

# Reading 19: International Trade and Capital Flows

## Question #1 of 61

Question ID: 413921

In the Ricardian model of trade, the source of comparative advantage is:

- A) the difference between labor productivity and capital productivity.
- B) capital productivity.
- C) labor productivity.

## Question #2 of 61

Question ID: 434252

The balance of payments accounts consist of:

- A) capital account, financial account, and non-financial account.
- B) current account, capital account, and financial account.
- C) current account, capital account, and currency account.

## Question #3 of 61

Question ID: 726905

The table below outlines the possible tradeoffs of producing units of cloth and corn, using one hour of labor input, for Country A and Country B.

Country A		Country B	
Units of Cloth	Units of Corn	Units of Cloth	Units of Corn
14	4	16	8

Country A has a comparative advantage in producing:

- A) cloth.
- B) neither cloth nor corn.
- C) corn.

## Question #4 of 61

Question ID: 413906

Country P imports goods from Country Q. In the long run, the benefits of international trade *most likely* accrue to:

- A) Country P only.
- B) Country Q only.

C) Both Country P and Country Q.

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### Question #5 of 61

Question ID: 434258

Promoting international monetary cooperation, promoting exchange stability, and assisting members experiencing balance of payments difficulties are the goals of the:

- A) World Trade Organization.
  - B) International Monetary Fund.
  - C) World Bank.
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### Question #6 of 61

Question ID: 434253

Capital transfers and sales of non-financial assets are included in which of the balance of payments accounts?

- A) Current account.
  - B) Financial account.
  - C) Capital account.
- 

### Question #7 of 61

Question ID: 413903

For a country that produces  $\square$ 100 million more income from foreign capital invested within the country than from domestic investment abroad, and produces  $\square$ 100 million more goods and services by foreign labor within the country than by its citizens abroad, gross national product is:

- A) less than gross domestic product.
  - B) greater than gross domestic product.
  - C) equal to gross domestic product.
- 

### Question #8 of 61

Question ID: 696229

For an analyst interested in measuring activity within an economy, the *most appropriate* measure to use is:

- A) gross domestic product.
  - B) national income.
  - C) gross national product.
- 

### Question #9 of 61

Question ID: 413912

Suppose labor in Venezuela is less productive than labor in the United States in all areas of production. Which of the following statements about trading between Venezuela and the U.S. is *most* accurate?

- A) Venezuela will not have a comparative advantage in any good.
  - B) Both nations can benefit from trade.
  - C) Venezuela can benefit from trade but the U.S. cannot.
- 

### Question #10 of 61

Question ID: 413936

Which of the following lists of trading blocs is *most* accurately ordered by degree of economic integration, from least to most integrated?

- A) Free trade area, economic union, common market.
  - B) Customs union, economic union, monetary union.
  - C) Free trade area, common market, customs union.
- 

### Question #11 of 61

Question ID: 413944

Holding other factors constant, a country can reduce its trade deficit by increasing its:

- A) government budget deficit.
  - B) domestic capital investment.
  - C) private saving.
- 

### Question #12 of 61

Question ID: 445333

The *most* accurate description of the relative roles played by the International Monetary Fund, World Bank, and World Trade Organization is that the only one explicitly focused on:

- A) expanding international trade is the World Trade Organization.
  - B) reducing poverty is the World Bank.
  - C) providing funding to member nations is the International Monetary Fund.
- 

### Question #13 of 61

Question ID: 413945

The primary goals of the International Monetary Fund (IMF) include:

- A) promoting exchange rate stability.
- B) reducing global poverty.
- C) resolving trade-related disputes among nations.

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**Question #14 of 61**

Question ID: 413934

Regional trade agreements exist primarily to:

- A) protect their members from unfair trading practices by non-members.
  - B) improve economic welfare for their members.
  - C) lower currency volatility for their members.
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**Question #15 of 61**

Question ID: 434251

In 20X5, Carthage's merchandise imports exceeded the value of its merchandise exports. In this case, Carthage would *most likely* have which of the following?

