

## Multiple Choice Questions

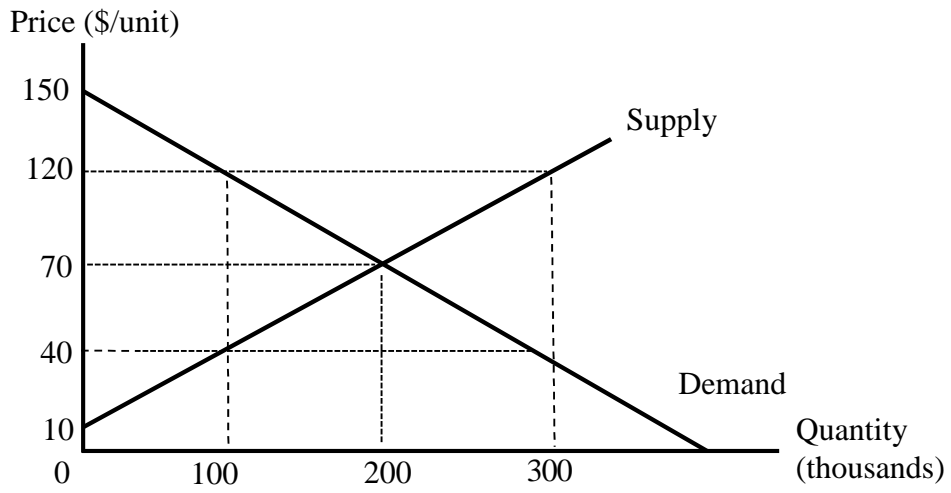
1. If an individual consumes more of good X when his/her income doubles, we can infer that
  - a. the individual is highly sensitive to changes in the price of good X.
  - b. good X is a normal good.
  - c. good X is an inferior good.
  - d. the demand for good X is perfectly inelastic.
  
2. Which of the following factors can lead to an increase in demand for coffee at Starbucks?
  - a. An increase in household income
  - b. An increase in the price of sugar
  - c. An increase in the price of coffee beans
  - d. A 10 percent decline in local population
  
3. If the price of a normal good is measured along the vertical axis and its quantity along the horizontal axis, an increase in the price of the good will lead to:
  - a. a downward movement along the demand curve.
  - b. an upward movement along the demand curve.
  - c. a rightward shift of the demand curve.
  - d. a leftward shift of the demand curve.

4. Everything else remaining unchanged, when the price of a normal good increases, consumers:
  - a. purchase more of the good.
  - b. purchase less of the good.
  - c. purchase the same amount of the good.
  - d. do not purchase any amount of the good.
  
5. Suppose good X is a substitute of good Y. Everything else remaining unchanged, an increase in price of good Y will lead to:
  - a. an increase in demand for good Y.
  - b. a decrease in demand for good X.
  - c. an increase in demand for good X.
  - d. a decrease in price of good X.
  
6. Which of the following events would lead to a decrease in demand for air travel?
  - a. A decrease in the number of people who are afraid to fly
  - b. A decrease in oil prices
  - c. A decrease in rail fares
  - d. An increase in income levels
  
7. Harry used work in a laundrette and earned \$30 a day. After work, he normally had a chicken burger worth \$5 at McDonalds. However, his pay was lowered to \$20 some days later. Then after work he used to have a vegetable burger worth \$3. Here the vegetable burger is an example of a(n):
  - a. inferior good.
  - b. normal good.
  - c. complement good.
  - d. luxury good.

8. The value of price elasticity of demand for a normal commodity is negative because it indicates:
  - a. the inverse relationship between the price and the quantity demanded for the commodity.
  - b. that the value of the consumer surplus is negative for a normal good.
  - c. that the changes in quantity demanded are much less compared to the changes in price for a normal good.
  - d. the direct relationship between price and consumer surplus from the commodity.
  
9. Which of the following will cause a rightward shift of the market supply curve?
  - a. An increase in the product price
  - b. A decrease in input prices
  - c. Change in consumers' tastes
  - d. An increase in national income
  
10. Which of the following is a "unit-free" measure?
  - a. Consumer surplus when the demand curve is horizontal
  - b. Producer surplus when the supply curve is vertical
  - c. Market supply
  - d. Price elasticity of demand

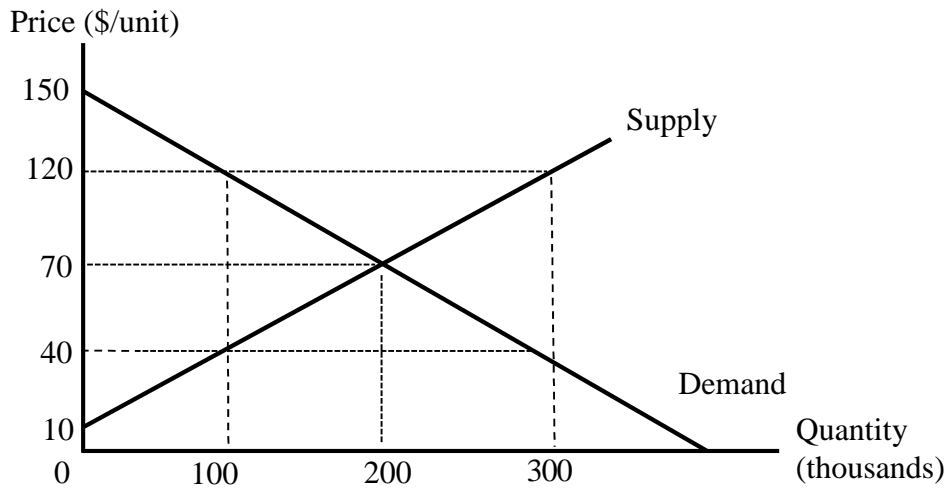
11. If a 1% increase in the price of DVD players leads to a 3% reduction in its sales, we can conclude that:
- the supply of DVD players is perfectly inelastic.
  - DVD players are inferior goods.
  - the demand for DVD players is relatively elastic.
  - the demand for DVD's is relatively inelastic.
12. Which of the following is true of consumer surplus?
- It is graphically represented as the area under the equilibrium price and above the supply curve of a good.
  - It is the net gain in economic well-being associated with producing and selling the equilibrium quantity of a good.
  - It is used to measure the impact of a change in price on the economic well-being of the producers.
  - It is the difference between the value that one places on a good and the price paid for the good.

13. Refer to Figure 2.1 below. At a price of \$70, the consumer surplus equals:



- a. \$6,000,000.
- b. \$8,000,000.
- c. \$5,000,000.
- d. \$10,000,000.

14. Refer to Figure 2.1 below. At a price of \$70, the producer surplus equals:



- a. \$6,000,000.
- b. \$8,000,000.
- c. \$15,000,000.
- d. \$30,000,000.

15. To maximize profit a perfectly competitive firm supplies a good up to the point at which:

- a. the marginal revenue is higher than the marginal cost.
- b. the marginal cost of producing the good is zero.
- c. the price of the good equals marginal cost.
- d. the average revenue equals average cost.

16. **Which** of the following groups is most likely to be benefitted when a country engages in free trade?
- All the domestic producers of the country
  - The manufacturers of exportable goods
  - The producers in the import-competing industries
  - The workers employed in the import-competing industries
17. Which of the following is an example of arbitrage?
- A firm sells a box of cereal at \$10 when the average cost of producing it is \$6.
  - Thomas buys a new stock issued by a firm on the stock exchange.
  - A local salon charges 5 percent more for all its services than a competing salon in the same locality.
  - Romi buys a DVD from Walmart at \$10 and sells it on eBay for \$20.
18. **An increase** in the imports of clothing into the United States from India will benefit the \_\_\_\_\_ and hurt the \_\_\_\_\_.
- U.S. clothing producers; Indian clothing producers
  - Indian consumers; Indian clothing producers
  - the U.S. consumers; Indian clothing producers
  - the U.S. consumers; the U.S. clothing producers

19. 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:
- country B's export supply curve is perfectly inelastic.
  - both country A's import demand curve and country B's export supply curve are positively sloped.
  - country A's import demand curve will be perfectly inelastic.
  - country A's import demand curve will intersect country B's export supply curve.

