**CHAPTER 1 THE INTERNATIONAL ECONOMY**

MULTIPLE-CHOICE QUESTIONS

1. A primary reason why nations conduct international trade is because:

a. Some nations prefer to produce one thing while others produce other things

b. Resources are not equally distributed among all trading nations

c. Trade enhances opportunities to accumulate profits

d. Interest rates are not identical in all trading nations

2. A main advantage of specialization results from:

a. Economies of large-scale production

b. The specializing country behaving as a monopoly

c. Smaller production runs resulting in lower unit costs

d. High wages paid to foreign workers

3. International trade in goods and services is sometimes used as a substitute for all of the following except:

a. International movements of capital

b. International movements of labor

c. Domestic production of the same goods and services

d. Domestic production of different goods and services

4. If a nation has an open economy, it means that the nation:

a. Allows private ownership of capital

b. Has flexible exchange rates

c. Has fixed exchange rates

d. Conducts trade with other countries

5. International trade forces domestic firms to become more competitive in terms of:

International trade forces domestic firms to become more competitive in terms of: a. The introduction of new products

b. Product design and quality

c. Product price

d. All of the above

6. The movement to free international trade is most likely to generate short-term unemployment in which industries?

a. Industries in which there are neither imports nor exports

b. Import-competing industries

c. Industries that sell to domestic and foreign buyers

d. Industries that sell to only foreign buyers

7. International trade is based on the idea that:

a. Exports should exceed imports

b. Imports should exceed exports

c. Resources are more mobile internationally than are goods

d. Resources are less mobile internationally than are goods

8. Arguments for free trade are sometimes disregarded by politicians because:

a. Maximizing domestic efficiency is not considered important

b. Maximizing consumer welfare may not be a chief priority

c. There exist sound economic reasons for keeping one’s economy isolated from other economies

d. Economists tend to favor highly protected domestic markets

9. How much physical output a worker producers in an hour’s work depends on:

a. The worker’s motivation and skill

b. The technology, plant, and equipment in use

c. How easy the product is to manufacture

d. All of the above

10. The largest amount of trade with the United States in recent years has been conducted by:

a. Canada

b. Germany

c. Mexico

d. United Kingdom

11. Increased foreign competition tends to:

a. Intensify inflationary pressures at home

b. Induce falling output per worker-hour for domestic workers

c. Place constraints on the wages of domestic workers

d. Increase profits of domestic import-competing industries

12. \_\_\_\_\_\_\_\_\_\_ is the ability of a firm/industry, under free and fair market conditions, to design, produce, and market goods and services that are better and/or cheaper than those of other firms/industries.

a. Competitiveness

b. Protectionism

c. Comparative advantage

d. Absolute advantage

13. A firm’s \_\_\_\_\_\_\_\_\_\_, relative to that of other firms, is generally regarded as the most important determinant of competitiveness.

