

File: Ch03; Chapter 3: The Standard Theory of International Trade

Multiple Choice

1. A production frontier that is concave from the origin indicates that the nation incurs increasing opportunity costs in the production of:
 - a. commodity X only
 - b. commodity Y only
 - c. both commodities
 - d. neither commodity

2. The marginal rate of transformation (MRT) of X for Y refers to:
 - a. the amount of Y that a nation must give up to produce each additional unit of X
 - b. the opportunity cost of X
 - c. the absolute slope of the production frontier at the point of production
 - d. all of the above

3. Which of the following is not a reason for increasing opportunity costs?
 - a. technology differs among nations
 - b. factors of production are not homogeneous
 - c. factors of production are not used in the same fixed proportion in the production of all commodities
 - d. for the nation to produce more of a commodity, it must use resources that are less and less suited in the production of the commodity

4. Community indifference curves:
 - a. are negatively sloped
 - b. are convex to the origin
 - c. should not cross
 - d. all of the above

5. The marginal rate of substitution (MRS) of X for Y in consumption refers to the:
 - a. amount of X that a nation must give up for one extra unit of Y and still remain on the same indifference curve
 - b. amount of Y that a nation must give up for one extra unit of X and still remain on the same indifference curve
 - c. amount of X that a nation must give up for one extra unit of Y to reach a higher indifference curve
 - d. amount of Y that a nation must give up for one extra unit of X to reach a higher indifference curve

6. Which of the following statements is true with respect to the MRS of X for Y?
- It is given by the absolute slope of the indifference curve
 - declines as the nation moves down an indifference curve
 - rises as the nation moves up an indifference curve
 - all of the above
7. Which of the following statements about community indifference curves is true?
- They are entirely unrelated to individuals' community indifference curves
 - they cross, they cannot be used in the analysis
 - the problems arising from intersecting community indifference curves can be overcome by the application of the compensation principle
 - all of the above.
8. Which of the following is not true for a nation that is in equilibrium in isolation?
- It consumes inside its production frontier
 - it reaches the highest indifference curve possible with its production frontier
 - the indifference curve is tangent to the nation's production frontier
 - MRT of X for Y equals MRS of X for Y, and they are equal to P_x/P_y
9. If the internal P_x/P_y is lower in nation 1 than in nation 2 without trade:
- nation 1 has a comparative advantage in commodity Y
 - nation 2 has a comparative advantage in commodity X
 - nation 2 has a comparative advantage in commodity Y
 - none of the above
10. Nation 1's share of the gains from trade will be greater:
- the greater is nation 1's demand for nation 2's exports
 - the closer P_x/P_y with trade settles to nation 2's pretrade P_x/P_y
 - the weaker is nation 2's demand for nation 1's exports
 - the closer P_x/P_y with trade settles to nation 1's pretrade P_x/P_y
11. If P_x/P_y exceeds the equilibrium relative P_x/P_y with trade
- the nation exporting commodity X will want to export more of X than at equilibrium
 - the nation importing commodity X will want to import less of X than at equilibrium
 - P_x/P_y will fall toward the equilibrium P_x/P_y
 - all of the above
12. With free trade under increasing costs:
- neither nation will specialize completely in production

- b. at least one nation will consume above its production frontier
- c. a small nation will always gain from trade
- d. all of the above

13. Which of the following statements is false?

- a. The gains from trade can be broken down into the gains from exchange and the gains from specialization
- b. gains from exchange result even without specialization
- c. gains from specialization result even without exchange
- d. none of the above

14. The gains from exchange with respect to the gains from specialization are always:

- a. greater
- b. smaller
- c. equal
- d. we cannot say without additional information

15. Mutually beneficial trade cannot occur if production frontiers are:

- a. equal but tastes are not
- b. different but tastes are the same
- c. different and tastes are also different
- d. the same and tastes are also the same.

16. If nations have identical production possibilities frontiers it is possible for them to experience gains from trade if

- a. they have the same tastes and preference
- b. they have different tastes and preferences
- c. they have different natural resources
- d. they have constant opportunity costs

17. Under which circumstance is it not possible for nations to gain from trade?

- a. identical production possibilities and identical tastes and preferences
- b. different production possibilities and identical tastes and preferences
- c. identical production possibilities and different tastes and preferences
- d. different production possibilities and different tastes and preferences

18. If a nation has a steeper indifference curve relative to that of another nation it means that

- a. it has stronger tastes and preferences for good Y
- b. it has stronger tastes and preferences for good X
- c. it has a higher opportunity costs for good Y

d. it has a higher opportunity costs for good X

19. Trade allows nations to attain an indifference curve that is

- a. beyond the indifference curve it could attain without trade
- b. inside the indifference curve it could attain without trade
- c. is positively sloped
- d. is negatively sloped

20. The primary factor for the loss in manufacturing employment in developed nations is

- a. Trade
- b. Investment
- c. Productivity growth
- d. Outsourcing

Short Answer

21. Carefully explain what an indifference curve is.

22. What is the marginal rate of transformation (MRT)?

23. What is the reason for increasing opportunity cost?

24. What is meant by gains from exchange? How is this shown in the context of production possibilities (ppf) and indifference curves?

Essay

25. Given: (1) two nations (1 and 2) which have the same technology but different factor endowments and tastes, (2) two commodities (X and Y) produced under increasing costs conditions, and (3) no transportation costs, tariffs, or other obstructions to trade. Prove geometrically that mutually advantageous trade between the two nations is possible. Note: Your answer should show the autarky (no-trade) and free-trade points of production and consumption for each nation, the gains from trade of each nation, and express the equilibrium condition that should prevail when trade stops expanding.)