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For each correct answer you get 0.5; **for each wrong answer you lose 0.5.**

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**1**.Consider the shoes industry of a certain country. If all firms have the same unit production costs, then the supply curve of shoes will have a positive slope.

**2.** Consider an industry whose autarkic equilibrium price is lower than the international price. If free-trade is allowed, that industry will turn into an import-competing industry.

**3.** The height of the demand curve of a good at a specific point indicates the disposition to pay by a certain consumer for a specific unit of a good. It is for that reason that it is taken as a measure of the utility the consumer derives from that unit. It is also the reason why the vertical difference between that point on the demand curve and the market price is taken as a measure of the net utility the consumer derives from that unit.

**4.** A tariff on the imports of shoes raises their price in the domestic market. As a result, it harms domestic consumers – but only to the extent that it benefits the domestic firms.

**5.** Like a Voluntary Export Restriction by a foreign government, a quota on the imports of a certain good leads initially to a scarcity of that good in the domestic market.

**6.** A tariff on the imports of a certain good leads to a scarcity of that good in the domestic market, and thereby leads to an increase in its price.

**7.** ‘Consumption inefficiency’ occurs when for some reason consumers are induced not to consume units of a good that would give them an utility higher than their production cost (at home or abroad).

**8.** ‘Production inefficiency’ occurs when for some reason domestic firms replace some - not necessarily all - lower-cost foreign firms in the supply of a certain good to domestic consumers.

**9.** A quota on the imports of a certain good leads to the replacement of some lower cost foreign production by higher cost domestic production.

**10.** A tariff on the imports of a certain good makes some consumers choose not to buy some units of the good that would give them more utility than their production cost in the rest of the world.

**11.** A subsidy per unit produced attributed to an industry which competes with imports makes some consumers choose not to buy some units produced by that sector that would give them more utility than their production cost in the rest of the world.

**12.** In contrast with what happens with a tariff, a quota on the imports of a certain good never generates revenue for the government.

**13.** According to Adam Smith, if a country has an absolute advantage in the production of the two goods, then trade brings overall gains for that country.

**14.** In the Ricardian model, both in autarky and under free trade the relative price of two goods is determined by their relative cost in labour hours.

**15.** In the Ricardian model, the slope of the Production Possibilities Curve (PPF) of a certain country is equal to the relative labour cost of the two goods in that country. Therefore, if we know the slopes of the PPCs of two countries, we can say in which good each country has a comparative advantage.

**16.** In the Ricardian model, if there is a technological innovation that raises the productivity of the two goods *in the same proportion*, the Production Possibilities Curve of the country moves outwards, but the opportunity cost of each good in terms of the other remains unchanged.

**17.** Suppose that in country A the opportunity cost of the good X is equal to 2 units of the good Y, and that in country B the opportunity cost of the **good Y** is equal to 3 units of the **good X.** If the international **relative price of Y** happens to be equal to 3, all the gains from trade go to country A (which exports the good X).

**18.** Consider the Ricardian model. In the case of a large country, the Consumption Possibilities Curve in autarky coincides with the Consumption Possibilities Curve after that country opens up to trade. This means that a large country does not gain from trade.

**19.** In the Ricardian model, free trade always leads to full specialization.

**20.** In the Ricardian model with n>2 goods, the consideration of transport costs may lead one country to cease the exports of one or some goods, and make these goods to be exported by the other country.

**21.** In the Ricardian model with n>2 goods, the number of goods exported by one country increases if its productivity in one or more goods rises.

**22.** Suppose that in a certain country the values of exports and imports of a certain good are equal to 30 euros and 70 euros, respectively. In this case, the proportion if Intra Industry Trade in the total trade of that industry is equal to 60%.

**23.** Firms may sell their products in foreign markets at lower prices than in the domestic market because they usually sell much less in each of their foreign markets than in the domestic market.

**24.** Reciprocal dumping may explain some of the intra industry that takes place in the real world. But dumping has negative effects on consumers, and therefore is prohibited by many countries.

**25.** In the Krugman´s model studied in our lectures, when the two countries move from autarky to trade the quantity sold by each firm at the initial price remains constant.

**26.** In the Krugman´s model studied in our lectures, when the two countries move from autarky to trade firms start cutting down their prices to expand their sales. But the sales directed to each firm do not expand – except when some firms eventually exit the industry

**27.** In the Krugman´s model studied in our lectures, if consumers in each country were not willing to consider buying the foreign brands rather than the domestic brands, there would be no trade.

**28.** Krugman’s model explains inter-industry trade. And, according to that model, trade leads both to lower prices and more varieties for consumers to choose from.

**29.** In Krugman’s model, if trade did not imply the failure of some firms, then it would not lead to lower prices.

**30.** External economies of scale exist because when firms of the same industry are located in the same area their professionals and businessmen learn many things with each other.

**31.** If there are external economies of scale, full specialization of each country would be associated with higher global output of each good - even if the relative costs of the two goods in the two countries were the same in case they produced the same quantity produced of good x and they produced the same quantity of good y.

**32.** Full specialization of each country in the good in which it has a comparative advantage will increase global output. The existence or absence of external economies of scale does not affect the size of that increase.

**33.** In the Ricardian model with n>2 goods, each country specializes in the goods in which its productivity is higher than that of the other country.

**34.** In the Ricardian model with n>2 goods, under flexible rates changes in the exchange rate generate changes in the relative wage and thereby determine the goods in which each country specializes.

**35.** In fixed rates with monetary sterilization, a trade imbalance increases both the monetary base and the interest rates in the surplus country.

**36.** In fixed rates without monetary sterilization, a trade imbalance affects the interest rate in the surplus country but not in the deficit country.

**37.** In fixed rates without monetary sterilization, if trade imbalances impact on nominal wages rather than on output levels, then the relative competitiveness of the two countries remains unchanged and there is no mechanism to correct the trade imbalances.

**38.** In flexible rates, a trade imbalance increases the monetary base and decreases the interest rate in the surplus country.

**39.** According to the Ricardian model with many goods, a country can only compete under free international trade if its productivity is higher than that of the other country in at least one of the goods.

**40.** In the Ricardian model studies in our lectures, the relative price at which trade takes place depends on the world demand for the two goods.