Chapter 15

General Multiple-Choice Questions

15.1 As a result of specialization and trade, according to the law of comparative advantage, total output will
A. decline, because specialization is costly.
B. rise only when there is a decrease in the output of other countries.
C. rise if a nation is a net exporter, but fall if the nation is a net importer of goods and services.
D. rise if a nation is a net importer, but fall if the nation is a net exporter of goods and services.
E. rise, because resources will be better directed towards their highest-valued uses.

15.2 According the law of comparative advantage, total output will be greatest when each country
A. specializes in the production of those goods of which it can produce a greater quantity than another country.
B. specializes in the production of those goods for which it is a high opportunity cost producer.
C. specializes in the production of those goods that its people consume the most of.
D. raises trade barriers to give its producers a comparative advantage over countries that use cheap foreign labor.
E. specializes in producing goods for which it is a low opportunity cost producer.

15.3 Which of the following is not a result of international trade based on comparative advantage?
A. The people in countries that trade will be able to consume more than would be possible if they produced everything themselves.
B. The people of a country will be poorer if low-cost goods are imported from other countries, since the people will not be able to get jobs.
C. Trade with other countries will enable larger-scale production and lower per-unit costs.
D. International competition will encourage domestic producers to produce goods of high quality at low prices.
E. The people who engage in the trades are mutually benefiting from the trades, thus utility is increased in their countries.

15.4 Suppose that the domestic demand and supply of oil would result in a market price higher than the world price for oil. In the absence of trade restrictions, the quantity of imported oil would then be
A. equal to the shortage that would result in the domestic market at the world price.
B. equal to the surplus that would result in the domestic market at the world price.
C. zero.
D. equal to the domestic quantity demanded at the world market price.
E. equal to the domestic quantity supplied at the domestic market price.

15.5 Compared to the market prices of goods that would exist domestically without international trade, free trade with other countries will result in
A. higher prices for the goods that are imported, but lower prices for goods that are exported.
B. lower prices for the goods that are imported, but higher prices for goods that are exported.
C. no change in prices of imported or exported goods.
D. the same price for the goods that are imported, but higher prices for exported goods.
E. lower price for the goods that are imported, but the same prices for exported goods.

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15.6 A tariff is
A. the same thing as an import quota.
B. a restriction on the maximum amount of a good that can legally be imported.
C. the amount of a good that would be imported if international trade were allowed.
D. a tax imposed on imported goods.
E. a customs official that checks imported goods and makes sure that import taxes have been paid.

15.7 Suppose that the United States imposed a tariff on television sets. Which of the following would be most likely?
A. The price of televisions to U.S. consumers would increase and the demand for U.S. export products would rise.
B. The price of televisions to U.S. consumers would fall and the demand for U.S. export products would fall.
C. The price of televisions to U.S. consumers would increase and the demand for U.S. export products would fall.
D. The price of televisions to U.S. consumers would fall and the demand for U.S. export products would rise.
E. The price of televisions to U.S. consumers would remain the same and the demand for U.S. export products would not be affected.

15.8 Raising the tariff on imported running shoes is likely to
A. increase the price and quantity of shoes consumed.
B. leave the price unchanged but reduce the quantity of shoes purchased.
C. leave both the price and quantity of the shoes unchanged, since domestic producers will increase output to make up for the reduction in imported shoes.
D. reduce the price and quantity of shoes consumed.
E. increase the price of shoes and reduce the quantity purchased.

15.9 A reduction in the tariff on imported clothing would most likely benefit
A. workers in the domestic clothing industry.
B. domestic consumers of clothing.
C. domestic producers of clothing.
D. foreign producers at the expense of domestic consumers.
E. foreign consumers at the expense of domestic producers.

15.10 An elimination of the import quotas on imported sugar would most likely benefit
A. domestic producers of sugar.
B. workers in the domestic sugar industry.
C. domestic producers of goods in which sugar is an ingredient.
D. no one.
E. domestic producers of sugar substitutes.

15.11 What is the most likely difference between a tariff on imported automobiles and an import quota that restricts the number of imported automobiles by the same quantity?
A. The final price of imported automobiles will be higher with a tariff than it would with a quota.
B. The final price of imported automobiles will be higher with a quota than it would be with a tariff.
C. The government will earn more money with a tariff than it would earn if it imposed a quota.
D. The government will earn more money by imposing a quota than it would with a tariff.
E. There would be no significant difference.

