

Course: International Trade and Policy
Week 2: Supply and Demand in Global Markets

Instructions: Please select the best answer for each of the following ten questions. Each question has only one correct answer.

Question 1

What is the defining characteristic of a "small country" in the context of international trade?

- A) It has a small geographical area.
- B) It is a price taker in global markets, with no influence on world prices.
- C) It has a small population.
- D) It exports only a few types of goods.

Question 2

How is the import demand curve derived?

- A) By adding domestic demand and domestic supply at each price level.
- B) By measuring the horizontal gap between domestic demand and domestic supply at prices below the autarky price.
- C) By measuring the vertical gap between domestic demand and domestic supply at prices above the autarky price.
- D) By subtracting export supply from domestic demand.

Question 3

When a large country imposes a tariff, the terms of trade effect refers to:

- A) The increase in the domestic price by the full amount of the tariff.
- B) The deadweight loss created by production and consumption distortions.
- C) The reduction in the world price of the imported good, improving the country's purchasing power.
- D) The revenue the government collects from the tariff.

Question 4

In the welfare analysis for a small country imposing a tariff, what is the net effect on national welfare?

- A) A net gain, because producer surplus increases.
- B) A net loss, equal to the sum of the production and consumption distortion triangles.
- C) A net gain, because the government collects tariff revenue.
- D) A net loss, because consumer surplus falls to zero.

Question 5

What is "quota rent"?

- A) The revenue the government earns by auctioning import licenses.
- B) The profit earned by domestic producers due to increased production.

- C) The additional profit earned by the holder of an import license, equal to the difference between the domestic price and the world price multiplied by the quantity imported.
- D) The cost incurred by consumers due to higher prices.

Question 6

According to the lecture, which of the following is a determinant of a country's terms of trade?

- A) The country's inflation rate.
- B) The country's domestic unemployment rate.
- C) Export-biased growth, which worsens the terms of trade.
- D) The size of the country's budget deficit.

Question 7

What is the key difference between the effects of a tariff in a small country versus a large country?

- A) Only a large country experiences deadweight loss.
- B) Only a small country can improve its terms of trade.
- C) A large country's domestic price rises by less than the full tariff, potentially leading to a net welfare gain.
- D) A small country's tariff affects world prices, while a large country's does not.

Question 8

The Gravity Model of Trade suggests that trade volume between two countries is:

- A) Inversely proportional to the product of their GDPs.
- B) Directly proportional to the distance between them.
- C) Directly proportional to the product of their GDPs and inversely proportional to the distance between them.
- D) Unrelated to their economic size or distance.

Question 9

What is the theoretical "optimal tariff" for a large country?

- A) The tariff rate that eliminates all imports.
- B) The tariff rate that maximizes the difference between the terms of trade gain and the deadweight loss.
- C) The tariff rate that generates the highest possible revenue for the government.
- D) A zero tariff, as free trade is always optimal for all countries.

Question 10

A voluntary export restraint (VER) is a type of quota where the quota rent is most likely to accrue to:

- A) The domestic government.
- B) Domestic importers.
- C) Foreign exporters.
- D) Domestic consumers.

Answer Key

1. B
2. B
3. C
4. B
5. C
6. C
7. C
8. C
9. B
10. C