

INTERNATIONAL TRADE

UNIT 1: THEORIES OF INTERNATIONAL TRADE

International Trade

1. International Trade is the exchange of _____ between countries and involves greater complexity compared to Internal Trade.

- (a) Goods
- (b) Services
- (c) Resources
- ☒ (d) All of the above

2. Which of the following does not represent a difference between internal trade and international trade?

- (a) transactions in multiple currencies
- ☒ (b) homogeneity of customers and currencies
- (c) differences in legal systems
- (d) none of the above

3. Which of the following is NOT the benefit of International Trade?

- (a) It is powerful stimulus to economic efficiency and contributes to economic growth.
- ☒ (b) Efficient deployment of productive resources to their best use.

☒ (c) Economic exploitation of under privileged countries.

(d) Opening up of new markets results in broadening the production base.

Theories of International Trade

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports?

- (a) Capitalism
- (b) Socialism
- ☒ (c) Mercantilism
- (d) Laissez faire

5. Which one of the following is the first theory of International Trade that emerged in England in the 16th Century?

- ☒ (a) Mercantilism
- (b) Absolute Cost Advantage Theory
- (c) Comparative Cost Advantage Theory
- (d) Product Life-Cycle Theory

6. Which theory suggested that the wealth of a nation consisted of gold and silver only?

- (a) Mercantilism
- (b) Absolute Cost Advantage Theory
- (c) Comparative Cost Advantage Theory
- (d) Product Life-Cycle Theory

7. Which of the following is NOT an assumption of Absolute Cost Advantage Theory?

- (a) There are two countries.
- (b) There are two commodities.
- (c) The commodities are heterogeneous.
- (d) There is only labour Cost of Production.

8. Who propounded the theory that a country should specialize in the production of goods for which it has an absolute cost advantage and then trade these goods for goods produced by another country?

- (a) Adam Smith
- (b) David Hume
- (c) Heckscher and Ohlin
- (d) Ricardo

9. The theory of absolute advantage states that

- (a) national wealth and power are best served by increasing exports and decreasing imports
- (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- (c) that the value or price of a commodity depends exclusively on the

amount of labour going into its production and therefore factor prices will be the same

- (d) differences in absolute advantage explains differences in factor endowments in different countries.

10. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?

- (a) Modern theory of international trade
- (b) The factor endowment theory
- (c) The Heckscher-Ohlin Theory
- (d) None of the above

11. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour Cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

- (a) Country A
- (b) Country B
- (c) Neither A nor B
- (d) Both A and B

12. According to the theory of comparative advantage

- (a) trade is zero-sum game so that the net change in wealth or benefits among the participants is zero.
- (b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive

nothing definite can be said about the gains from trade

gains from trade depends upon factor endowment and utilization

Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour Cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

- (a) 20 labour hours
(b) 10 labour hours
(c) 30 labour hours
(d) Does not gain anything

14. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- (a) Bangladesh has a comparative advantage in mats
(b) India has a comparative advantage in tables
(c) Bangladesh has an absolute advantage in mats
(d) All the above are true

15. Comparative advantage refers to:

- (a) a country's ability to produce some good or service at the lowest

possible cost compared to other countries

- (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.

- (c) Choosing a productive method which uses minimum of the abundant factor

- (d) (a) and (b) above

16. Ricardo explained the law of comparative advantage on the basis of

- (a) opportunity costs
(b) the law of diminishing returns
(c) economies of scale
(d) the labour theory of value

17. Which theory of international trade identified the role of labour and capital, so-called factor endowments, as a determinant of advantage?

- (a) Theory of Absolute Advantage
(b) Theory of Comparative Advantage
(c) Heckscher-Ohlin theory of trade
(d) None of these

18. The theory given by Swedish economists "Eli Heckscher and Bertil Ohlin" is also known as:

- (a) The Heckscher - Ohlin theory of trade
(b) Factor - Endowment theory of trade
(c) Modern theory of trade
(d) All of the above

19. Michael Porter has described four attributes as the "diamond of national advantage". Which of the following is not a part of these four attributes?



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INTERNATIONAL TRADE

- (a) Factor Endowments
- ☒ (b) Silver conditions
- (c) Related and Supporting Industries
- (d) Firm's Strategy, Structure and rivalry

20. Who has propounded "New Trade Theory" in the 1970's?

- (a) Paul Krugman
- (b) Norman
- (c) Dixit
- ☒ (d) All of the above

21. Which theory argues that trade leads to cost reduction and product variety. Also, a firm enjoying the

"first mover advantage" can capture economies of scale earlier than its rivals?

- (a) Product Life Cycle Theory
- ☒ (b) New Trade Theory
- (c) Factor Endowment theory
- (d) Absolute Cost Advantage Theory

22. What is the title of the book published in 1817, in which David Ricardo explained the Comparative Cost Advantage Theory?

- ☒ (a) The Wealth of Nations
- ☒ (b) Principles of Political Economy
- (c) The effect of Foreign Trade
- (d) The Leontief Paradox

UNIT 2 : THE INSTRUMENTS OF TRADE POLICY

Tariff : Forms and Effects

23. Protectionism is a State policy

25. A specific tariff is

- (a) a tax on a set of specified imports