

CHAPTER 2
*(Core Chapter)

THE LAW OF COMPARATIVE ADVANTAGE

Multiple-Choice Questions

1. The Mercantilists did not advocate:

- *a. free trade
- b. stimulating the nation's exports
- c. restricting the nations' imports
- d. the accumulation of gold by the nation

2. According to Adam Smith, international trade was based on:

- *a. absolute advantage
- b. comparative advantage
- c. both absolute and comparative advantage
- d. neither absolute nor comparative advantage

3. What proportion of international trade is based on absolute advantage?

- a. All
- b. most
- *c. some
- d. none

4. The commodity in which the nation has the smallest absolute disadvantage is the commodity of its:

- a. absolute disadvantage
- b. absolute advantage
- c. comparative disadvantage
- *d. comparative advantage

5. If in a two-nation (A and B), two-commodity (X and Y) world, it is established that nation A has a comparative advantage in commodity X, then nation B must have:

- a. an absolute advantage in commodity Y
- b. an absolute disadvantage in commodity Y
- c. a comparative disadvantage in commodity Y
- *d. a comparative advantage in commodity Y

6. If with one hour of labor time nation A can produce either 3X or 3Y while nation B can produce either 1X or 3Y (and labor is the only input):

- a. nation A has a comparative disadvantage in commodity X
- b. nation B has a comparative disadvantage in commodity Y
- *c. nation A has a comparative advantage in commodity X
- d. nation A has a comparative advantage in neither commodity

7. With reference to the statement in Question 6:

- a. $P_x/P_y=1$ in nation A
- b. $P_x/P_y=3$ in nation B
- c. $P_y/P_x=1/3$ in nation B
- *d. all of the above

8. With reference to the statement in Question 6, if 3X is exchanged for 3Y:

- a. nation A gains 2X
- *b. nation B gains 6Y
- c. nation A gains 3Y
- d. nation B gains 3Y

9. With reference to the statement of Question 6, the range of mutually beneficial trade between nation A and B is:

- a. $3Y < 3X < 5Y$
- b. $5Y < 3X < 9Y$
- *c. $3Y < 3X < 9Y$
- d. $1Y < 3X < 3Y$

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10. If domestically $3X=3Y$ in nation A, while $1X=1Y$ domestically in nation B:
- a. there will be no trade between the two nations
 - b. the relative price of X is the same in both nations
 - c. the relative price of Y is the same in both nations
 - *d. all of the above
11. Ricardo explained the law of comparative advantage on the basis of:
- *a. the labor theory of value
 - b. the opportunity cost theory
 - c. the law of diminishing returns
 - d. all of the above
12. Which of the following statements is true?
- a. The combined demand for each commodity by the two nations is negatively sloped
 - b. the combined supply for each commodity by the two nations is rising stepwise
 - c. the equilibrium relative commodity price for each commodity with trade is given by the intersection of the demand and supply of each commodity by the two nations
 - *d. all of the above
13. A difference in relative commodity prices between two nations can be based upon a difference in:
- a. factor endowments
 - b. technology
 - c. tastes
 - *d. all of the above
14. In the trade between a small and a large nation:
- a. the large nation is likely to receive all of the gains from trade
 - *b. the small nation is likely to receive all of the gains from trade
 - c. the gains from trade are likely to be equally shared
 - d. we cannot say
15. The Ricardian trade model has been empirically
- *a. verified
 - b. rejected
 - c. not tested
 - d. tested but the results were inconclusive