

Macroeconomics, 13e (Parkin)
Chapter 15 International Trade Policy

1 How Global Markets Work

1) The fundamental force that drives international trade is

- A) absolute advantage.
- B) comparative advantage.
- C) law of diminishing returns.
- D) law of increasing costs.

Answer: B

Topic: Comparative Advantage

Skill: Recognition

Status: Old

AACSB: Reflective thinking

2) The fundamental force that drives international trade is

- A) comparative advantage.
- B) absolute advantage.
- C) countries' desire to increase their trade surplus.
- D) cheap labor in countries like China or India.

Answer: A

Topic: Comparative Advantage

Skill: Recognition

Status: Old

AACSB: Reflective thinking

3) Comparative advantage implies that a country will

- A) import those goods in which the country has a comparative advantage.
- B) export those goods in which the country has a comparative advantage.
- C) find it difficult to conclude free trade agreements with other nations.
- D) export goods produced by domestic industries with low wages relative to its trading partners.

Answer: B

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

4) Comparative advantage implies that a country will

- A) import those goods in which the country has a comparative advantage.
- B) export those goods in which the country has a comparative advantage.
- C) import those goods in which the country has an absolute advantage compared to its trading partner.
- D) export those goods in which the country has an absolute advantage compared to its trading partner.

Answer: B

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

5) Prior to international trade, if country A has a lower price of good X than does country B, then we know definitely that

- A) country B has an absolute advantage in the production of good X.
- B) country B has a comparative advantage in the production of good X.
- C) country A has an absolute advantage in the production of good X.
- D) country A has a comparative advantage in the production of good X.

Answer: D

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

6) When the principle of comparative advantage is used to guide trade, then a country will specialize by producing only

- A) goods with the highest opportunity cost.
- B) goods with the lowest opportunity costs.
- C) goods for which production takes fewer worker-hour than another country.
- D) goods for which production costs are more than average total costs.

Answer: B

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

7) The United States decides to follow its comparative advantage and specialize in the production of airplanes. Which of the following will occur?

- A) More airplanes will be produced in the United States.
- B) There will be no change in the price of airplanes in the United States.
- C) The world price of airplanes will increase.
- D) The quantity of airplanes demanded in the United States will increase.

Answer: A

Topic: Gains from Trade, Changes in Production

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

8) A country specializes in the production of goods for which it has a comparative advantage. We find that

- A) some producers and consumers win, some lose, but overall the gains exceed the losses.
- B) all producers win.
- C) all consumers win.
- D) producers win, consumers lose, but overall the gains exceed the losses.

Answer: A

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

9) Consider a market that sells some of its goods as exports. Who does NOT benefit?

- A) domestic consumers
- B) domestic producers
- C) workers in the industry
- D) foreign consumers

Answer: A

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

10) Who benefits from imports?

- A) domestic consumers
- B) domestic producers
- C) foreign consumers
- D) domestic workers in the industry

Answer: A

Topic: Gains from Trade, Imports

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

11) Consider a market that, with no international trade, is initially in equilibrium with quantity demanded equal to quantity supplied at a price of \$20. If the world price of the good is \$10 and the country opens up to international trade then in this market

- A) imports will increase, price will fall, and quantity supplied will fall.
- B) exports will increase, price will be unchanged, and quantity supplied will increase.
- C) imports will increase, price will decrease, and the supply curve will shift to the left.
- D) quantity demanded will decrease, quantity supplied will decrease, and price will decrease.

Answer: A

Topic: Gains from Trade, Imports

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

12) Based on the table below, at what world price would the country import the good?

Price	Q Demanded	Q Supplied
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- A) all prices below \$8
- B) at exactly \$8
- C) all prices above \$8
- D) it is impossible to say from the information given

Answer: A

Topic: Imports

Skill: Analytical

Status: Old

AACSB: Analytical thinking

13) Suppose the world price of a good is \$4. Based on the table below, the country will

Price	Q Demanded	Q Supplied
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- A) import 20 units.
- B) export 20 units.
- C) import 10 units.
- D) export 10 units.

Answer: A

Topic: Imports

Skill: Analytical

Status: Old

AACSB: Analytical thinking

14) In a market open to international trade, at the world price the quantity demanded is 150 and quantity supplied is 200. This country will

- A) export 50 units.
- B) import 50 units.
- C) export 200 units.
- D) import 150 units.

Answer: A

Topic: Gains from Trade, Exports

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

15) Based on the table below, at what world price would the country export?

Price	Q Demanded	Q Supplied
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- A) all prices above \$8
- B) at only \$8
- C) all prices below \$8
- D) It is impossible to say from the information given.

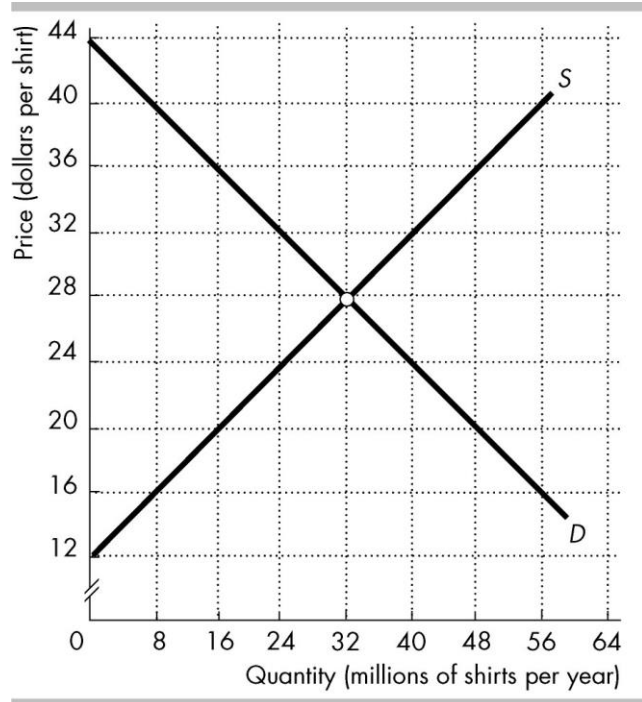
Answer: A

Topic: Exports

Skill: Analytical

Status: Old

AACSB: Analytical thinking



The figure shows the market for shirts in the United States, where D is the domestic demand curve and S is the domestic supply curve. The world price is \$20 per shirt.

- 16) In the figure above, with international trade Americans buy _____ million shirts per year.
- A) 48
 - B) 32
 - C) 16
 - D) 24

Answer: A

Topic: Gains from Trade

Skill: Analytical

Status: Old

AACSB: Analytical thinking

- 17) In the figure above, with international trade _____ million shirts per year are produced in the United States.
- A) 48
 - B) 32
 - C) 16
 - D) 20

Answer: C

Topic: Gains from Trade

Skill: Analytical

Status: Old

AACSB: Analytical thinking

18) In the figure above, with international trade the United States _____ million shirts per year.

- A) imports 32
- B) imports 48
- C) exports 16
- D) exports 32

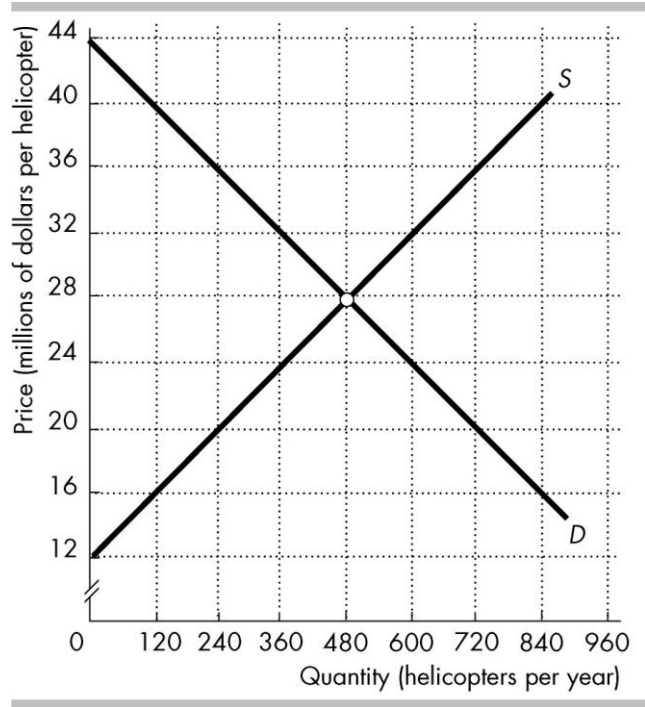
Answer: A

Topic: Imports

Skill: Analytical

Status: Old

AACSB: Analytical thinking



The figure shows the market for helicopters in the United States, where *D* is the domestic demand curve and *S* is the domestic supply curve. The United States trades helicopters with the rest of the world at a price of \$36 million per helicopter.

19) In the figure above, with international trade U.S. companies buy _____ helicopters per year.

- A) 240
- B) 480
- C) 720
- D) 360

Answer: A

Topic: Gains from Trade

Skill: Analytical

Status: Old

AACSB: Analytical thinking

20) In the figure above, with international trade _____ helicopters per year are produced in the United States.

