

File: Ch06; Chapter 6: Economies of Scale, Imperfect Competition, and International Trade

Multiple Choice

1. Relaxing the assumptions on which the Heckscher-Ohlin theory rests:
 - a. leads to rejection of the theory
 - b. leaves the theory unaffected
 - c. requires complementary trade theories
 - d. any of the above

2. Which of the following assumptions of the Heckscher-Ohlin theory, when relaxed, leave the theory unaffected?
 - a. Two nations, two commodities, and two factors
 - b. both nations use the same technology
 - c. the same commodity is L-intensive in both nations
 - d. all of the above

3. Which of the following assumptions of the Heckscher-Ohlin theory, when relaxed, require new trade theories?
 - a. Economies of scale
 - b. incomplete specialization
 - c. similar tastes in both nations
 - d. the existence of transportation costs

4. International trade can be based on economies of scale even if both nations have identical:
 - a. factor endowments
 - b. tastes
 - c. technology
 - d. all of the above

5. A great deal of international trade:
 - a. is intra-industry trade
 - b. involves differentiated products
 - c. is based on monopolistic competition
 - d. all of the above

6. The Heckscher-Ohlin and new trade theories explains most of the trade:
 - a. among industrial countries
 - b. between developed and developing countries
 - c. in industrial goods

d. all of the above

7. The theory that a nation exports those products for which a large domestic market exists was advanced by:

- a. Linder
- b. Vernon
- c. Leontief
- d. Ohlin

8. Intra-industry trade takes place:

- a. because products are homogeneous
- b. in order to take advantage of economies of scale
- c. because perfect competition is the prevalent form of market organization
- d. all of the above

9. If a nation exports twice as much of a differentiated product that it imports, its intra-industry (T) index is equal to:

- a. 1.00
- b. 0.75
- c. 0.50
- d. 0.25

10. Trade based on technological gaps is closely related to:

- a. the H-O theory
- b. the product-cycle theory
- c. Linder's theory
- d. all of the above

11. Which of the following statements is true with regard to the product-cycle theory?

- a. It depends on differences in technological changes over time among countries
- b. it depends on the opening and the closing of technological gaps among countries
- c. it postulates that industrial countries export more advanced products to less advanced countries
- d. all of the above

12. Transport costs:

- a. increase the price in the importing country
- b. reduces the price in the exporting country
- c. both of the above
- d. neither a nor b.

13. Transport costs can be analyzed:
- with demand and supply curves
 - production frontiers
 - offer curves
 - all of the above
14. The share of transport costs will fall less heavily on the nation:
- with the more elastic demand and supply of the traded commodity
 - with the less elastic demand and supply of the traded commodity
 - exporting agricultural products
 - with the largest domestic market
15. A footloose industry is one in which the product:
- gains weight in processing
 - loses weight in processing
 - both of the above
 - neither a nor b.
16. When a nation has increasing returns to scale the shape of its production possibility frontier is
- linear
 - concave to the origin
 - convex to the origin
 - any of the above is possible
17. Two developed nations are most likely to engage in
- inter-industry trade based on economies of scale
 - intra-industry trade based on economies of scale
 - inter-industry trade based on comparative advantage
 - intra-industry trade based on comparative advantage
18. A developed and developing nation are most likely to engage in
- inter-industry trade based on economies of scale
 - intra-industry trade based on economies of scale
 - inter-industry trade based on comparative advantage
 - intra-industry trade based on comparative advantage
19. The Grubel and Lloyd index measures the magnitude of a nation's
- product life cycle

- b. comparative advantage
- c. economies of scale
- d. intra-industry trade

20. If transportation costs are imposed on an exporting nation the ultimate burden of paying for those costs will fall on

- a. only the exporting nation
- b. only the importing nation
- c. the cost will be split 50/50 between the importing and exporting nation
- d. the costs will be split between the importing and exporting nation based on their supply and demand elasticity

Short Answer

21. How is intra-industry trade measured? Does the degree of intra-industry trade depend on how an industry is defined?

22. Discuss the stages of the product cycle model.

23. Define and explain economies of scale.

24. Define and discuss the differences between intra-industry trade and inter-industry trade.

Essay

25. a) Explain why the Heckscher-Ohlin trade model needs to be extended.
b) Indicate in what important ways the Heckscher-Ohlin trade model can be extended.
c) Explain what is meant by differentiated products and intra-industry trade.