

## File: c11; Chapter 11: International Trade and Economic Development

## Multiple Choice

1. According to traditional trade theory, a developing nation should export the commodity:
  - a. of its comparative advantage
  - b. that it can produce relatively more efficiently
  - c. intensive in the nation's relatively abundant factor
  - d. all of the above
  
2. Which of the following is false with respect to traditional trade theory?
  - a. it can incorporate changes in factor endowments and technology
  - b. it leads to the best allocation of resources at any point in time
  - c. it is a dynamic theory
  - d. it is based on comparative advantage
  
3. According to Nurkse, international trade was an engine of growth for:
  - a. the regions of recent settlements during the 19th century
  - b. regions of recent settlements during the 20th century
  - c. developed nations during the 19th century
  - d. developed nations during the 20th century
  
4. Trade cannot be an engine of growth for today's developing nations because:
  - a. the income elasticity for many of their exports is less than 1
  - b. the development of synthetic substitutes
  - c. technical advances reduced the raw-material content of many products
  - d. all of the above
  
5. If the prices of a nation's exports and imports both rise, the nation's commodity terms of trade:
  - a. improve
  - b. deteriorate
  - c. remain unchanged
  - d. any of the above
  
6. The nation's commodity terms of trade times the productivity index in its export sector gives the nation's
  - a. income terms of trade
  - b. double factorial terms of trade
  - c. single factorial terms of trade
  - d. barter terms of trade

7. When a nation's commodity terms of trade deteriorate and its single factoral terms of trade improve, the nation's welfare:

- a. falls
- b. rises
- c. remains unchanged
- d. any of the above

8. Developing nations often experience wildly fluctuating export prices for their primary products because of:

- a. inelastic and stable demand and supply
- b. elastic and unstable demand and supply
- c. inelastic and unstable demand and supply
- d. elastic and stable demand and supply

9. MacBean found that the export instability faced by developing nations was:

- a. not very large and did not seriously interfere with development
- b. very large and seriously interfered with development
- c. very large but did not seriously interfere with development
- d. not very large but seriously interfered with development

10. Supporting the price of a commodity by buying it when its price is low is:

- a. a buffer stock
- b. a purchase contract
- c. an export control
- d. a marketing board

11. The policy of import substitution was most vigorously followed by:

- a. large developing nations during the 1970's
- b. large developing nations during the 1960's
- c. small developing nations during the 1970's
- d. small developing nations during the 1960's

12. What is the advantage of a policy of import substitution?

- a. setting up an industry to replace imports minimizes risk of failure because the market for the product already exists in the nation as evidenced by the nation's imports of the commodity
- b. It is easier for developing nations to protect their domestic market against foreign competition than to force developed nations to lower their trade barriers against their manufactured exports
- c. foreign firms are induced to establish tariff factories to overcome the tariff wall of developing nations

d. all of the above.

13. Which are is not an advantage of export-oriented industrialization?

- a. It overcomes the smallness of the domestic market and allows developing nations to take advantage of economies of scale
- b. domestic industries grow accustomed to protection and have an incentive to become more efficient
- c. production of manufactured goods for export requires and stimulates efficiency throughout the economy
- d. the expansion of manufactured exports is not limited by the size of the domestic market

14. Those nations that liberalized trade during the past decade

- a. grew faster than those that did not
- b. grew more slowly than those that did not
- c. grew at about the same rate as those that did not
- d. any of the above

15. Which of the following is not part of the demand for a NIEO?

- a. the establishment of international commodity agreements
- b. preferential access for the manufactured exports of developed nations
- c. removal of the agricultural trade barriers in developed nations
- d. increasing the yearly flow of foreign aid to developing nations

16. During the 1950's, 1960's and 1970's the predominant growth strategy for developing nations was one of

- a. import substitution
- b. export orientation
- c. communism
- d. none of the above

17. The terms of trade for most developing nations over the last thirty years have generally been

- a. improving
- b. about the same
- c. worsening
- d. depend largely on the export commodity

18. The primary exports of developing nations tend to face demand that is \_\_\_\_\_ and supply that is \_\_\_\_\_.

- a. elastic; elastic
- b. inelastic; inelastic

- c. elastic; inelastic
- d. inelastic; elastic

19. The following is not an example of an international commodity agreement.

- a. marketing boards
- b. buffer stocks
- c. export controls
- d. purchase contracts

20. The following region of the world has been the least successful in creating economic development and growth over the last thirty years

- a. Latin America
- b. Asia
- c. Africa
- d. Europe

#### Short Answer

21. Explain why international trade cannot be expected to be the primary engine of growth for today's developing nations.

22. What is the difference between import substitution and export orientation?

23. What are the current problems facing developing countries

24. List four of the *Millennium Development Goals*.

## Essay

25. (a) Why did large developing nations generally follow a policy of import substitution as a strategy for growth during the 1950s, 1960s, and 1970s? Why was this not generally possible for small developing nations?
- (b) Why was the policy of import substitution generally a failure?
- (c) Why did developing nations that switched from a policy of import substitution to a policy of export promotion generally grow faster during the past decade?