- A) 360
- B) 480
- C) 720
- D) 240

Answer: C

Topic: Gains from Trade

Skill: Analytical

Status: Old

AACSB: Analytical thinking

21) In the figure above, the United States _____ helicopters per year.

- A) exports 480
- B) exports 720
- C) imports 480
- D) imports 240

Answer: A

Topic: Exports

Skill: Analytical

Status: Old

AACSB: Analytical thinking

22) Which of the following statements about U.S. international trade in 2016 is CORRECT?

- A) The value of U.S. exports exceeded the value of U.S. imports.
- B) The value of U.S. exports was about 33 percent of the value of total U.S. production.
- C) The United States imported only goods.
- D) The United States was the world's largest trader.

Answer: D

Topic: International Trade Today

Skill: Recognition

Status: Revised

AACSB: Reflective thinking

23) The United States has a comparative advantage in producing cotton if the U.S. price of cotton before international trade is _____ the world price.

- A) less than
- B) equal to
- C) greater than
- D) not comparable to

Answer: A

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

24) Compared to the situation before international trade, after the United States exports a good , then production in the United States _____ and consumption in the United States _____.

- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases

Answer: B

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

25) Compared to the situation before international trade, after the United States imports a good, then production in the United States _____ and consumption in the United States _____.

- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases

Answer: C

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

2 Winners, Losers, and the Net Gain From Trade

1) _____ gain from imports and _____ lose from imports.

- A) Domestic consumers; the domestic government
- B) Domestic consumers; domestic producers
- C) Domestic producers; the domestic government
- D) Domestic producers; domestic consumers

Answer: B

Topic: Gains from Imports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

2) Because the price of an imported good _____, then _____ gain from imports.

- A) rises; domestic consumers
- B) falls; domestic consumers
- C) rises; domestic producers
- D) falls; domestic producers

Answer: B

Topic: Gains from Imports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

3) Because the price of an imported good _____, then _____ lose from imports.

- A) rises; domestic consumers
- B) falls; domestic consumers
- C) rises; domestic producers
- D) falls; domestic producers

Answer: D

Topic: Gains from Imports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

4) _____ gain from exports and _____ lose from exports.

- A) Domestic consumers; the domestic government
- B) Domestic consumers; domestic producers
- C) Domestic producers; the domestic government
- D) Domestic producers; domestic consumers

Answer: D

Topic: Gains from Exports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

5) Because the price of an exported good _____, then _____ gain from exports.

- A) rises; domestic consumers
- B) falls; domestic consumers
- C) rises; domestic producers
- D) falls; domestic producers

Answer: C

Topic: Gains from Exports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

6) Because the price of an exported good _____, then _____ lose from exports.

- A) rises; domestic consumers
- B) falls; domestic consumers
- C) rises; domestic producers
- D) falls; domestic producers

Answer: A

Topic: Gains from Exports

Skill: Conceptual

Status: New

AACSB: Reflective thinking

7) In the domestic economy, imports _____ the price of the good and exports _____ the price of the good.

- A) raise; raise
- B) raise; lower
- C) lower; raise
- D) lower; lower

Answer: C

Topic: Gains from Trade

Skill: Conceptual

Status: New

AACSB: Reflective thinking

8) _____ gains from imports and _____ gains from exports.

- A) Everyone; everyone
- B) Not everyone; everyone
- C) Everyone; not everyone
- D) Not everyone; not everyone

Answer: D

Topic: Gains from Trade

Skill: Conceptual

Status: New

AACSB: Reflective thinking

3 International Trade Restrictions

1) A tariff is a

- A) tax on an exported good or service.
- B) tax on an imported good or service.
- C) subsidy on an exported good.
- D) subsidy on an imported good.

Answer: B

Topic: Trade Restrictions

Skill: Recognition

Status: Old

AACSB: Reflective thinking

2) A tariff

- A) is a tax imposed on imported goods.
- B) is a tax imposed on exported goods.
- C) encourages worldwide specialization according to the principle of comparative advantage.
- D) has no effect on prices paid by domestic consumers even though it increases the revenue collected by domestic producers.

Answer: A

Topic: Trade Restrictions

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 3) A tariff is
- A) a licensing regulation that limits imports.
 - B) a tax on an exported good.
 - C) a tax on an imported good.
 - D) an agreement to restrict the volume of exports.

Answer: C

Topic: Trade Restrictions

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 4) A tax that is imposed by the importing country when an imported good crosses its international boundary is called

- A) an import quota.
- B) dumping.
- C) a voluntary export restraint.
- D) a tariff.

Answer: D

Topic: Trade Restrictions

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 5) A major purpose of tariffs is to

- A) encourage imports.
- B) encourage exports.
- C) discourage imports.
- D) discourage exports.

Answer: C

Topic: Trade Restrictions

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 6) Tariffs and import quotas differ in that

- A) one is a form of trade restriction, while the other is not.
- B) one is a tax, while the other is a limit in quantity.
- C) one is imposed by the government, while the other is imposed by the private sector.
- D) one is legal, while the other is not.

Answer: B

Topic: Trade Restrictions

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

- 7) Tariffs and import quotas BOTH result in
- A) lower levels of domestic production.
 - B) the domestic government gaining revenue.
 - C) lower levels of imports.
 - D) higher levels of domestic consumption.

Answer: C

Topic: Trade Restrictions

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

- 8) If the United States imposes a tariff on imported cars, the
- A) U.S. demand curve shifts rightward.
 - B) U.S. demand curve shifts leftward.
 - C) U.S. supply curve shifts rightward.
 - D) price in the United States rises but neither the U.S. demand curve nor the U.S. supply curve shift.

Answer: D

Topic: Effects of a Tariff

Skill: Recognition

Status: Old

AACSB: Analytical thinking

- 9) Suppose the country of Atlantica imposes a tariff on foreign-produced cars. As a result of the tariff
- A) tariff revenue collected by the government in the Atlantica increases.
 - B) there is an increase in the number of imported cars.
 - C) the gains from trade rise.
 - D) there are more efficient trade agreements between Atlantica and its trade partners.

Answer: A

Topic: Effects of a Tariff

Skill: Recognition

Status: Old

AACSB: Analytical thinking

- 10) Which of the following statements concerning tariffs is NOT true?
- A) A tariff results in a loss for domestic consumers of the good.
 - B) A tariff creates revenue for the government.
 - C) A tariff decreases international trade.
 - D) A tariff leaves the price of imports unchanged.

Answer: D

Topic: Effects of a Tariff

Skill: Recognition

Status: Old

AACSB: Reflective thinking

11) If a country imposes a tariff on an imported good, the tariff _____ the price in the importing country and _____ the quantity of imports.

- A) raises; decreases
- B) raises; increases
- C) raises; does not change
- D) lowers; does not change

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

12) A tariff _____ the quantity of the good imported and _____ the domestic price of the imported good.

- A) decreases; decreases
- B) decreases; increases
- C) increases; lowers
- D) does not change; increases

Answer: B

Topic: Effects of a Tariff

Skill: Recognition

Status: Old

AACSB: Analytical thinking

13) A tariff imposed by the United States on Japanese cars _____ the price of cars in the United States and _____ the quantity of Japanese cars imported into the United States.

- A) raises; increases
- B) raises; decreases
- C) lowers; increases
- D) lowers; decreases

Answer: B

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

14) If a tariff is imposed, the price paid by domestic consumers will _____ and the amount imported will _____.

- A) increase; decrease
- B) increase; not change
- C) not change; increase
- D) increase; increase

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

15) If the United States imposes a tariff of \$1 per imported shirt, the higher tariff

- A) raises the price of a shirt to U.S. consumers.
- B) benefits U.S. shirt consumers.
- C) increases imports of shirts into the United States.
- D) none of the above.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

16) If the United States imposes a tariff on imported steel, the tariff will

- A) raise the U.S. price of imported steel.
- B) decrease the U.S. production of steel.
- C) increase the total U.S. consumption of steel.
- D) decrease employment in the U.S. steel industry.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

17) Suppose the country of Mooland imposes tariffs on imported beef from the country of Aqualand. As a result of the tariffs, the

- A) price of beef in Mooland falls.
- B) quantity of beef exported by Mooland increases.
- C) quantity of beef imported by Mooland decreases.
- D) quantity of beef imported by Mooland increases.

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

18) Lowering the tariff on good X will

- A) increase domestic employment in industry X.
- B) increase the domestic imports of good X.
- C) increase the domestic price of good X.
- D) have no effect unless the nation's trading partner also lowers its tariff on good X.

Answer: B

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

19) Reducing a tariff will _____ the domestic production of the good and _____ the total domestic consumption of the good.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

20) In 2013 the United States reduced the tariff on ethanol. This tariff reduction _____ the U.S. production of ethanol and _____ the total U.S. consumption of ethanol.

- A) increased; increased
- B) increased; decreased
- C) decreased; increased
- D) decreased; decreased

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

21) Increasing a tariff will _____ the domestic quantity consumed of the good, while _____ the domestic production of the good.

- A) increase; increasing
- B) increase; decreasing
- C) decrease; increasing
- D) decrease; decreasing

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

22) A U.S. tariff on textiles would _____ U.S. prices on clothing and _____ the number of jobs in the U.S. textile industry.

