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INTERNATIONAL TRADE AND CAPITAL FLOWS

1. The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

Units of Output Per Day		
	Country A	Country B
Food	9	5
Drink	7	5

Which of the following statements is most accurate?

- (A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
- (B) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
- (C) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
2. In the balance of payments accounts, goods and financial assets that migrants bring to a country are included in the:
- (A) capital account.
- (B) current account.
- (C) financial account.
3. The law of comparative advantage holds that trading partners can be made better off if they:
- (A) specialize in goods for which they are the low opportunity cost producer.
- (B) import and export only those goods that other countries can produce at a lower cost.
- (C) manage their currency exchange rates to remain the low opportunity cost producer.
4. The least likely result of import quotas and voluntary export restraints is:
- (A) a decrease in the quantity of imports of the product.
- (B) a shift in production toward higher-cost suppliers.
- (C) increased revenue for the government.

5. Holding other factors constant, a country can reduce its trade deficit by increasing its:
- (A) domestic capital investment.
 - (B) government budget deficit.
 - (C) private saving.
6. Which of the following statements about the costs and benefits of international trade is most accurate?
- (A) Increased international trade benefits all groups in the trading countries.
 - (B) The costs of trade are greater than the benefits with regard to domestic employment.
 - (C) The costs of trade primarily affect those in domestic industries that compete with imports.
7. Which of the following arguments in favor of trade restrictions is least likely to be supported by economists?
- (A) Infant industries should be protected.
 - (B) National defense industries should be protected.
 - (C) Trade with low-wage countries depresses wage rates in high-wage countries.
8. The form of regional trading agreement (RTA) least likely to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:
- (A) customs union.
 - (B) common market.
 - (C) free trade area.
9. A government that imposes restrictions on capital flows into or out of its country is most likely attempting to:
- (A) reduce the volatility of domestic asset prices.
 - (B) encourage competition among domestic industries.
 - (C) implement floating exchange rates.
10. Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:
- (A) will protect the jobs and high wages of Japanese chain saw industry workers.
 - (B) is more harmful than if the government had limited the amount of chain saws imported.
 - (C) benefits the Japanese government and domestic producers.

11. Settling trade disputes and establishing agreements between trading partners most accurately describe the activities of the:
- (A) World Bank.
 - (B) International Monetary Fund.
 - (C) World Trade Organization.
12. Sales and purchases of non-produced, non-financial assets are included in which of a country's trade accounts?
- (A) Capital account.
 - (B) Current account.
 - (C) Financial account.
13. David Forsythe and Linda Novak are discussing the advantages and disadvantages of import restrictions. They state the following:
- Forsythe: One of the groups that benefits from import restrictions is often the government that imposes them.
- Novak: Import restrictions impose costs on specific groups, such as the country's import industries, but these costs are more than offset by the benefits to other groups and to the economy as a whole.
- With respect to these statements:
- (A) only one is correct.
 - (B) both are incorrect.
 - (C) both are correct.
14. Which group is most likely to benefit from a quota imposed on imports of a good?
- (A) Domestic producers of the good.
 - (B) Foreign consumers of the good.
 - (C) Domestic consumers of the good.
15. For a country that produces €100 million more income from foreign capital invested within the country than from domestic investment abroad, and produces €100 million more goods and services by foreign labor within the country than by its citizens abroad, gross national product is:
- (A) equal to gross domestic product.
 - (B) less than gross domestic product.
 - (C) greater than gross domestic product.

16. In 20X5, Carthage's merchandise imports exceeded the value of its merchandise exports. In this case, Carthage would most likely have which of the following?
- (A) Balance of trade surplus.
 - (B) Current account surplus.
 - (C) Capital account surplus.
17. Government-owned assets abroad and foreign-owned assets in the country are included in which of the balance of payments accounts?
- (A) Capital account.
 - (B) Current account.
 - (C) Financial account.
18. Costs of international trade are most likely borne by:
- (A) consumers who have fewer choices of goods.
 - (B) consumers who pay higher prices for consumer goods.
 - (C) industries competing with imported goods.
19. Suppose labor in Venezuela is less productive than labor in the United States in all areas of production. Which of the following statements about trading between Venezuela and the U.S. is most accurate?
- (A) Both nations can benefit from trade.
 - (B) Venezuela can benefit from trade but the U.S. cannot.
 - (C) Venezuela will not have a comparative advantage in any good.
20. For an analyst interested in measuring activity within an economy, the most appropriate measure to use is:
- (A) gross domestic product.
 - (B) gross national product.
 - (C) national income.
21. In the Heckscher-Ohlin model, whether a country has a comparative advantage relative to another country is determined:
- (A) by the amounts of labor and capital the countries possess.
 - (B) by the amount of capital and the level of technology in each country.
 - (C) only by the productivity of labor in each country.