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15.12 Which of the following is not a valid or partially valid argument used to support trade restrictions?
A. Trade restrictions increase domestic employment and improve domestic living standards.
B. New domestic industries may need to be protected from international competition until they can catch up to more established producers in other countries.
C. If foreign producers attempt to “dump” products on the domestic market at prices below cost, domestic producers may be forced out of business.
D. Certain goods, such as armaments, which are needed for national defense should be produced domestically so that we are not dependent on supplies from possible future enemies.
E. Resources, such as oil, should be available domestically in case there is a war that cuts off foreign supplies.

15.13 When foreign producers sell products in the United States for prices lower than their costs (and lower than their prices in the country that produces them),
A. domestic consumers benefit, but domestic producers are harmed.
B. domestic consumers and producers are harmed.
C. domestic consumers and producers benefit.
D. domestic consumers are harmed, but there is no impact on domestic producers.
E. domestic consumers are harmed, but domestic producers actually benefit.

15.14 When a foreign producer sells its products in the United States at prices lower than its costs (and lower than its prices in its home country),
A. the United States economy is harmed, overall.
B. a foreign monopoly is almost always created, even if the foreign producer has higher costs of production than domestic producers do.
C. the United States economy can still benefit, overall, by importing the goods that are sold more cheaply by foreign producers rather than relying on more costly domestic producers.
D. domestic producers are driven out of the market, and the foreign producer is thus free to raise its prices back up as high as it desires.
E. other foreign suppliers will not be able to offer an alternative should the producer attempt to monopolize the U. S. market.

15.15 Which of the following is the most probable reason that countries do impose restrictions on imports?
A. Trade restrictions greatly benefit a small group of domestic producers, but the costs to the rest of society are difficult to identify and spread over a large number of people.
B. Trade restrictions impose small costs on a few people, but great benefits to many people.
C. The law of comparative advantage only works if trade restrictions are imposed on those who have a comparative advantage in other countries.
D. Trade restrictions create economic efficiency, and politicians thus have an incentive to impose them.
E. Most economists believe that trade restrictions benefit the economy more than they harm it.

15.16 When the currency of the country of Kittopia “appreciates,”
A. the price of Kittopia’s currency in terms of other countries’ money has gone up.
B. the value of Kittopia’s currency has gone down in terms of other countries’ money.
C. exports of Kittopia will appear cheaper to consumers in other countries.
D. exports of Kittopia will tend to increase.
E. products of other countries will appear more expensive to consumers in Kittopia.

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15.17 If the currency of the country of Copperland depreciates,
A. the price of Copperland's currency in terms of other countries' money has gone up.
B. the value of other countries' money has gone down in terms of Copperland's currency.
C. exports of Copperland will appear cheaper to consumers in other countries.
D. exports of Copperland will tend to decrease.
E. products of other countries will appear less expensive to consumers in Copperland.

15.18 Suppose that the dollar rises in value from 125 yen to 150 yen. As a result,
A. exports to Japan are likely to increase.
B. Japanese tourists will be more likely to visit the U.S.
C. U.S. businesses will be less likely to use Japanese shipping lines to transport their products.
D. U.S. consumers will be more likely to buy imported Japanese cars.
E. none of the above will occur, since Americans buy Japanese goods using dollars, and Japanese consumers buy U.S. goods using Yen.

15.19 If the exchange rate value of the English pound goes from $1.75 to $1.50, the pound has
A. appreciated, and the English will find U.S. goods cheaper.
B. appreciated, and the English will find U.S. goods more expensive.
C. depreciated, and the English will find U.S. goods cheaper.
D. depreciated, and the English will find U.S. goods more expensive.
E. appreciated, and the Americans will find English goods more expensive.

15.20 U.S. tourists spending the summer in Mexico will
A. create a demand for dollars and a supply of Mexican Pesos.
B. have no effect on the international currency exchange rates.
C. cause the U.S. dollar to appreciate.
D. cause the Mexican Peso to depreciate.
E. create a demand for Mexican Pesos and a supply of U.S. dollars.