- A) reduce; decrease
- B) reduce; increase
- C) raise; decrease
- D) raise; increase

Answer: D

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

23) Tariffs

- A) generate revenue for consumers.
- B) generate revenue for the government.
- C) encourage domestic consumers to buy more imports.
- D) encourage domestic producers to produce less.

Answer: B

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

24) The United States imports cars from Japan. If the United States imposes a tariff on cars imported from Japan, American

- A) consumers will lose and Japanese producers will gain.
- B) tariff revenue will equal the loss inflicted on American consumers.
- C) consumers will lose and American producers will gain.
- D) car manufacturers will gain revenue equal to the revenue lost by Japanese car manufacturers.

Answer: C

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

25) The winners from a tariff on imports are

- A) producers and government.
- B) producers.
- C) consumers.
- D) consumers, producers, and government.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

26) In 2013 the United States reduced the tariff on ethanol. The winners from the tariff reduction are

- A) U.S. producers and the U.S. government.
- B) U.S. producers only.
- C) U.S. consumers only.
- D) U.S. consumers, U.S. producers, and the U.S. government.

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

27) In 2013 the United States was considering imposing a tariff on solar panels imported from China. Which of the following groups would gain from this tariff?

- I. U.S. consumers of solar panels
- II. U.S. producers of solar panels
- III. Chinese producers of solar panels

- A) I only
- B) I and II only
- C) II only
- D) I and III only

Answer: C

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

28) A tariff is imposed on a good. The tariff will _____ quantity supplied, _____ quantity demanded, and _____ the price of the good in the home country.

- A) increase; decrease; increase
- B) increase; leave unchanged; leave unchanged
- C) increase; increase; increase
- D) increase; decrease; decrease

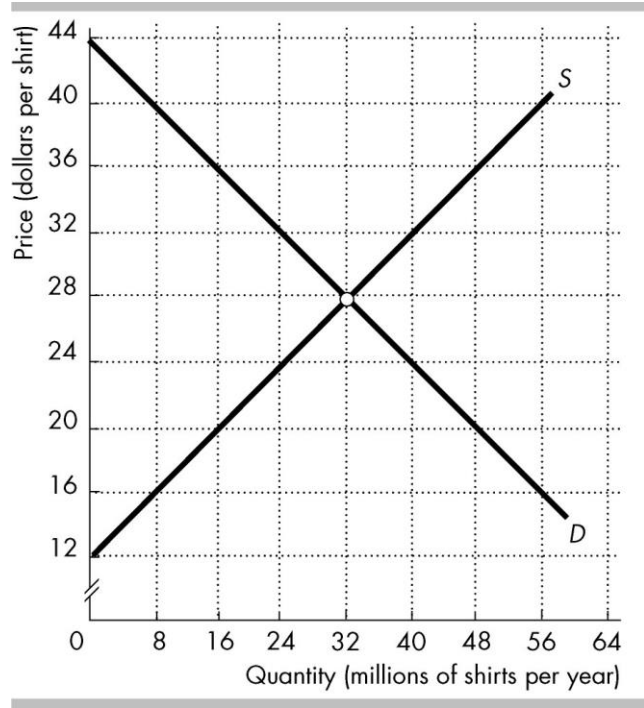
Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Analytical thinking



The figure shows the market for shirts in the United States, where D is the domestic demand curve and S is the domestic supply curve. The world price is \$20 per shirt. The United States imposes a tariff on imported shirts of \$4 per shirt.

29) In the figure above, with the tariff Americans buy _____ million shirts per year.

- A) 40
- B) 48
- C) 32
- D) 16

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

30) In the figure above, with the tariff the United States imports _____ million shirts per year.

- A) 24
- B) 8
- C) 32
- D) 16

Answer: D

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

31) In the figure above, the tariff _____ U.S. imports of shirts by _____ million shirts per year.

A) decreases; 16

B) decreases; 8

C) increases; 8

D) increases; 4

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

32) In the figure above, the tariff _____ the domestic production of shirts in the United States by _____ per year.

A) increases; 8 million

B) decreases; 16 million

C) increases; 4 million

D) decreases; 8 million

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

33) In the figure above, the U.S. government's revenue from the tariff is

A) \$64 million.

B) \$32 million.

C) \$128 million.

D) \$48 million.

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

34) During the Great Depression in the 1930s, the average tariff level in the United States peaked at about

A) zero.

B) 6 percent.

C) 20 percent.

D) 100 percent.

Answer: C

Topic: History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 35) Average tariff levels in the United States in the last decade are
- A) about equal to the average since 1930.
 - B) above the average since 1930.
 - C) positive, but below the average since 1930.
 - D) zero, as there are no longer any tariffs in the United States.

Answer: C

Topic: History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 36) The Smoot-Hawley Act was enacted in
- A) 1980.
 - B) 2000.
 - C) 1930.
 - D) 1950.

Answer: C

Topic: Smoot-Hawley Act

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 37) The Smoot-Hawley Act introduced
- A) opportunities for expanding U.S. foreign trade.
 - B) the highest tariffs set by the United States in the last 80 years.
 - C) a framework promoting international free trade.
 - D) revenue tariffs as a major source of U.S. government revenues.

Answer: B

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 38) The Smoot-Hawley Act
- A) made most tariffs illegal.
 - B) greatly raised tariffs.
 - C) gave the President the right to broker trade deals with other nations.
 - D) recognized Congress's right to deny trade authorization powers to the President.

Answer: B

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

39) U.S. tariffs peaked in

- A) 1992.
- B) 1961.
- C) 1940.
- D) 1933.

Answer: D

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

40) Since the 1930s, tariff levels in the United States have

- A) declined overall.
- B) steadily risen.
- C) increased during expansions.
- D) decreased during recessions.

Answer: A

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

41) Of the following, in which decade were U.S. tariffs at their lowest level?

- A) 2000s
- B) 1970s
- C) 1950s
- D) 1930s

Answer: A

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

42) Which of the following best describes the history of tariffs in the United States over the past 70 years?

- A) Tariffs were at their highest level in the 1970s and now average just over 10 percent.
- B) Tariffs have declined overall since the early 1930s and now average just over 10 percent.
- C) Tariffs reached a maximum in the early 1930s and now average less than 5 percent.
- D) Average tariff rates have not changed much since the early 1930s and are less than 5 percent.

Answer: C

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

43) The current U.S. average tariff rate

- A) less than 5 percent.
- B) greater than 10 percent.
- C) approximately 20 percent.
- D) over 50 percent.

Answer: A

Topic: The History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

44) An import quota is

- A) a tariff that is a fixed percentage of the price of a good.
- B) a tariff that is a fixed dollar amount per unit of a good.
- C) an agreed upon price for a good to be imported at a specified future date.
- D) a restriction that specifies the maximum amount of a good that may be imported.

Answer: D

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

45) Import quotas

- A) are the same as tariffs.
- B) set the maximum number of units of a good that can be imported.
- C) are not used by the United States.
- D) set the minimum percentage of the value of a product that must consist of imported components.

Answer: B

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

46) An import quota is a

- A) tariff imposed on goods that are dumped in the country.
- B) law that prevents ecologically damaging goods from being imported into a country.
- C) market-imposed balancing factor that keeps prices of imports and exports in equilibrium.
- D) government-imposed restriction on the quantity of a specific good that can be imported.

Answer: D

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 47) An import quota specifies the
- A) highest price that can be charged for an imported good.
 - B) per unit tax that must be paid on an imported good.
 - C) maximum quantity of a good that may be imported during a specified time period.
 - D) minimum quantity of a good that must be exported during a specified time period.

Answer: C

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 48) Import quotas
- A) encourage freer trade.
 - B) are a tax on an imported good.
 - C) set the number of units of a good that can be imported.
 - D) set the minimum percentage of the value of a good that can consist of imported components.

Answer: C

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 49) An import quota protects domestic producers by
- A) setting a limit on the amount of imports.
 - B) placing a prohibitive tax on imports.
 - C) encouraging competition among domestic producers.
 - D) increasing the total supply of the product.

Answer: A

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 50) The U.S. government limits the amount of sugar that can be imported into the United States. This policy is
- A) an import quota.
 - B) a tariff.
 - C) a comparative advantage limitation.
 - D) None of the above answers are correct.

Answer: A

Topic: Import Quota

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 51) The effect of an import quota is to
- A) increase the supply of the good and lower its price.
 - B) increase the supply of the good and increase its price.
 - C) increase the demand for the good and increase its price.
 - D) decrease the supply of the good and raise its price.

Answer: D

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

- 52) An import quota directly restricts _____ and are designed to protect domestic _____.

- A) exports; consumers
- B) exports; producers
- C) imports; consumers
- D) imports; producers

Answer: D

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

- 53) The U.S. government imposes an import quota on sugar. This import quota helps _____ and harms _____.

- A) U.S. producers of sugar; U.S. consumers of sugar
- B) U.S. producers of sugar; the U.S. government
- C) the U.S. government; U.S. consumers of sugar
- D) U.S. consumers of sugar; U.S. producers of sugar

Answer: A

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

- 54) In 2012 the United States government tightened the import quota on sugar by decreasing the quantity of sugar that could be imported. Which of the following groups would gain from this change?

