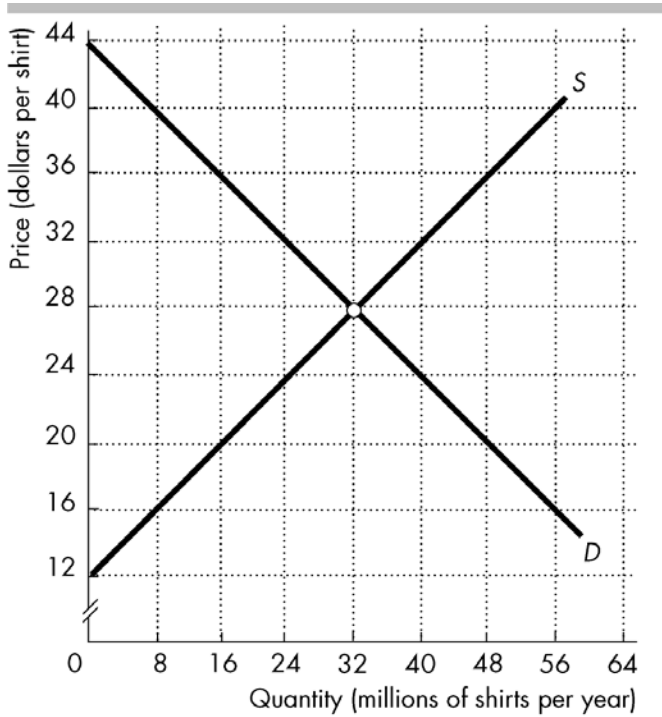


Review Question - Chapter 7

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

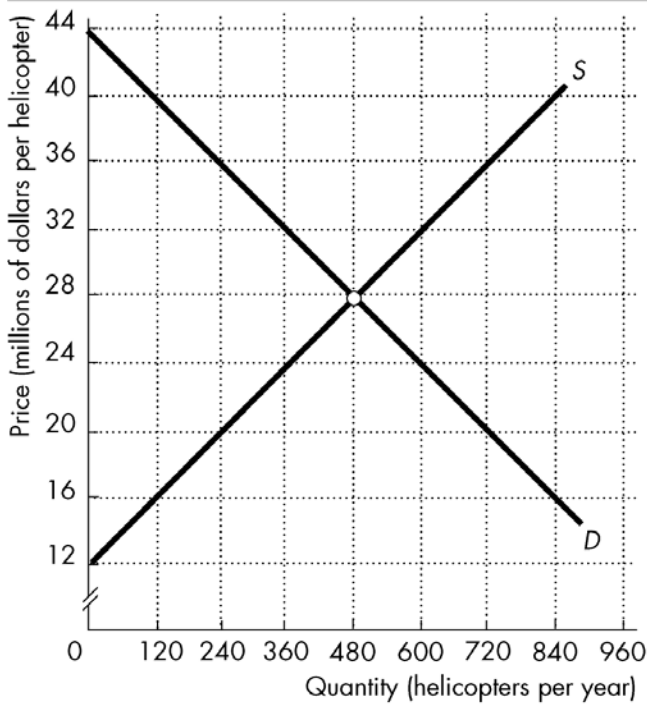
- 1) International trade arises from \_\_\_\_\_  
A) the advantage of execution. B) absolute advantage.  
C) comparative advantage. D) importation duties.
- 2) Comparative advantage implies that a country will \_\_\_\_\_  
A) export those goods in which the country has a comparative advantage.  
B) find it difficult to conclude free trade agreements with other nations.  
C) export goods produced by domestic industries with low wages relative to its trading partners.  
D) import those goods in which the country has a comparative advantage.
- 3) The United States has a comparative advantage in producing airplanes if \_\_\_\_\_  
A) it can produce them at a lower opportunity cost than can other nations.  
B) it has a larger quantity of skilled workers than do other nations.  
C) it can produce them at a lower dollar cost than can other nations.  
D) it can produce a larger quantity than can other nations.
- 4) 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) not comparable to D) greater than
- 5) Compared to the situation before international trade, after the United States exports a good production in the United States \_\_\_\_\_ and consumption in the United States \_\_\_\_\_.  
A) decreases; increases B) decreases; decreases  
C) increases; increases D) increases; decreases
- 6) Compared to the situation before international trade, after the United States imports a good production in the United States \_\_\_\_\_ and consumption in the United States \_\_\_\_\_.  
A) increases; decreases B) increases; increases  
C) decreases; increases D) decreases; decreases
- 7) The gains from trade that are possible when two countries have different opportunity costs for wheat and coffee are realized when \_\_\_\_\_  
A) each country has an absolute advantage in one of the two commodities.  
B) the two countries continue to produce the same quantities of wheat and coffee.  
C) trade occurs and resources are reallocated within the two countries.  
D) the demand curves in both countries shift inward.
- 8) Suppose sugar is exported from a nation. In the sugar market who does NOT benefit from the exports? \_\_\_\_\_  
A) workers in the industry B) domestic producers  
C) domestic consumers D) foreign consumers





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.

