International Economics: Theory and Policy, 11e, Global Edition **(Krugman et al.)**
Chapter 1   Introduction

1.1   What Is International Economics About?

1) Historians of economic thought often describe ________ written by ________ and published in ________ as the first real exposition of an economic model.
A) "Of the Balance of Trade," David Hume, 1776
B) "Wealth of Nations," David Hume, 1758
C) "Wealth of Nations," Adam Smith, 1758
D) "Wealth of Nations," Adam Smith, 1776
E) "Of the Balance of Trade," David Hume, 1758
Answer: E
Page Ref: 29
Difficulty: Easy

2) From 1950 to 2015
A) the U.S. economy roughly tripled in size.
B) U.S. imports roughly tripled in size.
C) the share of U.S. trade in the global economy roughly tripled in size.
D) U.S. imports roughly tripled as compared to U.S. exports.
E) U.S. exports roughly tripled in size.
Answer: C
Page Ref: 29
Difficulty: Easy

3) The United States is less dependent on trade than most other countries because
A) the United States is a relatively large country with diverse resources.
B) the United States is a "Superpower."
C) the military power of the United States makes it less dependent on anything.
D) the United States invests in many other countries.
E) many countries invest in the United States.
Answer: A
Page Ref: 30
Difficulty: Easy

4) Theories of international economics from the 18th and 19th centuries are
A) not relevant to current policy analysis.
B) only of moderate relevance in today's modern international economy.
C) highly relevant in today's modern international economy.
D) the only theories that are actually relevant to modern international economy.
E) not well understood by modern mathematically oriented theorists.
Answer: C
Page Ref: 30
Difficulty: Easy

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5) An important insight of international trade theory is that when two countries engage in voluntary trade
A) one country always benefits at the expense of the other.
B) it is almost always beneficial to both countries.
C) it only benefits the low wage country.
D) it only benefits the high wage country.
E) it is almost never beneficial to both countries.
Answer: B
Page Ref: 32
Difficulty: Easy

6) If there are large disparities in wage levels between countries, then
A) trade is likely to be harmful to both countries.
B) trade is likely to be harmful to the country with the high wages.
C) trade is likely to be harmful to the country with the low wages.
D) trade is likely to be harmful to neither country.
E) trade is likely to have no effect on either country.
Answer: D
Page Ref: 32
Difficulty: Easy

7) The benefits of international trade are derived from trade in
A) tangible goods only.
B) intangible goods only.
C) goods but not services.
D) services but not goods.
E) anything of value.
Answer: E
Page Ref: 32
Difficulty: Easy

8) Which of the following does NOT belong?
A) NAFTA
B) Uruguay Round
C) World Trade Organization
D) non-tariff barriers
E) major free trade agreements of the 1990s
Answer: D
Page Ref: 34
Difficulty: Easy

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9) International economics ________ use the same fundamental methods of analysis as other branches of economics, because ________.
A) does not, the level of complexity of international issues is unique
B) does not, the interactions associated with international economic relations is highly mathematical
C) does not, international economics takes a different perspective on economic issues
D) does not, international economic policy requires cooperation with other countries
E) does, the motives and behavior of individuals are the same in international trade as they are in domestic transactions
Answer: E
Page Ref: 31
Difficulty: Easy

10) Because the Constitution forbids restraints on interstate trade
A) the U.S. may not impose tariffs on imports from NAFTA countries.
B) the U.S. may not affect the international value of the $ U.S.
C) the U.S. may not put restraints on foreign investments in California if it involves a financial intermediary in New York State.
D) the U.S. may not impose export duties.
E) the U.S. may not disrupt commerce between Florida and Hawaii.
Answer: E
Page Ref: 32
Difficulty: Easy

11) Which of the following is NOT a major concern of international economic theory?
A) protectionism
B) the balance of payments
C) exchange rate determination
D) bilateral trade relations with China
E) the international capital market
Answer: D
Page Ref: 32
Difficulty: Easy

12) "Trade is generally harmful if there are large disparities between countries in wages."
A) This is generally true.
B) This is generally false.
C) Trade theory has nothing to say about this issue.
D) This is true if the trade partner ignores child labor laws.
E) This is true if the trade partner uses prison labor.
Answer: B
Page Ref: 32
Difficulty: Easy

