FOREIGN DIRECT INVESTMENT

1. A US firm purchasing 20% of a Brazilian firm is called
   a) greenfield FDI
   b) brownfield FDI
   c) a merger or acquisition
   d) b) or c)
   e) a) or c)

2. A Canadian firm building a new production plant in Mexico would be called
   a) greenfield FDI
   b) brownfield FDI
   c) a merger or acquisition
   d) b) or c)
   e) a) or c)

3. A French firm wanting to locate production close to the large market in China is most likely to choose
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) export platform FDI

4. A German firm wanting to shift production abroad to minimize production costs is most likely to choose
   a) horizontal FDI
   b) vertical FDI
   c) diagonal FDI
   d) circular FDI
   e) export platform FDI
5. Which country has the largest outflows of FDI?
   a) the United States
   b) the united Kingdom
   c) Germany
   d) Japan
   e) France

6. Foreign outsourcing is
   a) the transfer of operations to foreign contractors
   b) an example of internalization
   c) an example of foreign direct investment
   d) currently banned in the United States
   e) the substitution of immigration for foreign direct investment

7. In 2002, what fraction US manufacturing firms reported any sales abroad?
   a) 9%
   b) 18%
   c) 27%
   d) 35%
   e) 42%

8. Which type of foreign direct investment has tended to be the most stable over time?
   a) merger & acquisitions
   b) brownfield FDI
   c) greenfield FDI
   d) joint venture
   e) licensing
TRADE POLICIES

9-12 Suppose the United States reduces (tightens) its binding quota on imports of sugar from allowing 3 million tons to allowing 2 million tons of sugar to be imported.

9. The quantity demanded of sugar and consumer surplus in the United States
   a) rises due to the US price of sugar rising
   b) rises due to the US price of sugar falling
   c) remains the same
   d) falls due to the US price of sugar rising
   e) falls due to the US price of sugar falling

10. The quantity supplied of sugar and producer surplus in the United States
    a) rises due to the US price of sugar rising
    b) rises due to the US price of sugar falling
    c) remains the same
    d) falls due to the US price of sugar rising
    e) falls due to the US price of sugar falling

11. Reducing the US quota on sugar affects US welfare through
    a) larger consumption distortion
    b) larger production distortion
    c) quota rents transferred to foreign sugar producers
    d) a, b and c
    e) a and b

12. Reducing the US quota on sugar causes US welfare to
    a) rise
    b) fall
    c) stay the same
    d) rise or stay the same
    e) fall or stay the same
13-16 Suppose Bangladesh introduces an export subsidy on toys. Bangladesh is too small to have any measurable impact on the world price for toys.

13. The export subsidy causes the price of toys in Bangladesh to
   a) rise by the full amount of the subsidy
   b) rise by less than the full amount of the subsidy
   c) fall by the full amount of the subsidy
   d) fall by less than the full amount of the subsidy
   e) remain unchanged

14. The export subsidy causes the price of toys in the rest of the world to
   a) rise by the full amount of the subsidy
   b) rise by less than the full amount of the subsidy
   c) fall by the full amount of the subsidy
   d) fall by less than the full amount of the subsidy
   e) remain unchanged

15. Introducing the export subsidy affects Bangladeshi welfare through
   a) consumption distortions
   b) production distortions
   c) terms of trade losses
   d) a, b and c
   e) a and b

16. Introducing the export subsidy on toys causes Bangladeshi welfare to
   a) rise
   b) fall
   c) stay the same
   d) rise or stay the same
   e) fall or stay the same
TRADE POLICY PROBLEMS

In the United States (US), inverse demand is \( P = 106 - 2Q_D \), while inverse supply is \( P = 42 + 2Q_S \). In the rest of the world (ROW), inverse demand is \( P^* = 50 - 2Q_D^* \), while inverse supply is \( P^* = 2 + 2Q_S^* \).