- I. U.S. consumers of sugar
 - II. U.S. producers of sugar
 - III. Foreign producers of sugar
- A) I only
 - B) I and II only
 - C) II only
 - D) I and III only

Answer: C

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

55) Import quotas _____ the price of imported goods and _____ the quantity consumed in the nation imposing the quota.

- A) raise; increase
- B) raise; decrease
- C) lower; increase
- D) lower; decrease

Answer: B

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

56) In 2016 the U.S. government reduced the quantity of sugar that can be imported from other nations. This action _____ the price of sugar in the United States and _____ the quantity consumed in the United States.

- A) raised; increased
- B) raised; decreased
- C) lowered; increased
- D) lowered; decreased

Answer: B

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Revised

AACSB: Analytical thinking

57) If a government imposes a quota on imports of a popular doll, the price of the doll in the country will _____ and the quantity purchased in the country will _____.

- A) rise; increase
- B) rise; decrease
- C) fall; increase
- D) fall; decrease

Answer: B

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

58) A key difference between imposing tariffs as opposed to imposing quotas is that

- A) consumers are hurt with quotas but not with tariffs.
- B) consumers are hurt with tariffs but not with quotas.
- C) the government receives revenue with tariffs, but the importer receives the added revenue with quotas.
- D) the government receives revenue with quotas, but the importer receives the added revenue with tariffs.

Answer: C

Topic: Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 59) A difference between a quota and a tariff is that with a quota the
- A) person who has the right to import the good captures an extra gain.
 - B) exporting government collects an extra gain in the form of revenue.
 - C) importing government collects an extra gain in the form of revenue.
 - D) domestic consumers are not harmed.

Answer: A

Topic: Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 60) A difference between a quota and a tariff is that
- A) a tariff generates a higher price than does a quota.
 - B) a tariff generates a greater reduction in exports than does a quota.
 - C) a quota increases profits of domestic producers more than does a tariff.
 - D) the government collects revenues from a tariff but does not collect revenues from a quota.

Answer: D

Topic: Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 61) A key difference between a quota and a tariff is that
- A) a quota has a larger effect on quantity than on price.
 - B) a tariff has a larger effect on quantity than on price.
 - C) the government of the importing country gains revenue from a tariff, but the price gap caused by a quota benefits domestic importers.
 - D) All of the above answers are correct.

Answer: C

Topic: Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 62) Voluntary export restraints (VERs)
- A) do not protect domestic producers.
 - B) raise revenue for the governments involved.
 - C) raise the prices paid by domestic consumers.
 - D) Both answers B and C are correct.

Answer: C

Topic: Voluntary Export Restraints

Skill: Recognition

Status: Old

AACSB: Reflective thinking

63) A voluntary export restraint

- A) is like a tariff.
- B) is a very common form of trade barrier.
- C) is like a quota on foreign exports.
- D) Both answers B and C are correct.

Answer: C

Topic: Voluntary Export Restraints

Skill: Recognition

Status: Old

AACSB: Reflective thinking

64) A tariff is

- A) a government imposed limit on the amount of a good that can be exported from a nation.
- B) a government imposed barrier that sets a fixed limit on the amount of a good that can be imported into a nation.
- C) a tax on a good imported into a nation.
- D) an agreement between governments to limit exports from a nation.

Answer: C

Topic: Study Guide Question, How Tariffs Work

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

65) Who benefits from a tariff on a good?

- A) domestic consumers of the good
- B) foreign governments
- C) domestic producers of the good
- D) foreign producers of the good

Answer: C

Topic: Study Guide Question, How Tariffs Work

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

66) Who benefits from an import quota on a good?

- A) domestic consumers of the good
- B) foreign governments
- C) domestic producers of the good
- D) foreign producers of the good

Answer: C

Topic: Study Guide Question, How Import Quotas Work

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

67) Tariffs _____ the domestic price of the good and import quotas _____ the domestic price of the good.

- A) lower; lower
- B) lower; raise
- C) raise; lower
- D) raise; raise

Answer: D

Topic: Study Guide Question, Effects of Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

68) When does the domestic government gain the MOST revenue?

- A) when it imposes a tariff
- B) when it imposes an import quota
- C) when it negotiates a voluntary export restraint
- D) The amount of revenue it gains is the same with a tariff and a voluntary export restraint.

Answer: A

Topic: Study Guide Question, How Tariffs Work

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

69) Export subsidies are

- A) payments by the government to producers of exported goods.
- B) similar to voluntary export restraints.
- C) illegal.
- D) Both answers A and C are correct.

Answer: D

Topic: Study Guide Question, Effects of Tariffs and Import Quotas

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

4 The Case Against Protection

1) Economists usually agree with which of the following arguments that favor protectionism?

A) *the competition with cheap foreign labor* defense

B) *the job protection* defense

C) *the anti-dumping* defense

D) Economists in general do not agree with any of the arguments in favor of protectionism.

Answer: D

Topic: The Case Against Protection

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

2) Most economists agree that valid reasons for protecting trade include which of the following?

I. the economies of scale argument

II. the saving jobs argument

III. the protection of high wages argument

A) I only

B) I and II

C) I and III

D) None of the reasons are valid.

Answer: D

Topic: The Case Against Protection

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

3) Which of the following are valid reasons advanced by almost all economists? Protectionism

A) saves jobs.

B) prevents rich countries from exploiting poorer countries.

C) is a good way for governments in developed nations to raise revenue.

D) Economists would not support any of the above reasons.

Answer: D

Topic: The Case Against Protection

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

- 4) Which of the following are reasons economists consider valid for trade protection?
- I. Protection penalizes countries that have weak environmental standards.
 - II. Protection limits dumping of low-wage jobs into the domestic economy.
 - III. Protection prevents low-wage jobs in foreign countries from lowering wages in the United States.
- A) I and II
 - B) II and III
 - C) I, II, and III
 - D) none of the above

Answer: D

Topic: The Case Against Protection

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

- 5) The idea of dynamic (i.e. changing) comparative advantage is the basis for which of the following arguments for protection from foreign competition?
- A) the cheap foreign labor argument
 - B) the infant-industry argument
 - C) the dumping argument
 - D) the saves jobs argument

Answer: B

Topic: The Case Against Protection; Infant Industry

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 6) The most efficient way to encourage the growth of an infant-industry is through a
- A) voluntary export restraint.
 - B) tariff.
 - C) subsidy.
 - D) an import quota.

Answer: C

Topic: The Case Against Protection; Infant Industry

Skill: Recognition

Status: Old

AACSB: Reflective thinking

- 7) The infant industry argument is based on the idea of
- A) dynamic comparative advantage.
 - B) absolute productivity advantage.
 - C) global monopoly.
 - D) countervailing duties.

Answer: A

Topic: The Case Against Protection; Infant Industry

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

8) Which of the following statements is TRUE?

- A) The infant-industry argument is valid only if the benefits of learning-by-doing in the infant industry spill over to other parts of the economy.
- B) A subsidy to an infant industry is a more efficient way to protect it from foreign competition than a tariff on the competing foreign goods.
- C) Both statements are true.
- D) Neither of the statements is true.

Answer: C

Topic: The Case Against Protection; Infant Industry

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

9) An assumption behind the infant-industry argument for tariff protection is that

- A) foreign competitors are selling output below average cost.
- B) the domestic industry will be facing an upward adjustment in its average cost.
- C) the domestic industry will eventually gain a comparative advantage in producing the good.
- D) the market needs additional competition to satisfy consumer demand.

Answer: C

Topic: The Case Against Protection; Infant Industry

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

10) Dumping occurs when a foreign firm

- A) pollutes international waters.
- B) disposes of waste material internationally.
- C) sells inferior output to foreigners.
- D) sells its exports at a lower price than its cost of production.

Answer: D

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

11) _____ occurs when a foreign firm sells its exports at a lower price than it costs to produce the goods.

- A) Dumping
- B) Comparative advantage
- C) Learning-by-doing
- D) A tariff

Answer: A

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

12) When a foreign firm sells its exports at a lower price than its cost of production, the firm is

- A) imposing an economies of scale cost.
- B) dumping.
- C) avoiding a tariff.
- D) competing in an infant industry.

Answer: B

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

13) In 2012 the U.S. government claimed that Chinese producers of solar panels were dumping panels in the United States, which means that the producers were accused of

- A) avoiding the U.S. tariff on solar panels.
- B) selling the panels in the United States at a price lower than their cost of production.
- C) selling the panels in the United States at a higher price than they were selling the panels in China.
- D) None of the above answers are correct.

Answer: B

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

14) Which of the following statements is TRUE?

- A) Dumping is illegal under the rules of the WTO.
- B) Dumping occurs when a foreign firm sells its exports at a higher price than its cost of production.
- C) Both statements are true.
- D) Neither of the statements is true.

Answer: A

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

15) Suppose that the country of Pacifica sold its cars in Atlantica for less than it costs to produce the cars. Pacifica could be accused of

- A) avoiding import quotas.
- B) increasing its gains from trade.
- C) dumping.
- D) engaging in learning-by-doing.