15.21 Which of the following will be most likely to cause a nation's currency to depreciate?
A. An increase in the domestic real interest rate.
B. An increase in exports, coupled with a decline in imports.
C. An increase in the nation's rate of inflation.
D. A balance of trade surplus.
E. All of the above.

15.22 Which of the following is most likely to cause a country's currency to appreciate?
A. Rapid growth in incomes (relative to other countries).
B. A high rate of inflation (compared to other countries).
C. Low real interest rates (compared to other countries).
D. An increase in exports (relative to imports).
E. A large increase in the money supply (relative to other countries).

15.23 Which of the following is most likely to cause a country's currency to appreciate?
A. Rapid growth in incomes (relative to other countries).
B. A low rate of inflation (compared to other countries).
C. Low real interest rates (compared to other countries).
D. A decrease in exports (relative to imports).
E. A large increase in the money supply (relative to other countries).

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15.24 Which of the following is most likely to cause a country's currency to appreciate?
A. Rapid growth in incomes (relative to other countries).
B. A high rate of inflation (compared to other countries).
C. High real interest rates (compared to other countries).
D. An increase in imports (relative to exports).
E. A large increase in the money supply (relative to other countries).

15.25 Which of the following is most likely to cause a country's currency to appreciate?
A. Slow growth in incomes (relative to other countries).
B. A high rate of inflation (compared to other countries).
C. Low real interest rates (compared to other countries).
D. An increase in imports (relative to exports).
E. A large increase in the money supply (relative to other countries).

15.26 Which of the following is a true statement?
A. The U.S. current account (trade) deficit is a financial obligation that must be paid by the federal government.
B. The U.S. balance of payments (trade) deficit is an obligation that must be paid by the federal government.
C. A nation cannot run a current account (trade) deficit over a long period of time.
D. A county with poor domestic investment opportunities and a high savings rate will tend to run a current account (trade) deficit.
E. A country with highly attractive domestic investment opportunities and a low saving rate will tend to run a current account (trade) deficit.

15.27 Suppose that the dollar rises in value from 125 yen to 150 yen. As a result,
A. exports to Japan are likely to increase.
B. Japanese tourists will be more likely to visit the U.S.
C. U.S. businesses will be less likely to use Japanese shipping lines to transport their products.
D. U.S. consumers will be more likely to buy imported Japanese cars.
E. none of the above will occur, since Americans buy Japanese goods using dollars, and Japanese consumers buy U.S. goods using Yen.

15.28 If a nation is running a trade deficit (also called a current-account deficit),
A. the debt accumulated must be paid by the nation's government.
B. the nation's export of goods and services exceeds its imports.
C. the nation is also probably running a capital account deficit as well.
D. the nation's import of goods and services exceeds its exports.
E. the nation probably has few attractive investment opportunities compared to other countries.

15.29 Which of the following is the most likely effect of an unanticipated expansionary monetary policy?
A. The value of the currency will rise, capital will flow into the country, and trade will shift towards a deficit.
B. The value of the currency will fall, capital will flow out of the country, and trade will shift towards a deficit.
C. The value of the currency will fall, capital will flow out of the country, and trade will shift towards a surplus.
D. The value of the currency will rise, capital will flow out of the country, and trade will shift towards a deficit.
E. The value of the currency will rise, capital will flow into the country, and trade will shift towards a surplus.

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15.30 Which of the following is the most likely effect of an unanticipated restrictive monetary policy?

A. The value of the currency will rise, capital will flow into the country, and trade will shift towards a deficit.

B. The value of the currency will fall, capital will flow out of the country, and trade will shift towards a deficit.

C. The value of the currency will fall, capital will flow out of the country, and trade will shift towards a surplus.

D. The value of the currency will rise, capital will flow out of the country, and trade will shift towards a deficit.

E. The value of the currency will rise, capital will flow into the country, and trade will shift towards a surplus.

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Answers

15.1 E If each country specializes in producing those goods that it can produce at lower cost, resources can be freed up to make other things (or more desired things), resulting in greater production overall.

15.2 E If each country specializes in producing those goods that it can produce at lower cost, resources can be freed up to make other things (or more desired things), resulting in greater production overall.

