Review questions

PLEASE NOTE:

These review questions are to be used as an additional source of material to review for the exam. I plan to go over some (or all, if needed) of these questions/answers in class on Monday, July 11th. Everything we have covered in class, quiz 1, and chapters (2 through 8) in the textbook is legitimate material for exam 1. Exam 1 will be on July 12th (in class) and will include multiple-choice and true/false questions.

EACH STUDENT MUST BRING A CALCULATOR TO USE DURING THE EXAM. CELL PHONES, TABLETS (AND SUCH) WILL NOT BE ALLOWED. NO EXCEPTIONS!!!

1. Consumer surplus is the:
   a. net economic gain to consumers of purchasing the equilibrium quantity of a good.
   b. total value to consumers of the equilibrium quantity of a good.
   c. the sum of the total value to consumers of the equilibrium quantity of the good and the total payments made to purchase the equilibrium quantity.
   d. none of the above.

Refer to Figure 2.9. The markets for widgets in China and the Rest of World are depicted in the three-graph diagram. Answer questions 7-11 based on the figure.

2. Before trade opens, China consumes and produces _______ widgets.
   a. 20
   b. 30.
   c. 10.
   d. 400
   e. 600
3. Before trade opens, consumers pay $_______ per widget in China.
   a. 20
   b. 30.
   c. 10.
   d. 400

4. With free trade, producers in China produce _______ widgets.
   a. 20
   b. 30.
   c. 10.
   d. 600

Table 1

<table>
<thead>
<tr>
<th>Productivity</th>
<th>In the United Kingdom</th>
<th>In the Rest of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Umbrellas per labor hour</td>
<td>1.00</td>
<td>0.50</td>
</tr>
<tr>
<td>Bushels of corn per labor hour</td>
<td>0.20</td>
<td>0.70</td>
</tr>
</tbody>
</table>

5. Refer to Table 1. The number of labor hours to produce 1 bushel of corn in the Rest of the World is:
   a. 0.5.
   b. 1.
   c. 1.43.
   d. 2.

6. Refer to Table 1. Given the productivity information in Table 1, the rest of the world has an absolute advantage in the production of _______ and the United Kingdom has an absolute advantage in the production of _______.
   a. umbrellas; corn
   b. corn; umbrellas
   c. corn; neither good
   d. neither good; umbrellas

7. Refer to Table 3.1. If the United Kingdom shifts 1 hour of labor from the production of corn to the production of umbrellas and the rest of the world shifts 1 hour of labor from the production of umbrellas to the production of corn, total world production of corn will ____ by _____ bushels and total world production of umbrellas will _____ by _____.
   a. increase; 1; decrease; 1
   b. increase; 1.43; increase 1
   c. increase; 0.5; increase; 0.5
   d. decrease; 0.5; increase; 0.7

8. If a country exports the good that it can produce at a low opportunity cost and imports those goods that it would otherwise produce at a high opportunity cost, we say that such trade is based upon _______.
   a. absolute advantage
   b. arbitrage
   c. labor productivity differences
   d. comparative advantage
9. Heckscher-Ohlin theory predicts that trade occurs because of differences in:
   a. the availability of factor inputs to production across countries.
   b. the proportions of factor inputs used in the production of different products.
   c. the composition of the work force in a country.
   d. both a and b.

10. With free trade, if Country X is relatively land abundant and relatively labor scarce and Country Y is relatively land scarce and relatively labor abundant, the factor-price equalization theorem predicts that:
   a. wages will rise in Country X and fall in Country Y until they equalize.
   b. wages will rise in Country Y and fall in Country X until they equalize.
   c. wages will rise in Country X and land rents will fall in Country X until they equalize.
   d. wages will fall in Country X and land rents will rise in Country Y until they equalize.

11. The factor-price equalization theorem predicts that even without the migration of factors between countries, free trade will cause:
   a. workers with the same skill levels to earn the same wage rate in both countries.
   b. land of comparable quality will earn the same rent in both countries.
   c. both a and b.
   d. none of the above.

12. Which of the following is not a product whose (U.S.) trade is consistent with Heckscher-Ohlin theory?
   a. wheat
   b. aircraft
   c. toys
   d. steel

13. Which of the following is an export-oriented factor in the United States?
   a. physical capital
   b. mineral rights
   c. unskilled labor
   d. skilled labor

14. Which of the following refers to the situation that arises when consumers view products produced in an industry as similar, but not perfect substitutes for each other?
   a. product differentiation
   b. net trade
   c. intra-industry trade
   d. constant returns to trade

15. When the average cost of the typical firm declines as the output of the industry within a geographic area increases we call that:
   a. internal scale economies
   b. external scale economies
   c. product differentiations
   d. constant returns to scale
16. Refer to Figure 7.1. Which of the graphs above represents growth biased towards wine production?
   a. A
   b. B
   c. C
   d. D

17. Which of the following could lead to balanced growth?
   (1) Proportionate increases in the endowments of all of a country’s productive inputs
   (2) Technological improvements in one sector of production
   a. (1)
   b. (1) + (2)
   c. (2)
   d. neither (1) nor (2)
Figure 8.1

Refer to Figure 8.1. The production effect of the tariff is the area:

a. c
b. d
c. e
d. f

Refer to Figure 8.1. Government revenue from the tariff is represented by the area:

a. c
b. d
c. e
d. f

Refer to Figure 8.1. The loss in consumer surplus that results from the tariff is represented by the area:

a. c + g
b. c
c. c + d + e + f
d. a

True/False Questions

1. Factor-price equalization theory predicts that the price of labor and land within a country will equalize. **False**

2. In the absence of any costs of transportation or other barriers, free trade will result in two countries having the same price for a product. **True**

3. While international trade will benefit both the importing and exporting country in a two-country world, the gains from trade in the exporting country will usually be greater than the gains from trade in the importing country. **False**