Answer: C

Topic: The Case Against Protection; Dumping

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 16) When a firm "dumps" some of its products in another country, it
- A) creates an environmental hazard in the receiving country.
 - B) sells its products abroad at a price lower than it costs to produce the goods.
 - C) increases the total level of employment in the receiving country.
 - D) is specializing according to comparative advantage.

Answer: B

Topic: The Case Against Protection; Dumping

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 17) Japan was accused of dumping in the steel industry within the United States when it
- A) negotiated an illegal agreement to raise prices with U.S. steel industries.
 - B) prohibited imports of U.S. steel into Japan.
 - C) sold steel in the United States at a price below its cost of production.
 - D) negotiated an illegal trade deal with Canada.

Answer: C

Topic: The Case Against Protection; Dumping

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 18) Some observers opposing free trade argue that when we buy shoes from Brazil or shirts from Taiwan, U.S. workers lose their jobs. The fact of the matter is that
- A) no U.S. worker has actually lost a job because of free trade.
 - B) most jobs lost because of free trade pay less than the poverty level.
 - C) free trade creates jobs in export industries.
 - D) the jobs lost are concentrated in restricted geographic areas.

Answer: C

Topic: The Case Against Protection; Saves Jobs

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 19) Using calculations of the cost to Americans per job saved in protected industries, it can be concluded that
- A) import quotas are an efficient way to redistribute income.
 - B) each job saved is worth more than the cost imposed on consumers per job saved.
 - C) each job saved is worth less than the cost imposed on consumers per job saved.
 - D) tariffs are an efficient way to redistribute income to disadvantaged groups.

Answer: C

Topic: The Case Against Protection; Saves Jobs

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

20) It is possible for the United States to compete against cheap foreign labor because expensive domestic workers

- A) pay U.S. taxes.
- B) receive subsidies.
- C) are more productive.
- D) belong to unions.

Answer: C

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Recognition

Status: Old

AACSB: Reflective thinking

21) In poorer countries, free trade _____ the demand for labor in these countries and _____ the wages paid in these countries.

- A) decreases; lowers
- B) decreases; raises
- C) increases; lowers
- D) increases; raises

Answer: D

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

22) Which of the following statements is TRUE?

- A) International trade raises wages in developing countries.
- B) International trade with rich industrial countries forces people in the developing countries to work for lower wages.
- C) International trade leads to job losses in both import competing industries and exporting industries.
- D) Unlike other types of international trade, offshoring does not bring any gains from trade.

Answer: A

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

23) Which of the following is an effective counter argument to the claim that protectionism saves domestic jobs?

- A) Protectionism eliminates domestic jobs in export industries.
- B) Imports create jobs in this country for people selling and servicing imported items.
- C) The cost of saving domestic jobs through protectionism may be high.
- D) all of the above

Answer: D

Topic: The Case Against Protection; Saves Jobs

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

24) The reason that average labor costs are higher in the United States than in Haiti is that

- A) workers are more productive in the United States.
- B) U.S. workers have a comparative advantage.
- C) Haitian workers have a comparative advantage.
- D) Haitian workers do not have union representation.

Answer: A

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

25) Which of the following are TRUE regarding the argument that trade barriers protect U.S. workers from cheap foreign labor?

- I. Low-wage foreigners are just as productive as U.S. workers.
- II. U.S. workers have a comparative advantage in low-wage jobs.

- A) I only
- B) II only
- C) I and II
- D) Neither I nor II is correct.

Answer: D

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

26) The argument that protection

- A) penalizes poor environmental standards is true.
- B) allows us to compete with cheap foreign wages is true.
- C) is necessary for infant industries is true.
- D) saves jobs is flawed.

Answer: D

Topic: The Case Against Protection

Skill: Recognition

Status: Old

AACSB: Reflective thinking

27) Which of the following is an explanation for the existence of trade restrictions?

- A) Tariffs generate revenue for the government.
- B) rent seeking
- C) inefficient quotas
- D) Both answers A and B are key explanations.

Answer: D

Topic: Why Is International Trade Restricted?

Skill: Recognition

Status: Old

AACSB: Reflective thinking

28) International trade is restricted because

- A) there is an uneven distribution of benefits and costs of free trade.
- B) free trade creates an inefficient use of resources.
- C) free trade leads to higher costs.
- D) free trade stifles diversity and stability.

Answer: A

Topic: Why Is International Trade Restricted?

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

29) In industrial countries, there is more reliance on _____, as opposed to _____ for government revenue.

- A) tariffs; tax collection
- B) quotas; tariffs
- C) tax collection; tariffs
- D) tariffs; quotas

Answer: C

Topic: Tariff Revenues

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

30) In developing countries, there is more reliance on _____ as opposed to _____ for government revenue.

- A) tariffs; tax collection
- B) quotas; tariffs
- C) tax collection; tariffs
- D) tariffs; quotas

Answer: A

Topic: Tariff Revenues

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

31) Which of the following is a TRUE statement?

- A) Everyone benefits from free trade.
- B) Only exporters benefit from trade.
- C) All producers benefit from trade and but not all consumers benefit.
- D) Free trade harms domestic producers of goods that face import competition.

Answer: D

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

32) Suppose that the country of Pacifica imposes a quota on bananas. The reason that the government imposed this trade restriction could be

- A) that the government of Pacifica needs to increase its revenue.
- B) lobbying from banana farmers in Pacifica.
- C) comparative advantage.
- D) Both answers A and B are correct.

Answer: B

Topic: Rent Seeking

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

33) in 2013 the U.S. government imposed a tariff on Chinese solar panels. The group that lobbied for this tariff was

- A) U.S. consumers of solar panels.
- B) only U.S. producers of solar panels.
- C) only Chinese producers of solar panels.
- D) Both U.S. and Chinese producers of solar panels.

Answer: B

Topic: Rent Seeking

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

34) Of the groups listed below, which is most likely to lobby for protection?

- A) workers in the import industry
- B) workers in the export industry
- C) consumers in the import industry
- D) producers in the export industry

Answer: A

Topic: Rent Seeking

Skill: Recognition

Status: Old

AACSB: Ethical understanding and reasoning

35) Rent seeking is one reason why countries choose to

- A) restrict trade.
- B) export and import the same goods.
- C) work for freer trade.
- D) follow the theory of comparative advantage.

Answer: A

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

36) When a group lobbies for the prevention of free trade, the most likely reason is

- A) rent seeking.
- B) tariff revenue.
- C) defense against expensive domestic labor.
- D) preservation of the environment.

Answer: A

Topic: Rent Seeking

Skill: Recognition

Status: Old

AACSB: Reflective thinking

37) When considering rent seeking, which of the following is TRUE?

- A) The anti-free trade group generally will lobby more than the pro-free trade group.
- B) The pro-free trade group generally will lobby more than the anti-free trade group.
- C) Usually only the anti-free trade group is concerned about what is best for society at large.
- D) Only the pro-free trade group is concerned about the government's revenue from tariffs.

Answer: A

Topic: Rent Seeking

Skill: Recognition

Status: Old

AACSB: Reflective thinking

38) A tariff will benefit

- A) domestic producers by maintaining a higher than free-trade price.
- B) foreign producers by allowing them to sell at a higher price in markets with tariffs.
- C) consumers who are able to better afford domestically produced goods.
- D) All of the above answers are correct.

Answer: A

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

39) A tariff hurts

- A) the government by decreasing its revenue.
- B) domestic producers who can't compete with cheaper imports.
- C) consumers who will pay more for the imported good.
- D) All of the above answers are correct.

Answer: C

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

- 40) The reason tariffs and quotas are imposed is that
- A) their costs are spread among many people and their benefits are concentrated.
 - B) their costs are concentrated and their benefits are spread among many people.
 - C) they create net benefits in the long run.
 - D) they reduce import dependence.

Answer: A

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

- 41) One reason that international trade is restricted is that
- A) the individual gain to parties who benefit from the protection will be much larger than the individual loss to parties who lose.
 - B) the government completely pays the losers from international trade for their losses.
 - C) protectionism benefits consumers.
 - D) the government cannot measure the cost of protectionism.

Answer: A

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

- 42) In 2013 the U.S. government removed its tariff on imported ethanol. Removing the tariff benefited _____ of ethanol, each of whom gained a _____.

- A) U.S. producers; little
- B) U.S. producers; lot
- C) U.S. consumers; little
- D) U.S. consumers; lot

Answer: C

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

- 43) Usually the REMOVAL of trade barriers affecting a particular good benefits _____ people domestically, each of whom gains a _____.

- A) a few; little
- B) a few; lot
- C) many; little
- D) many; lot

Answer: C

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

44) Usually the IMPOSITION of trade barriers affecting a particular good benefits _____ people domestically, each of whom gains a _____.

- A) a few; little
- B) a few; lot
- C) many; little
- D) many; lot

Answer: B

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

45) The gains from free trade are enjoyed by a _____ number of people and the costs of free trade are imposed by a _____ number of people.

- A) small; large
- B) large; small
- C) small; small
- D) large; large

Answer: B

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

46) Trade barriers are politically popular because

- A) they are a way to avoid trade wars and still protect domestic producers.
- B) people recognize their use as a negotiating tool in international relations.
- C) their benefits are widespread, while their costs are highly concentrated.
- D) their benefits are concentrated, while their costs are widespread.

