1. Goods and services bought domestically but produced in other countries are referred to as
   A) exports.
   B) imports.
   C) transfer payments.
   D) foreign consumption.

2. Exports are domestically produced goods and services
   A) sold to other countries.
   B) sold to the government.
   C) sold at home.
   D) which are used to produce other goods and services.

3. When Roxanne, a U.S. citizen, purchases a designer dress from Barneys of New York that was made in Milan, the purchase is
   A) both a U.S. and an Italian import.
   B) a U.S. import and an Italian export.
   C) a U.S. export and an Italian import.
   D) neither an export nor an import for either country.

4. A tariff is a tax imposed by a government on
   A) exports.
   B) services.
   C) imports.
   D) luxury items.

5. A numerical limit imposed by a government on the quantity of a good that can be imported into the country is called a
   A) tariff.
   B) quota.
   C) quantity floor.
   D) barricade.
6. Absolute advantage is
   A) the ability to produce more of a good or service than competitors when using the same amount of resources.
   B) the ability to produce higher quality goods compared to one's competitors.
   C) the ability to produce a good or service at a higher opportunity cost than one's competitors.
   D) the ability to produce more of a good or service than competitors that have more resources.

7. _______ is the ability of an individual, a firm, or a country to produce a good or service at a lower opportunity cost than competitors.
   A) Absolute advantage
   B) Specialization
   C) Autarky
   D) Comparative advantage

<table>
<thead>
<tr>
<th></th>
<th>Pies</th>
<th>Cakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarita</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Gabriel</td>
<td>12</td>
<td>16</td>
</tr>
</tbody>
</table>

Sarita and Gabriel own S&G Bakery. Table 9-2 lists the number of pies and cakes Sarita and Gabriel can each bake in one day.

8. **Refer to the above table.** Select the statement that accurately interprets the data in the table.
   A) Sarita has an absolute advantage in baking cakes and Gabriel has an absolute advantage in baking pies.
   B) Sarita has an absolute advantage in baking pies and Gabriel has an absolute advantage in baking cakes.
   C) Sarita has an absolute advantage in baking pies and cakes.
   D) Gabriel has an absolute advantage in baking pies and cakes.

9. **Refer to the above table.** Select the statement that accurately interprets the data in the table.
   A) Sarita has a comparative advantage in baking pies.
   B) Gabriel has a comparative advantage in baking cakes.
   C) Sarita has a comparative advantage in baking pies and baking cakes.
   D) Sarita has a comparative advantage in baking cakes.

10. **Refer to the above table.** Select the statement that accurately interprets the data in the table.
    A) Sarita has a comparative advantage in baking pies.
    B) Gabriel has an absolute advantage in baking cakes.
    C) Gabriel has a comparative advantage in baking pies.
    D) Gabriel has a comparative advantage in baking pies and baking cakes.
11. If Canada has a comparative advantage relative to Mexico in the production of timber, then
A) the explicit cost of production for timber is lower in Canada than in Mexico.
B) the opportunity cost of production for timber is lower in Canada than in Mexico.
C) the implicit costs of production for timber are lower in Canada than in Mexico.
D) the average cost of production for timber is lower in Canada than in Mexico.

12. If Canada imports fishing poles from Mexico and Mexico imports bacon from Canada, which
of the following would explain this pattern of trade?
A) Mexico has a lower opportunity cost of producing bacon than Mexico and Mexico has a
comparative advantage in producing fishing poles.
B) The opportunity cost of producing fishing poles in Canada is higher than the opportunity cost
in Mexico.
C) Mexico must have an absolute advantage in producing fishing poles and Canada must have an
absolute advantage in bacon.
D) Mexico has a higher opportunity cost of producing fishing poles than Canada, and Canada has
a higher opportunity cost of producing bacon.

13. Countries that engage in trade will tend to specialize in the production of goods and services
in which they have ________ and will ________ these goods and services.
A) a comparative advantage; import
B) an absolute advantage; export
C) a comparative advantage; export
D) an absolute advantage; import

14. In the real world we don't observe countries completely specializing in the production of
goods for which they have a comparative advantage. One reasons for this is
A) comparative advantage works better in theory than in practice.
B) some countries have more resources than other countries.
C) tastes for many traded goods are similar in many countries because of globalization.
D) production of most goods involves increasing opportunity costs.

15. Which of the following is not a source of comparative advantage?
A) relative abundance of labor and capital
B) technology
C) climate and natural resources
D) a strong foreign currency exchange rate
16. China has developed a comparative advantage in the production of clothing. The source of this comparative advantage is
A) a large supply of natural resources.
B) a large supply of unskilled workers and relatively little capital.
C) investment in capital used to produce clothing.
D) superior process technology.

