Question #1 of 23

Question ID: 1573083

Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is *best* described as a(n):

A) economic union. ✓

B) monetary union. ✗

C) customs union. ✗

Explanation

The two countries are a part of an economic union. In an economic union, there is (1) free trade among members, (2) common restrictions (tariffs) on imports from non-members, (3) free movement of production factors (labor), and (4) common economic institutions and coordination of economic policies. While a customs union has common tariffs on imports from non-union countries and free trade, it does not allow workers to cross the borders freely and does not have common economic institutions. A monetary union requires all of the listed items and a common currency.

(Module 17.1, LOS 17.c)

Question #2 of 23

Question ID: 1573065

Which of the items below is NOT a valid reason why nations adopt trade restrictions? To:

A) protect industries in which they have a comparative advantage. ✓

B) prohibit foreign firms from increasing market share by selling products below cost. ✗

C) protect industries that are highly sensitive to national security. ✗

Explanation

If a particular country enjoys a comparative advantage in a particular industry, no protection is needed.

(Module 17.1, LOS 17.b)

Question #3 of 23

Question ID: 1573073

In what way does a tariff differ from a quota? A tariff is imposed:

A) by a single government, and a quota is a worldwide agreement on the total amount of trade allowed.

B) as a tax on imports, and a quota limits the quantity that can be imported.

C) by world organizations, and quotas are imposed by individual countries.

Explanation

The difference between a tariff and a quota is that a *tariff* is a tax imposed on imported goods, while a *quota* is an import quantity limitation. Both are imposed by individual countries.

(Module 17.1, LOS 17.b)

Question #4 of 23

Question ID: 1573061

Country P begins importing goods from Country Q. In the long run, benefits from this trade relationship will *most likely* accrue to:

A) Country P only.

B) Country Q only.

C) both Country P and Country Q.

Explanation

Both countries in an international trade relationship benefit in the long run. Costs of international trade tend to be short-run effects in specific domestic industries.

(Module 17.1, LOS 17.a)

Question #5 of 23

Question ID: 1573081

In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:

A) currency.

B) set of economic policies.

C) set of trade restrictions with non-members.

Explanation

An economic union is a common market that has also adopted common institutions and economic policy. Both common markets and economic unions adopt a common set of trade restrictions with non-members. Neither requires the adoption of a common currency, which is a characteristic of a monetary union.

(Module 17.1, LOS 17.c)

Question #6 of 23

Question ID: 1573062

Which of the following statements about the costs and benefits of international trade is *most accurate*?

A) Increased international trade benefits all groups in the trading countries.

B) The costs of trade are greater than the benefits with regard to domestic employment.

C) The costs of trade primarily affect those in domestic industries that compete with imports.

Explanation

The benefits of trade are greater than the costs for the overall economy, but those in domestic industries competing with imports may suffer costs in the form of reduced profits or employment.

(Module 17.1, LOS 17.a)

Question #7 of 23

Question ID: 1573067

If a country imposes a tariff on an imported good, which groups will *most likely* be harmed by the tariff?

A) Foreign consumers.

B) Domestic producers.

C) Domestic consumers.

Explanation

Domestic consumers in the country that imposes a tariff are harmed because they must pay higher prices for the good. Tariffs benefit domestic producers of the good by effectively imposing a price increase on competing imports. A tariff does not affect foreign consumers of the good.

(Module 17.1, LOS 17.b)

Question #8 of 23

Question ID: 1573079

Which of the following lists of trading blocs is *most* accurately ordered by degree of economic integration, from least to most integrated?

A) Free trade area, economic union, common market.

B) Customs union, economic union, monetary union.

C) Free trade area, common market, customs union.

Explanation

The order by degree of economic integration (from least to most integrated) is as follows: free trade areas, customs union, common market, economic union, and monetary union.

(Module 17.1, LOS 17.c)

Question #9 of 23

Question ID: 1573082

The most integrated type of trading bloc or regional trade agreement is a(n):

A) common market.

B) economic union.

C) monetary union.

Explanation

A monetary union, such as the Euro zone, is the most integrated type of trading bloc or regional trade agreement because the members adopt a common currency.

(Module 17.1, LOS 17.c)

Question #10 of 23

Question ID: 1573064

In the context of foreign trade, limits on the amounts of imports a country allows over some period are *best* described as:

A) tariffs. ✗

B) quotas. ✓

C) subsidies. ✗

Explanation

Quotas are limits on the amounts of imports allowed into a country in a period of time. Government payments to firms that export goods are known as export subsidies. Taxes on imported goods collected by the government are known as tariffs.

(Module 17.1, LOS 17.b)

Question #11 of 23

Question ID: 1573068

Who benefits least from tariffs?

A) Domestic consumers. ✓

B) Domestic producers. ✗

C) Foreign consumers. ✗

Explanation

A tax imposed on imports is called a tariff, which benefits domestic producers and domestic governments. Domestic consumers lose through higher prices, less choice of products, and lower quality products.

(Module 17.1, LOS 17.b)

Question #12 of 23

Question ID: 1573069

David Forsythe and Linda Novak are discussing the advantages and disadvantages of import restrictions. They state the following:

> Forsythe: One of the groups that benefits from import restrictions is often the government that imposes them.
>
> Novak: Import restrictions impose costs on specific groups, such as the country's import industries, but these costs are more than offset by the benefits to other groups and to the economy as a whole.

With respect to these statements:

A) both are correct.

B) both are incorrect.

C) only one is correct.

