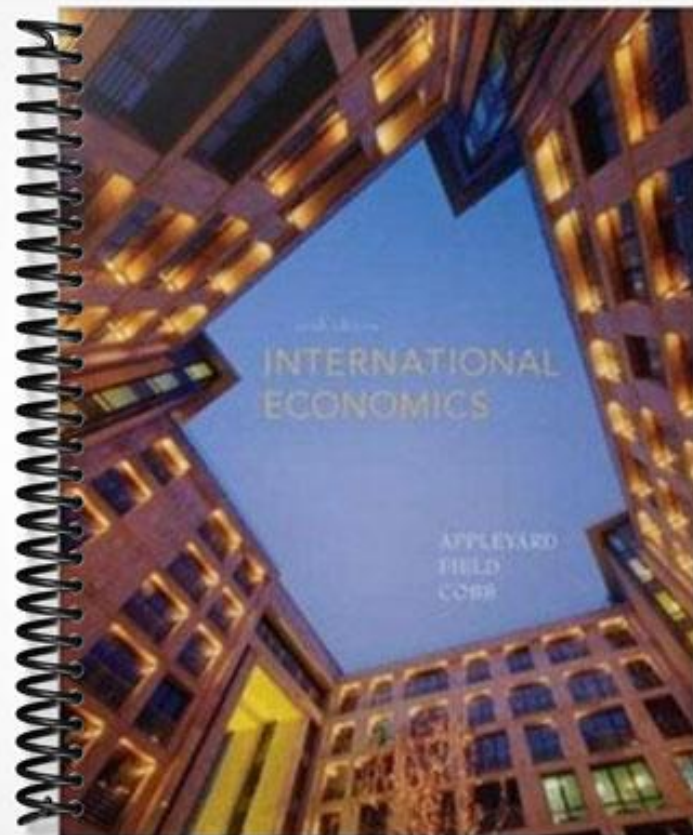


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Chapter 02 Early Trade Theories: Mercantilism and the...

Multiple Choice Questions

1. During the price-specie-flow adjustment process to a trade imbalance, if demands for goods are inelastic, then, when the price level _____ in the country with the trade deficit, the value of that country's exports will _____ as the price-specie-flow process takes place.
a. Falls; increase
B. Falls; decrease
c. Rises; increase
d. Rises; decrease

2. In the price-specie-flow doctrine, a deficit country will _____ gold, and this gold flow will ultimately lead to _____ in the deficit country's exports.
a. Lose; a decrease
B. Lose; an increase
c. Gain; a decrease
d. Gain; an increase

3. According to the labor theory of value,
a. The value of labor is determined by its value in production
b. The value of a good is determined by the amount of labor with which each unit of capital in an industry works
C. The price of a good A compared to the price of good B bears the same relationship as the relative amounts of labor used in producing each good
d. The values of two minerals such as coal and gold with similar production costs may be very different

4. In the Mercantilist view of international trade (in a two-country world),
a. Both countries could gain from trade at the same time, but the distribution of the gains depended upon the terms of trade
b. Both countries could gain from trade at the same time, and the terms of trade were of no consequence for the distribution of the gains
c. Neither country could ever gain from trade
D. One country's gain from trade was associated with a loss for the other country

5. If the demand for traded goods is price-inelastic, the price-specie-flow mechanism will result in
- a. Gold movements between countries that remove trade deficits and surpluses
 - B.** Gold movements between countries that worsen trade deficits and surpluses
 - c. Negligible movements of gold between countries and hence little or no adjustment of trade deficits and surpluses
 - d. A removal of the basis for trade between countries
6. Which of the following policies would NOT be consistent with the Mercantilist balance-of-trade doctrine?
- A.** Payment of high wages to labor
 - b. Import duties on final products
 - c. Export subsidies
 - d. Prohibition of imports of manufactured goods
7. In Adam Smith's view, international trade
- a. Benefited both trading countries
 - b. Was based on absolute cost differences
 - c. Reflected the resource base of the countries in question
 - D.** All of the above
8. The policy of minimum government interference in or regulation of economic activity, advocated by Adam Smith and the Classical economists, was known as
- a. The law of comparative advantage
 - B.** Laissez-faire
 - c. The labor theory of value
 - d. Mercantilism
9. The price-specie-flow mechanism suggested that
- a. A country could easily maintain a balance-of-payments surplus for a long period of time
 - b. A deficit country would experience an increase in its money supply and its price level
 - C.** A surplus country would experience an increase in its money supply and its price level
 - d. A country's internal price level has no relation to the country's foreign trade activities

10. A Mercantilist policymaker would be in favor of which of the following policies or events pertaining to his/her country?

- a. A decrease in the size of the population
- b. A minimum wage bill to protect the standard of living of workers
- c. A prohibition on the export of manufactured goods
- D.** An increase in the percentage of factors of production devoted to adding value to imported raw materials in order to later export the resulting manufactured goods

11. The "paradox of Mercantilism" reflected that fact that

- a. Trade surpluses were fostered by protective tariffs
- B.** Rich countries were comprised of large numbers of poor people
- c. Gold inflows led to higher prices and reduced exports
- d. Gold could not be hoarded and provide money for the economy at the same time

12. In David Hume's price-specie-flow doctrine or adjustment mechanism, the assumption is made that changes in the money supply have an impact on _____. Further, the demand for traded goods is assumed to be _____ with respect to price.

- A.** Prices rather than on output; elastic
- b. Prices rather than on output; inelastic
- c. Output rather than on prices; elastic
- d. Output rather than on prices; inelastic

13. Given the following Classical-type table showing the number of days of labor input required to obtain one unit of output of each of the two commodities in each of the two countries:

	<u>bicycles</u>	<u>computers</u>
United States	4 days	3 days
United Kingdom	5 days	6 days

The United States has an absolute advantage in the production of _____.

- a. Bicycles (only)
- b. Computers (only)
- C.** Both bicycles and computers
- d. Neither bicycles nor computers

14. With MS = supply of money, V = velocity of money, P = price level, and Y = real output, which one of the following indicates the quantity theory of money expression?

- a. $MSY = PV$
- b. $MSP = VY$
- c. $MS = PY - V$
- D.** $MSV = PY$

15. In the price-specie-flow adjustment mechanism, a country with a balance-of-trade surplus experiences

- a. A gold inflow and a decrease in the price level
- b. A gold outflow and an increase in the money supply
- C.** An increase in the money supply and a decrease in exports
- d. A decrease in the money supply and a decrease in imports