

TYBCOM SEM V

Introduction to Public Economics: Objective Questions

1. Choose the correct alphabet only.

1. When expenditure exceeds total tax revenue, it is called:

- a) Surplus budget b) Balanced budget **c) Deficit budget** d) None of these

2. Which of the following is not a fiscal instrument?

- a) Open market operations** b) Public expenditure c) Taxation d) None of these

3. An increase in tax rate when tax base expands represents:

- a) Progressive taxation** b) Regressive taxation
c) Proportional taxation d) None of these

4. Which of the following is a measure of fiscal policy?

- a) Public expenditure** b) C.R.R. c) S.L.R. d) Bank rate

5. The main difference between Public and Private Finance is:

- a) Adjustment of income-expenditure** b) Satisfaction of human wants
c) Dissaving d) Borrowings

6. The First Finance Commission was appointed in the year:

- a) 1952 b) 1950 **c) 1951** d) 1949

7. Maximum Social Advantage is achieved when

- a) Marginal Social Sacrifice = Marginal Social Benefit**
b) Total Social Sacrifice = Total Social Benefit
c) Average Social Sacrifice = Average Social Benefit
d) Net Social Sacrifice = Net Social Benefit

8. In India, personal income tax is levied on individuals by:

- a) Central Government** b) State Government

c) Local bodies d) None of these

9. Income tax is based on the principle of:

a) Ability to pay b) Willingness to pay

c) Benefits received d) None of these

10. The Principle of Maximum Social Advantage is associated with:

a) Dalton b) Pigou c) Seligman d) Hicks

11. Which is not the characteristic of a tax?

a) No quid pro quo b) Compulsory payment

c) Non -compulsory payment d) Punishment to tax evader

12. Special assessment means:

a) General tax on all people b) Gift tax

c) A tax for specific benefit conferred d) None of these

13. Who is the exponent of the law of increasing state activities?

a) Dalton **b) Wagner** c) Seligman d) Musgrave

14. Maximum Welfare Principle of Budget Determination is associated with

a) Adam Smith b) Edwin Seligman

c) Hugh Dalton **d) Richard Musgrave**

15. The Kelkar Proposals are concerned with:

a) Recommendations for reforms in the power sector **b) Recommendations for tax reforms**

c) Guidelines for the privatization of public sector undertakings d) None of the above

16. Value Added Tax is:

- a) Direct tax **b) Indirect tax** c) Progressive tax d) None of these

17. In the case of direct tax, impact and incidence are on:

- a) Different person **b) Same person** c) Sellers d) None of these

18. The direct violation of Tax law is called:

- a) Tax evasion** b) Tax avoidance c) Tax Rebate d) None of these

19. The final resting place of the burden of tax is called:

- a) Tax avoidance b) Tax evasion c) Impact **d) Incidence**

20. Incidence of tax refers to:

- a) Initial resting place of the burden of tax **b) Final resting place of the burden of tax**
c) Both (a) and (b) d) None of these

21. Which of the following taxes is the most likely to be regressive?

- a) Sales tax on mobile phone **b) Excise duties on Kerosene**
c) Import duties on electronic goods d) Entrainment tax

22. Impact of tax refers to:

- a) Initial resting place of the burden of tax** b) Tax evasion
c) The final money burden of tax d) None of these

23. Fiscal policy is the policy of:

- a) RBI b) NABARD **c) Government** d) All of these

24. The following is an example of direct taxes:

- a) Sales tax **b) Income tax** c) Excise duties d) Toll tax

25. If the rate of tax falls with an increase in income, it is called:

- a) Proportional tax
- b) Progressive tax
- c) Regressive tax**
- d) None of these

26. Budget is an instrument of:

- a) Monetary policy
- b) Fiscal policy**
- c) Trade policy
- d) Exchange rate policy

27. The concept of functional finance was developed by:

- a) J.M. Keynes
- b) A.P. Lerner**
- c) Kaldor
- d) Pigou

28. In public finance shifting refers to:

- a) Imposing tax
- b) Avoiding of tax
- c) Shifting of tax burden from one person to another**
- d) None of these

29. The modern state is:

- a) Laissez –faire state
- b) Welfare state**
- c) Aristocratic state
- d) Police state

30. According to Musgrave the major functions of public finance are:

- a) Allocative function
- b) Distributive function
- c) Stabilisation function
- d) All the above**