- A) Balance of trade surplus.
  - B) Capital account surplus.
  - C) Current account surplus.
- 

**Question #16 of 61**

Question ID: 413937

The form of regional trading agreement (RTA) *least likely* to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:

- A) free trade area.
  - B) common market.
  - C) customs union.
- 

**Question #17 of 61**

Question ID: 434246

The income from a country's citizens working abroad is included in:

- A) gross domestic product, but not gross national product.
  - B) gross national product, but not gross domestic product.
  - C) both gross domestic product and gross national product.
- 

**Question #18 of 61**

Question ID: 413939

In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:

- A) set of trade restrictions with non-members.
  - B) set of economic policies.
  - C) currency.
- 

### Question #19 of 61

Question ID: 413914

The law of comparative advantage explains why a nation will benefit from trade when it:

- A) exports more than it imports.
  - B) exports goods for which it is a low-cost producer, while importing those for which it is a high-cost producer.
  - C) exports goods for which it is a high-cost producer, while importing those for which it is a low-cost producer.
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### Question #20 of 61

Question ID: 413926

Who benefits *least* from tariffs?

- A) Foreign consumers.
  - B) Domestic producers.
  - C) Domestic consumers.
- 

### Question #21 of 61

Question ID: 413943

In a country that has a current account surplus, it is *most likely* that:

- A) private domestic savings are greater than the budget deficit.
  - B) domestic investment is greater than government savings.
  - C) domestic savings are greater than domestic investment.
- 

### Question #22 of 61

Question ID: 434247

Compared to not engaging in international trade, a country that engages in international trade is *most likely* to experience:

- A) lower employment in exporting industries.
- B) increased specialization of domestic industries.
- C) higher prices for consumer goods.

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**Question #23 of 61**

Question ID: 434255

In the balance of payments accounts, goods and financial assets that migrants bring to a country are included in the:

- A) capital account.
  - B) current account.
  - C) financial account.
- 

**Question #24 of 61**

Question ID: 413935

Which form of regional trading agreement is *least likely* to allow free movement of labor?

- A) Common market.
  - B) Economic union.
  - C) Customs union.
- 

**Question #25 of 61**

Question ID: 413928

The primary benefits derived from tariffs usually accrue to:

- A) domestic producers of export goods.
  - B) foreign producers of goods protected by tariffs.
  - C) domestic suppliers of goods protected by tariffs.
- 

**Question #26 of 61**

Question ID: 413915

According to the law of comparative advantage:

- A) if a foreign government subsidizes the textile industry, the domestic government should impose a tariff.
  - B) Mexico is considered to have a comparative advantage in plastics if Mexico can produce plastic using fewer resources than the U.S.
  - C) a nation will benefit from trade when it imports goods for which it is the high cost producer and exports goods for which it is the low-cost producer.
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**Question #27 of 61**

Question ID: 413916

A country has a comparative advantage over another when:

- A) a nation has the ability to produce a good with a lower opportunity cost than another nation.
  - B) a nation can produce more output with a given amount of input than another nation.
  - C) it can produce a product with the fewest resources.
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### Question #28 of 61

Question ID: 413917

Which type of advantage determines the pattern of trade in the world?

- A) Comparative advantage.
  - B) Absolute advantage.
  - C) Advantages due to tariffs and quotas.
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### Question #29 of 61

Question ID: 434259

Ensuring that international trade flows smoothly and freely, settling trade disputes, and establishing agreements between trading partners *most accurately* describe the activities of the:

- A) International Monetary Fund.
  - B) World Bank.
  - C) World Trade Organization.
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### Question #30 of 61

Question ID: 434249

If a country can produce a good at a lower opportunity cost relative to another country, it is said to have a(n):

- A) autarkian advantage.
  - B) absolute advantage.
  - C) comparative advantage.
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### Question #31 of 61

Question ID: 472414

A government that imposes restrictions on capital flows into or out of the country is *most likely* attempting to:

- A) reduce the volatility of domestic asset prices.
- B) increase domestic interest rates.
- C) encourage competition in domestic industries.

