

Classical International Trade Theories



The Mercantilists did NOT advocate:

- a) Free trade
- b) Stimulating the nation's exports
- c) Restricting the nation's imports
- d) The accumulation of gold by the nation

	US	UK
Wheat (bushels/Hour)	4	1
Cloth (yards/Hour)	1	2

According to the table, Which country has an absolute advantage in the production of wheat?

- a. US
- b. UK

According to the table, UK must specialize in the production of -----

- a. Wheat
- b. Cloth

According to the theory of comparative advantage, which of the following is not a reason why countries trade?

- A) Costs are higher in one country than in another.
- B) Prices are lower in one country than in another.
- C) Exports give a country a political advantage over other countries that export less**
- D) The productivity of labor differs across countries and industries.

What is absolute advantage of trade?

- A) Two countries produce distinctively different goods.
- B) Two countries produce comparable goods.
- C) A poorer country is more efficient at producing something than a rich country.
- D) One country produces at least cost.**

If a country has an absolute advantage in two products and has a comparative advantage in only one product, what should it do

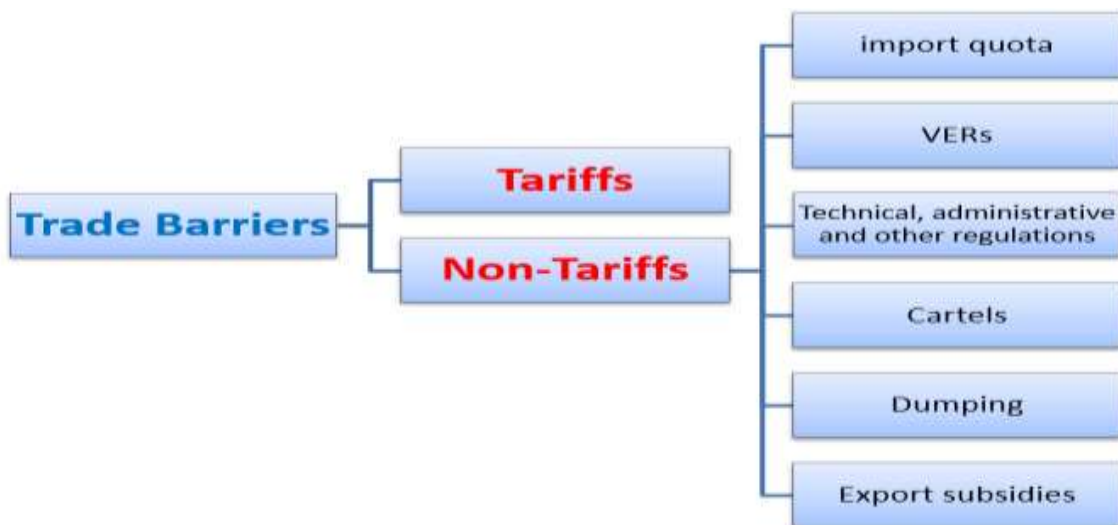
- A) Produce both products and export them to maximize its returns.
- B) Produce both products and export the cheapest and import the most expensive.
- C) Specialize in the product it has a comparative advantage in and import the other.
- D) Produce both products and export the most expensive and import the cheapest.

The Mercantilists believed:

- A. that international trade was a zero-sum game.
- B. that international trade was an n-sum game.
- C. that maximizing a country's imports would improve its welfare.
- D. that exports were detrimental to a country's economy

1. If a country has absolute advantage in the production of a particular good, its opportunity cost of producing that good is lower than the opportunity cost for the trading partner for producing the same good. **False**
2. According to Adam Smith, international trade is based on Absolute advantage. **True**
3. The theory of comparative advantage was first proposed by Adam Smith. **False**
4. Imports are desirable according to mercantilist. **False**

Trade Barriers



Revenue tariff	Protective tariff	Prohibitive tariff
-An import tax levied on a good that is not produced domestically <u>to raise money (revenue)</u>	- a tariff designed <u>to protect a domestic industry</u> from foreign competition	It is so high tariffs <u>to keep Imports = 0</u>

Specific tariff	Ad valorem tariff	Compound tariff
A <u>per unit</u> tax on imported goods. (Fixed)	A <u>percentage</u> of the value of the imported good. (Change)	A <u>mixed</u> of both (Fixed+ Change)
• <u>6\$ per Car</u>	• <u>4% of the value or price of a car</u>	• <u>6\$ + 4%</u>

If Canada imposes a tariff on bananas and if none are grown in Canada, this tariff has

A. only revenue effects

B. only protective effects

C. both protective and revenue effects

D. neither protective nor revenue effects.

A specific tariff is

A) Any tax on a particular imported good (as opposed to one on all imports).

B) An import tax that must be paid in kind (giving the government the good itself).

C) A requirement to pay the government a specified fraction of the monetary value of an imported good.

D) A tax on imports defined as an amount of currency per unit of the good.

A tax of 15 percent per imported item is an example of a(an)

A) ad valorem tariff.

B) specific tariff.

C) compound tariff.

D) optimum tariff.

1. **With a compound tariff, a domestic importer of an automobile might be required to pay a duty of \$200 plus 4 percent of the value of the automobile. True**
2. **Compound tariff is a combination of an ad valorem and specific tariff .True**
3. **Quota is a direct quantitative restriction on the amount of a commodity allowed to be imported, imposed by importing countries True**
4. **Predatory dumping is a foreign firm pricing its product in such a manner to drive domestic firms out of business. True**
5. **Voluntary Export Restraint (VER) is an international agreement that shows that an exporting country voluntarily agrees to restrict its exports. True**
5. **Quotas are limitations on the number of specific products that may be imported from certain countries during a given time period. True**
6. **The purpose of a protective tariff is to protect domestic producers from foreign competition. True**
6. **Domestic producers of the good, produced benefits from tariff protection. True**

- 7. A tariff of 20% on imported goods is called a specific tariff. **False**
- 8. A tariff of (\$140/import + 10% of the C.I.F. value/import) is known as a Compound tariff. **True**