15.3 B If each country imports those goods that it can produce at high cost, resources can be freed up to make other things (that the country is better suited to produce).

15.4 A At every price there is a domestic quantity demanded for a good and a domestic quantity supplied. If the price is determined by some force outside the market, such as a price floor, the quantity demanded and quantity supplied might not be equal. If the outside force is the world market's price, the quantity demanded and quantity supplied might similarly not be equal. The shortage that results if the world price is lower than the domestic price is the amount of good that will be imported to satisfy the demand.

15.5 B In effect, international trade tends to equalize the prices of goods, so that every country has similar prices. If the domestic price of a good starts out higher than the international price, that good will be imported, and the additional supply from foreign producers will push the good's price down. If the domestic price of a particular good starts out lower than the international price, that good will be exported, and the foreign demand will tend to move its price upward.

15.6 D A tariff is a tax on imported goods.

15.7 C Tariffs (taxes) on imported goods will reduce both imports and exports. By making the prices of the imported goods higher, the tariff reduces quantity demanded of the good overall. True, more of that quantity demanded will now be satisfied by (more expensive) domestically produced goods rather than imports. However, the total demand will not change, and so the higher price will reduce total quantity demanded. A secondary effect of a tariff is that fewer purchases from other countries will give the people of those countries less income and fewer dollars with which to buy goods that we export. Thus, a tax on imports reduces both imports and exports.

15.8 E Tariffs (taxes) on imported goods will reduce both imports and exports. By making the prices of the imported goods higher, the tariff reduces quantity demanded of the good overall. True, more of that quantity demanded will now be satisfied by (more expensive) domestically produced goods rather than imports. However, the total demand will not change, and so the higher price will reduce total quantity demanded.

15.9 B Tariffs (taxes) on imported goods will reduce both imports and exports. By making the prices of the imported goods higher, the tariff reduces quantity demanded of the good overall. True, more of that quantity demanded will now be satisfied by (more expensive) domestically produced goods rather than imports. However, the total demand will not change, and so the higher price will reduce total quantity demanded.

15.10 C Tariffs (taxes) on an item will make the price of the item higher by reducing the imported supply, and thus reducing the item's supply overall. This will mean higher costs and lower production of any other goods that might be made using that item. The number of people affected in the secondary way is probably much greater than those few domestic suppliers who benefit from decreased competition from imports.

15.11 C Tariffs, being taxes, are a source of revenue for government. Quotas restrict imports, but the government does not directly collect revenues from the imposition of quotas.

15.12 A Trade restrictions raise the prices of imported products and their domestically produced alternatives. Also, trade restrictions raise the prices of imported resources that might be used to make domestically produced goods, thus raising the prices of those goods as well. Such greater prices and reduced opportunities for purchase and consumption, tend to lower the standard of living. Also, since producers are prevented from producing those goods in which they have a comparative advantage (and instead produce goods for which they do not have a comparative advantage), even domestic employment may be reduced.

15.13 A The practice of "dumping" foreign goods into the domestic market at prices lower than cost is beneficial

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to consumers of imported goods, but may harm domestic producers who cannot compete with the low prices. In the short run, prices will be below cost for the domestic producers, and so they will lose profits in the short run. However, if domestic producers are able to "wait out" the period of time in which prices are low, they may be better off in the long run than their foreign competitors who did the dumping. This is because the foreign "dumpers" have to produce output and sell it below cost (losing money) while the domestic firms might be able to just sit by, engage in research into future products, or otherwise do things that lose less money than making output and selling below cost.

15.14 C Dumping amounts to a gift of output, given to domestic consumers. There still is great benefit in purchasing things from other countries that those other countries can make at lower cost, no matter why the cost is lower.

15.15 A Trade restrictions help a few domestic producers who probably know who they are and how they are being helped. The large number of domestic consumers and producers of other goods who are harmed by the restrictions may not know how much they are harmed, and the loss in utility is spread over many consumers and producers.

15.16 A When a currency appreciates, its price is going up compared to other currencies. That will make its goods seem more expensive (reducing demand for them internationally) and tend to decrease the country's exports due to the higher apparent prices of its goods.

15.17 C When a currency depreciates, its price is going down compared to other currencies. That will make its goods seem less expensive (increasing demand for them internationally) and tend to increase the country's exports due to the lower apparent prices of its goods.

