

Multiple Choice Questions

1. In an economy described by the Specific Factors Model, if the price of the capital intensive product rises more than does the price of the land intensive product, then
 - A. demand will shift away from the capital-intensive product, and its production will decrease.
 - B. demand will shift away from the capital-intensive product, and its production will decrease relative to that of the land intensive product.
 - C. the production of the capital-intensive product will indeed decrease, but not for the reasons mentioned in A or B.
 - D. the countries exporting the capital-intensive good will lose its comparative advantage.
 - E. None of the above.

2. In an economy described by the Specific Factors Model, if the price of the capital intensive product rises relative to the other good, wages will
 - A. rise but by less than the price of the capital-intensive product.
 - B. rise by more than the rise in the price of the capital-intensive product.
 - C. remain proportionally equal to the price of the capital-intensive product.
 - D. fall, since higher prices cause less demand.
 - E. None of the above.

3. In an economy described by the Specific Factors Model, If Australia has relatively more land per worker, and Belgium has relatively more capital per worker, then if trade were to open up between these two countries,
 - A. the relative price of the capital-intensive product would rise in Australia.
 - B. the world price of the land-intensive product would be higher than it had been in Belgium.
 - C. the world price of the land intensive product would be higher than it had been in Australia.
 - D. the relative price of the land intensive product would rise in Belgium.
 - E. None of the above.

4. In an economy described by the Specific Factors Model, If Australia has more land per worker, and Belgium has more capital per worker, then if trade were to open up between these two countries,
 - A. Australia would export the land-intensive product.
 - B. Belgium would import the capital-intensive product.
 - C. Both countries would export some of each product.
 - D. trade would not continue since Belgium is a smaller country.
 - E. None of the above.

5. In an economy described by the Specific Factors Model, If Australia has more land per worker, and Belgium has more capital per worker, then if trade were to open up between these two countries,
 - A. the real income of capital owners in Australia would rise.
 - B. the real income of labor in Australia would clearly rise.
 - C. the real income of labor in Belgium would clearly rise.
 - D. the real income of landowners in Belgium would fall.
 - E. None of the above

6. In an economy described by the Specific Factors Model, If trade opens up between the two formerly autarkic countries, Australia and Belgium, then
 - A. the real income of Australia and of Belgium will increase.
 - B. the real income of Australia but not of Belgium will increase.
 - C. the real income of neither country will increase.
 - D. the real income of both countries may increase but may decrease.
 - E. the real income of both countries will increase if laborers have the same preferences.

7. In the Specific Factors model, each of the two sectors
 - A. employs the same factors used by the other.
 - B. employs different factors than those employed in the other.
 - C. employs a fixed coefficient production function.
 - D. shares one factor of production with the other sector.
 - E. None of the above.

8. In the specific factors model, if the price of manufactures and the price of food increase by 25% for one country, then
 - A. the economy moves down its aggregate supply curve.
 - B. the economy moves back along its aggregate demand curve.
 - C. the relative quantities of manufactures and food remain unchanged.
 - D. the relative quantities of products change by 25%.
 - E. None of the above.

9. In the specific factors model, when the countries open to trade, if the price of manufactures rises in one of the countries, then
 - A. the real income of capital rises.
 - B. the real income of land rises.
 - C. the purchasing power of landowners rises.
 - D. the production of both products falls.
 - E. None of the above.

10. In the specific factors model, If Japan is relatively capital rich and the United States is relatively land rich, then trade between these two, formerly autarkic countries will
 - A. lead to perfect specialization with Japan alone producing manufactures.
 - B. create a world relative price of food that is lower than that of the U.S.
 - C. lower the price of food in both countries.
 - D. raise the price of food in both countries.
 - E. None of the above.

11. In the specific factors model, If Japan is the land-rich country, then international trade will clearly
 - A. raise the real income of all factor owners in the U.S.
 - B. lower the real income of workers in the U.S..
 - C. lower the real income of capital owners in the U.S.
 - D. lower the real income of landowners in the U.S.
 - E. None of the above.

12. The reason trade clearly benefits a country is that
 - A. it raises the real income of the more productive elements in society.
 - B. it lowers the real income of the less productive elements in society.
 - C. it increases the levels of consumption of everyone.
 - D. it increases society's consumption choices.
 - E. None of the above.

13. Those who stand to lose from trade
 - A. are likely to migrate to another country.
 - B. tend to be more effectively organized politically.
 - C. tend to reject compensation as smacking of socialism.
 - D. are universally opposed by economists who consider them parasites.
 - E. None of the above.

14. Groups that lose from trade tend to lobby the government to
 1. shift the direction of comparative advantage.
 2. abolish the Specific Factor model from practical application.
 3. provide public support for the relatively efficient sectors.
 4. provide protection for the relatively inefficient sectors.
 5. None of the above.