- 1. Which of the following is true of consumer surplus?
 - a. It is graphically represented as the area under the equilibrium price and above the supply curve of a good.
 - b. It is the net gain in economic well-being associated with producing and selling the equilibrium quantity of a good.
 - c. It is used to measure the impact of a change in price on the economic well-being of the producers.
 - d. <u>It is the difference between the value that one places on a good and the price paid for the good.</u>
- 2. Refer to the following figure. At a price of \$70, the consumer surplus equals:



- 3. Which of the following groups is most likely to be benefitted when a country engages in free trade?
 - a. All the domestic producers of the country
 - b. <u>The manufacturers of exportable goods</u>
 - c. The producers in the import-competing industries
 - d. The workers employed in the import-competing industries
- 4. An increase in the imports of clothing into the United States from India will benefit the ______and hurt the ______.
 - a. U.S. clothing producers; Indian clothing producers
 - b. Indian consumers; Indian clothing producers
 - c. the U.S. consumers; Indian clothing producers
 - d. the U.S. consumers; the U.S. clothing producers
- 5. Suppose country A and country B are the only two countries in the world. Country A imports good X from country B and exports good Y. In the absence of any transportation cost, at the world price of good X:
 - a. country B's export supply curve is perfectly inelastic.
 - b. both country A's import demand curve and country B's export supply curve are positively sloped.
 - c. country A's import demand curve will be perfectly inelastic.
 - d. <u>country A's import demand curve will intersect country B's export supply curve.</u>
- 6. Refer to the following figure. At a price of \$70, the producer surplus equals:



7. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

In the absence of international trade in skateboards, what will be the equilibrium price of skateboards in the United States?

- a. \$66
- <u>b. \$90</u>
- c. \$45
- d. \$150
- 8. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$
$$Q^{D} = 390 - 2P$$

In the absence of international trade in skateboards how many skateboards will be sold in the United States?

- a. 138
- b. 258
- <u>c. 210</u>
- d. 930
- 9. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$
$$Q^{D} = 390 - 2P$$

If the United States can imports skateboards from the rest of the world at a per unit price of \$75, how many skateboards will be produced in the United States?

- <u>a. 165</u>
- b. 240
- c. 285
- d. 215
- 10. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

If the United States can import skateboards from the rest of the world at a per unit price of \$75, what will be the total demand for skateboards in the United States?

a. 165

<u>b. 240</u>

c. 285

d. 245

11. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

- a. 65
- b. 85c. <u>75</u>
- d. 95
- 12. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

In the absence of trade with the rest of the world, the consumer surplus in the United States skateboard market equals______and the producer surplus equals_____.

- a. \$7,050; \$11,525
- b. \$31,500; \$9,450
- c. \$20,474; \$7,350
- d. \$11,025; \$7,350
- 13. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

Calculate the change in consumer surplus when the United States engages in free trade and imports skateboards from the rest of the world at a per unit price of \$75.

- a. +\$2,850 b. -\$2,850 c. -\$6,300 d. +\$3,375
- 14. Suppose the domestic supply (Q^S) and demand (Q^D) for skateboards in the United States are given by the following set of equations:

$$Q^{S} = -60 + 3P$$

 $Q^{D} = 390 - 2P$

Calculate the change in producer surplus when the United States engages in free trade and imports skateboards from the rest of the world at a per unit price of \$75.

a. +\$2,812.50. b. -\$2,812.50. c. +\$3,375. d. -\$3,375.

15. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$Q^{S} = -25 + 10P$$

 $Q^{D} = 875 - 5P$

In the absence of international trade in MP3 players, what will be the price of MP3 players in the United States?

 a.
 \$60

 b.
 \$65

 c.
 \$90

 d.
 \$70

16. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$\begin{array}{l} Q^{S}=-25+10P\\ Q^{D}=875-5P \end{array}$$

In the absence of international trade in MP3 players, how many MP3 players will be sold in the United States?

a. 825 b. 575

- c. 608
- d. 925

17. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$Q^{S} = -25 + 10P$$

 $Q^{D} = 875 - 5P$

If the United States can import MP3 players from the rest of the world at a per unit price of \$50, how many MP3 players will be produced in the United States?

a. 625

<u>b. 475</u>

c. 925

d. 525

18. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$\begin{aligned} Q^{\text{S}} &= -25 + 10P \\ Q^{\text{D}} &= 875 - 5P \end{aligned}$$

If the United States can import MP3 players from the rest of the world at a per unit price of \$50, what will be the total demand for MP3 players in the United States?

a. 625 b. 475 c. 925 d. 550

19. Suppose the domestic supply (Q^S) and demand (Q^D)for MP3 players in the United States are given by the following set of equations:

$$Q^{S} = -25 + 10P$$

 $Q^{D} = 875 - 5P$

If the U.S. engages in free trade and the international price of MP3 players is \$50, it would import______MP3 players from the rest of the world.