17. The United States has developed a comparative advantage in film production due to the film industry being long-established in southern California, and lower costs result from the size of the industry in the area. This source of comparative advantage is referred to as
A) the abundance of natural resources.
B) superior process technology.
C) external economies.
D) best practices of unskilled labor.

18. The United States is a leading exporter of wheat. What explains the comparative advantage of the United States in wheat production?
A) positive externalities
B) investment by multinational firms such as Archer-Daniels-Midland and the Tyson Foods Inc.
C) climate and soil conditions in the United States which are well-suited for wheat production
D) a large supply of unskilled labor

19. In the 1970s and 1980s, the United States lost its comparative advantage in consumer electronics goods to Japan. What factor was most responsible for the development of Japan's comparative advantage in consumer electronics goods?
A) Japanese firms benefited from external economies.
B) Japan has abundant supplies of labor.
C) Japanese firms excelled in process technology.
D) Japan has abundant supplies of natural resources needed to produce electronics goods.
Suppose the U.S. government imposes a $0.40 per pound tariff on rice imports. Figure 9-2 shows the impact of this tariff.

20. **Refer to the above figure.** The tariff revenue collected by the government equals the area
A) $D + E + F$.
B) $E$.
C) $B + D + E + F$.
D) $C + D + E + F$.

21. **Refer to the above figure.** The tariff causes domestic consumption of rice
A) to fall by 27 million pounds.
B) to fall by 11 million pounds.
C) to rise by 6 million pounds.
D) to rise by 16 million pounds.

22. **Refer to the above figure.** As a result of the tariff, domestic producers increase their quantity supplied by
A) 31 million pounds of rice.
B) 22 million pounds of rice.
C) 15 million pounds of rice.
D) 6 million pounds of rice.

23. **Refer to the above figure.** The increase in domestic producer surplus as a result of the tariff is equal to the area
A) $C$.
B) $C + G$.
C) $A + C + G$.
D) $C + D + G + H + I$. 
24. **Refer to the above figure.** The loss in domestic consumer surplus as a result of the tariff is equal to the area
   A) $B + D + E + F$.
   B) $D + E + F$.
   C) $C + D + E + F$.
   D) $B$.

25. Free trade ________ living standards by ________ economic efficiency.
   A) raises; increasing
   B) lowers; decreasing
   C) raises; equalizing
   D) lowers; eliminating

26. Which of the following statements is true?
   A) All individuals in both countries are made better off as a result of international trade.
   B) Within each country, some individuals are made better off as a result of international trade, but one of the countries will be worse off overall.
   C) Although some individuals are made better off as a result of international trade, both countries may be made worse off overall.
   D) Each country as a whole is made better off as a result of international trade, but individuals within each country may be made worse off.

27. Protectionism
   A) is the use of cheap labor to protect firms from paying high wages.
   B) is the use of trade barriers to protect domestic firms from foreign competition.
   C) refers to reductions in tariffs and other barriers that protect consumers from paying high prices.
   D) refers to the use of copyright and trademark laws to protect inventors and artists from losing the rights to their creative efforts.

28. Many economists criticize protectionism because it causes losses to consumers and eliminates jobs in domestic industries that use protected products. Why, then, do some people support protectionism?
   A) The criticisms of economists are based on theory. In fact, protectionism increases consumer and producer surplus as well as employment.
   B) Supporters of protectionism in high-income countries believe that wages will fall as a result of competition with firms from developing countries.
   C) Supporters of protectionism believe free trade will cause their countries to lose their comparative advantage.
   D) Supporters of protectionism believe that free trade will lead to inflation.
29. Which of the following describes the infant industry argument for protectionism?
A) An industry must be protected in its early stages of development so that firms can compete with government-subsidized foreign competition.
B) Some strategic industries must be protected to ensure adequate supplies of resources needed for national defense in emergencies.
C) Domestic producers in high-wage countries must be protected from foreign producers in low-wage countries to produce a level playing field.
D) Domestic producers require time to gain experience and lower their unit costs; this will allow these producers to compete successfully in international markets.

30. Economists believe the most persuasive argument for protectionism is to protect infant industries. But the argument has a drawback. What is this drawback?
A) Governments always make the level of protection for infant industries too high.
B) Governments are usually too impatient and do not allow protection to remain in place long enough to allow industries to be competitive in international markets.
C) Governments usually use tariffs, rather than quotas, to protect infant industries in order to collect tariff revenue. (Quotas do not result in government revenue).
D) Protection lessens the need for firms to become productive enough to compete with foreign firms; this often results in infant industries never "growing up."

Key

5. B  15. D  25. A