a. Income level

b. Tastes and preferences

c. Environmental regulation

d. Productivity

14. Free traders maintain that an open economy is advantageous in that it provides all of the following except:

a. Increased competition for world producers

b. A wider selection of products for consumers

c. The utilization of the most efficient production methods

d. Relatively high wage levels for all domestic workers

15. Recent pressures for protectionism in the United States have been motivated by all of the following except:

a. U.S. firms shipping component production overseas

b. High profit levels for American corporations

c. Sluggish rates of productivity growth in the United States

d. High unemployment rates among American workers

16. International trade tends to cause welfare losses to at least some groups in a country:

a. The less mobile the country’s resources

b. The more mobile the country’s resources

c. The lower the country’s initial living standard

d. The higher the country’s initial living standard

17. For a nation to maximize its productivity in a global economy:

a. Only imports are necessary

b. Only exports are necessary

c. Both imports and exports are necessary

d. Neither imports nor exports are necessary

18. A feasible effect of international trade is that:

a. A monopoly in the home market becomes an oligopoly in the world market

b. An oligopoly in the home market becomes a monopoly in the world market

c. A purely competitive firm becomes an oligopolist

d. A purely competitive firm becomes a monopolist

19. International trade in goods and services tends to:

a. Increase all domestic costs and prices

b. Keep all domestic costs and prices at the same level

c. Lessen the amount of competition facing home manufacturers

d. Increase the amount of competition facing home manufacturers

20. The real income of domestic producers and consumers can be increased by:

a. Technological progress, but not international trade

b. International trade, but not technological progress

c. Technological progress and international trade

d. Neither technological progress nor international trade

21. In the United States, automobiles are:

a. Imported, but not exported

b. Exported, but not imported

c. Imported and exported

d. Neither exported nor imported

22. Technological improvements are similar to international trade since they both:

a. Provide benefits for all producers and consumers

b. Increase the nation’s aggregate income

c. Reduce unemployment for all domestic workers

d. Ensure that industries can operate at less than full capacity

23. A sudden shift from import tariffs to free trade may induce short-term unemployment in:

a. Import-competing industries

b. Industries that are only exporters

c. Industries that sell domestically as well as export

d. Industries that neither import nor export

24. Recent empirical studies indicate that productivity performance in industries is:

a. Directly related to globalization of industries

b. Inversely related to globalization of industries

c. Not related to globalization of industries

d. Any of the above

25. Empirical research indicates that \_\_\_\_\_\_\_\_\_\_ best enhances productivity gains for firms and industries.

a. Local competition

b. Regional competition

c. Global competition

d. No competition

26. By the mid-1990s, \_\_\_\_\_\_\_\_\_\_ banks had become the world’s largest in terms of total assets.

a. British

b. German

c. Japanese

d. American

27. A reduced share of the world export market for the United States would be attributed to:

a. Decreased productivity in U.S. manufacturing

b. High incomes of American households

c. Relatively low interest rates in the United States

d. High levels of investment by American corporations

28. The dominant trading nation in the world market following World War II was:

a. United Kingdom

b. Germany

c. South Korea

d. United States

29. A closed economy is one in which:

a. Imports exactly equal exports, so that trade is balanced

b. Domestic firms invest in industries overseas

c. The home economy is isolated from foreign trade

d. Saving exactly equals investment at full employment

30. Relative to countries with low ratios of exports to gross domestic product, countries having high export to gross domestic product ratios are \_\_\_\_\_\_\_\_\_\_ vulnerable to changes in the world market.

a. Less

b. More

c. Equally

d. Any of the above

TRUE-FALSE QUESTIONS

T F 1. The two most important trading partners of the United States are Canada and Mexico.

T F 2. The United States exports a larger percentage of its gross domestic product than Japan, Germany, and Canada.

T F 3. Opening the economy to international trade tends to lessen inflationary pressures at home.

T F 4. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products, and a greater range of consumption choices.

T F 5. In an open trading system, a country will import those commodities that it produces at relatively low cost while exporting commodities that can be produced at relatively high cost.

T F 6. Although free trade provides benefits for consumers, it is often argued that import protection should be provided to domestic producers of strategic goods and materials vital to the nation’s security.

T F 7. In the long run, competitiveness depends on an industry’s natural resources, its stock of machinery and equipment, and the skill of its workers in creating goods that people want to buy.

T F 8. If a nation has an open economy, it means that the nation allows private ownership of capital.

T F 9. Increased foreign competition tends to increase profits of domestic import-competing companies.

T F 10. Restrictive trade policies have resulted in U.S. producers of minerals and metals supplying all of the U.S. consumers’ needs.

ANSWERS

Answers to Multiple-Choice Questions

1. **b**

2. **a**

3. **d**

4. **d**

5. **d**

6. **b**

7. **d**

8. **b**

9. **d**

10. **a**

11. **c**

12. **a**

13. **d**

14. **d**

15. **b**

16. **a**

17. **c**

18. **a**

19. **d**

20. **c**

21. **c**

22. **b**

23. **a**

24. **a**

25. **c**

26. **c**

27. **a**

28. **d**

29. **c**

30. **b**

Answers to True-False Questions

1. **F**

2. **F**

3. **T**

4. **T**

5. **F**

6. **T**

7. **T**

8. **F**

9. **F**

10. **F**