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13) Who sells what to whom
A) has been a major preoccupation of international economics.
B) is not a valid concern of international economics.
C) is not considered important for government foreign trade policy since such decisions are made in the private competitive market.
D) is determined by political rather than economic factors.
E) is less important than international economic theory.
Answer: A
Page Ref: 33
Difficulty: Easy

14) The insight that patterns of trade are primarily determined by international differences in labor productivity was first proposed by
A) Adam Smith.
B) David Hume.
C) David Ricardo.
D) Eli Heckscher.
E) Lerner and Samuelson.
Answer: A
Page Ref: 33
Difficulty: Easy

15) After World War II, the United States has pursued a broad policy of
A) strengthening "Fortress America" protectionism.
B) removing barriers to international trade.
C) isolating Iran and other members of the "axis of evil."
D) protecting the U.S. from the economic impact of oil producers.
E) restricting trade of manufactured goods.
Answer: B
Page Ref: 34
Difficulty: Easy

16) The balance of payments has become a central issue for the United States because
A) when the balance of payments is not balanced, society is unbalanced.
B) the U.S. economy cannot grow when the balance of payments is in deficit.
C) the U.S. has run huge trade deficits in every year since 1982.
D) the U.S. never experienced a surplus in its balance of payments.
E) the U.S. once ran a large trade surplus of about $40 billion.
Answer: C
Page Ref: 35
Difficulty: Easy

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17) The study of exchange rate determination is a relatively new part of international economics, since
A) for much of the past century, exchange rates were fixed by government action.
B) the calculations required for this were not possible before modern computers became available.
C) economic theory developed by David Hume demonstrated that real exchange rates remain fixed over time.
D) dynamic overshooting asset pricing models are a recent theoretical development.
E) the exchange rate never fluctuates.
Answer: A
Page Ref: 35
Difficulty: Easy

18) A fundamental problem in international economics is how to produce
A) a perfect degree of monetary harmony.
B) an acceptable degree of harmony among the international trade policies of different countries.
C) a world government that can harmonize trade and monetary policies
D) a counter-cyclical monetary policy so that all countries will not be adversely affected by a financial crisis in one country.
E) a worldwide form of currency.
Answer: B
Page Ref: 35
Difficulty: Easy

19) For almost 70 years international trade policies have been governed
A) by the World Trade Organization.
B) by the International Monetary Fund.
C) by the World.
D) by an international treaty known as the General Agreement on Tariffs and Trade (GATT).
E) by the North American Free Trade Agreement (NAFTA).
Answer: D
Page Ref: 35
Difficulty: Easy

20) The international capital market is
A) the place where you can rent earth moving equipment anywhere in the world.
B) a set of arrangements by which individuals and firms exchange money now for promises to pay in the future.
C) the arrangement where banks build up their capital by borrowing from the Central Bank.
D) the place where emerging economies accept capital invested by banks.
E) exclusively concerned with the debt crisis that ended in the 1990s.
Answer: B
Page Ref: 36
Difficulty: Easy

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21) International capital markets experience a kind of risk not faced in domestic capital markets, namely
A) "economic meltdown" risk.
B) Flood and hurricane crisis risk.
C) the risk of unexpected downgrading of assets by Standard and Poor.
D) the risk of exchange rate fluctuations.
E) the risk of political upheaval.
Answer: D
Page Ref: 35
Difficulty: Moderate

22) Since 1994, trade rules have been enforced by
A) the WTO.
B) the G10.
C) the GATT.
D) The U.S. Congress.
E) the European Union.
Answer: A
Page Ref: 35
Difficulty: Easy

23) In 1998 an economic and financial crisis in South Korea caused it to experience
A) a surplus in their balance of payments.
B) a deficit in their balance of payments.
C) a balanced balance of payments.
D) an unbalanced balance of payments.
E) a lull in international trade.
Answer: A
Page Ref: 34
Difficulty: Easy

24) International economists cannot discuss the effects of international trade or recommend changes in government policies toward trade with any confidence unless they know
A) their theory is the best available.
B) their theory is internally consistent.
C) their theory passes the "reasonable person" legal criteria.
D) their theory is good enough to explain the international trade that is actually observed.
E) their theory accounts for China's unique position in international trade.
Answer: D
Page Ref: 33-34
Difficulty: Easy