31. Who was the first to recommend the adoption of an expenditure tax for India?

- a) K.N. Raj
- b) Paul Krugman
- c) Raja J. Chelliah
- d) N. Kaldor**

32. Which one of the following taxes is levied by the State Government only?

- a) Entertainment tax**
- b) Corporation tax
- c) Wealth tax
- d) Income tax

33. The controlling authority of Government expenditure is:

- a) RBI
- b) Planning Commission

c) Ministry of Finance

d) Finance Commission

34. A tax levied upon a firm as a percentage of its value added

a) Merit tax

b) VAT

c) Turnover tax

d) Sales tax

35. A progressive tax weighs more heavily upon the

a) Poor

b) Wage earners

c) Farmers

d) Rich

36. The incidence of tax refers to:

a) The level and rate of taxation

b) Who ultimately pays the tax

c) The growth of taxation

d) The way in which tax is collected

37. Which tax cannot be shifted to others?

a) Excise duty

b) Sales tax

c) Entertainment tax

d) Wealth tax

38. Fiscal Federalism refers to

(a) Sharing of political power between centre and states

(b) Organising and implementing economic plans

(c) Division of economic functions and resources among different layers of Govt.

(d) None of these

39. Principle of sound finance refers to ...

(a) Maximum Government spending

(b) Minimum Government

spending **(c) Revenue and expenditure balanced at the minimum level**(d) None of these

40. The most important aim of fiscal policy in a developing country is

(a) economic stability

(b) economic development

(c) regional balance

(d) None of these

41. The income of the government through all its sources is called

(a) Public expenditure

(b) public revenue

(c) Public finance (d) none of these

42. Modvat means

(a) Modified value added tax (b) moderate value added tax

(c) Modest value added tax (d) modern value added tax

43. Primary deficit means:

(a) Fiscal deficit- Interestpayment(b)Revenue deficit-interest payments

(c) Fiscal deficit+ revenue deficit (d) Budgetary deficit

44. Public Expenditure increases

(a) Interest rate **(b) Employment**

(c) Exports (d) Imports

45. Deficit financing includes

a) Borrowing from the Central Bank b) Issues of new currency by the Government

C) Withdrawal of past accumulated cash balance by the government **d) All the above**

46. The principle of Maximum Social Advantage is connected with

(a) Taxation **(b) Expenditure**

(c) Public Debt (d) Both (A) and (B)

47. Which of the following does not form the basis of sound finance?

(a) Say's Law (b) Assumption of full employment

(c) Ricardian Equivalence Theorem **(d) Lerner's Fundamental Rules**

48. In the case of relatively elastic demand, the money burden of tax is on

(a) More on seller (b) More on buyer

(c) Entirely on seller (d) Entirely on buyer

49. When the supply is more elastic, the money burden of tax is on

- (a) More on seller
(c) Entirely on seller

- (b) More on buyer**
(d) Entirely on buyer

Answers

1. C -Deficit Budget	13. b-Wagner	27. b-A.P. Learner	39. c-revenue
2. a- open market operations	14. d- Richard Musgrave	28. c-shifting of tax burden from one person to another	expenditure balanced at the minimum level
3. a-progressive taxation	15. b- recommendations for tax reforms	29. b-welfare state	40.b-economic development
4.a- Public expenditure	16. b-indirect tax	30. d-all the above	41. b-public revenue
5. a-balance of income-expenditure	17. b-same person	31. d-Kaldor	42. a-modified value added tax
6. c-1951	18. a-tax evasion	32. a-entertainment tax	43. a-Fiscal deficit-interest
7. a-Marginal Social Sacrifice= Marginal Social Benefit	19. d-incidence	33. c-Ministry of Finance	44. b-employment
8. a-Central Government	20. b-final resting place of the burden of tax	34. b-VAT	45. d-all the above
9. a-Ability to pay	21. b-expenditures on Kerosene	35. d-Rich	46. b-Expenditure
10. a-Dalton	22. a-initial resting place of the burden of tax	36. b-who ultimately pays the tax	47. d- Lerner's Fundamental Rules
11. c-Non-compulsory payment	23. c-Government	37. c-entertainment tax	48. a- More on seller
12. c-a tax for specific benefit conferred	24. b-Income tax	38. c-division of economic functions and resources among different layers of Government	49. b- More on buyer
	25. c-regressive tax		
	26. b-fiscal policy		

TYBCOM SEM V

Introduction to Public Economics: Long Questions

- 1) Distinguish between public and private finance.
- 2) Examine the scope and functions of Public finance.
- 3) 'Maximum social advantage is achieved at the point where the marginal social benefit of public expenditure and the marginal social sacrifice of taxation are equated'. Elaborate.
- 4) Explain Musgrave's version of Principle of Maximum Social Advantage.
- 5) Critically examine the principle of Maximum Social Advantage?
- 6) Discuss the limitations of the Principle of Maximum Social Advantage?
- 7) Differentiate between sound finance and functional finance.
- 8) Explain the concepts impact, incidence and shifting of a tax and factors influencing the shift.
- 9) Discuss how do the elasticity of demand and supply affect the incidence of taxation?
- 10) Describe the meaning and types of budget.

TYBCOM SEM VI

International Economics: Long Questions

1. The Heckscher-Ohlin theory is preferred to the Ricardo theory by economists because it makes fewer simplifying assumptions. What is your view?
2. Explain the factor endowment theory?
3. "Heckscher-Ohlin theory does not invalidate the classical theory of comparative cost but rather powerfully supplements it". Substantiate the statement.
4. Explain Heckscher-Ohlin theorem.
5. Explain the measurement and distribution of gains from trade.
6. Explain the different gains from trade.
7. Examine the role of the classical theory of comparative advantage in international trade.
8. Explain the factor price equalization theorem?
9. Explain the relationship between Terms of trade and economic welfare
10. How can technological developments influence international trade?
11. Explain the concept of optimum rate of tariffs
12. What are non-tariff barriers, explain them briefly.
13. Discuss factors affecting terms of trade.
14. Discuss the classical theory of comparative advantage. What are the improvements made on it by Heckscher-Ohlin theory?
15. Using Marshall's Offer curves, explain the determination of equilibrium terms of trade.

TYBCOM SEM VI

International Economics: Objective Questions

Choose the correct alphabet only.

1. Which theory states that a nation will tend to export commodities intensive in its relatively abundant and cheap factor?

- A) **Heckscher-Ohlin theory**
- B) Stolper-Samuelson theory
- C) Product cycle theory
- D) Intraindustry trade theory

Answer: A

2. Which of the following is a part of the Heckscher-Ohlin model that states international trade will bring about equalization in the returns to homogeneous factors across nations?

- A) **Factor-price equalization theorem**
- B) Factor-proportions theory
- C) Factor-endowment theory
- D) Product cycle theory

Answer: A

3. The Heckscher-Ohlin theory is often referred to as:

- A) Factor-price equalization theorem
- B) Factor-proportions theory
- C) Factor-endowment theory
- D) **Both b and c**

Answer: D

4. Which of the following states that a nation will export commodities intensive in its relatively abundant and cheap factor and that international trade brings about equalization in returns to homogeneous factors across countries:

- A) **Heckscher-Ohlin theory**
- B) Stolper-Samuelson theorem
- C) Differentiated product theorem
- D) None of the above

Answer: A

5. The _____ hypothesizes that a portion of international trade is based on the introduction of new products or processes:

- A) specific-factors model
- B) **technological gap model**
- C) product cycle model
- D) real business cycle model

Answer: B

7. In the 2-factor, 2 good Heckscher-Ohlin model, the two countries differ in

- A. tastes.
- B. military capabilities
- C. size
- D. **relative availabilities of factors of production**

Answer: D

8. In the 2-factor, 2 good Heckscher- Ohlin model, a change from autarky (no trade) to trade will benefit the owners of

A. capital.

B. the relatively abundant factor of production

C. the relatively scarce factor of production

D. the relatively inelastic factor of production

E. the factor of production with the largest elasticity of substitution

Answer: B

9. According to the Heckscher-Ohlin model, the source of comparative advantage is a country's

A. technology

B. advertising

C. human capital

D. factor endowment

E. Both A and B.

Answer: D

10. As opposed to the Ricardian model of comparative advantage, the assumption of diminishing returns in the Heckscher-Ohlin model means that the probability is greater that with trade

A. countries will not be fully specialized in one product.

B. countries will benefit from free international trade.

C. countries will consume outside their production possibility frontier.

D. comparative advantage is primarily supply related.

Answer: A

11. Starting from an autarky (no-trade) situation with Heckscher-Ohlin model, if Country H is relatively labor abundant, then once trade begins