22. Which of the following groups in the country of Minidonia would least likely be helped by the imposition of tariffs on Minidonian imports of transportation equipment?
- (A) Automotive manufacturers.
 - (B) Minidonia's government.
 - (C) Trucking companies.
23. Which of the following is least likely a common objective of governmental capital restrictions?
- (A) Keep domestic interest rates high.
 - (B) Maintain fixed exchange rates.
 - (C) Reduce the volatility of domestic asset prices.
24. A government that wishes to reduce the volatility of domestic asset prices and protect domestic industries is most likely to:
- (A) impose capital restrictions.
 - (B) participate in regional trading agreements.
 - (C) adopt voluntary export restraints.
25. Country P begins importing goods from Country Q. In the long run, benefits from this trade relationship will most likely accrue to:
- (A) Country Q only.
 - (B) Country P only.
 - (C) both Country P and Country Q.
26. The income from a country's citizens working abroad is included in:
- (A) gross domestic product, but not gross national product.
 - (B) gross national product, but not gross domestic product.
 - (C) neither gross domestic product nor gross national product.
27. If a country can produce a good at a lower opportunity cost relative to another country, it is said to have:
- (A) a comparative advantage only.
 - (B) both an absolute advantage and a comparative advantage.
 - (C) an absolute advantage only.
28. An anti-dumping restriction on trade:
- (A) prohibits foreign firms from selling products below cost to gain market share.
 - (B) keeps some highly sensitive products in the country.
 - (C) protects infant industries.

29. Two of the balance of payments accounts are:
- (A) capital account and currency account.
 - (B) financial account and non-financial account.
 - (C) current account and financial account.
30. Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:
- (A) protect industries that are highly sensitive to national security.
 - (B) prohibit foreign firms from increasing market share by selling products below cost.
 - (C) protect industries in which they have a comparative advantage.
31. Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is best described as a(n):
- (A) monetary union.
 - (B) customs union.
 - (C) economic union.
32. If a country imposes a tariff on an imported good, which groups will most likely be harmed by the tariff?
- (A) Domestic producers.
 - (B) Domestic consumers.
 - (C) Foreign consumers.
33. The table below outlines the possible output per unit of labor input of producing beer and cheese for Germany and Holland.
- Which of the following statements is most accurate?
- | Germany | | Holland | |
|---------|------|---------|------|
| Cheese | Beer | Cheese | Beer |
| 5 | 10 | 4 | 6 |
- (A) Both countries would gain if Germany traded beer for Holland's cheese.
 - (B) Both countries would gain if Germany traded cheese for Holland's beer.
 - (C) Germany would not gain from trade, because it has an absolute advantage in the production of both goods.
34. The source of comparative advantage in the Heckscher-Ohlin model of trade is differences among countries in:
- (A) labor productivity.
 - (B) relative scarcity of labor and capital.
 - (C) technological advancement.

35. The source of comparative advantage, according to the Heckscher-Ohlin model of international trade, is each country's:
- (A) available natural resources.
 - (B) labor productivity.
 - (C) relative amounts of labor and capital.
36. In what way does a tariff differ from a quota? A tariff is imposed:
- (A) by world organizations, and quotas are imposed by individual countries.
 - (B) by a single government, and a quota is a worldwide agreement on the total amount of trade allowed.
 - (C) as a tax on imports, and a quota limits the quantity that can be imported.
37. Capital transfers and sales of non-financial assets are included in which of the balance of payments accounts?
- (A) Capital account.
 - (B) Current account.
 - (C) Financial account.
38. In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:
- (A) currency.
 - (B) set of economic policies.
 - (C) set of trade restrictions with non-members.
39. In the Ricardian model of trade, the source of comparative advantage is:
- (A) capital productivity.
 - (B) labor productivity.
 - (C) the difference between labor productivity and capital productivity.
40. The primary goals of the International Monetary Fund (IMF) include:
- (A) promoting exchange rate stability.
 - (B) reducing global poverty.
 - (C) resolving trade-related disputes among nations.
41. A country has a comparative advantage over another when it can produce:
- (A) more output with a given amount of input than another nation.
 - (B) a good with fewer resources than another nation.
 - (C) a good at a lower opportunity cost than another nation.