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25) Trade theorists have proven that the gains from international trade
A) must raise the economic welfare of every country engaged in trade.
B) must raise the economic welfare of everyone in every country engaged in trade.
C) must harm owners of "specific" factors of production.
D) will always help "winners" by an amount exceeding the losses of "losers."
E) usually outweigh the benefits of protectionist policies.
Answer: E
Page Ref: 33-34
Difficulty: Easy

26) The international financial crisis of 2007 was the result of
A) failure of the Euro currency.
B) runaway inflation in the U.S.
C) a deep global recession.
D) the collapse of global currency markets.
E) defaults on U.S. mortgage-backed securities.
Answer: E
Page Ref: 36
Difficulty: Easy

27) In September 2010, the finance minister of ________ declared that the world was "in the midst of an international currency war" because of rapid appreciation in the value of the country's currency, the ________.
A) England; pound sterling
B) Germany; euro
C) Japan; yen
D) China; renminbi
E) Brazil; Real
Answer: E
Page Ref: 35
Difficulty: Easy

28) Cost-benefit analysis of international trade
A) is basically useless.
B) is empirically intractable.
C) focuses attention primarily on conflicts of interest within countries.
D) focuses attention on conflicts of interest between countries.
E) never leads to government intervention in international trade.
Answer: C
Page Ref: 34
Difficulty: Moderate

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29) An improvement in a country's balance of payments means a decrease in its balance of payments deficit, or an increase in its surplus. In fact we know that a surplus in a balance of payments
A) is always beneficial.
B) is usually beneficial.
C) is never harmful.
D) is sometimes harmful.
E) is always harmful.
Answer: D
Page Ref: 34
Difficulty: Moderate

30) The GATT is
A) an international agreement.
B) an international U.N. agency.
C) an international IMF agency.
D) a U.S. government agency.
E) a collection of tariffs.
Answer: A
Page Ref: 35
Difficulty: Easy

31) It is argued that global trade tends to be more important to countries with smaller economies than the U.S. Is this empirically verified?
Answer: Yes. Figure 1-2 shows exports and imports as a percentage of national income in the U.S. and five other countries and notes that "International trade is even more important to most other countries than it is to the U.S."
Page Ref: 31
Difficulty: Moderate

32) It is argued that if a rich high wage country such as the United States were to expand trade with a relatively poor and low wage country such as Mexico, then U.S. industry would migrate south, and U.S. wages would fall to the level of Mexico's. What do you think about this argument?
Answer: The student may think anything. The purpose of the question is to set up a discussion, which will lead to the models in the following chapters.
Page Ref: 32
Difficulty: Moderate

33) How are the patterns of international trade, that is the pattern of what different countries export and import, explained?
Answer: Climate explains why Brazil exports coffee. Natural resources explains why Saudi Arabia exports oil. More generally, differences in labor productivity and in the availability of land, labor, and capital within different countries explain patterns of trade. More recent research suggests that there is a significant random component involved, as well.
Page Ref: 33
Difficulty: Moderate

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34) International trade theory implies that international trade is beneficial to all trading countries. However, casual observation leads to the conclusion that official obstruction of international trade flows is widespread. How might you reconcile these two facts?
Answer: This question is meant to allow students to offer preliminary discussions of issues, which will be explored in depth later in the book.
Page Ref: 32
Difficulty: Moderate

1.2 International Economics: Trade and Money

1) International economics can be divided into two broad sub-fields
A) macro and micro.
B) developed and less developed.
C) monetary and barter.
D) international trade and international money.
E) static and dynamic.
Answer: D
Page Ref: 37
Difficulty: Easy

2) International monetary analysis focuses on
A) the real side of the international economy.
B) the international trade side of the international economy.
C) the international investment side of the international economy.
D) the issues of international cooperation between Central Banks.
E) the monetary side of the international economy, such as currency exchange.
Answer: E
Page Ref: 37
Difficulty: Easy

3) The distinction between international trade and international money is NOT entirely clear because
A) real developments in the trade accounts do not have monetary implications.
B) the balance of payments includes only real measures.
C) developments caused by purely monetary changes have no real effects.
D) trade models focus on real, or barter relationships.
E) most international trade involves monetary transactions.
Answer: E
Page Ref: 37
Difficulty: Easy

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