

International Trade Practice Quiz

Part I – Comparative Advantage. Use the information below for questions 1-4.

	Bananas (in lbs)	Coffee (in lbs)
Brazil	500	1000
Colombia	100	1000

1. Who has absolute advantage in Bananas? **Brazil (they make more)**
2. Who has absolute advantage in coffee? **Neither (both make 1000)**
3. SHOW the opportunity cost for each country in producing bananas.

Brazil: $1000/500 = 2$ coffees per banana,

Colombia: $1000/100 = 10$ coffee per banana

4. If these two countries were to engage in trade, who should produce bananas and who should produce coffee and why?

Brazil should make bananas and Colombia should make coffee because they each have lower opportunity costs in those areas.

Part II – Use the information below about exports from Germany and Turkey to answer questions 5 and 6.

Germany's top EXPORTS	Turkey's top EXPORTS
machinery, vehicles, chemicals, metals and manufactures	apparel, foodstuffs, textiles, metal manufactures

5. Based on this information in which *factor of production* does Germany seem to have comparative advantage? How can you tell?

Capital because the goods they export require large amounts of capital.

6. Based solely on this information, would Turkey and Germany make good trading partners? Why? **Yes, they make different goods.**

Part III – For numbers 7-10, identify what kind of trade barrier is being described.

7. Singapore imposes a 20% tax on all imported fish. **Tariff**
8. The United States gives business a tax reduction if they hire more U.S. workers. **Subsidy**
9. Importing sugar from Guatemala is banned because of a suspected disease contained in the sugar. **Standard or Embargo**
10. Sri Lanka announces it will only accept 100 pounds of imported Tea. **Quota**

Part IV – After each trade barrier, describe how the domestic producer, domestic consumer, foreign producer, and foreign consumer are affected.

Domestic = United States.

11. The U.S. Government removes a \$10 tariff on imported make-up and cosmetics.

DP – Hurt (more competition), DC – Helped (more choices), FP – Helped (lower exporting costs)

12. The U.S. Government pays U.S. car manufacturers \$1,000 for every car they produce and sell.

DP – Helped (lower production costs), DC – Helped (more choices, lower prices), FP – Hurt (competition getting gov't help)

Part V - Use the Exchange Rate Table below to answer questions 13-15.

	US Dollar	Yen	Rupee	Euro
US Dollar	1	.0104	.020	1.25
Yen	95.95	1	1.96	120.18
Rupee	49	.511	1	61.377
Euro	.79	.0083	.016	1

13. How many US Dollars can I get for 1 rupee? **.02**
14. Joe has 1 US Dollar. How many yen can he get for that? **95.95**
15. Is the Yen or Rupee a stronger currency when it comes to buying other currencies? How do you know? **Rupee, buys more of all other currencies**
16. Which is the strongest currency on the chart? How do you know? **Euro, buys more of all others.**

Part VI – If the US dollar DEPRECIATES against other world currencies, are the following parties hurt or helped AND WHY?

17. A US school group about to take a class trip to Europe. **Hurt – when they get to Europe things will be relatively more expensive**

18. Monica - who lives in Canada - but drives over the border to work in the US and gets paid in dollars. **HURT – she gets paid in the depreciating currency**

19. A foreign government that is holding U.S. Treasury Bonds. **Hurt – they are holding the depreciating currency.**

Part VII – Multiple Choice. Write the letter of the correct answer.

20. The United States buys \$5million worth of Japanese video games. How is this transaction recorded in US records?

- A. The \$5million will be added to the balance of trade and subtracted from the balance of payments.
- B. Both the balance of trade and the balance of payments will be reduced by \$5 million.**
- C. The balance of trade will not be affected and the balance of payments will decrease.
- D. Only the balance of trade is affected by this transaction.

21. A tariff imposed by the French Government would be most strongly opposed by

- A. NAFTA
- B. ASEAN
- C. the FED
- D. the EU**