners of "specific" factors of production.
  - B) must raise the economic welfare of everyone in every country engaged in trade.
  - C) will always help "winners" by an amount exceeding the losses of "losers."
  - D) must raise the economic welfare of every country engaged in trade.
  - E) usually outweigh the benefits of protectionist policies.

Answer: E

Diff: 0 Type: MC

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

- 23) 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.

Diff: 0 Type: ES

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

- 24) The GATT is 24) \_\_\_\_\_
- A) an international IMF agency.
  - B) a U.S. government agency.
  - C) an international agreement.
  - D) a collection of tariffs.
  - E) an international U.N. agency.

Answer: C

Diff: 0 Type: MC

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

- 25) 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.

Diff: 0 Type: ES

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

- 26) An important insight of international trade theory is that when two countries engage in voluntary trade 26) \_\_\_\_\_  
A) it only benefits the high wage country.  
B) it is almost never beneficial to both countries.  
C) it is almost always beneficial to both countries.  
D) one country always benefits at the expense of the other.  
E) it only benefits the low wage country.

Answer: C

Diff: 0 Type: MC

- 27) A fundamental problem in international economics is how to produce 27) \_\_\_\_\_  
A) a counter-cyclical monetary policy so that all countries will not be adversely affected by a financial crisis in one country.  
B) a world government that can harmonize trade and monetary policies  
C) a perfect degree of monetary harmony.  
D) an acceptable degree of harmony among the international trade policies of different countries.  
E) a worldwide form of currency.

Answer: D

Diff: 0 Type: MC

- 28) Cost-benefit analysis of international trade 28) \_\_\_\_\_  
A) focuses attention on conflicts of interest between countries.  
B) is basically useless.  
C) is empirically intractable.  
D) never leads to government intervention in international trade.  
E) focuses attention primarily on conflicts of interest within countries.

Answer: E

Diff: 0 Type: MC

- 29) From 1950 to 2015 29) \_\_\_\_\_  
A) the share of U.S. trade in the global economy roughly tripled in size.  
B) U.S. imports roughly tripled in size.  
C) U.S. exports roughly tripled in size.  
D) the U.S. economy roughly tripled in size.  
E) U.S. imports roughly tripled as compared to U.S. exports.

Answer: A

Diff: 0 Type: MC

- 30) Because the Constitution forbids restraints on interstate trade 30) \_\_\_\_\_
- A) the U.S. may not put restraints on foreign investments in California if it involves a financial intermediary in New York State.
  - B) the U.S. may not affect the international value of the \$ U.S.
  - C) the U.S. may not disrupt commerce between Florida and Hawaii.
  - D) the U.S. may not impose export duties.
  - E) the U.S. may not impose tariffs on imports from NAFTA countries.

Answer: C

Diff: 0 Type: MC

- 31) International monetary analysis focuses on 31) \_\_\_\_\_
- A) the issues of international cooperation between Central Banks.
  - B) the international trade 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 real side of the international economy.

Answer: D

Diff: 0 Type: MC

- 32) Theories of international economics from the 18th and 19th centuries are 32) \_\_\_\_\_
- A) the only theories that are actually relevant to modern international economy.
  - B) highly relevant in today's modern international economy.
  - C) not well understood by modern mathematically oriented theorists.
  - D) not relevant to current policy analysis.
  - E) only of moderate relevance in today's modern international economy.

Answer: B

Diff: 0 Type: MC

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

- 33) 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."

Diff: 0 Type: ES

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

- 34) The benefits of international trade are derived from trade in 34) \_\_\_\_\_
- A) anything of value.
  - B) intangible goods only.
  - C) goods but not services.
  - D) tangible goods only.
  - E) services but not goods.

Answer: A

Diff: 0 Type: MC

35) Which of the following does NOT belong?

35) \_\_\_\_\_

- A) NAFTA
- B) major free trade agreements of the 1990s
- C) World Trade Organization
- D) non-tariff barriers
- E) Uruguay Round

Answer: D

Diff: 0 Type: MC

36) "Trade is generally harmful if there are large disparities between countries in wages."

36) \_\_\_\_\_

- A) This is generally false.
- B) This is true if the trade partner uses prison labor.
- C) This is generally true.
- D) This is true if the trade partner ignores child labor laws.
- E) Trade theory has nothing to say about this issue.

Answer: A

Diff: 0 Type: MC

37) Historians of economic thought often describe \_\_\_\_\_ written by \_\_\_\_\_ and published in \_\_\_\_\_ as the first real exposition of an economic model.

37) \_\_\_\_\_

- A) "Of the Balance of Trade," David Hume, 1758
- B) "Wealth of Nations," Adam Smith, 1758
- C) "Wealth of Nations," Adam Smith, 1776
- D) "Of the Balance of Trade," David Hume, 1776
- E) "Wealth of Nations," David Hume, 1758

Answer: A

Diff: 0 Type: MC



Answer Key  
Testname: CH1

- 1) E  
Diff: 0 Page Ref: 33  
Topic:
- 2) E  
Diff: 0 Page Ref: 37  
Topic:
- 3) B  
Diff: 0 Page Ref: 35  
Topic:
- 4) A  
Diff: 0 Page Ref: 30  
Topic:
- 5) D  
Diff: 0 Page Ref: 32  
Topic:
- 6) C  
Diff: 0 Page Ref: 33-34  
Topic:
- 7) E  
Diff: 0 Page Ref: 34  
Topic:
- 8) D  
Diff: 0 Page Ref: 31  
Topic:
- 9) E  
Diff: 0 Page Ref: 37  
Topic:
- 10) B  
Diff: 0 Page Ref: 36  
Topic:
- 11) C  
Diff: 0 Page Ref: 32  
Topic:
- 12) A  
Diff: 0 Page Ref: 35  
Topic:
- 13) C  
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Topic:
- 14) C  
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Topic:
- 15) B  
Diff: 0 Page Ref: 35  
Topic:
- 16) B  
Diff: 0 Page Ref: 34  
Topic:

## Answer Key

Testname: CH1

17) A

Diff: 0 Page Ref: 35  
Topic:

18) 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.

Diff: 0 Page Ref: 33  
Topic:

19) E

Diff: 0 Page Ref: 33  
Topic:

20) C

Diff: 0 Page Ref: 34  
Topic:

21) A

Diff: 0 Page Ref: 35  
Topic:

22) E

Diff: 0 Page Ref: 33-34  
Topic:

23) This question is meant to allow students to offer preliminary discussions of issues, which will be explored in depth later in the book.

Diff: 0 Page Ref: 32  
Topic:

24) C

Diff: 0 Page Ref: 35  
Topic:

25) 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.

Diff: 0 Page Ref: 32  
Topic:

26) C

Diff: 0 Page Ref: 32  
Topic:

27) D

Diff: 0 Page Ref: 35  
Topic:

28) E

Diff: 0 Page Ref: 34  
Topic:

29) A

Diff: 0 Page Ref: 29  
Topic:

30) C

Diff: 0 Page Ref: 32  
Topic:

31) D

Diff: 0 Page Ref: 37  
Topic:

## Answer Key

Testname: CH1

32) B

Diff: 0 Page Ref: 30

Topic:

33) 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."

Diff: 0 Page Ref: 31

Topic:

34) A

Diff: 0 Page Ref: 32

Topic:

35) D

Diff: 0 Page Ref: 34

Topic:

36) A

Diff: 0 Page Ref: 32

Topic:

37) A

Diff: 0 Page Ref: 29

Topic: