Practice Quiz 1

International Studies 421/803 Spring 2008

Mr. Easton

- I. Answer the following questions True, False or Uncertain and briefly explain your answer. Each question is worth 6 points. (Note there are more questions than will be asked on the exam, so don't panic. Normally I would ask you to answer 5 and have one essay question.)
- 1. If lumber imports are 3% of GDP, a fall in lumber prices of 10 percent will cripple the economic recovery.
- 2. Free trade makes everyone better off.
- 3. If trade is 20% of GDP and tariffs raise prices by 10%, then everyone is better off.
- 4. According to comparative advantage, free trade will make you rich.
- 5. According to comparative advantage, rich countries can trade with rich countries but poor countries cannot trade with other poor countries.
- 6. Tariffs are an efficient way of subsidizing production.
- 7. Once WTO agreement is reached on a rule, that rule is international law.
- II. Write an essay worth 20 points on:
- 1. What are the consequences of imposing a tariff? (hint: for domestic prices, incomes, economic efficiency, the distribution of economic benefit between consumers and producers, etc.)
- 2. The WTO is an organization that is both loved and reviled. Explain what it is and how it should be fixed if it is seen to be behaving inappropriately.