Answer: D

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

47) Which of the following reasons explains why rich countries persistently restrict textile imports from poor countries?

- A) The trade restrictions make textile consumers better off.
- B) The trade restrictions make workers in poor countries better off.
- C) The trade restrictions benefit an organized visible special interest in rich countries.
- D) Rich countries have a strong need for the revenue from these trade restrictions.

Answer: C

Topic: Rent Seeking

Skill: Analytical

Status: Old

AACSB: Ethical understanding and reasoning

- 48) When NAFTA was approved, Congress attempted to soften the losses suffered by some industries by
- A) creating new jobs to hire workers who lost their jobs because of NAFTA.
 - B) setting aside funds to support and retrain workers who lost their jobs because of NAFTA.
 - C) reducing tariffs.
 - D) imposing quotas.

Answer: B

Topic: Compensating Losers

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 49) Which of the following is a reason why only limited attempts are made to compensate those who lose from free international trade?

- A) Free trade advocates consistently lobby to eliminate compensation.
- B) It would be difficult to determine the extent to which someone's sufferings were because of free trade and not due to reasons under their own control.
- C) No one loses in the from free trade in the long run.
- D) None of the above answers are correct.

Answer: B

Topic: Compensating Losers

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 50) Selling a product in a foreign nation at a price less than its cost of production is called

- A) infant-industry exploitation.
- B) absolute advantage.
- C) dumping.
- D) net exporting.

Answer: C

Topic: Study Guide Question, Dumping

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 51) The (false) idea that an industry should be protected because of learning-by-doing until it is large enough to compete successfully in world markets is the _____ argument for protection.

- A) cheap foreign labor
- B) infant industry
- C) dumping
- D) comparative advantage

Answer: B

Topic: Study Guide Question, Infant Industry

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

52) When a rich nation buys a product made in a poor nation, in the poor nation the demand for labor _____ and the wage rate _____.

- A) increases; rises
- B) increases; falls
- C) decreases; rises
- D) decreases; falls

Answer: A

Topic: Study Guide Question, Exploiting Poor Nations

Skill: Conceptual

Status: Old

AACSB: Analytical thinking

53) Which of the following is a valid reason for protecting an industry?

- A) The industry is unable to compete with low-wage foreign competitors.
- B) Protection penalizes lax environmental standards.
- C) Protection keeps richer nations from exploiting the workers of poorer countries.
- D) None of the above reasons is a valid reason for protection.

Answer: D

Topic: Study Guide Question, The Case Against Protection

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

54) Which of the statements about the gains from international trade is CORRECT?

- A) Everyone gains from international trade.
- B) Some people gain from international trade and some lose, though overall the gains exceed the losses.
- C) Some people gain from international trade and some lose; though overall the losses exceed the gains.
- D) Everyone loses from international trade.

Answer: B

Topic: Study Guide Question, Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Ethical understanding and reasoning

5 News Based Questions

1) Between August 2007 and July 2008, Brazil exported more than 3.5 billion pounds of coffee to the rest of the world. Because of this, we know definitively that

- A) Brazil has comparative advantage in coffee production.
- B) the rest of the world has comparative advantage in coffee production.
- C) the rest of the world has absolute advantage in coffee production.
- D) Brazil has absolute advantage in coffee production.

Answer: A

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

2) Between August 2007 and July 2008, Brazil exported more than 3.5 billion pounds of coffee to the rest of the world. Because of this, we know that

- A) Brazilian coffee workers "gain" from this trade.
- B) Brazilian producers "lose" from this trade.
- C) Brazilian consumers "gain" from this trade.
- D) Brazilian car manufacturers "lose" from this trade.

Answer: A

Topic: Gains from Trade, Exports

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

3) During 2005-2006 Europe imported more than \$70 million worth of U.S. long-grain rice. How is the gain from trade distributed?

- A) European rice consumers gain from trade.
- B) There is no gain from trade.
- C) European rice producers gain from trade.
- D) American rice consumers gain from trade.

Answer: A

Topic: Gains from Trade, Imports

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

4) During 2005-2006 Europe imported more than \$70 million worth of U.S. long-grain rice. In 2006, the European Union threatened to restrict imports of long-grain rice because traces of genetically modified rice were found mixed in to commercial supplies. What would NOT be an effect in the European rice market if U.S. imports were banned?

- A) There would be an increase in long-grain rice consumption.
- B) There would be an increase in European rice production.
- C) The price of long-grain rice would increase.
- D) The quantity of long-grain rice imports would decrease.

Answer: A

Topic: Effects of an Import Quota

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

5) In 2006, the European Union (EU) threatened to ban imports of long-grain rice because traces of genetically modified rice were found mixed in to commercial supplies. Instead of a ban, suppose the EU placed a tariff on the import of long-grain rice. Which of the following would be an outcome of this tariff?

- A) The EU would gain tariff revenue.
- B) The social loss would decrease.
- C) European rice producers would decrease production.
- D) The price of long-grain rice in the EU would be higher with a tariff than if rice imports were completely banned.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

6) In 2006, the European Union (EU) threatened to ban imports of long-grain rice because traces of genetically modified rice were found mixed in to commercial supplies. Instead of a complete ban, suppose the EU placed a tariff on the import of long-grain rice. Which of the following would be an outcome of this tariff?

- A) The price of long-grain rice in the EU would be lower with a tariff than if rice imports were completely banned, but higher than with free trade.
- B) The price of long-grain rice in the EU would be higher with a tariff than if rice imports were completely banned.
- C) The price of long-grain rice in the EU would be higher with a tariff than if rice imports were completely banned, but lower than with free trade.
- D) The price of long-grain rice in the EU would be lower with a tariff than if rice imports were completely banned, but lower than with free trade.

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Written and oral communication

7) The European Union imports bananas from Latin America as well as imports from Europe's former colonies in the African, Caribbean and Pacific (ACP) group. In 2006 the tariff on bananas from Latin America was higher than on ACP bananas. Which of the following statements is NOT true?

- A) European consumers are better off with tariff than with free trade.
- B) For European consumers, the price of ACP bananas is lower than Latin American bananas.
- C) The gain from free trade is decreased because of banana tariffs.
- D) The price European consumers pay for bananas is higher with the tariff than the free trade price.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

8) In 2007, European Union (EU) negotiators have offered to cut tariffs for Latin American bananas to avoid "banana wars." What are the effects of a cut in tariffs?

- A) The quantity of bananas imported into the EU will increase.
- B) The price of bananas for consumers will increase.
- C) The quantity of bananas produced in the EU (such as in France and Spain) will increase.
- D) Tariff revenue will increase.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

9) In 2006, European Union tariff on imported bananas from Latin America was €176 a ton. Suppose 2.5 million tons of bananas were imported in 2006 but then the tariff decreased to €152 a ton in 2007 and as a result, 3 million tons were imported in 2007. What is the change in tariff revenue between 2006 and 2007?

- A) €1,000,000
- B) €440,000,000
- C) €445,000,000
- D) - €1,000,000

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Written and oral communication

10) In 2006, European Union tariff on imported bananas from Latin America was €176 a ton. Suppose 2.5 million tons of bananas were imported in 2006 but then the tariff decreased to €152 a ton in 2007 and as a result, 3 million tons were imported in 2007. What is the tariff revenue in 2007?

- A) €445,000,000
- B) €528,000,000
- C) €440,000,000
- D) €375,000,000

Answer: A

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Written and oral communication

11) During the first 6 months of 2008, the United States imported 1,655,740,870 pounds of coffee. Suppose the United States is considering placing trade restrictions on the importation of coffee. If the United States has a goal of raising tax revenue from coffee imports, what policy should they pursue?

- A) tariff on imported coffee
- B) subsidy on imported coffee
- C) quota on imported coffee
- D) voluntary export restraints on coffee

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

12) During the first 6 months of 2008, the United States imported more than 1.6 billion pounds of coffee. Suppose the United States is considering placing trade restrictions on the importation of coffee. What would be a potential consequence of such a trade restriction?

- A) The U.S. price of coffee would increase.
- B) U.S. consumers would drink more coffee.
- C) The quantity of coffee imported into the United States would increase.
- D) If the United States instead imposed a quota on coffee imports, government tax revenue would increase by more than with a tariff.

Answer: A

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

13) During the first 6 months of 2008, the United States imported from Africa, Asia, and Latin America more than 1.6 billion pounds of coffee and did not export any coffee. Based on this, we know definitively that

- A) Africa, Asia, and Latin America have comparative advantage in coffee production.
- B) the U.S. has absolute advantage in coffee production.
- C) Africa, Asia, and Latin America have absolute advantage in coffee production.
- D) the U.S. has comparative advantage in coffee production.

Answer: A

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

14) During the first 6 months of 2008, the United States imported from Africa, Asia, and Latin America more than 1.6 billion pounds of coffee and did not export any coffee. How is the gain from imports distributed between consumers and domestic producers?

- A) U.S. producers are harmed and U.S. consumers are harmed.
- B) U.S. producers are harmed and U.S. consumers are helped.
- C) U.S. producers are helped and U.S. consumers are harmed.
- D) U.S. producers are harmed and U.S. consumers are helped.

