Practice MC Exam 3

1. For a large country, a tariff will
   a. reduce the demand for imports, thus improving the terms of trade.
   b. reduce the supply of imports, thus improving the terms of trade.
   c. reduce the supply of imports, thus deteriorating the terms of trade.
   d. reduce the demand for imports, thus deteriorating the terms of trade.
   e. lead to unambiguous welfare losses.

2. The presence of an export subsidy
   a. will increase the price of the export good in the home market and decrease the well-being of home consumers.
   b. will decrease the price of the export good in the home market and increase the well-being of home consumers.
   c. will lead to a net gain in welfare in the home country since producer surplus is enhanced.
   d. can lead to a higher import price in the importing country in the large-country case.

3. The argument that a tariff can provide temporary protection to an industry so that the industry can expand, realize economies of scale, and eventually become an export industry is known as the
   a. antidumping argument.
   b. national defense argument.
   c. infant industry argument
   d. terms of trade argument.

4. If a small country produces 100 units of Product X and consumes 140 units at a price of $2 under free trade, but the imposition of a tariff leads to a situation where domestic price is $2.20, domestic production is 120 units, and domestic consumption is 125 units, then the loss in consumer surplus in this country because of the tariff is
   a. $1.00.
   b. $22.00.
   c. $24.00.
   d. 26.50.
5. The United States has recently extended “most-favored-nation” (MFN) treatment to Russia. This means that the tariff schedules applicable to U.S. imports from Russia will have lower tariff rates than the rates applicable to other countries to which the United States grants MFN treatment.  
   a. will have lower tariff rates than the rates applicable to other countries to which the United States grants MFN treatment.  
   b. will have the same tariff rates as the rates applicable to other countries to which the United States grants MFN treatment.  
   c. will have lower tariff rates than the rates applicable to any other country sending goods to the United States.  
   d. will thus have tariff rates of zero percent.  

6. A policy of tariff reduction in the computer industry is  
   a. in the interest of the United States as a whole and in the interest of computer producing regions of the country.  
   b. in the interest of the United States as a whole but not in the interest of computer producing regions of the country.  
   c. not in the interest of the United States as a whole but in the interests of computer producing regions of the country.  
   d. not in the interest of the United States as a whole and not in the interests of computer consumers.  
   e. none of the above  

7. The U.S. tariff on ballpoint pens is 0.8¢/pen plus 5.4 percent of the value of the pen. This is an example of ______.  
   a. a specific tariff.  
   b. an ad valorem tariff.  
   c. a combination of a specific tariff and an ad valorem tariff.  
   d. a non-tariff barrier.  

8. Which of the following statements would indicate, other things equal, the general attitude of domestic producers with respect to the type of trade policy constraint to be placed on competing foreign products, especially if inflation is expected over time?  
   a. An import quota would be preferred to an ad valorem tariff.  
   b. A specific tariff would be preferred to an import quota.  
   c. A specific tariff would be preferred to an ad valorem tariff.  
   d. The producers would be indifferent among the import quota, the ad valorem tariff, and the specific tariff.
9. Voluntary exports restraints often convey
   a. monopoly power to the importing country.
   b. monopoly power to the exporting country.
   c. revenues to the importing countries.
   d. benefits to both countries equally.

10. In general immigration of labor
    a. increases wages and reduces the returns to other factors
    b. increases wages and increases the returns to other factors
    c. reduces wages and reduces the returns to other factors
    d. reduces wages and increases the returns to other factors
    e. will not affect wages

11. MNE’s tend to concentrate their activities in industries that
    a. are highly competitive
    b. require little human capital
    c. firm reputation is not important
    d. are based in LDCs
    e. none of the above