

## TYBA Semester VI International Economics – Question bank

### Objective questions

#### A) State whether following statements are true or false

1. LDCs pay more for their imports from DCs than what they receive for their exports.  
True
2. Geographical and climatic conditions are same for internal and international trade.  
False
3. Adam Smith gave the theory of comparative cost advantage. False
4. Adam Smith's theory is based on assumption of 2\*2\*2 False
5. The Comparative Cost theory of international trade cannot be extended to more than two countries. False
6. The Comparative Cost theory of international trade is based on cost of supply and ignores demand. True
7. The Ricardian theory is based on the measurement of cost in terms of labour only but not in terms of money. True
8. The Comparative Cost theory of international trade is not applicable to the real world.  
False
9. The Heckscher-Ohlin theory is based on mutual interdependence of commodity and factor market. True
10. If,  $PK_1/PL_1 < PK_2/PL_2$ , country 1 is considered as labour rich country according to factor price criteria of Heckscher-Ohlin theory. False
11. The factor intensity is measured in absolute terms. False
12. The factor abundance results in low cost of production. True
13. A reciprocal demand does not affect terms of trade. False
14. The offer curves are demand and supply curves. False
15. An international trade increases consumption level of participating countries. True
16. An international trade increases welfare of only exporting countries. False
17. The commercial trade policy governs a country's internal trade. False
18. The Free Trade policy promotes efficiency. True
19. A free trade of goods and services can lead to destruction of domestic industries. True
20. An Infant Industry argument promotes the idea of protection from foreign competition. True
21. The Protectionist Policy results in efficient allocation of resources. False
22. The tariffs are imposed only on imports. False
23. The tariffs have protective effect. True
24. The import quotas are more effective than tariffs. True
25. The ASEAN is based on some principles enshrined in the treaty of Amity and Cooperation in South Asia. True
26. The WTO is an example of Multilateralism. True
27. Opportunity cost of producing one unit of X is the number of Y required to be given up to have additional unit of X- True
28. Stolper- Samuelson theorem examines relationship between commodity prices and income of factor owners. -True
29. The Protectionist Policy results in efficient allocation of resources. False
30. GATS is concerned with agreements on services. True

31. According to Heckscher – Ohlin theory of International trade, International trade is but a special case of interregional trade. True
32. Country 1 is capital surplus country if  $PK_1/PL_1 > PK_2/PL_2$ , according to Factor abundance criteria of Heckscher – Ohlin theory of international trade. False
33. Factor intensity is measured by factor ratios according to the Heckscher – Ohlin theory of international trade. True

**B) Choose the correct answer and rewrite the sentences.**

1. According to Ricardo, international trade is useful under \_\_\_\_\_  
a) Absolute cost, b) **comparative cost**, c) equal difference in cost, d) Zero cost.
2. Ricardian theory assumes perfect mobility of labour \_\_\_\_\_  
a) **Within the country**, b) between the countries, c) both within and between the countries, d) none of these.
3. Heckscher-Ohlin theory is about \_\_\_\_\_  
a) inter-regional trade, b) international trade, c) domestic trade, d) **a and b both**
4. According to Heckscher-Ohlin theory, product price depends on \_\_\_\_\_  
a) Factor intensity, b) factor abundance, c) factor cost, d) **all of these**.
5. A reciprocal demand is \_\_\_\_\_  
a) **Mutual demand of two countries to each other's good** b) Mutual supply c) Price of export and import d) Derived demand
6. An offer curve \_\_\_\_\_  
a) Differs from usual demand curve only b) Differs from usual supply curve only  
c) same as usual demand curve d) **Differs from both demand and supply curves**
7. International trade \_\_\_\_\_  
a) Stimulates innovations, b) Reduces cost of production c) Diversifies consumption d) **All the above**
8. Tariff is expressed as either a specific or an ad valorem rate, whichever is higher, is known as \_\_\_\_\_  
a) General Tariff, b) **Mixed Tariff**, c) Compound Tariff, d) Countervailing Tariff
9. Which one of the following is not a Non-Tariff Barrier (NTB)?  
a) Voluntary export restriction, b) Local content requirement c) Administrative barrier d) **Tariff rate quotas**
10. The reduction in domestic consumption due to imposition of quota results in  
a) Increase in government revenue, b) Increase in consumer's surplus c) **Loss of social welfare**, d) Increase in social welfare
11. The ASEAN was formed in \_\_\_\_\_  
a) **1967**, b) 1945 c) 1999, d) 2000
12. Graphical representation of reciprocal demand is referred to as \_\_\_\_\_  
a) **Offer curve**, b) Demand curve, c) Supply curves, d) Contract curve
13. The Protectionist Policy \_\_\_\_\_  
a) Encourages international specialization, b) Promotes global trade, c) **Prevents dumping** d) Reduces government's interference in trade
14. \_\_\_\_\_ is/ are controversies in trade policy

- a) Labour standards, b) IPR, c) Environment, d) **All of these**
15. Full form of BPO is \_\_\_\_\_  
a) **Business Process Outsourcing**, b) Business payment outsourcing, c) Business Process outwards d) Bank Process outsourcing
16. SAARC was formed in  
a) 1995, **b)1985**, c) 1980, d) 1990
17. SAFTA is  
a) **South Asian Free Trade Area**, b) South African Free Trade Area, c) South American Free Trade Area, d) South Asian Free Trade Agreement
18. Horizontal FDI means-  
a) **Investments in businesses like those the investing company runs**  
b) Investments into businesses that fit somewhere in the investing company's value chain.  
c) None of the above  
c) Both a and b
19. Regional trade agreement is treaty signed by countries to \_\_\_\_\_  
a) **Encourage free movement of goods and services across borders**  
b) Encourage free movement of goods and services within borders  
c) Discourage free movement of goods and services across borders  
d) None of the above
20. Trade is not possible if countries operate under \_\_\_\_\_  
a) Absolute cost difference b) **equal cost difference** c) Comparative cost difference  
d) None of the above
21. Participation in international trade is important as \_\_\_\_\_  
a) It acts as Engine of growth  
b) Vent for surplus  
c) Widens the market  
**d) All of these**
22. In case of composition of International trade \_\_\_\_\_ play major role.  
a) **Manufactures**  
b) Agricultural products  
c) Fuel and Mining  
d) None of these.
23. Internal and international trade differs in terms of \_\_\_\_\_  
a) Geographical and climatic conditions  
b) Mobility of factors of production  
c) Factor endowment  
**d) All of these**
24. Labour is the only factor of production according to the \_\_\_\_\_ theory of international trade.  
a) **Classical theory**

- b) Modern theory
  - c) None of these
  - d) All of these
25. Heckscher – Ohlin theory of International trade assumes \_\_\_\_\_ (Countries\* Commodities\* factors of production)
- a)  $2 \times 2 \times 2$
  - b)  $2 \times 2 \times 1$**
  - c)  $2 \times 3 \times 2$
  - d)  $3 \times 2 \times 2$
26. In case of Heckscher – Ohlin theory of international trade, Factor abundance in physical terms refers to \_\_\_\_\_
- a)  $TK_1/TL_1 > TK_2/TL_2$**
  - b)  $PK_1/PL_1 < PK_2/PL_2$
  - c) None of these
  - d) All of these
27. Strength and elasticity of one country's Demand for the other country's commodity in exchange for its commodity at different terms of trade is referred to as \_\_\_\_\_
- a) Reciprocal demand**
  - b) Market demand
  - c) Individual demand
  - d) None of these

\*\*\*\*\*