17 INTERNATIONAL TRADE

1. 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) economic union.
   (B) monetary union.
   (C) customs union.

2. Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:
   (A) protect industries in which they have a comparative advantage.
   (B) prohibit foreign firms from increasing market share by selling products below cost.
   (C) protect industries that are highly sensitive to national security.

3. In what way does a tariff differ from a quota? A tariff is imposed:
   (A) by a single government, and a quota is a worldwide agreement on the total amount of trade allowed.
   (B) as a tax on imports, and a quota limits the quantity that can be imported.
   (C) by world organizations, and quotas are imposed by individual countries.

4. Country P begins importing goods from Country Q. In the long run, benefits from this trade relationship will most likely accrue to:
   (A) Country P only.
   (B) Country Q only.
   (C) both Country P and Country Q.

5. 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.

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. If a country imposes a tariff on an imported good, which groups will most likely be harmed by the tariff?
   (A) Foreign consumers.
   (B) Domestic producers.
   (C) Domestic consumers.

8. 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) Customs union, economic union, monetary union.
   (C) Free trade area, common market, customs union.

9. The most integrated type of trading bloc or regional trade agreement is a(n):
   (A) common market.
   (B) economic union.
   (C) monetary union.

10. In the context of foreign trade, limits on the amounts of imports a country allows over some period are best described as:
   (A) tariffs.
   (B) quotas.
   (C) subsidies.

11. Who benefits least from tariffs?
   (A) Domestic consumers.
   (B) Domestic producers.
   (C) Foreign consumers.

12. 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) both are correct.

(B) both are incorrect.

(C) only one is correct.

13. Which form of regional trading agreement is least likely to allow free movement of labor?

(A) Common market.

(B) Customs union.

(C) Economic union.

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. The primary benefits derived from tariffs usually accrue to:

(A) domestic producers of export goods.

(B) foreign producers of goods protected by tariffs.

(C) domestic suppliers of goods protected by tariffs.

16. 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.

17. 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 defence industries should be protected.

(C) Trade with low-wage countries depresses wage rates in high-wage countries.

18. 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) benefits the Japanese government and domestic producers.

(B) will protect the jobs and high wages of Japanese chain saw industry workers.

(C) is more harmful than if the government had limited the amount of chain saws imported.

19. 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) common market.
   (B) customs union.
   (C) free trade area.

20. 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.

21. 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) Minidonia's government.
   (B) Trucking companies.
   (C) Automotive manufacturers.

22. 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.

23. An anti-dumping restriction on trade:
   (A) keeps some highly sensitive products in the country.
   (B) prohibits foreign firms from selling products below cost to gain market share.
   (C) protects infant industries