<u>a.</u>	150
b.	250
c.	475
d.	225

20. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$\begin{array}{l} Q^{\text{S}}=-25\,+\,10P\\ Q^{\text{D}}=875-5P \end{array}$$

In the absence of trade with the rest of the world, the consumer surplus in the United States' MP3 player market is_____.

 a.
 \$22,562.50

 b.
 \$30,062.50

 c.
 \$33,062.50

 d.
 \$19,500.00

21. Suppose the domestic supply (Q^S) and demand (Q^D) for MP3 players in the United States are given by the following set of equations:

$$\begin{aligned} Q^S &= -25 + 10P \\ Q^D &= 875 - 5P \end{aligned}$$

The consumer surplus will_____by____when the United States engages in international trade and the international price for MP3 players settles at \$50.

- a. increase; \$2,625
- b. <u>increase; \$6,000</u>
- c. decrease; \$7,150
- d. decrease; \$13,500

22. Suppose the domestic supply $(Q^{S}_{U.S.})$ and demand $(Q^{D}_{U.S.})$ for bicycles in the United States are given by the following set of equations:

 Q^{S} U.S. = 2P

 $Q^{\rm D}$ u.s. = 200 – 2P.

Demand (Q^D) and supply (Q^S) in the Rest of the World are given by the equations:

$$Q^{S} = P$$

 $Q^{\rm D} = 160 - P.$

Quantities are measured in thousands and price in U.S. dollars.

In the absence of international trade, _____thousand bicycles will be sold in the United States at a per unit price of _____.

per unit price of

a. 50; \$50
b. 100; \$100
c. 150; \$50
d. 100; \$50

23. Suppose the domestic supply $(Q^{S}_{U.S.})$ and demand $(Q^{D}_{U.S.})$ for bicycles in the United States are given by the following set of equations:

$$\begin{array}{l} Q^S{}_{U.S.}=2P\\ Q^D{}_{U.S.}=200-2P \end{array}$$

Demand (Q^D) and supply (Q^S) in the Rest of the World are given by the equations:

$$Q^{\circ} = P$$

 $Q^{D} = 160 - P$

Quantities are measured in thousands and price in U.S. dollars.

In the absence of international trade, _____thousand bicycles will be sold in the Rest of the World at a per unit price of _____.

<u>a. 80; \$80</u>

- b. 100; \$100
- c. 50; \$100
- d. 100; \$50

24. Suppose the domestic supply $(Q^{S}_{U.S.})$ and demand $(Q^{D}_{U.S.})$ for bicycles in the United States are given by the following set of equations:

$$Q^{S}$$
U.S. = 2P
 Q^{D} U.S. = 200 - 2F

Demand (Q^D) and supply (Q^S) in the Rest of the World are given by the equations:

$$Q^{s} = P$$

 $Q^{D} = 160 - P.$

Quantities are measured in thousands and price in U.S. dollars

After the opening of free trade with the Rest of the World, if the world price of the bicycles settles at \$60, the U.S. will:

- a. export 40,000 bicycles.
- b. export 60,000 bicycles.
- c. import 60,000 bicycles.
- d. import 40,000 bicycles.

25. Suppose the domestic supply ($Q^{S}_{U.S.}$) and demand ($Q^{D}_{U.S.}$) for bicycles in the United States are given by the following set of equations:

 $\begin{array}{l} Q^{S}_{U.S.}=2P\\ Q^{D}_{U.S.}=200-2P.\\ \\ Demand~(Q^{D})~and~supply~(Q^{S})~in~the~Rest~of~the~World~are~given~by~the~equations:\\ Q^{S}=P\\ Q^{D}=160-P.\\ \\ Quantities~are~measured~in~thousands~and~price~in~U.S.~dollars\\ \end{array}$