15.18 D When the dollar appreciates, its price is going up compared to other currencies, and other currencies are going down in price compared to the dollar. That will make other countries' goods seem less expensive (increasing demand for them in the U.S.) and tend to increase U.S. imports due to the lower apparent prices of imported goods.

15.19 D When the pound's price is going down, it is depreciating. That means that the dollar is appreciating, so it takes more pounds to buy a dollar, and thus more pounds to buy a dollar's worth of U.S. goods.

15.20 E U.S. tourists create a supply of dollars and a demand for pesos, as they try to sell dollars and buy pesos.

15.21 C When a currency depreciates, its price is going down compared to other currencies, and it costs less of the other countries' money to buy it. This could occur because of an increase in the supply of the depreciating currency or a decrease in demand for that currency. Inflation is due to an increase in money supply, so it is likely to also increase supply of the currency in the foreign exchange market.

15.22 D When a currency appreciates, its price is going up compared to other currencies, and it costs more of the other countries' money to buy it. This could occur because of a decrease in the supply of the appreciating currency or an increase in demand for that currency. A sudden increase in the exports of country A would mean that people in other countries want to buy the goods of country A, and thus will buy the currency of country A to do so. This would be an increase in demand for country A's currency.

15.23 B When a currency appreciates, its price is going up compared to other currencies, and it costs more of the other countries' money to buy it. This could occur because of a decrease in the supply of the appreciating currency or an increase in demand for that currency. Inflation is due to an increase in money supply, so if inflation is low or falling, it is likely due to a lower money supply domestically, which is likely to also result in lower supply in the foreign exchange market.

15.24 C When a currency appreciates, its price is going up compared to other currencies, and it costs more of the other countries' money to buy it. This could occur because of a decrease in the supply of the appreciating currency or an increase in demand for that currency. A high real interest rate will attract foreign investors, who will need to buy the country's currency in order to have the right currency to make investments. Thus, the demand for the country's currency is likely to go up if it has a high real interest rate.

15.25 A When a currency appreciates, its price is going up compared to other currencies, and it costs more of the other countries' money to buy it. This could occur because of a decrease in the supply of the appreciating currency or an increase in demand for that currency. Slow growth of incomes will usually

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mean that the country's consumers don't have the cash to buy many items, including imports. A lower demand for imports will lower the supply of currency in the foreign exchange market, since consumers have little reason to sell their currency to buy currencies from other countries.

15.26 E A current account deficit or trade deficit or balance of payments deficit simply means that more money is leaving the country to buy imported goods than is coming into the country to pay for exported goods. However, the flow of money out must be matched by an equal flow of money into the country. Since the country is not exporting a lot of goods to other countries, the funds going into the country must be going towards investment. If people in other parts of the world are buying bonds and other investments in a particular country (so more money is coming into the country to buy financial and capital items than is leaving the country to do so) the country is said to have a capital account surplus.

15.27 B When the Yen appreciates, the dollar depreciates. That means it takes fewer yen to buy each dollar, and thus it costs fewer yen to buy things from the U.S. or travel in the U.S.

15.28 D A current account deficit or trade deficit means more money is leaving the country to buy imported goods than is coming into the country to pay for exported goods. However, the flow of money out must be matched by an equal flow of money into the country. Since the country is not exporting a lot of goods to other countries, the funds going into the country must be going towards investment.

15.29 C Unanticipated monetary expansion will create some inflation and increase the supply of the currency on the foreign exchange market. This will lower the value of the currency. It will also reduce real interest rates in the short run, thus lowering the demand of the currency. Since investments in the country are not as attractive, capital (investment money) will leave the country, creating a capital account deficit. Goods in the country will look more attractive to foreign buyers (because of the low value of the currency), so exports will increase, moving the balance of trade to a surplus.

15.30 A Restrictive monetary policy will increase real interest rates in the short run. This will increase the value of the currency, since people in other countries will want to make investments in the country, thus increasing the demand of the currency. Since investments in the country are more attractive, capital (investment money) will flow into the country, creating a capital account surplus. Goods in the country will look less attractive to foreign buyers (because of the high value of the currency), so exports will decrease, moving the balance of trade to a deficit.

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