

**Econ 140 The World Economy  
Test One**

Please answer 35 of the following 37 questions. Mark clearly the 2 you delete.

1. According to the realists what is the main goal of international economic relations?

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2. According to liberals what would be the main goal?

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3. According to mercantilists the chief goal of international trade is to

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4. Which major view of international political economy envisions the least conflict in international economic relations?

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5. To what extent is their view (from #4) consistent with standard international trade theory?

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6. What theory of political economy best explains the recent US protection of its steel industry?

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7. and 8. Briefly indicate two major reasons for the failure of the Cancun meeting?

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9. and 10.

9. Would you expect realism to explain more in the area of national security or international trade negotiations?

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10. Why?

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11. What types of trade policies are predicted by an informed median voter model?

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12. What types of trade policies would be predicted by public choice theory?

- a. \_\_\_\_\_ free trade
- b. \_\_\_\_\_ heavy protectionism
- c. \_\_\_\_\_ could be either

13. According to standard trade theory when a country is opened to trade what will determine whether a particular industry will export or import?

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14. Would all exporters and importers need to understand the theory of comparative advantage for the mechanism in #13 to work?

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15. What is important for a country's wealth is its

- a. \_\_\_\_\_ absolute advantage
- b. \_\_\_\_\_ comparative advantage
- c. \_\_\_\_\_ both

16. What is important for a country's trade pattern is its

- a. \_\_\_\_\_ absolute advantage
- b. \_\_\_\_\_ comparative advantage
- c. \_\_\_\_\_ both

17. – 20. Please draw a graph of the opening of trade for an industry that ends up exporting?

17. Show on the graph who gains

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18. and who loses?

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19. How, if at all, are these gainers and losers related to the concepts of consumer and producer surplus?

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20. What on the graph shows the efficiency effects of the opening of trade

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21. Briefly explain how you would draw the countries export supply curve

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22. – 25. Now consider the opening of trade for an industry that will end up importing.

22. In what direction will domestic production change?

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23. In what direction will consumption change?

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24. Suppose domestic production changes by 100 million, consumption changes by 300 million, and the domestic price changes by one dollar. According to our standard trade theory calculations what would be the magnitude of the resulting changes in economic efficiency (economic welfare)? (Show the formula you use for your calculation)

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25. In the general equilibrium analysis of Ch 3, what is the relationship between the marginal rate of substitution (MRS) and the marginal rate of transformation (MRT) in the closed economy equilibrium?

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26. How, if any, does the opening of trade change the domestic production possibility curve (PPC)?

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27. How if any, does trade change the indifference curve?

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28. With the opening of trade a country's production will normally become

- a. \_\_\_\_\_ more specialized
- b. \_\_\_\_\_ less specialized
- c. \_\_\_\_\_ can't tell

29. Assuming costless reallocation a country's change in economic welfare will be greater from the opening of trade if its reallocation of production is

- a. \_\_\_\_\_ large
- b. \_\_\_\_\_ small
- c. \_\_\_\_\_ can't tell

30. According to standard trade theory, the gains from trade will normally be greater if the country is

- a. \_\_\_\_\_ large
- b. \_\_\_\_\_ small
- c. \_\_\_\_\_ can't tell

31. How could the opening of trade make a country worse off overall?

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32. This possibility would be more likely in the

- a. \_\_\_\_\_ long-run
- b. \_\_\_\_\_ short-run
- c. \_\_\_\_\_ no difference

33. According to the H-O theory ~~of~~ who gains from international trade?

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34. Who, if any, are the losers?

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35. The H-O theory holds better in the

- a. \_\_\_\_\_ short run
- b. \_\_\_\_\_ long run
- c. \_\_\_\_\_ no difference

36. because \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

37. According to the H O theory, in the absence of any frictions the opening of free trade will make the prices of domestic labor and capital \_\_\_\_\_

- a. \_\_\_\_\_ move closer
- b. \_\_\_\_\_ move further apart
- c. \_\_\_\_\_ move to equality
- d. \_\_\_\_\_ can't tell