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**Question #32 of 61**

Question ID: 413918

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	<i>Units of Output Per Day</i>	
	<i>Country A</i>	<i>Country B</i>
Food	9	5
Drink	7	5

Which of the following statements is *most* accurate?

- A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
- B) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
- C) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.

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**Question #33 of 61**

Question ID: 485768

Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is *best* described as a(n):

- A) economic union.
- B) monetary union.
- C) customs union.

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**Question #34 of 61**

Question ID: 434250

The most integrated type of trading bloc or regional trade agreement is a(n):

- A) common market.
- B) monetary union.
- C) economic union.

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**Question #35 of 61**

Question ID: 494898



The table below outlines the possible output per unit of labor input of producing beer and cheese for Germany and Holland.

Germany		Holland	
Cheese	Beer	Cheese	Beer
5	10	4	6

Which of the following statements is *most* accurate?

- A) Both countries would gain if Germany traded beer for Holland's cheese.
- B) Germany would not gain from trade, because it has an absolute advantage in the production of both goods.
- C) Both countries would gain if Germany traded cheese for Holland's beer.

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### Question #36 of 61

Question ID: 434254

Merchandise and services, income receipts, and unilateral transfers are included in which of the balance of payments accounts?

- A) Current account.
- B) Capital account.
- C) Financial account.

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### Question #37 of 61

Question ID: 413923

Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:

- A) protect industries in which they have a comparative advantage.
- B) prohibit foreign firms from increasing market share by selling products below cost.
- C) protect industries that are highly sensitive to national security.

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### Question #38 of 61

Question ID: 434248

Costs of international trade are *most likely* borne by:

- A) consumers who have fewer choices of goods.
  - B) consumers who pay higher prices for consumer goods.
  - C) industries competing with imported goods.
-

### Question #39 of 61

Question ID: 413931

In what way does a tariff differ from a quota? A tariff is:

- A) a tax imposed by a foreign government, whereas a quota is a limit on the total amount of trade allowed.
  - B) a tax imposed on imports, whereas a quota is a limit on the number of units of a good that can be imported.
  - C) not significantly different from a quota; tariffs are imposed by world organizations, whereas quotas are imposed by individual countries.
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### Question #40 of 61

Question ID: 413946

The international organization whose primary role is settling disputes among trading nations is the:

- A) World Trade Organization.
  - B) International Monetary Fund.
  - C) World Bank.
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### Question #41 of 61

Question ID: 434256

A country that has imports valued more than its exports is said to have a:

- A) current account surplus.
  - B) current account deficit.
  - C) capital account deficit.
- 

### Question #42 of 61

Question ID: 413940

Sales and purchases of non-produced, non-financial assets are included in which of a country's trade accounts?

- A) Capital account.
  - B) Financial account.
  - C) Current account.
- 

### Question #43 of 61

Question ID: 500858

Which of the following is *least likely* a common objective of governmental capital restrictions?

- A) Keep domestic interest rates high.
- B) Reduce the volatility of domestic asset prices.

- C) Maintain fixed exchange rates.

Question #44 of 61

Question ID: 413919

In the Heckscher-Ohlin model, whether a country has a comparative advantage relative to another country is determined by:

- A) capital productivity differences.
- B) amounts of labor and capital the countries possess.
- C) labor productivity differences.

Question #45 of 61

Question ID: 413924

An anti-dumping restriction on trade:

- A) prohibits foreign firms from selling products below cost to gain market share.
- B) keeps some highly sensitive products in the country.
- C) protects infant industries.

Question #46 of 61

Question ID: 413911

The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

	Units of Output Per Day	
	Country A	Country B
Food	4	8
Drink	6	7

Which of the following statements about the chart is *most* accurate?

- A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
- B) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
- C) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.

