

Student: _____
Date: _____
Time: _____

Instructor: Muhammad Rahman
Course: 20101_Econ410_International
Economics (Section 02)
Book: Krugman/Obstfeld: International
Economics 8e

Assignment: Homework_1

1. A country engaging in trade according to the principles of comparative advantage gains from trade because it
- A. is producing imports indirectly more efficiently than it could domestically.
 - B. is producing exports using fewer labor units.
 - C. is producing exports indirectly more efficiently than it could alternatively.
 - D. is producing imports indirectly using fewer labor units.
 - E. None of the above.

Answer: A

2.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above, if it is ascertained that Foreign uses prison – slave labor to produce its exports, then home should

- A. export both and import nothing.
- B. export cloth.
- C. export widgets.
- D. export and import nothing.
- E. All of the above.

Answer: B

3.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above, if the Home economy suffered a meltdown, and the Unit Labor Requirements doubled to 30 for cloth and 60 for widgets then home should

- A. export both and import nothing.
- B. export and import nothing.
- C. export cloth.
- D. export widgets.
- E. All of the above.

Answer: C

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4. The Gains from Trade associated with the principle of Comparative Advantage depends on

- A. the trade partners must differ in technology or tastes.
- B. there can be no more goods traded than the number of trade partners.
- C. there may be no more trade partners than goods traded.
- D. All of the above.
- E. None of the above.

Answer: A

5. The Ricardian model demonstrates that

- A. trade between two countries may benefit both if each exports the product in which it has a comparative advantage.
- B. trade between two countries will benefit both countries.
- C. trade between two countries may benefit both regardless of which good each exports.
- D. trade between two countries may benefit one but harm the other.
- E. None of the above.

Answer: A

6.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above

- A. Home has a comparative advantage in both products.
- B. Home has a comparative advantage in cloth.
- C. neither country has a comparative advantage.
- D. Foreign has a comparative advantage in cloth.
- E. Home has a comparative advantage in widgets.

Answer: B

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7.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above, if wages were to double in Home, then Home should

- A. export both and import nothing.
- B. export widgets.
- C. export cloth.
- D. export and import nothing.
- E. All of the above.

Answer: C

8.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above, the opportunity cost of cloth in terms of widgets in Foreign is if it is ascertained that Foreign uses prison – slave labor to produce its exports, then home should

- A. export and import nothing.
- B. export cloth.
- C. export both and import nothing.
- D. export widgets.
- E. All of the above.

Answer: D

9.

Unit Labor Requirements		
	Cloth	Widgets
Home	10	20
Foreign	60	30

Given the information in the table above, if the world equilibrium price of widgets were 4 Cloths, then

- A. both countries could benefit from trade with each other.
- B. neither country could benefit from trade with each other.
- C. each country will want to export the good in which it enjoys comparative advantage.
- D. neither country will want to export the good in which it enjoys comparative advantage.
- E. both countries will want to specialize in cloth.

Answer: A

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10. In a two product two country world, international trade can lead to increases in
- A. total production of both products but not consumer welfare in both countries.
 - B. output of both products and consumer welfare in both countries.
 - C. consumer welfare only if output of both products is increased.
 - D. consumer welfare in both countries but not total production of both products.
 - E. None of the above.

Answer: B

11. A nation engaging in trade according to the Ricardian model will find its consumption bundle
- A. on its trade – partner's production possibilities frontier.
 - B. inside its production possibilities frontier.
 - C. outside its production possibilities frontier.
 - D. inside its trade – partner's production possibilities frontier.
 - E. on its production possibilities frontier.

Answer: C

12. In the Ricardian model, if a country's trade is restricted, this will cause all except which?
- A. cause nations to produce inside their production possibilities curves
 - B. limit specialization and the division of labor
 - C. may result in a country producing some of the product of its comparative disadvantage
 - D. reduce the volume of trade and the gains from trade
 - E. None of the above.

Answer: A

13. If the world terms of trade for a country are somewhere between the domestic cost ratio of H and that of F, then
- A. country H but not country F will gain from trade.
 - B. country H and country F will both gain from trade.
 - C. neither country H nor F will gain from trade.
 - D. only the country whose government subsidizes its exports will gain.
 - E. None of the above.

Answer: B

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14. According to Ricardo, a country will have a comparative advantage in the product in which its

- A. labor mobility is relatively low.
- B. labor productivity is relatively high.
- C. labor mobility is relatively high.
- D. labor productivity is relatively low.
- E. None of the above.

Answer: B

15. Assume that labor is the only factor of production and that wages in the United States equal \$20 per hour while wages in Japan are \$10 per hour. Production costs would be lower in the United States as compared to Japan if

- A. U.S. labor productivity equaled 40 units per hour and Japan's 15 units per hour.
- B. U.S. productivity equaled 30 units per hour whereas Japan's was 20.
- C. U.S. labor productivity equaled 20 and Japan's 30.
- D. U.S. labor productivity equaled 15 and Japan's 25 units per hour.
- E. None of the above.

Answer: A

16. In the Ricardian model, comparative advantage is not likely be due to

- A. home product taste bias.
- B. scale economies.
- C. greater capital availability per worker.
- D. All of the above.
- E. None of the above.

Answer: D

17. If two countries have identical production possibility frontiers, then trade between them is not likely if

- A. their demand conditions are identical.
- B. their supply curves are identical.
- C. their cost functions are identical.
- D. their incomes are identical.
- E. None of the above.

Answer: E

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18. If one country's wage level is very high relative to the other's (the relative wage exceeding the relative productivity ratios), then if they both use the same currency

- A. consumers will still find trade worth while from their perspective.
- B. only the low wage country has a comparative advantage.
- C. neither country has a comparative advantage.
- D. only the high wage country has a comparative advantage.
- E. None of the above.

Answer: E

19. Which of the following statements is true?

- A. Free trade is beneficial only if your country is strong enough to stand up to foreign competition.
- B. Free trade is beneficial only if your competitor does not pay unreasonably low wages.
- C. Free trade is beneficial only if both countries have access to the same technology.
- D. All of the above.
- E. None of the above.

Answer: E

20. Mahatma Gandhi exhorted his followers in India to promote economic welfare by decreasing imports. This approach

- A. makes no sense.
- B. is not consistent with the Ricardian model of comparative advantage.
- C. is consistent with the the Ricardian model of comparative advantage.
- D. makes no economic sense.
- E. None of the above.

Answer: B