Explanation

Forsythe is correct. A primary reason why trade restrictions remain widespread is the revenue that governments receive from tariffs. Novak is incorrect. Trade restrictions benefit specific groups, such as workers in the protected industries, but those benefits are most often less than the costs imposed on consumers and other industries as a whole.

(Module 17.1, LOS 17.b)

Question #13 of 23

Question ID: 1573078

Which form of regional trading agreement is *least likely* to allow free movement of labor?

A) Common market.

B) Customs union.

C) Economic union.

Explanation

Economic unions and common markets remove all barriers to the movement of labor and capital among their members. Customs unions do not have this feature.

(Module 17.1, LOS 17.c)

Question #14 of 23

Question ID: 1573074

Which group is *most likely* to benefit from a quota imposed on imports of a good?

A) Domestic producers of the good.

B) Foreign consumers of the good.

C) Domestic consumers of the good.

Explanation

Quotas restrict the supply of imported goods, which increases the price domestically, benefiting domestic producers but harming domestic consumers. While some specific foreign producers may also benefit from the higher prices created by the quota if they receive the revenue transfer (due to higher prices received for all goods sold under the import license), foreign producers as a whole are likely to experience decreased sales in the country that imposes a quota.

(Module 17.1, LOS 17.b)

Question #15 of 23

Question ID: 1573070

The primary benefits derived from tariffs usually accrue to:

A) domestic producers of export goods.

B) foreign producers of goods protected by tariffs.

C) domestic suppliers of goods protected by tariffs.

Explanation

Tariffs raise domestic prices, benefiting domestic suppliers.

(Module 17.1, LOS 17.b)

Question #16 of 23

Question ID: 1573063

Costs of international trade are *most likely* borne by:

A) consumers who have fewer choices of goods.

B) consumers who pay higher prices for consumer goods.

C) industries competing with imported goods.

Explanation

Industries competing with imported goods may experience lower profit and employment due to international trade.

(Module 17.1, LOS 17.a)

Question #17 of 23

Question ID: 1573072

Which of the following arguments in favor of trade restrictions is *least likely* to be supported by economists?

A) Infant industries should be protected.

B) National defense industries should be protected.

C) Trade with low-wage countries depresses wage rates in high-wage countries.

Explanation

Trade with low-wage countries does not in itself depress wage rates since productivity must be considered. The other arguments have some support among economists.

(Module 17.1, LOS 17.b)

Question #18 of 23

Question ID: 1573075

Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:

A) benefits the Japanese government and domestic producers.

B) will protect the jobs and high wages of Japanese chain saw industry workers.

C) is more harmful than if the government had limited the amount of chain saws imported.

Explanation

The Japanese government's action is an example of a *tariff*. A tariff is a tax imposed on imports and benefits the Japanese government because it collects the tariff. Domestic producers benefit because the reduction in the supply of imported goods means a higher domestic price.

The other choices are incorrect. A tariff is considered *less* harmful than a quota (an import quantity limitation) because under a quota, the domestic government does *not* receive any funds as it would under a tariff (the foreign producers receive the revenue transfer). In the long run, trade restrictions do not protect the net number of jobs in the country. The number of jobs protected by import restrictions will be offset by jobs lost in the import/export industry. Import/export firms will be unable to sell the overpriced domestic products abroad or import and sell the lower priced restricted foreign-made product.

(Module 17.1, LOS 17.b)

Question #19 of 23

Question ID: 1573080

The form of regional trading agreement (RTA) *least likely* to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:

A) common market. ✗

B) customs union. ✗

C) free trade area. ✓

Explanation

A free trade area removes barriers to trade among its members but does not require any of its members to change their trade policies with non-members. A common market and a customs union both impose uniformity on trade rules with non-member nations, which could restrict a member's low-cost imports from a nation that is not a member.

(Module 17.1, LOS 17.c)

Question #20 of 23

Question ID: 1573076

The *least likely* result of import quotas and voluntary export restraints is:

A) a decrease in the quantity of imports of the product. ✗

B) a shift in production toward higher-cost suppliers. ✗

C) increased revenue for the government. ✓

Explanation

Import quotas and voluntary export restraints, unlike tariffs, do not necessarily generate tax revenue. The other choices describe effects that result from tariffs, quotas, and VERs.

(Module 17.1, LOS 17.b)

Question #21 of 23

Question ID: 1573071

Which of the following groups in the country of Minidonia would *least likely* be helped by the imposition of tariffs on Minidonian imports of transportation equipment?

A) Minidonia's government.

B) Trucking companies.

C) Automotive manufacturers.

Explanation

Tariffs on transportation equipment benefit the government in the form of tariff revenue, and benefit domestic producers and industry workers in the form of higher prices for transportation equipment. The users of transportation equipment, such as trucking companies, suffer from higher costs due to the higher prices of transportation equipment.

(Module 17.1, LOS 17.b)

Question #22 of 23

Question ID: 1573077

Regional trade agreements exist primarily to:

A) improve economic welfare for their members.

B) lower currency volatility for their members.

C) protect their members from unfair trading practices by non-members.

Explanation

The primary reason countries join regional trade agreements is to improve economic welfare by reducing or eliminating trade restrictions.

(Module 17.1, LOS 17.c)

Question #23 of 23

Question ID: 1573066

An anti-dumping restriction on trade:

A) keeps some highly sensitive products in the country.

B) prohibits foreign firms from selling products below cost to gain market share.

C) protects infant industries.

Explanation

Firms dump their goods at a price lower than cost in order to drive out the competition. Once this is complete, they will be able to raise prices to much higher levels in order to gain abnormal profits. Of course, once prices are increased, new competitors may arise.

(Module 17.1, LOS 17.b)