1. Mercantilism in England stressed the importance of:
   A. Free trade among all nations.
   B. Maintaining a positive balance of trade.
   C. Lowering tariff barriers through trade treaties.
   D. Developing industries in the American Colonies.

2. Adam Smith was:
   A. A mercantilist.
   B. An opponent of free trade.
   C. The developer of the concept of consumer surplus.
   D. An opponent of the mercantilists.

3. The concept of comparative advantage was developed by:
   A. Adam Smith
   B. Thomas Mun
   C. Thomas Malthus
   D. David Ricardo
   E. Alexander Hamilton

4. The two economists in the last question who favored completely free trade were:
   A. Mun and Malthus
   B. Malthus and Hamilton
   C. Smith and Ricardo
   D. Ricardo and Malthus

5. The concept of comparative advantage rests on one nation:
   A. being able to produce more of everything than another.
   B. having a higher educational level than another.
   C. having greater productivity in at least one product than another.
   D. none of the above need be true to have a comparative advantage.

6. Ricardo argued that if England were less efficient in both agricultural and industrial production than any other country, it should:
   A. withdraw from international trade entirely.
   B. maintain high tariffs to allow its industries to compete.
   C. place a quota on the amount of goods it would import.
   D. specialize in what it was, compared to other countries, least inefficient in producing.

7. The impact of imports, on the domestic economy, will be to:
   A. increase producer surplus, increase consumer surplus, and increase total surplus.
   B. increase producer surplus, decrease consumer surplus, and decrease total surplus.
   C. increase producer surplus, decrease consumer surplus, and increase total surplus.
   D. decrease producer surplus, decrease consumer surplus, and decrease total surplus.

8. Imports will:
   A. increase producer surplus, increase consumer surplus, and increase total surplus.
   B. increase producer surplus, decrease consumer surplus, and decrease total surplus.
   C. decrease producer surplus, increase consumer surplus, and increase total surplus.
   D. decrease producer surplus, decrease consumer surplus, and decrease total surplus.
9. This plot shows the impact of --- on producer and consumer surplus in the economy.
   A. exports only.
   B. imports only.
   C. exports and imports.
   D. tariffs

10. The dashed line represents:
    A. world demand being added to domestic demand.
    B. world supply being added to domestic supply.
    C. an increase in domestic demand.
    D. a decrease in domestic demand.

11. As a result of this change, we expect:
    A. the quantity supplied by domestic producers to decrease.
    B. the quantity demanded by domestic consumers to increase.
    C. the quantity supplied by domestic producers to increase.
    D. domestic demand to decrease.

12. The deadweight loss as a result of international trade is represented by:
    A. Areas F and G only.
    B. Area H only.
    C. Areas F, G and H
    D. There is no deadweight loss from exports.
13. As a result of international trade, consumer surplus will change from area ABF to:
   A. Area A only.
   B. Area A plus area H
   C. Area A, B, F and H.
   D. Areas A, B, C, F, G and H.

13. As a result of international trade, producer surplus will change from CGD to ---
   A. Area CGDE
   B. area D only
   C. area BCGD
   D. area BCDFGH

14. The gains from trade will be represented by:
   A. Area A
   B. Areas F and G
   C. Area H
   D. Area D

15. Given the graph on the previous page, the gains from trade will be closest to:
   A. 1000
   B. 2000
   C. 3000
   D. 4000
   E. 5000

16. As a result of international trade, the consumer surplus after trade will be closest to:
   [same options as the previous question]

17. As a result of international trade, the producer surplus after trade will be closest to:
   [same options as the previous question]
1. B. The mercantilists emphasized a positive balance of trade in order to get hard currency: Thomas Mun, *England's Treasure by Foreign Trade*

2. D. Smith was an anti-mercantilist: the title of the *Wealth of Nations* was meant to be in contrast to Mun.

3. D. Ricardo, in opposition to Malthus, developed the idea of comparative advantage in contrast to Malthus' worry about a loss of absolute advantage.

4. C. Smith and Ricardo were the only ones favoring free trade without many restrictions.

5. D. Comparative advantage can be translated as “less of a disadvantage”

6. D. Applying the principle of comparative advantage, Ricardo showed that specialization in what you were least inefficient at would bring gains compared to no trade whatsoever.

7. C. Exports will raise the price of the good domestically, due to the increased production, and so harm consumers. But the increase in producer surplus will exceed the loss in consumer surplus.

8. C. Producer surplus decreases due to import competition, but the increase in consumer surplus will exceed the loss in producer surplus.

9. A. Exports are responsible for the ability to sell more than is consumed domestically.

10. A. Demand from the rest of the world is added to what is demanded domestically, driving the price up.

11. C. Producers will now produce 60 units rather than the previous 40. Since only 20 are consumed domestically, the other 40 units produced are exported.

12. D. There is no deadweight loss from trade.

13. A. Consumer surplus is reduced by quite a bit as a result of exports, from ABF to A only

14. C. Area H on the graph represents gains from trade. Note that this all comes from the profit made on the sale of the exported goods.

15. B. Gains from trade = Area of H = 1/2 * (400 - 300) * (60 - 20) = 1/2 * 100 * 40 = 2000

16. A. Consumer surplus after trade = Area of A = 1/2 * (500 - 400) * 20 = 1000

17. E. Producer surplus after trade is area BCDFGH = 1/2 * (400 - 100) * 60 = 9000
   The closest to this in the answer is of course E = 5000.

Note that total economic surplus before trade = 1/2 * (500 - 100) * 40 = 1/2 * 400 * 40 = 8000, and after trade, producer surplus alone is 9000, and consumer surplus 1000, for a total surplus of 10,000.