20. 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?

- \$66
  - \$90
  - \$45
  - \$150
21. 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?

- 138
- 258
- 210
- 930



22. 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, how many skateboards will be produced in the United States?

- a. 165
  - b. 240
  - c. 285
  - d. 215
23. 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
- b. 240
- c. 285
- d. 245

24. 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 U.S. engages in free trade and the international price of skateboards is \$75, it would import \_\_\_\_\_ skateboards from the rest of the world.

- a. 65
- b. 85
- c. 75
- d. 95

25. 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

26. 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

27. 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.
28. **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

29. **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, how many MP3 players will be sold in the United States?

- a. 825
- b. 575
- c. 608
- d. 925

30. 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
- b. 475
- c. 925
- d. 525

31. **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, what will be the total demand for MP3 players in the United States?

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

32. 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.

- a. 150
- b. 250
- c. 475
- d. 225

33. 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 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

34. 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:

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

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

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

- increase; \$2,625
  - increase; \$6,000
  - decrease; \$7,150
  - decrease; \$13,500
35. 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:

$$Q^S = P$$

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

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 \_\_\_\_\_.

- 50; \$50
- 100; \$100
- 150; \$50
- 100; \$50

36. 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:

$$Q^S = P$$
$$Q^D = 160 - P.$$

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 \_\_\_\_\_.

- 80; \$80
  - 100; \$100
  - 50; \$100
  - 100; \$50
37. 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:

$$Q^S = P$$
$$Q^D = 160 - P.$$

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:

- export 40,000 bicycles.
- export 60,000 bicycles.
- import 60,000 bicycles.
- import 40,000 bicycles.

38. 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:

$$Q^S = P$$
$$Q^D = 160 - P.$$

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

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:

- export 40,000 bicycles.
  - export 60,000 bicycles.
  - import 60,000 bicycles.
  - import 40,000 bicycles.
39. 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:

$$Q^S = P$$
$$Q^D = 160 - P.$$

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:

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



40. According to the theory of comparative advantage, which of the following is **not** a reason why countries trade?
- Comparative advantage.
  - Costs are higher in one country than in another.
  - Prices are lower in one country than in another.
  - The productivity of labor differs across countries and industries.
  - Exports give a country a political advantage over other countries that export less.
41. According to the theory of comparative advantage, a country will export a good only if
- It can produce it using less labor than other countries.
  - Its productivity is higher in producing the good than the productivity of other countries in producing it.
  - Its wage rate in producing the good is lower than in other countries.
  - Its cost of producing the good, relative to other goods, is at least as low as in other countries.
  - All of the above.
42. **Suppose** that Austria and Belgium have the unit labor requirements for producing steel and brooms shown in the following table:

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

Then

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

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

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

Then Brazil has a

- a. Comparative advantage in sleds.
  - b. Comparative advantage in clarinets.
  - c. Absolute advantage in sleds.
  - d. Absolute advantage in clarinets.
  - e. None of the above.
44. 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.
45. 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.
46. 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

1. An increase in demand for a good will lead to a larger increase in price if the supply is relatively elastic.
2. A decrease in income will lead to an increase in the demand for an inferior good.
3. An increase in individual income will lead to an inward shift of the demand curve for a commodity.
4. If a 1% increase in an individual's income leads to a 0.5% increase in the demand for a good, the good is considered to be a normal good.
5. Consumer surplus is the net economic benefit to consumers who are able to buy a good at a price lower than the highest price that they are willing to pay.

6. **The** net economic gains from free trade are usually negative.
7. The price elasticity of demand measures the responsiveness of consumers to changes in the price of a product.
8. **The** net national gain from trade can be measured by the change in consumer and producer surplus that results from trade.
9. 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.
10. **When** free trade begins, producers in the importing nation gain while producers in the exporting nation are worse off.

11. Free trade is a zero-sum activity because a country always gains at the expense of its trading partner.
12. **The** gains from trade are divided in proportion to the price changes that trade brings to the trading countries.
13. **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.
14. **While** international trade will benefit both the importing and exporting country in a two- country world, the gains from trade in the exporting country must be greater than the gains from trade in the importing country.