A. wages and rents should rise in H

B. wages and rents should fall in H

C. wages should rise and rents should fall in H.

D. wages should fall and rents should rise in H.

Answer: C

12. Which of the following is false (for the Heckscher-Ohlin model)?

A. Differences in technologies could be the source of gains from trade.

B. Some groups may gain and some may lose due to trade.

C. Gains for the trade-related winners will tend to be larger than losses of losers.

D. None of the above.

Answer: A

13. Suppose that there are two factors, capital and land, and that the United States is relatively land endowed while the European Union is relatively capital-endowed. According to the Heckscher-Ohlin model,

A. European landowners should support US-European free trade.

B. European capitalists should support US-European free trade.

C. all capitalists in both countries should support free trade.

D. all landowners should support free trade.

Answer: B

14. The Heckscher-Ohlin model states that a country will have a comparative advantage in the good or service whose production is relatively intensive in the ____ with which the country is relatively abundant.

A. tastes.

B. technology

C. factor of production

D. opportunity cost

Answer: C

15. One way in which the Heckscher-Ohlin model differs from the Ricardo model of comparative advantage is by assuming that _____ is (are) identical in all countries.

- A. factor of production endowments
- B. scale economies
- C. factor of production intensities

D. technology

Answer: D

16. According to the Heckscher-Ohlin model,

- A. everyone automatically gains from trade
- B. the scarce factor necessarily gains from trade
- C. the gainers could compensate the losers and still retain gains.**
- D. a country gains if its exports have a high value added.

Answer: C

17. The Heckscher-Ohlin model assumes that ____ are identical in all trading countries

- A. Gross domestic products
- B. technologies**
- C. factor endowments
- D. Both A. and B.

Answer: B

18. Transportation costs include:

- A) Freight charges
- B) Warehousing costs
- C) Costs associated with loading and unloading shipments
- D) All of the above**

Answer: D

19. Which economist laid the foundation for the factor endowment theory with his article entitled "The Effect of Foreign Trade on the Distribution of Income"?

- A) Eli Heckscher**
- B) Bertil Ohlin
- C) Alfred Marshal
- D) Raymond Vernon

Answer: A

20. According to the factor endowment theory, nations heavily endowed with labor will:

- A) Import more labor intensive goods
- B) Export more labor intensive goods**
- C) Have an absolute advantage in labor intensive goods
- D) Have a comparative advantage in capital intensive goods

Answer: B

21. Which of the following states that the difference in relative *factor* abundance and relative *factor* prices is the *cause* of the pretrade difference in relative commodity prices between two nations?

- A) Stolper-Samuelson theorem
- B) Differentiated product theorem
- C) Heckscher-Ohlin theorem**
- D) None of the above

Answer: C

22. Assume that Country A is relatively abundant in capital and relatively scarce in land. According to the factor endowment theory, with free trade, the internal distribution of income in Country A will change in favor of:

A) capital

- B) land
- C) both capital and land
- D) neither capital nor land

Answer: A

23. Assume the cost of transporting computers from US to Japan is greater than the pre-trade price difference for computers between US and Japan. Trade in computers between US and Japan will:

- A) be very profitable for both parties
- B) be a breakeven proposition for both parties
- C) occur
- D) not occur**

Answer: D

24. For trade to occur, the Heckscher-Ohlin model requires that:

- A) Both nations have identical tastes
- B) Both nations have exactly the same level of technology
- C) Both nations only have broadly similar tastes because the level of technology is not relevant
- D) both nations have broadly similar tastes and technology**

Answer: D

25. Mexico is relatively abundant in labor, while Canada is relatively abundant in capital. In both nations, the production of televisions is relatively more capital intensive than the production of corn. According to the factor endowment theory, Mexico will have a(n):

- A) absolute advantage in the production of corn and computers
- B) absolute advantage in the production of corn
- C) comparative advantage in the production of corn**
- D) comparative advantage in the production of computers

Answer: C

26. A product will be internationally traded as long as the pre-trade price differential between the trading partners is:

- A) equal to the transportation cost of the good
- B) greater than the transportation cost of the good**
- C) less than the transportation cost of the good
- D) none of the above

Answer: B

27. Which of the following is not an example of a capital rich nation?

- A) Canada
- B) Germany
- C) Bangladesh**
- D) Italy

Answer: C

28. Assume both labor and capital are completely mobile, and a nation is capital rich/labor scarce. In order to increase welfare, what kind of trade policy should the government adapt?