Answer: D

Topic: Gains from Trade, Imports

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

15) Currently Belize, a country in Central America, has a small coffee industry but does not export any coffee. Suppose the government of Belize, in order to protect the new coffee industry to enable it to grow into a mature industry that can compete in world markets, places a tariff on the importation of coffee.

What is the argument for placing the tariff on coffee?

- A) the infant-industry argument
- B) the dumping argument
- C) to protect Belize coffee workers
- D) to prevent rich countries from exploiting developing countries

Answer: A

Topic: The Case Against Protection; Infant Industry

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

16) Belize, a country in Central America, has a small coffee industry. Suppose Belize does not have free trade but it has comparative advantage in coffee production. If Belize allowed international trade, what would be the gains from trade?

- A) Belize coffee producers would gain from trade.
- B) Belize coffee consumers would gain from trade.
- C) Belize would gain tariff revenue from trade.
- D) All of these answers are gains from trade.

Answer: A

Topic: Gains from Trade, Exports

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

17) During the first 6 months of 2008, the European Union (EU) initiated an anti-dumping case against China for imports of taper candles. What is dumping?

- A) when China sells its candles to the EU at a lower price than China's cost of production
- B) when China does not pay the tariff on the candles
- C) when China sells its candles to the EU at a lower price than other producers
- D) when China tries to sell more candles to the EU than is allowed by the import quota

Answer: A

Topic: The Case Against Protection; Dumping

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

18) The U.S.-Colombia Trade Promotion Agreement was signed on November 22, 2006, in Washington, D.C. This comprehensive trade agreement eliminated tariffs and other barriers to goods and services. Currently, no U.S. agricultural exports enjoy tariff-free access to the Colombian market. If the United States has a comparative advantage in agricultural, which of the following is TRUE?

- A) Columbian agricultural producers were better off before free trade.
- B) Columbian agricultural consumers were better off before free trade.
- C) Columbia was better off before the international trade.
- D) Columbia must have comparative disadvantage in all production.

Answer: A

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

19) The U.S.-Colombia Trade Promotion Agreement was signed on November 22, 2006, in Washington, D.C. This comprehensive trade agreement eliminated tariffs and other barriers to goods and services. Colombia will immediately eliminate tariffs on wheat, barley, peanuts, and many other products in which Columbia does not have a comparative advantage. This policy means that the price of peanuts in Columbia will become

- A) equal to the free trade price.
- B) lower than the free trade price.
- C) higher than the price when a tariff was in place.
- D) higher than the free trade price.

Answer: A

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

20) Former Agriculture Secretary Ed Schafer announced that Chile's Livestock and Agricultural Service approved the U.S. inspection, control and certification systems for poultry, allowing these products to enter the Chilean market effective immediately. What is NOT an effect of this change in Chilean policy on the Chilean poultry market?

- A) Chile's tariff revenue will increase.
- B) The quantity of poultry consumed in Chile will increase.
- C) The quantity of Chilean imports will increase.
- D) The price for poultry in Chile will decrease.

Answer: A

Topic: Gains from Trade, Imports

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

6 Essay Questions

1) Define comparative advantage and discuss its role in international trade.

Answer: Comparative advantage is the factor that drives international trade. A country has a comparative advantage in the production of a good if the country can produce it at a lower opportunity cost than any other country. Because the cost of production of a good is lower in the nation with the comparative advantage in the good, that country will export the good. The country will then gain by buying the goods from other nations that those nations produce at the lowest opportunity cost, that is, those goods in which the other nations have a comparative advantage.

Topic: Comparative Advantage

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

2) "Because the United States is the largest economy in the world and can produce anything it needs domestically, there are no gains from trade for the United States." Is the previous statement correct or incorrect?

Answer: The statement is incorrect. The United States, like any other nation, gains from trade when it specializes according to comparative advantage.

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

3) Why do nations engage in international trade?

Answer: Nations engage in international trade because they gain from trade. International trade results in a more efficient use of resources and thereby increases world output. As a result, it increases the amount of goods and services available for consumption in all nations and thereby makes all countries better off.

Topic: Gains from Trade

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

4) During 2010, as oil and gas prices continued to increase, a growing number of Americans called for the United States to become less reliant on Middle-Eastern oil. Would it make sense for the United States to try to become totally self-reliant in the production of oil? Why or why not?

Answer: It would be foolish for the United States to try to become totally self-reliant in oil production. There is a reason that approximately 58 percent of our oil comes from OPEC nations: Middle-Eastern countries can produce oil at a far lower opportunity cost than U.S. producers. In the Middle East the vast reserves of oil, combined with more lax regulations imposed by the government, have combined to drive down the per barrel opportunity cost of oil extraction to very low levels. Hence the United States gains from trade with these nations. Even though the price of oil in 2010 was higher than it was in 2001, that price was much less than what would be the opportunity cost of producing enough oil domestically so that the United States was totally self-reliant.

Topic: Gains from Trade; Consumption Possibilities

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

5) Give a brief description of the history of tariffs in the U.S.

Answer: Today, U.S. tariffs are low compared to their historical levels. The average U.S. tariff was highest in the early 1930s when the Smoot-Hawley tariff was passed. The average tariff at that time was about 20 percent. Since then there has been a general downward trend so that today the average tariff is less than 5 percent. The downward trend was fairly rapid until 1950 and has slowed since then.

Topic: History of Tariffs

Skill: Recognition

Status: Old

AACSB: Written and oral communication

6) How does a tariff affect the domestic price of the import, the domestic consumption, the domestic production, and the quantity imported?

Answer: A tariff raises the price of the good. As a result, domestic consumption decreases as domestic consumers decrease the quantity they demand. And, also as a result, domestic production increases as domestic producers increase the quantity they supply. Because domestic consumption decreases and domestic production increases, the quantity imported decreases.

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

7) The United States imposes a tariff on foreign limes. How does the tariff affect the U.S. price of a lime and the production of limes in the United States?

Answer: The tariff raises the price of limes in the United States. As a result of the higher price, U.S. lime production increases.

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

8) What are the effects of a tariff?

Answer: A tariff is a tax on goods that are imported into the country imposing the tariff. The tariff decreases the supply of the imported good, so the tariff raises the domestic price of the good and decreases the quantity imported. Because the price of the good rises, the quantity produced in the country imposing the tariff increases.

Topic: Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

9) Explain the effects of a quota.

Answer: A quota is a quantitative restriction on the maximum amount of a good that can be imported. Because quotas limit the supply of the good, they raise the prices of imported goods and decrease the quantities imported. Unlike a tariff, however, the government gets no revenue from a quota; the revenue from the higher price goes to importers.

Topic: Quotas

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

10) Currently, the United States has a quota on the amount of sugar that is allowed to be imported into the United States. What would happen to the price of sugar in the United States if the quota was removed? What would happen to U.S. consumption and U.S. production of sugar?

Answer: If the quota is removed, the price of sugar in the United States would fall, U.S. consumption of sugar would increase, and U.S. production of sugar would decrease.

Topic: Quotas

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

11) How does a quota affect the domestic price of the import, the domestic consumption, the domestic production, and the quantity imported?

Answer: A quota raises the price of the good because it decreases the amount that can be imported. As a result, domestic consumption decreases as domestic consumers decrease the quantity they demand. And, also as a result, domestic production increases as domestic producers increase the quantity they supply.

Topic: Quotas

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

12) How does a tariff affect the government's revenue? How does a quota affect the government's revenue?

Answer: A tariff is a tax on an imported good. Like all taxes, a tariff increases the government's revenue. However, a quota is quantitative restriction on the amount of a good that can be imported. As such, a quota has no effect on the government's revenue.

Topic: Quotas

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

13) Discuss reasons why we see trade restrictions. Are any of these reasons valid?

Answer: There are several reasons advanced to restrict trade. These include: the infant-industry argument (that the nation should protect a young industry that will reap learning-by-doing gains in productivity and eventually be able to compete successfully in the world market); dumping (the nation should protect an industry from foreign competitors who sell goods below cost); protection saves jobs (the claim that imports cost U.S. jobs); cheap foreign labor (the assertion that tariffs are necessary to compete with cheap foreign labor); lax environmental standards (the claim that protection is needed to compete against nations with weak environmental standards); and, rich nations exploit developing countries (the suggestion that protection prevents developed nations from forcing people in poor nations to work for slave wages). Economists reject all of these claims as valid reasons for protection.

Topic: Why Is International Trade Restricted?

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

14) Two arguments used to promote trade barriers are the infant-industry argument, and the dumping argument. Explain each of these arguments and evaluate whether each one has any flaws.

Answer: The infant-industry argument is that it is necessary to protect a new industry to enable it to grow into a mature industry that can compete in world markets. The problem with this argument is that if an industry can eventually compete, then its backers should be willing to fund it until that time. In addition, if the industry has benefits that spill over to other industries, then the more efficient government policy is to subsidize the industry rather than protect it from competition. The dumping argument asserts that protection is needed to protect domestic industries from foreign dumping practices designed to eliminate competition. (Dumping is selling a good for a price that is less than its cost of production.) The problems with this argument are two-fold. First, it is extremely difficult to determine if a firm is dumping because determining the cost of production is difficult. Second, even if a firm is dumping, its success in establishing a monopoly is in doubt and its success in maintaining its global (!) monopoly is even more doubtful. Hence dumping to obtain a monopoly is likely a very uncommon practice.

