

File: Ch04; Chapter 4: Demand and Supply, Offer Curves, and the Terms of Trade

Multiple Choice

1. The offer curve of a nation shows:
 - a. the supply of a nation's imports
 - b. the demand for a nation's exports
 - c. the trade partner's demand for imports and supply of exports
 - d. the nation's demand for imports and supply of exports

2. The offer curve of a nation bulges toward the axis measuring the nations
 - a. import commodity
 - b. export commodity
 - c. export or import commodity
 - d. nontraded commodity

3. Export prices must rise for a nation to increase its exports because the nation:
 - a. incurs increasing opportunity costs in export production
 - b. faces decreasing opportunity costs in producing import substitutes
 - c. faces decreasing marginal rate of substitution in consumption
 - d. all of the above

4. If the terms of trade of a nation are 1.5 in a two-nation world, those of the trade partner are:
 - a. 3/4
 - b. 2/3
 - c. 3/2
 - d. 4/3

5. If the terms of trade increase in a two-nation world, those of the trade partner:
 - a. deteriorate
 - b. improve
 - c. remain unchanged
 - d. any of the above

6. If the nation's tastes for its import commodity increases:
 - a. the nation's offer curve rotates toward the axis measuring its import commodity
 - b. the partner's offer curve rotates toward the axis measuring its import commodity
 - c. the partner's offer curve rotates toward the axis measuring its export commodity
 - d. the nation's offer curve rotates toward the axis measuring its export commodity

7. If the nation's tastes for its import commodity increases:
- the nation's terms of trade remain unchanged
 - the nation's terms of trade deteriorate
 - the partner's terms of trade deteriorate
 - any of the above
8. If the tastes for a nation import commodity increases, trade volume:
- increases
 - declines
 - remains unchanged
 - any of the above
9. A deterioration of a nation's terms of trade causes the nation's welfare to:
- deteriorate
 - improve
 - remain unchanged
 - any of the above
10. The equilibrium price and quantity for a commodity traded between two nations occurs where
- the slopes of the two offer curves are the same.
 - the two offer curves intersect
 - the slopes of the two offer curves is equal to zero
 - the price ratio of good X for good Y is equals one.
11. Suppose nation 1 is an importer of good X. In a general equilibrium framework, an increase in the demand for good Y will
- decreased the price of good X and increase the volume of imports of good X
 - decreased the price of good X and decrease the volume of imports of good X
 - increase the price of good X and increase the volume of imports of good X
 - increase the price of good X and decrease the volume of imports of good X
12. Suppose nation 1 is an importer of good X. In a general equilibrium framework, an increase in the cost of producing good X in nation 2 will
- decreased the price of good X and increase the volume of imports of good X
 - decreased the price of good X and decrease the volume of imports of good X
 - increase the price of good X and increase the volume of imports of good X
 - increase the price of good X and decrease the volume of imports of good X

Ans: d

Level: Medium

Heading: The Equilibrium-Relative Commodity Price with Trade – General Equilibrium Analysis

Short Answer

13. Carefully define an “offer curve” and explain how it is derived.

14. Carefully define and explain the meaning of “equilibrium terms of trade”

15. Explain the role of petroleum price have had on the terms of trade and relative export prices for Korea in recent years.