42. Promoting international monetary cooperation, promoting exchange stability, and assisting members experiencing balance of payments difficulties are the goals of the:
- (A) World Trade Organization.
 - (B) International Monetary Fund.
 - (C) World Bank.
43. In contrast to gross domestic product (GDP), gross national product (GNP) includes income earned by:
- (A) domestic capital invested abroad.
 - (B) foreign capital invested domestically.
 - (C) foreign labor working domestically.
44. The table below outlines the possible tradeoffs of producing units of cloth and corn, using one hour of labor input, for Country A and Country B.

Country A		Country B	
Units OF Cloth	Units of Corn	Units OF Cloth	Units of Corn
14	4	16	8

Country A has a comparative advantage in producing:

- (A) cloth.
 - (B) corn.
 - (C) neither cloth nor corn.
45. Which form of regional trading agreement is least likely to allow free movement of labor?
- (A) Economic union.
 - (B) Common market.
 - (C) Customs union.
46. The most accurate description of the relative roles played by the International Monetary Fund, World Bank, and World Trade Organization is that the only one explicitly focused on:
- (A) expanding international trade is the World Trade Organization.
 - (B) providing funding to member nations is the International Monetary Fund.
 - (C) reducing poverty is the World Bank.
47. In a country that has a current account surplus, it is most likely that:
- (A) private domestic savings are greater than the budget deficit.
 - (B) total domestic savings are greater than domestic investment.
 - (C) domestic investment is greater than domestic government savings.

48. The most integrated type of trading bloc or regional trade agreement is a(n):
- (A) common market.
 - (B) economic union.
 - (C) monetary union.
49. A country that has imports valued more than its exports is said to have a:
- (A) capital account deficit.
 - (B) current account deficit.
 - (C) current account surplus.
50. Income receipts and unilateral transfers are included in which of the balance of payments accounts?
- (A) Current account.
 - (B) Capital account.
 - (C) Financial account.
51. According to the law of comparative advantage:
- (A) if a foreign government subsidizes the textile industry, the domestic government should impose a tariff.
 - (B) a nation will benefit from trade when it imports goods for which it is the high cost producer and exports goods for which it is the low-cost producer.
 - (C) Mexico is considered to have a comparative advantage in plastics if Mexico can produce plastic using fewer resources than the U.S.
52. Who benefits least from tariffs?
- (A) Domestic consumers.
 - (B) Domestic producers.
 - (C) Foreign consumers.
53. Other things equal, a current account deficit will tend to narrow if:
- (A) taxes decrease.
 - (B) private savings decrease.
 - (C) domestic investment decreases.
54. In the context of foreign trade, limits on the amounts of imports a country allows over some period are best described as:
- (A) subsidies.
 - (B) quotas.
 - (C) tariffs.

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55. The primary benefits derived from tariffs usually accrue to:
- (A) foreign producers of goods protected by tariffs.
 - (B) domestic producers of export goods.
 - (C) domestic suppliers of goods protected by tariffs.
56. The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

Units of output per Day		
	Country A	Country B
Food	4	8
drink	6	7

Which of the following statements about the chart is most accurate?

- (A) Since B workers can produce more of food and drink than A workers, no gains from trade are possible.
 - (B) Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
 - (C) Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
57. Which of the following lists of trading blocs is most accurately ordered by degree of economic integration, from least to most integrated?
- (A) Free trade area, economic union, common market.
 - (B) Free trade area, common market, customs union.
 - (C) Customs union, economic union, monetary union.
58. Regional trade agreements exist primarily to:
- (A) improve economic welfare for their members.
 - (B) lower currency volatility for their members.
 - (C) protect their members from unfair trading practices by non-members.