### Question #47 of 61

Question ID: 413920

The source of comparative advantage in the Heckscher-Ohlin model of trade is differences among countries in:

- A) labor productivity.
  - B) technological advancement.
  - C) relative scarcity of labor and capital.
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### Question #48 of 61

Question ID: 413927

David Forsythe and Linda Novak are discussing the advantages and disadvantages of import restrictions. They state the following:

Forsythe: One of the groups that benefits from import restrictions is often the government that imposes them.

Novak: Import restrictions impose costs on specific groups, such as the country's import industries, but these costs are more than offset by the benefits to other groups and to the economy as a whole.

With respect to these statements:

- A) both are correct.
  - B) both are incorrect.
  - C) only one is correct.
- 

### Question #49 of 61

Question ID: 413930

Which of the following arguments in favor of trade restrictions is *least likely* to be supported by economists?

- A) Trade with low-wage countries depresses wage rates in high-wage countries.
  - B) Infant industries should be protected.
  - C) National defense industries should be protected.
- 

### Question #50 of 61

Question ID: 413913

The law of comparative advantage holds that trading partners can be made better off if they:

- A) specialize in production of goods for which they are the low opportunity cost producer.
  - B) specialize in production of goods for which they are the low exchange rate adjusted producer.
  - C) import those goods for which they have a comparative advantage.
-

### Question #51 of 61

Question ID: 434257

Government-owned assets abroad and foreign-owned assets in the country are included in which of the balance of payments accounts?

- A) Current account.
  - B) Capital account.
  - C) Financial account.
- 

### Question #52 of 61

Question ID: 413907

Which of the following statements about the costs and benefits of international trade is *most* accurate?

- A) The costs of trade primarily affect those in domestic industries that compete with imports.
  - B) The costs of trade are greater than the benefits with regard to domestic employment.
  - C) Increased international trade benefits all groups in the trading countries.
- 

### Question #53 of 61

Question ID: 413929

Which of the following groups in the country of Minidonia would *least likely* be helped by the imposition of tariffs on Minidonian imports of transportation equipment?

- A) Minidonia's government.
  - B) Automotive manufacturers.
  - C) Trucking companies.
- 

### Question #54 of 61

Question ID: 413942

Other things equal, a current account deficit will tend to narrow if:

- A) taxes decrease.
  - B) domestic investment decreases.
  - C) private savings decrease.
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### Question #55 of 61

Question ID: 492013

A government that wishes to reduce the volatility of domestic asset prices and protect domestic industries is *most likely* to:

- A) participate in regional trading agreements.
- B) impose capital restrictions.

C) adopt voluntary export restraints.

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### Question #56 of 61

Question ID: 413932

Who benefits the *most* from a quota?

- A) Foreign producers.
  - B) Domestic producers.
  - C) Foreign consumers.
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### Question #57 of 61

Question ID: 413938

The North American Free Trade Agreement (NAFTA) is *most accurately* described as a:

- A) free trade area.
  - B) common market.
  - C) customs union.
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### Question #58 of 61

Question ID: 413925

Suppose the world price of Mercury tennis shoes is \$60, but they sell in the U.S. for \$75 due to a \$15 import tariff. Who will *most likely* be negatively affected by the tariff?

- A) Foreign consumers.
  - B) Producers.
  - C) U.S. consumers.
- 

### Question #59 of 61

Question ID: 413905

In contrast to gross domestic product (GDP), gross national product (GNP) includes income earned by:

- A) foreign capital invested domestically.
  - B) foreign labor working domestically.
  - C) domestic capital invested abroad.
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### Question #60 of 61

Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:

- A) is more harmful than if the government had limited the amount of chain saws imported.
  - B) will protect the jobs and high wages of Japanese chain saw industry workers.
  - C) benefits the Japanese government and domestic producers.
- 

## Question #61 of 61

In the context of foreign trade, quotas are *best* described as:

- A) limits on the amounts of imports a country allows over some period.
- B) government payments to firms that export goods.
- C) taxes on imported goods collected by the government.