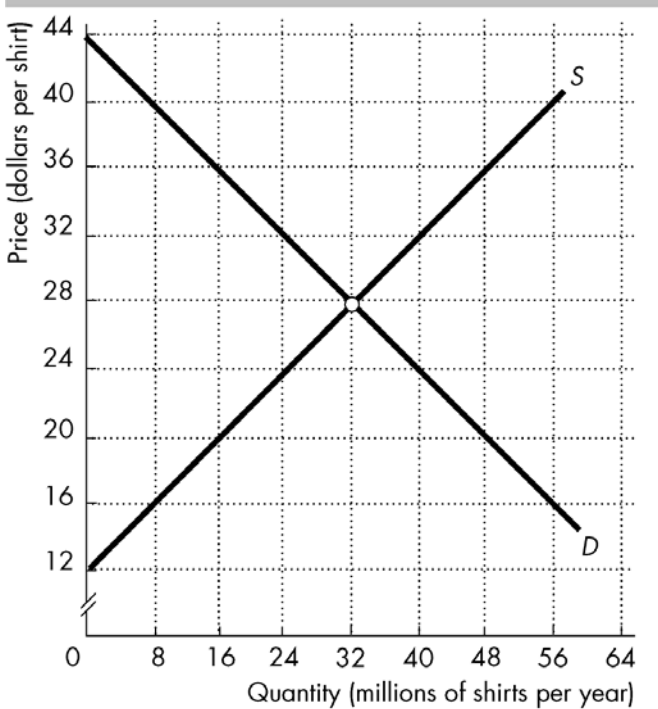
- 12) In the figure above, with international trade American consumers buy \_\_\_\_\_ million shirts per year. 12) \_\_\_\_\_  
 A) 16                                      B) 24                                      C) 48                                      D) 32
- 13) In the figure above, with international trade the United States \_\_\_\_\_ million shirts per year. 13) \_\_\_\_\_  
 A) exports 32                              B) imports 48                              C) exports 16                              D) imports 32



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.

- 14) In the figure above, with international trade U.S. companies buy \_\_\_\_\_ helicopters per year. 14) \_\_\_\_\_  
 A) 480                                      B) 720                                      C) 240                                      D) 360
- 15) In the figure above, with international trade \_\_\_\_\_ helicopters per year are produced in the United States. 15) \_\_\_\_\_  
 A) 720                                      B) 360                                      C) 240                                      D) 480
- 16) In the figure above, the United States \_\_\_\_\_ helicopters per year. 16) \_\_\_\_\_  
 A) exports 720                              B) imports 240                              C) imports 480                              D) exports 480
- 17) A tariff is a \_\_\_\_\_ 17) \_\_\_\_\_  
 A) tax on an imported good or service.                              B) subsidy on an exported good.  
 C) tax on an exported good or service.                              D) subsidy on an imported good.
- 18) Tariffs and import quotas both result in \_\_\_\_\_ 18) \_\_\_\_\_  
 A) higher levels of domestic consumption.  
 B) lower levels of domestic production.  
 C) the domestic government gaining revenue.  
 D) lower levels of imports.
- 19) 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. 19) \_\_\_\_\_  
 A) lowers; increases                              B) lowers; decreases  
 C) raises; decreases                              D) raises; increases

- 20) If the United States imposes a tariff on imported steel, the tariff will \_\_\_\_\_ 20) \_\_\_\_\_  
 A) decrease employment in the U.S. steel industry.  
 B) decrease the U.S. production of steel.  
 C) increase the total U.S. consumption of steel.  
 D) raise the U.S. price of imported steel.
- 21) A U.S. tariff on textiles would \_\_\_\_\_ U.S. clothing prices and \_\_\_\_\_ jobs in the U.S. 21) \_\_\_\_\_  
 textile industry.  
 A) reduce; decrease  
 B) reduce; increase  
 C) raise; increase  
 D) raise; decrease
- 22) A tariff is imposed on a good. The tariff will \_\_\_\_\_ the domestic quantity supplied, 22) \_\_\_\_\_  
 \_\_\_\_\_ the domestic quantity demanded, and \_\_\_\_\_ price in the home country.  
 A) increase; decrease; decrease  
 B) increase; remain unchanged; remain unchanged  
 C) increase; decrease; increase  
 D) increase; increase; increase



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

- 23) In the figure above, with the tariff American consumers \_\_\_\_\_ million shirts per year. 23) \_\_\_\_\_  
 A) 16  
 B) 40  
 C) 32  
 D) 48
- 24) In the figure above, with the tariff the United States imports \_\_\_\_\_ million shirts per year. 24) \_\_\_\_\_  
 A) 8  
 B) 24  
 C) 32  
 D) 16

- 25) An import quota protects domestic producers by \_\_\_\_\_  
A) setting a limit on the amount of imports.  
B) encouraging competition among domestic producers.  
C) increasing the total supply of the product.  
D) placing a prohibitive tax on imports.
- 26) A difference between a quota and a tariff is that \_\_\_\_\_  
A) a tariff generates a greater reduction in exports than does a quota.  
B) a quota increases profits of domestic producers more than does a tariff.  
C) the government collects revenue from a tariff but does not collect revenue from a quota.  
D) a tariff generates a higher price than does a quota.
- 27) Tariffs \_\_\_\_\_ a deadweight loss and import quotas \_\_\_\_\_ a deadweight loss . \_\_\_\_\_  
A) create; do not create  
B) do not create; do not create  
C) do not create; create  
D) create; create
- 28) The infant industry argument is based on the idea of \_\_\_\_\_  
A) learning-by-doing.  
B) countervailing duties.  
C) absolute productivity advantage.  
D) global monopoly.
- 29) Dumping occurs when a foreign firm \_\_\_\_\_. \_\_\_\_\_  
A) disposes of waste materials in other countries  
B) pollutes international waters  
C) sells its exports at a lower price than its cost of production  
D) sells inferior output to foreigners
- 30) Which of the following is a TRUE statement? \_\_\_\_\_  
A) Free trade harms domestic producers of goods that face import competition.  
B) Only exporters benefit from trade.  
C) Everyone benefits from free trade.  
D) All producers benefit from trade and but not all consumers benefit.