

International Economics, 8e (Husted/Melvin)
Chapter 1 An Introduction to International Trade

1.1 Multiple-Choice Questions

1) Countries of the world differ in terms of their

- A) geographic size.
- B) population size.
- C) standards of living.
- D) All of the above.

Answer: D

2) The difference between a country's Gross National Product (GNP) and its Gross Domestic product (GDP) is that

- A) GNP refers to production within the nation while GDP refers to production by domestic factors no matter where they are located.
- B) GNP is always bigger than GDP.
- C) GDP refers to production within the nation while GNP refers to production by domestic factors no matter where they are located.
- D) Two of the above are true.

Answer: C

3) Per capita GNP is defined as a country's GNP divided by its

- A) population.
- B) labor force.
- C) capitalists.
- D) None of the above.

Answer: A

4) Which of the following statements is false?

- A) Richer countries tend to be found in North America, Western Europe, and Japan.
- B) Countries with large populations tend to be rich.
- C) Growth of per capita GNP tends to be quite stable about 1.5-3 percent per year in industrialized countries.
- D) Over the past several decades, growth of per capita GNP tends to be higher on average in industrialized countries than in low or middle-income countries.

Answer: B

5) The ratio of a country's exports to its total output (GNP or GDP)

- A) is known as the index of openness.
- B) provides a rough measure of the importance of international trade to that economy.
- C) if calculated for the United States would be quite low.
- D) All of the above.

Answer: D

6) Which of the following statements is false?

- A) Between 1980 and 2006, the index of openness has risen for most countries.
- B) Since 1950, international trade has been growing faster than the growth of world output.
- C) A country cannot be a leading world exporter without a high index of openness.
- D) Two of the above are true.

Answer: C

7) Barriers to trade

- A) include government policies such as tariffs and quotas.
- B) have been falling with technological improvements in transportation and communication.
- C) have risen since World War II as many countries have imposed higher tariffs.
- D) Two of the above are true.

Answer: D

8) Which of the following is true?

- A) Much of the trade of the European Union (EU) countries is with EU countries.
- B) Industrialized countries tend to trade relatively little and largely with developing countries.
- C) Developing countries in Africa and South America tend to trade the most and largely with themselves.
- D) All of the above are true.

Answer: A

9) The leading trading partner of the United States is

- A) Canada.
- B) Japan.
- C) Germany.
- D) Mexico.

Answer: A

10) Which of the following statements is true?

- A) Countries tend to trade extensively with their neighbors.
- B) The United States is an important trading partner for many countries.
- C) The largest amount of international trade occurs between industrialized countries.
- D) All of the above are true.

Answer: D

11) The most commonly traded product (by value) in recent years has been

- A) automobiles.
- B) wheat.
- C) televisions, stereos, and VCRs.
- D) steel.

Answer: A

- 12) The United States tends to export
- A) only a narrow range of products such as wheat.
 - B) a wide set of products, primarily manufactured goods.
 - C) very little.
 - D) None of the above.

Answer: B

- 13) Japanese exports are heavily concentrated in
- A) agricultural products such as rice.
 - B) natural resource products such as coal.
 - C) manufactured products including motor vehicles.
 - D) Both A and C.

Answer: C

- 14) The types of goods Japan exports and imports appear to be well explained by
- A) Japanese endowments of factors of production (e.g. land, labor, capital, natural resources).
 - B) high and rising Japanese tariffs.
 - C) advertising and other sales promotion efforts.
 - D) All of the above.

Answer: A

- 15) International trade

- A) accounts for more than 90 percent of world economic activity.
- B) is a relatively small (about 30 percent of world output) but growing part of world economic activity.
- C) has been growing at about the same rate as the world economy.
- D) Both A and C.

Answer: B

- 16) Which of the following statements about the United States was true as of 2007?

- A) It was the world's largest exporter.
- B) It had the world's largest deficit in its current account.
- C) It had the world's largest surplus in its current account.
- D) None of the above are true.

Answer: B

- 17) In the last 20 years, which of the following countries has experienced positive economic growth?

- A) Russia.
- B) Zimbabwe.
- C) Haiti.
- D) All of the above have seen their economies decline during this period.

Answer: A

18) Which of the following countries has experienced negative economic growth in the last 20 years?

- A) Zimbabwe.
- B) Chad.
- C) The United States.
- D) China.

Answer: A

1.2 True or False Questions

1) A country's GNP is always larger than its GDP.

Answer: FALSE

2) A country's index of openness can never exceed 100 in value.

Answer: FALSE

3) Growth in per capita GNP in developing countries has tended to be much more variable in recent years than per capita GNP growth rates in industrialized countries.

Answer: TRUE

4) If a country is industrialized then prolonged periods of negative growth in GNP per capita should not be a cause for concern.

Answer: FALSE

5) Between 1980 and 2006, virtually all countries have become more open.

Answer: TRUE

6) Large countries tend to be more open than small countries.

Answer: FALSE

7) As measured by the index of openness, the United States is relatively closed, and yet, it was the world's largest exporter in 2007.

Answer: FALSE

8) Travel services include purchases of items by residents of one country when they travel to another country.

Answer: TRUE

9) Countries have trade surpluses when they export more than they import.

Answer: TRUE

10) Most of world trade is in the form of manufactured consumer goods such as TVs, stereos, VCRs, and running shoes.

Answer: FALSE

11) In the last 20 years, all of the countries in Africa have experienced positive economic growth.

Answer: FALSE

12) Demand for oil around the world tends to be very inelastic.

Answer: TRUE

13) As of 2007, the United States is the world's largest importer.

Answer: TRUE

1.3 Essay Questions

1) Can a country have a trade deficit forever?

Answer: Countries whose imports exceed exports are said to run trade deficits. Countries cannot run trade deficits forever, just like individuals cannot borrow indefinitely. This is illustrated by the fact that the revenue earned from selling exports is the primary means for purchasing imports. Thus, in some years countries will have to export more than they import to repay for their past debts.

2) Has world trade increased continually over the 60 years?

Answer: World trade has grown virtually every year over the past six decades. Nonetheless, real world exports did fall in several years, most notably in the mid 1970s, the early 1980s and again in 2001. The common feature of all of these periods is that they encompass recessions that occurred in the United States and other industrialized countries.