- A) Restrict all trade, because the standard of living will decline and people will be worse off
- B) Only restrict trade that will make the real wage fall, and allow trade that will not affect wages
- C) Not restrict trade, because the real wage will eventually cycle back to the pre-trade value, eliminating any losses in the standard of living
- D) Not restrict trade, because any decline in real wages will be matched with an even larger gain by those who own capital**

Answer: D

29. Which of the following are possible sources of bias for the Leontief paradox?

- A) Leontief only used a two-factor model
- B) Misclassification of factors such as natural resources
- C) The inclusion of only physical capital in the measure of capital
- D) All of the above**

Answer: D

30. Which of the following factors were not considered within the framework of the Leontief paradox?

- A) Human capital
- B) Physical capital
- C) Natural resources
- D) Both A & C**

Answer: D

31. In the real world, a reason factor-price equalization of labor does not completely hold true is that:

- A) it is unrealistic to assume that there are no trade restrictions**
- B) although technology among most countries is the same, workers are not able to make efficient use of it in every nation, thus keeping factor prices from equalizing
- C) although labor is completely mobile it assumes the value in the country to which it moved and thus has no effect on the overall factor price of that country.
- D) None of the above

Answer: A

32. With _____, inputs increase proportionately more than the increase in output.

- A) Increasing returns to scale
- B) Decreasing returns to scale**
- C) Constant returns to scale
- D) International returns to scale

Answer: B

33. With _____, inputs increase in direct proportion to the increase in output.

- A) increasing returns to scale
- B) decreasing returns to scale
- C) constant returns to scale**
- D) international returns to scale

Answer: C

34. Some forces that improve upon the inadequacies of the Heckscher-Ohlin model in explaining basis for international trade are:

- A) Economies of scale
- B) Product differentiation
- C) Technological differences
- D) All of the above**

Answer: D

35. With _____, inputs increase proportionately less than the increase in output.

- A) increasing returns to scale**
- B) decreasing returns to scale
- C) constant returns to scale
- D) international returns to scale

Answer: A

36. Increasing returns to scale generally exist because of:

- A) greater division of labor and labor specialization
- B) specialized and productive machinery
- C) less and less expensive factors of production
- D) Both A and B**

Answer: D

37. Which of the following is not an explanation for why high-income and labor-saving products are most likely to be introduced in rich nations?

- A) The opportunities for doing so are the greatest in rich nations
- B) Poor countries actually prefer products and services associated with being low-income
- C) The development of new products requires proximity to markets so as to benefit from consumer feedback in modifying the product
- D) There is no need to provide service

Answer: B

38. The Heckscher-Ohlin model differs from the Ricardian model of Comparative Advantage in that the former

- A. has only two countries.
- B. has only two products.
- C. has two factors of production.**
- D. has two production possibility frontiers (one for each country).

Answer: C

39. According to the theory of comparative advantage, which of the following is not a reason why countries trade?

- a. Comparative advantage.
- b. Costs are higher in one country than in another.
- c. Prices are lower in one country than in another.
- d. Exports give a country a political advantage over other countries that export less.

Ans: d

40. According to the theory of comparative advantage, countries gain from trade because

- a. Trade makes firms behave more competitively, reducing their market power.
- b. All firms can take advantage of cheap labor.
- c. Output per worker in each firm increases.
- d. World output can rise when each country specializes in what it does relatively best.**

Ans: d

41. If international trade takes place as a result of comparative advantage, it will cause which of the following effects in the participating countries?

- a. Inequality among households will be reduced.
- b. All individuals in each country will be better off.
- c. The average well-being of people in both countries will increase.**
- d. Both countries will grow faster over time.

Ans: c

42. The existence of which type of dumping most likely constitutes the strongest argument for the imposition of an antidumping duty?

- a. Predatory dumping**
- b. Persistent dumping
- c. Sporadic dumping
- d. All three types generate equally strong arguments for the imposition of an antidumping duty.

Ans: a

43. The optimum tariff

- a. must occur in the elastic range of the tariff-imposing home country's offer curve.
- b. takes account of the probability that the partner country will retaliate with protective measures of its own.
- c. maximizes total export sales of the imposing country.
- d. must occur in the elastic range of the partner country's offer curve.**

Ans: d

44. A specific tariff is

- a. Any tax on a particular imported good (as opposed to one on all imports).
- b. An import tax that must be paid in kind (giving the government the good itself).
- c. A requirement to pay the government a specified fraction of the monetary value of an imported good.

d. A tax on imports defined as an amount of currency per unit of the good.

