

Homework #8

1. Which of the following situations will arise in the domestic market following the imposition of a tariff?
 - A. imports decrease, domestic production increases, prices increase
 - B. imports increase, domestic production increases, prices increase
 - C. imports increase, domestic production decreases, prices decrease
 - D. imports decrease, domestic production increases, prices decrease
 - E. imports decrease, domestic production decreases, prices increase

2. A tariff placed on imports lead to:
 - A. an increase in producer surplus in the importing country.
 - B. an increase in consumer surplus in the exporting country.
 - C. a decrease in net welfare both in the importing and exporting country.
 - D. all of the above.

3. The country that gains more from trade is the country with:
 - A. the less elastic trade curve (i.e., import demand or export supply).
 - B. the more elastic trade curve (i.e., import demand or export supply).
 - C. the largest tariffs.
 - D. the biggest trade deficit.

4. Tariffs
 - A. tend to be largest in developed economies.
 - B. tend not to vary dramatically by product and/or country.
 - C. have generally been decreasing since 1930.
 - D. all of the above.

5. Tariffs tend to:
 - A. benefit domestic consumers.
 - B. benefit domestic producers.
 - C. both (A) and (B).
 - D. neither (A) or (B).

6. The revenue raised by a tariff:
 - A. is generally smaller than the loss of welfare to consumers due to the tariff.
 - B. is generally larger than the loss of welfare to consumers due to the tariff.
 - C. can be smaller or larger than the loss of welfare to consumers due to the tariff depending on the elasticity of supply and demand.
 - D. is equal to $\frac{1}{2}$ (tariff rate) *(the quantity of imports).

7. Basic conclusions of economic analysis of tariffs include all of the following except:
 - A. a tariff in most cases lowers world well-being.
 - B. a tariff usually lowers the well-being of each nation, including the nation imposing the tariff.
 - C. a tariff absolutely helps those groups tied closely to the production of the import substitutes, even when the tariff is bad for the nation as a whole.
 - D. tariffs can never benefit an individual nation.

8. Economists contend that the greatest impediment to escaping poverty is:
- A. poverty, which prevents the poor from saving and investing in themselves and their posterity.
 - B. non-competitive markets which provide the market power necessary to exploit workers in developing countries.
 - C. international capitalism, which places the control of the poor in the hands of the wealthy who cannot be trusted to look out for their interests.
 - D. none of the above.

9. According to lecture, the external capital provided by developed countries to developing countries:
- A. takes away some of a developing countries sovereignty and cultural heterogeneity by forcing the country to conform to the needs of capital.
 - B. is essential for development along with the will and discipline to invest the capital wisely.
 - C. both (A) and (B).
 - D. neither (A) or (B).

10. The Bretton Woods Agreement of 1944 was a three part plan to rebuild and stabilize goods and capital markets that did not include:
- A. the World Bank the was to provide capital for reconstruction and development.
 - B. the IMF that was to monitor and stabilize the international financial system.
 - C. the GATT the to liberalize trade between countries.
 - D. the WTO which was to serve as the world court with regard to disputes regarding trade.

11. The greatest number of AIDS cases are in:
- A. South America
 - B. North America
 - C. Africa.
 - D. Asia

12. In the developing world, majority of AIDS is:
- A. largely concentrated among gay adult men.
 - B. has a roughly equal impact on men and women.
 - C. is more likely to arise from heterosexual intercourse.
 - D. both (B) and (C).

13. The opportunity cost of spending more on treating AIDS-infected patients is:
- A. the treatment of prevalent diseases in the developing world that have effective cures and are relatively inexpensive to treat.
 - B. the forgone expenditures on AIDS prevention that may halt the spread of the disease.
 - C. the forgone expenditures on other public services (e.g., clean water) that are cheap and effective at curing disease.
 - D. all of the above.

14. According to class, the major short-coming of world financial system and the IMF is:
- A. conditionality conditions that require recipient countries to meet a set of requirements based on the purpose of the loan.
 - B. austerity requirements, such as tax increases or cuts in public spending, that largely impact on the poor.
 - C. the tradeoff between some lesser degree of economic independence for external capital.
 - D. the moral hazard that results from the fact that some borrowing countries are too big to fail and must be bailed out continuously even though they have not invested loans wisely.

15. Which of the following acronyms is correctly specified:

- A. IMF - the International Management Fund.
- B. GATT - Global Agreement on Trade and Tariffs.
- C. WTO - World Tariff Oversight.
- D. none of the above.

16. The WTO:

- A. was formed out of the principles of GATT in the Uruguay round that was ratified by 132 countries in 1994.
- B. primary function is dispute resolution between countries
- C. both (A) and (B).
- D. neither (A) or (B).

17. The WTO codifies 3 principles of GATT, which do not include:

- A. the liberalization of trade through the lowering of trade barriers.
- B. non discrimination in trade or Most Favored Nation principle.
- C. no unfair encouragement of exports.
- D. a judicial process whereby sanctions can be imposed on a country by a world governing body to insure trade is not limited for any reason.

18. The McDonald principle:

- A. states that no two countries have ever gone to war that have a McDonald's.
- B. contends that the mutual self-interest and communication brought about by trade make it more costly to engage in destructive relations with another country such as war.
- C. both (A) and (B).
- D. neither (A) or (B).

19. Nike:

- A. owns and operates all of the factories and facilities that make its shoes.
- B. is the largest private employer in Vietnam.
- C. pays its new employees the minimum wage in Vietnam.
- D. all of the above.

20. Full-time work as defined by the Vietnamese government is:
- A. 40 hours a week.
 - B. 48 hours a week.
 - C. 52 hours a week.
 - D. none of the above.
21. An economic rationale for why Nike cannot pay U.S.-level wages in Vietnam is:
- A. that without low wages in developing countries there would be no reason to locate in place with low-skilled workers who live in countries with poor distribution systems.
 - B. markets where low-skilled jobs pay high wages lead to the “best workers” (e.g., doctors) working in low-skilled jobs with disastrous consequences.
 - C. high wages lead to the demand for Western products, which alter non-Western cultures in unanticipated, and often undesirable, ways.
 - D. both (A) and (B).
 - E. both (A) and (C).
22. Vietnamese workers are willing to accept a lower wage than U.S. workers because:
- A. large multinational corporations have market power in developing nations that creates a queue of workers and depresses wages.
 - B. the real value of dollar is lower in Vietnam.
 - C. trade depresses wages in the exporting country (i.e., Vietnam) and raises wages in the importing country (i.e., the U.S.).
 - D. the opportunity cost of a competing job is lower in Vietnam than it is in the U.S.
23. According to class, protestors played a valuable role in making marginal adjustments such as:
- A. the use of less overtime in production, which created a greater number of jobs rather than more hours for the same workers.
 - B. the adoption of transparency rules including independent monitors.
 - C. the adoption of a new ventilation system and the use of water-based solvents.
 - D. all of the above.
 - E. none of the above.
24. A major complaint of Nike employees is:
- A. free lunches are not very good.
 - B. too much overtime.
 - C. both (A) and (B).
 - D. neither (A) or (B).
25. According to class, foreign direct investment (FDI) is one of the major causes of the:
- A. development of the middle class in Vietnam.
 - B. increasing income inequality in Vietnam.
 - C. both (A) and (B).
 - D. neither (A) or (B).