

Chapter 3

Interdependence and the Gains from Trade

Test A

- 1. A country's consumption possibilities frontier can be outside its production possibilities frontier
 - a. with trade.
 - b. by allocating resources differently.
 - c. by lowering unemployment in the country.
 - d. by producing a greater variety of goods and services.

ANSWER: a. with trade.

- 2. If labor in Mexico is less productive than labor in the United States in all areas of production,
 - a. neither nation can benefit from trade.
 - b. Mexico can benefit from trade but the United States cannot.
 - c. both nations can benefit from trade.
 - d. Mexico will not have a comparative advantage in any good.

ANSWER: c. both nations can benefit from trade.

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 20 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	10	5	2	4
Rancher	4	1	5	20

- 3. Refer to the table shown. For the Farmer, the opportunity cost of 1 pound of meat is
 - a. 1/2 pound of potatoes
 - b. 2 pounds of potatoes.
 - c. 4 hours of labor.
 - d. 8 hours of labor.

ANSWER: b. 2 pounds of potatoes.

- 4. Refer to the table shown. For the Rancher, the opportunity cost of 1 pound of meat is
 - a. 1 hour of labor.
 - b. 5 hours of labor.
 - c. 4 pounds of potatoes.
 - d. 1/4 pound of potatoes.

ANSWER: c. 4 pounds of potatoes.

- 5. Refer to the table shown. For the Farmer, the opportunity cost of 1 pound of potatoes is
 - a. 1/2 pound of meat.
 - b. 2 pounds of meat.
 - c. 4 hours of labor.

d. 8 hours of labor.

ANSWER: a. 1/2 pound of meat.

6. Refer to the table shown. For the Rancher, the opportunity cost of 1 pound of potatoes is

a. 4 hours of labor.

b. 2 hours of labor.

c. 4 pounds of meat.

d. 1/4 pound of meat.

ANSWER: d. 1/4 pound of meat.

7. Refer to the table shown. The Farmer has an absolute advantage in _____ and the Rancher has an absolute advantage in _____.

a. meat, meat

b. meat, potatoes

c. potatoes, meat

d. neither good, both goods

ANSWER: d. neither good, both goods

8. Refer to the table shown. The Rancher has a comparative advantage in _____ and the Farmer has a comparative advantage in _____.

a. meat, potatoes

b. both goods, neither good

c. potatoes, meat

d. neither good, both goods

ANSWER: c. potatoes, meat

9. Refer to the table shown. The Farmer and Rancher both could benefit by the Farmer specializing in _____ and the Rancher specializing in _____.

a. potatoes, meat

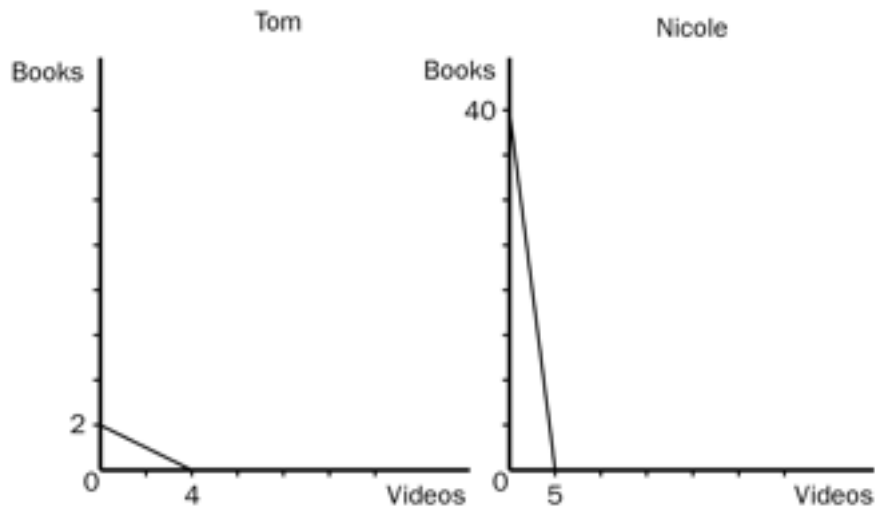
b. meat, potatoes

c. neither good, meat

d. They cannot benefit by specialization and trade.

ANSWER: b. meat, potatoes

These figures illustrate the production possibilities available to Tom and Nicole with 40 hours of labor.



10. Refer to the graphs shown. The opportunity cost of 1 video for Tom is
- 1/2 book.
 - 1 book.
 - 2 books.
 - 4 books.

ANSWER: a. 1/2 book.

11. Refer to the graphs shown. The opportunity cost of 1 video for Nicole is
- 1/40 book.
 - 1/8 book.
 - 8 books.
 - 40 books.

ANSWER: c. 8 books.

12. Refer to the graphs shown. The opportunity cost of 1 book for Nicole is
- 1/40 video.
 - 1/8 video.
 - 5 videos.
 - 8 videos.

ANSWER: b. 1/8 video.