Ans: d

45. A tariff on imports benefits domestic producers of the imported good because

- a. They get the tariff revenue.
- b. It raises the price for which they can sell their product on the domestic market.**
- c. It prevents imports from rising above a specified quantity.
- d. It reduces their producer surplus, making them more efficient.

Ans: b

46. When a large country levies a tariff on imports

- a. The world price falls.
- b. Demanders of the good on the domestic market are hurt
- c. The domestic price rises by less than the tariff.

d. All of the above.

Ans: d

47. Which of the following refers to the fact that a large country can benefit by levying a tariff?

- a. The "optimal tariff"
- b. The "terms of trade effect of a tariff"
- c. The "monopoly effect of a tariff"

d. All of the above

Ans: d

48. The WTO's Agreement on Textiles and Clothing promised

- a. To prevent job losses in these industries in developed countries.
- b. To phase out all quotas on textiles and apparel by Dec. 31, 2004.**
- c. To eliminate tariffs on these products in the next round of trade negotiations.
- d. To help developing countries escape from these dead-end industries.

Ans: b

49. In the 2-factor, 2 good Heckscher-Ohlin model, the two countries differ in

- a. military capabilities.
- b. size.
- c. labor productivities.
- d. relative availabilities of factors of production.**

Answer: d

50. In the Ricardian Model of trade, under autarky (closed economy)

- a. Relative prices are determined by technology**
- b. Countries tend to specialize in the production of a single good
- c. Production is determined by comparative advantage
- d. None of the above

Answer: a

True/False

1. The Heckscher-Ohlin theory is often referred to as the factor-proportion theory.

Answer: True

2. The Heckscher-Ohlin theory is often referred to as the factor-endowment theory.

Answer: True

3. International trade acts as a substitute for the international mobility of factors of production in its effect on factor prices.

Answer: True

4. Leontief's empirical findings agreed with the Heckscher-Ohlin trade model which predicts that, as the most capital abundant nation, the U.S. should import labor-intensive products.

Answer: False

5. Non-traded goods and services are those that are not traded because of international barriers to entry, such as exorbitant import tariffs.

Answer: False

6. According to the Heckscher-Ohlin model, if country A has a comparative advantage in producing good X, and country B has a comparative advantage in producing good Y, if those countries have similar tastes it is possible for those two countries to reach a higher indifference curve with the introduction of trade.

Answer: True

7. According to Ricardian theory, comparative advantage depends on relative differences in labor productivity.

Answer: T

8. Free international trade will continue to expand until the real wages for the same type of labor in the two nations and the real rate of interest for the same type of capital in the two nations are completely equalized.

Answer: True

9. Labor unions in developed nations are usually against trade restrictions because it impedes their ability to acquire skilled workers that can assist in acquiring additional benefits and wage increases.

Answer: False

10. The Heckscher-Ohlin theory asserts that relative differences in labor productivity underlie comparative advantage. F

3. The factor-endowment theory highlights the relative abundance of a nation's resources as the key factor underlying comparative advantage. T

4. According to the factor-endowment theory, a nation will export that good for which a large amount of the relatively scarce resource is used. F

5. According to the factor-endowment theory, a nation will import that good for which a large amount of the relatively abundant resource is used. F

- 6.The Heckscher-Ohlin theory suggests that land-abundant nations will export land-intensive goods while labor-abundant nations will export labor-intensive goods. T
- 7.The Heckscher-Ohlin theory contends that over a period of years a country that initially is an exporter of a product will become an importer of that product. F
- 8.The Heckscher-Ohlin theory emphasizes the role that demand plays in the creation of comparative advantage. F
- 9.The factor-endowment theory asserts that with specialization and trade there tends to occur equalization in the relative resource prices of trading partners. T
- 10.According to the factor-endowment theory, international specialization and trade cause a nation's cheap resource to become cheaper and a nation's expensive resource to become more expensive. F
- 11.Fears about the downward pressure that cheap foreign workers place on U.S. wages have led U.S. labor unions to lobby for import restrictions such as tariffs and quotas. T
- 12.According to the factor-price-equalization theory, international trade results in the relative differences in resource prices between nations being eliminated. T
- 13.Empirical testing by Wassily Leontief gave support to the Heckscher-Ohlin theory of trade. F
- 14.The Leontief Paradox was the first major challenge to the product-life-cycle theory of trade. F
- 15.The factor-price-equalization theory is a short-run version of the specific-factors theory. F