After the opening of free trade with the United States, if the world price of the bicycles settles at \$60, the Rest of the World will:

- a. export 40,000 bicycles.
- b. export 60,000 bicycles.
- c. import 60,000 bicycles.
- d. import 40,000 bicycles

26. Suppose the domestic supply $(Q^{S}_{U.S.})$ and demand $(Q^{D}_{U.S.})$ for bicycles in the United States are given by the following set of equations:

$$Q^{S}_{U.S.} = 2P$$

 $Q^{D}_{U.S.} = 200 - 2P$

Demand (Q^D) and supply (Q^S) in the Rest of the World are given by the equations:

$$Q^{S} = P$$

 $Q^{D} = 160 - F$

 $Q^{D} = 160 - P.$ Quantities are measured in thousands and price in U.S. dollars

After the opening of free trade between the U.S. and the Rest of the World:

- a. neither the U.S. nor the Rest of the World gain from trade.
- b. both countries gain from trade, but the U.S. gains more than the Rest of the World.
- c. both countries gain from trade, but the Rest of the World gains more than the U.S.
- d. the net change in total surplus in the U.S. is zero but the Rest of the World gains.

27. According to the theory of comparative advantage, which of the following is **not** a reason why countries trade?

a. Comparative advantage.

- b. Costs are higher in one country than in another.
- c. Prices are lower in one country than in another.
- d. The productivity of labor differs across countries and industries.
- e. Exports give a country a political advantage over other countries that export

less.

28. According to the theory of comparative advantage, a country will export a good only if

- a. It can produce it using less labor than other countries.
- b. Its productivity is higher in producing the good than the productivity of other countries in producing it.
- c. Its wage rate in producing the good is lower than in other countries.

d. Its cost of producing the good, relative to other goods, is at least as low as in other countries.

e. All of the above.

29. Suppose that Austria and Belgium have the unit labor requirements for producing steel and brooms shown in the following table:

Unit labor	Country	
requirements	Austria	Belgium
Steel	3	8
Good		
Brooms	2	1

Then

- a. Belgium has a comparative advantage
- in brooms.
- b. Austria has a comparative advantage in steel.
- c. Austria has an absolute advantage in steel.
- d. Belgium has an absolute advantage in brooms.
- e. All of the above.

30. Suppose that Australia and Brazil have the outputs per worker in producing sleds and clarinets shown in the following table:

Output per	Country		
worker	Austria	Belgium	
Sleds	300	200	
Good			
Clarinets	2	1	

Then Brazil has a

- b. Comparative advantage in clarinets.
- c. Absolute advantage in sleds.
- d. Absolute advantage in clarinets.
- e. None of the above.
- 31. According to the theory of comparative advantage, countries gain from trade because

a. Trade makes firms behave more competitively, reducing their market power.

- b. All firms can take advantage of cheap labor.
- c. Output per worker in each firm increases.

d. World output can rise when each country specializes in what its does relatively best.

e. Every country has an absolute advantage in producing something.

- 32. If international trade takes place as a result of comparative advantage, it will cause which of the following effects in the participating countries?
 - a. Inequality among households will be reduced.
 - b. All individuals in each country will be better off.
 - c. The average well-being of people in both countries will increase.
 - d. Both countries will grow faster over time.
 - e. All of the above.

a. Comparative advantage in sleds.

33. A situation where countries export a product at a price below the cost of its production

a) Price skimming

b) Dumping

c) Price discrimination

d) Full cost pricing

True/False Questions

34. The net economic gains from free trade are usually negative.

a) True <u>b) False</u>

35. If markets are perfectly competitive, the free-trade price of a good in an importing country is expected to be lower than the pre-trade price of the good in that country.

<u>a) True</u> b) False

36. When free trade begins, producers in the importing nation gain while producers in the exporting nation are worse off.

a) True <u>b) False</u>

37. Free trade is a zero-sum activity because a county always gains at the expense of its trading partner.

a) True <u>b) False</u>

38. The gains from trade are divided in proportion to the price changes that trade brings to the trading countries.

<u>a) True</u> b) False

39. If the world price is higher than the no-trade domestic price, then domestic producers gain and domestic consumers lose as a result of free trade.

<u>a) True</u> b) False

40. While international trade will benefit both the importing and exporting country in a twocountry world, the gains from trade in the exporting country must be greater than the gains from trade in the importing country.

a) True <u>b) False</u>