Topic: Why Is International Trade Restricted?

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

15) What is dumping?

Answer: Dumping is the situation in which a firm sells its export goods and services for a lower price than its cost of production.

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Written and oral communication

16) Because wage rates are so low in Africa, why don't Microsoft, Cisco and other major corporations close down their American operations and move to Africa?

Answer: Wage rates must be weighed against productivity. It is not just wages that influence where production occurs. Wages divided by the productivity of the workers gives the average cost of production. In Africa, workers have low levels of skill, education, and training so their productivity is much less than in the United States. Therefore the cost of production would be far higher in Africa than in America. So even though U.S. wage rates are high, industries stay here because the cost of production is lower because U.S. productivity is so high.

Topic: The Case Against Protection; Cheap Foreign Labor

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

17) Some people assert that protection from foreign competition prevents rich countries from exploiting developing countries. What is this argument in more detail and what is its flaw?

Answer: The argument claims that rich nations will exploit poor nations by importing goods from the poor nations and that the workers in the poor nations are paid slave wages to produce these goods. This argument has a truly fatal flaw. Free trade increases the demand for the goods produced by workers in developing countries. Thus in order to produce more of these goods, the firms must hire more workers. Hence the demand for the labor used to produce the goods increases, which means that the wage rates paid the workers in the developing countries rises. Thus rather than exploiting the workers in the poor nations, free international trade is one of their few hopes for better lives!

Topic: The Case Against Protection, Exploits Poor Countries

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

18) Explain how governments restrict international trade and who benefits as well as who loses from the restrictions.

Answer: Governments use tariffs and nontariff barriers, such as quotas, to restrict trade. Tariffs and quotas both boost the domestic price of the protected good. Consumers in that country lose because of the higher price. The domestic suppliers, however, gain from the higher price. Tariffs are source of revenue for the government that imposes it on imported goods, so the domestic government gains from a tariff. Quotas, on the other hand, do not create revenue for government so the government does not gain from a quota.

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

19) What is "rent seeking?" How does it apply to restricting imports?

Answer: Rent seeking is lobbying and other political activity that seeks to capture the gains from trade. When imports are restricted, some people gain from the restrictions. Rent seekers, such as domestic producers of import-competing goods or services, lobby the government to impose import restrictions because restrictions allow the rent seekers to gain revenue and/or profit.

Topic: Rent Seeking

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

20) Economics demonstrates that opening up unrestricted free international trade is beneficial to all nations. However, are there any losers from such a policy change?

Answer: Yes, there are losers from opening up to free trade. Domestic suppliers of imported goods lose from allowing free trade. Owners of the businesses lose as do workers who had jobs in the import-competing industries. However, it is important to realize that although there are losers from free trade, there also are substantial gains and the gains exceed the losses so that the nation as a whole is made better off with free trade.

Topic: Compensating Losers

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

21) How does the United States attempt to compensate losers from lower trade restrictions?

Answer: The U.S. government attempts to compensate workers who lose from lowering U.S. trade restrictions. For instance, the U.S. government set up a fund to support and retrain workers who lost their jobs because of NAFTA. Job losers can also collect unemployment compensation benefits.

Topic: Compensating Losers

Skill: Conceptual

Status: Old

AACSB: Written and oral communication

7 Numeric and Graphing Questions

Price (dollars per pound)	Quantity supplied (thousands of pounds per year)	Quantity demanded (thousands of pounds per year)
21	120	60
18	100	100
15	80	140
12	60	180
9	40	220

1) The United States imports cheese from a variety of countries. The table above gives the domestic supply of, and demand for, cheese in the United States. The world price of cheese is \$12 per pound, and trade is unrestricted.

- How many pounds of cheese are consumed in the United States?
- How many pounds of cheese are produced in the United States?
- How many pounds of cheese are imported into the United States?

If a \$3 per pound tariff is imposed,

- How many pounds of cheese are consumed in the United States?
- How many pounds of cheese are produced in the United States?
- How many pounds of cheese are imported into the United States?
- How much will the U.S. government collect in tariff revenue?
- Who benefits from the tariff? Who loses?

Answer:

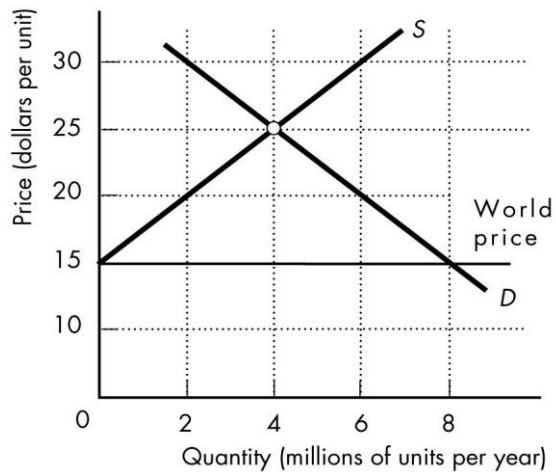
- 180,000 pounds of cheese are consumed.
- 60,000 pounds of cheese are produced.
- 120,000 pounds of cheese are imported.
- 140,000 pounds of cheese are consumed.
- 80,000 pounds of cheese are produced.
- 60,000 pounds of cheese are imported.
- The government collects $\$3 \text{ per pound} \times 60,000 \text{ pounds} = \$180,000$.
- U.S. producers and the U.S. government gain while U.S. consumers and foreign producers lose.

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking



2) The above figure shows the domestic supply of and domestic demand for an imported good. The world price is \$15 per unit.

- At the world price of \$15 per unit, what is the domestic consumption and domestic production?
- At the world price of \$15 per unit, what is the quantity imported?
- If the government imposes a tariff of \$5 per unit, what is the domestic consumption and domestic production?
- With the \$5 per unit tariff, what is the quantity imported?
- How much revenue does the government collect with a tariff of \$5 per unit?

Answer:

- Domestic consumption is 8 million units per year and domestic production is 0.
- The quantity imported is 8 million units per year.
- Domestic consumption is 6 million units per year and domestic production is 2 million units per year.
- The quantity imported is 4 million units per year.
- The government collects \$5 per unit imported and 4 million units are imported, so the government's revenue from the tariff is $\$5 \times 4 \text{ million} = \$20 \text{ million per year}$.

Topic: Effects of a Tariff

Skill: Analytical

Status: Old

AACSB: Analytical thinking

- 3) Suppose that elimination of tariffs on agricultural products means that 1,000 farm workers lose jobs that pay an average of \$20,000 per year. At the same time, because of the importation of relatively cheaper foreign vegetables, 150 million consumers save \$2 per year on their grocery bills.
- a) What is the total income lost by farm workers because of the free trade?
 - b) What is the total dollar amount saved by all consumers combined?
 - c) Which is greater, the lost income or the consumer savings? Do the benefits of free trade out-weigh the costs in this simple example?
 - d) Which group is most likely to become politically involved over the issue of removing the tariffs, the farm workers or the consumers? Why?

Answer:

- a) The total income lost by farm workers is $1,000 \times \$20,000 = \$20,000,000$.
- b) The total saving by all consumers is $150,000,000 \times \$2 = \$300,000,000$.
- c) The consumer savings is much larger than the lost income, so the benefits of free trade outweigh the costs.
- d) The farm workers are more likely to become involved, because their individual loss is much greater than an individual consumer's gain.

Topic: Rent Seeking

Skill: Analytical

Status: Old

AACSB: Analytical thinking

8 True or False

- 1) As a result of an increase in tariffs, imports decrease and government revenue increases.

Answer: TRUE

Topic: Trade Restrictions; Effects of a Tariff

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 2) Tariffs and quotas BOTH decrease the amount of a good consumed and raise the price paid by domestic residents for the good.

Answer: TRUE

Topic: Trade Restrictions; Effects of a Tariff and a Quota

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

- 3) Quotas are less damaging to an economy than are tariffs.

Answer: FALSE

Topic: Trade Restrictions; Quota

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

4) Dumping occurs when a foreign firm sells its exports at a lower price than it costs to produce them.

Answer: TRUE

Topic: The Case Against Protection; Dumping

Skill: Recognition

Status: Old

AACSB: Reflective thinking

5) Most economists would agree that "saving jobs" is a valid reason for restricting trade.

Answer: FALSE

Topic: The Case Against Protection; Saves Jobs

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

6) The infant-industry argument is the only perfectly valid argument for protection.

Answer: FALSE

Topic: The Case Against Protection; Infant Industry

Skill: Conceptual

Status: Old

AACSB: Reflective thinking

7) Over the past 80 years, the United States has reduced its average tariff rate so today it is less than 5 percent.

Answer: TRUE

Topic: History of Tariffs

Skill: Recognition

Status: Old

AACSB: Reflective thinking

8) Less developed countries, compared to industrialized ones, are more likely to have higher tariff rates.

Answer: TRUE

Topic: Why Is International Trade Restricted?; Tariff Revenue

Skill: Conceptual

Status: Old

AACSB: Reflective thinking