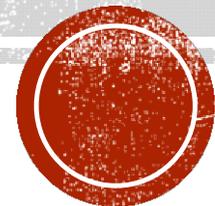


# INTERNATIONAL ECONOMICS

## UNIT-1 SEMINAR

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# CONTENTS

- Absolute cost advantage and comparative cost advantage – Modern theory: Hecksher-Ohlin theorem – Leontief paradox – (NP1977: Ohlin & Meade)



1. What does the theory of comparative advantage primarily explain?

- a) Why countries should only export goods they can produce most efficiently
- b) Why countries benefit from specializing in goods where they have the lowest opportunity cost
- c) Why countries should avoid international trade
- d) Why countries should produce everything they consume

Answer: b



2..According to David Ricardo, a country should export goods for which it has:

- a)The lowest absolute cost
- b) The highest absolute cost
- c) The lowest opportunity cost
- d) The highest opportunity cost

Answer: c



3.If Country A can produce 10 units of wheat or 5 units of cloth, and Country B can produce 6 units of wheat or 12 units of cloth, which country has a comparative advantage in cloth?

- A) Country A
- b) Country B
- c) Both countries
- d) Neither country

Answer: b



4. Comparative advantage leads to:

- a) Increased global production and consumption
- b) Decreased global production and consumption
- c) No change in global production and consumption
- d) Only benefits for the richer country

Answer: a



5. Which of the following is NOT an assumption of the theory of comparative advantage?

- A) No transportation costs
- b) Perfect competition
- c) Immobility of factors of production
- d) Increasing returns to scale

Answer: d



6. What is the opportunity cost of producing one unit of wheat in Country A if it can produce 10 units of wheat or 5 units of cloth?

- A) 0.5 units of cloth
- b) 2 units of cloth
- c) 5 units of cloth
- d) 10 units of cloth

Answer: a



7. Comparative advantage differs from absolute advantage in that it focuses on:

- a) Total output
- b) Opportunity cost
- c) Labor productivity
- d) Capital efficiency

Answer: b



8.If two countries have the same opportunity costs for producing two goods, what is the implication for trade?

- A) Both countries will benefit from trade
- b) Only one country will benefit from trade
- c) There is no incentive for trade
- d) Trade will always be equal

Answer: c



9. Which of the following best describes the gains from trade according to the theory of comparative advantage?

- A) Countries can consume beyond their production possibilities frontier
- b) Countries must consume only what they produce
- c) Countries always lose from trade
- d) Trade only benefits large countries

Answer: a



10. In the context of comparative advantage, what does specialization mean?

- A) Producing all goods equally
- b) Focusing production on goods with the lowest opportunity cost
- c) Focusing production on goods with the highest opportunity cost
- d) Avoiding production of any goods

Answer: b



11. The Heckscher-Ohlin theory primarily explains international trade patterns based on:

- a) Differences in labor productivity
- b) Differences in factor endowments
- c) Differences in technology
- d) Differences in government policies

Answer: b



12. According to the Heckscher-Ohlin model, a country will export goods that:

- a) Use its scarce factors intensively
- b) Use its abundant factors intensively
- c) Are labor-intensive only
- d) Are capital-intensive only

Answer: b



13. Which of the following is NOT an assumption of the Heckscher-Ohlin model?

- A) Two countries, two goods, two factors
- b) Identical production technologies
- c) Perfect mobility of factors between countries
- d) Identical consumer preferences

Answer: c



14. The Heckscher-Ohlin theorem predicts that trade will lead to:

- a) Equalization of factor prices across countries
- b) Increased inequality in factor prices
- c) No change in factor prices
- d) Decreased production efficiency

Answer: a



15. According to the Stolper-Samuelson theorem?

- A) Labor
- b) Capital
- c) Land
- d) Entrepreneurs

Answer: b



16. The Leontief paradox is an empirical finding that contradicts the Heckscher-Ohlin model because:

- a) The US exports labor-intensive goods despite being capital-abundant
- b) The US exports capital-intensive goods despite being labor-abundant
- c) The US imports labor-intensive goods despite being capital-abundant
- d) The US imports capital-intensive goods despite being labor-abundant

Answer: a



17. Which of the following best describes the Rybczynski theorem?

A) Trade equalizes factor prices

b) An increase in one factor increases the output of the good using that factor intensively

c) Trade leads to increased inequality

d) Technology determines trade patterns

Answer: b



18..In the Heckscher-Ohlin model, trade occurs between countries because of differences in:

- a) Tastes and preferences
- b) Factor endowments
- c) Labor productivity
- d) Tariff rates

Answer: b



19.If Country A is labor-abundant and Country B is capital-abundant, according to Heckscher-Ohlin, Country A should specialize in:

- a) Capital-intensive goods
- b) Labor-intensive goods
- c) Both capital and labor-intensive goods
- d) Neither capital nor labor-intensive goods

Answer: b



20. The factor-price equalization theorem suggests that international trade will:

- a) Increase wage gaps between countries
- b) Reduce wage gaps between countries
- c) Have no effect on wages
- d) Only affect capital prices

Answer: b



21. What does the Leontief paradox demonstrate?

- A) That capital-abundant countries export capital-intensive goods
- b) That capital-abundant countries export labor-intensive goods
- c) That labor-abundant countries export capital-intensive goods
- d) That trade is always balanced

Answer: b



22. Which country's trade pattern did Leontief analyze to discover the paradox?

- A) Japan
- b) Germany
- c) United States
- d) United Kingdom

Answer: c



23. The Leontief paradox challenged which trade theory?

- A) Comparative advantage
- b) Heckscher-Ohlin theory
- c) Mercantilism
- d) Absolute advantage

Answer: b



24. What did Leontief find about U.S. Exports and imports?

- A) U.S. Exports were capital-intensive and imports were labor-intensive
- b) U.S. Exports were labor-intensive and imports were capital-intensive
- c) Both exports and imports were capital-intensive
- d) Both exports and imports were labor-intensive

Answer: b



25. Which of the following is a possible explanation for the Leontief paradox?

- A) The U.S. Has more skilled labor
- b) The U.S. Has more physical capital
- c) The U.S. Has higher tariffs
- d) The U.S. Has lower productivity

Answer: a



26. The Leontief paradox is significant because it:

- a) Proves the Heckscher-Ohlin theory is always correct
- b) Shows that comparative advantage is irrelevant
- c) Raises questions about the validity of the Heckscher-Ohlin theory
- d) Proves that all countries should specialize in labor-intensive goods

Answer: c



**THANK YOU**