13. Refer to the graphs shown. The opportunity cost of 1 book for Tom is
- 1/4 video.
 - 1/2 video.
 - 2 videos.
 - 4 videos.

ANSWER: c. 2 videos

14. Refer to the graphs shown. Nicole has an absolute advantage in _____ and Tom has an absolute advantage in _____.

-
- a. books, videos
 - b. videos, books
 - c. both goods, neither good
 - d. neither good, both goods

ANSWER: c. both goods, neither good

15. Refer to the graphs shown. Nicole has a comparative advantage in _____ and Tom has a comparative advantage in _____.

- a. books, videos
- b. both goods, neither good
- c. videos, books
- d. neither good, books

ANSWER: a. books, videos

16. Refer to the graphs shown. Nicole should specialize in _____ and Tom should specialize in _____.

- a. videos, books
- b. books, videos
- c. both goods, videos
- d. books, neither good

ANSWER: b. books, videos

17. Refer to the graphs shown. If Tom and Nicole both specialize in the good in which they have a comparative advantage, total production of books will be _____ and total production of videos will be _____.

- a. 42, 9
- b. 40, 4
- c. 4, 40
- d. 9, 42

ANSWER: b. 40, 4

18. Comparative advantage is based on

- a. capital costs.
- b. labor costs.
- c. dollar price.
- d. opportunity costs.

ANSWER: d. opportunity costs.

19. Absolute advantage is found by

- a. comparing opportunity costs.
- b. calculating the dollar cost of production.

-
- c. first determining which country has a comparative advantage.
 - d. comparing the productivity of one nation to that of another.

ANSWER: d. comparing the productivity of one nation to that of another.

20. The principle of comparative advantage was developed by

- a. Adam Smith.
- b. Harry Truman.
- c. David Ricardo.
- d. John Maynard Keynes.

ANSWER: c. David Ricardo.

21. Economists generally support

- a. government management of trade.
- b. free international trade.
- c. trade restrictions.
- d. export subsidies.

ANSWER: b. free international trade.

22. Karl Malone (1997 NBA MVP) is a better basketball player and truck driver than Gregory Mankiw (the author of your economics text). Which of the following is true?

- a. Karl Malone and Gregory Mankiw may benefit from trade.
- b. Karl Malone would be better off playing basketball and driving his own truck.
- c. Karl Malone will probably have a comparative advantage in both goods.
- d. Karl Malone will have a lower opportunity cost of playing basketball and truck driving than will Gregory Mankiw.

ANSWER: a. Karl Malone and Gregory Mankiw may benefit from trade.

23. Exports are

- a. a limit placed on the quantity of goods brought into a country.
- b. goods produced domestically and sold abroad.
- c. usually a country's least desirable product.
- d. goods produced abroad and sold domestically.

ANSWER: b. goods produced domestically and sold abroad.

24. The United States could benefit by

- a. promoting imports and restricting exports.
- b. restricting imports and promoting exports.
- c. restricting both imports and exports.
- d. not restricting trade.

ANSWER: d. not restricting trade.

25. The gains from trade are

- a. higher from trade between a rich nation and a poor nation.
- b. a result of more efficient resource allocation.
- c. based on different wage rates between nations.
- d. based on the principle of absolute advantage.

ANSWER: b. a result of more efficient resource allocation.

1 ANSWER: a. with trade.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

2 ANSWER: c. both nations can benefit from trade.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 1 RANDOM: Y

3 ANSWER: b. 2 pounds of potatoes.

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

4 ANSWER: c. 4 pounds of potatoes.

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

5 ANSWER: a. 1/2 pound of meat.

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

6 ANSWER: d. 1/4 pound of meat.

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

7 ANSWER: d. neither good, both goods

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

8 ANSWER: c. potatoes, meat

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 2 INSTRUCTION: 1 RANDOM: Y

9 ANSWER: b. meat, potatoes

TYPE: M KEY1: T SECTION: 2 OBJECTIVE: 3 INSTRUCTION: 1 RANDOM: Y

10 ANSWER: a. 1/2 book.

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

11 ANSWER: c. 8 books.

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

12 ANSWER: b. 1/8 video.

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

13 ANSWER: c. 2 videos

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

14 ANSWER: c. both goods, neither good

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

15 ANSWER: a. books, videos

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

16 ANSWER: b. books, videos

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

17 ANSWER: b. 40, 4

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

18 ANSWER: d. opportunity costs.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 3 RANDOM: Y

19 ANSWER: d. comparing the productivity of one nation to that of another.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 3 RANDOM: Y

20 ANSWER: c. David Ricardo.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

21 ANSWER: b. free international trade.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

22 ANSWER: a. Karl Malone and Gregory Mankiw may benefit from trade.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

23 ANSWER: b. goods produced domestically and sold abroad.

TYPE: M KEY1: T SECTION: 3 OBJECTIVE: 4 RANDOM: Y

24 ANSWER: d. not restricting trade.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

25 ANSWER: b. a result of more efficient resource allocation.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y