17. The US autarky price is \( P^a = \)
   a) 74
   b) 56
   c) 50
   d) 44
   e) 26

18. US quantity demanded is \( Q_D = \)
   a) 53 - (½) \( P \)
   b) -53 + (½) \( P \)
   c) 53 + (½) \( P \)
   d) -53 - (½) \( P \)
   e) none of the above

19. US quantity supplied is \( Q_S = \)
   a) 21 - (½) \( P \)
   b) -21 + (½) \( P \)
   c) 21 + (½) \( P \)
   d) -21 - (½) \( P \)
   e) none of the above

20. US import demand is \( M = \)
   a) 74 - \( P \)
   b) -74 + \( P \)
   c) 74 + \( P \)
   d) -74 - \( P \)
   e) none of the above

21. US import demand has price intercept ___ and slope ____.
   a) 74, -1
   b) 74, 1
   c) 26, -1
   d) 26, 1
   e) none of the above
22. The ROW autarky price is $P^A = \hfill$
   a) 74  
   b) 56  
   c) 50  
   d) 44  
   e) 26

23. ROW quantity demanded is $Q_D^* = \hfill$
   a) $1 - \left( \frac{1}{2} \right) P$  
   b) $-1 + \left( \frac{1}{2} \right) P$  
   c) $1 + \left( \frac{1}{2} \right) P$  
   d) $-1 - \left( \frac{1}{2} \right) P$  
   e) none of the above

24. ROW quantity supplied is $Q_S^* = \hfill$
   a) $25 - \left( \frac{1}{2} \right) P$  
   b) $-25 + \left( \frac{1}{2} \right) P$  
   c) $25 + \left( \frac{1}{2} \right) P$  
   d) $-25 - \left( \frac{1}{2} \right) P$  
   e) none of the above

25. ROW export supply is $X^* = \hfill$
   a) $26 - P$  
   b) $-26 + P$  
   c) $26 + P$  
   d) $-26 - P$  
   e) none of the above

26. ROW export supply has price intercept ___ and slope ____.
   a) 74, -1  
   b) 74, 1  
   c) 26, -1  
   d) 26, 1  
   e) none of thee above

27. The free trade price is $P = \hfill$
   a) 74  
   b) 56  
   c) 50  
   d) 44
28. US imports under free trade are $M = \phantom{00000}$
   a) 27
   b) 24
   c) 21
   d) 18
   e) none of the above

29. US quantity demanded under free trade is $D_f = \phantom{00000}$
   a) 28
   b) 25
   c) 7
   d) 4
   e) none of the above

30. US quantity supplied under free trade is $S_f = \phantom{00000}$
   a) 28
   b) 25
   c) 7
   d) 4
   e) none of the above

31. The US tariff-ridden import demand for a specific tariff $t = 12$ is $M_r = \phantom{00000}$
   a) $62 - P$
   b) $-62 + P$
   c) $50 - P$
   d) $-50 + P$
   e) none of the above

32. It has price intercept ___ and slope ____.
   a) 62, -1
   b) 62, 1
   c) 50, -1
   d) 50, 1
   e) none of thee above

33. The ROW price with the tariff is
   a) 74
   b) 56
c) 50  
d) 44  
e) 26

34. The US price with the tariff is  
a) 74  
b) 56  
c) 50  
d) 44  
e) 26

35. US imports with the tariff are  
a) 27  
b) 24  
c) 21  
d) 18  
e) none of the above

36. US quantity demanded with the tariff is \( D_2 = \)  
a) 28  
b) 25  
c) 7  
d) 4  
e) none of the above

37. US quantity supplied with the tariff is \( S_2 = \)  
a) 28  
b) 25  
c) 7  
d) 4  
e) none of the above

38. How large of a tariff would the United States need to impose to prohibit all imports?  
a) 64  
b) 48  
c) 32  
d) 16  
e) none of the above
39. The change in US consumer surplus due to the tariff is
   a) 216
   b) 33
   c) 0
   d) -159
   e) none of the above

40. The change in US producer surplus due to the tariff is
   a) 216
   b) 33
   c) 0
   d) -159
   e) none of the above

41. The government revenue collected in the United States due to the tariff is
   a) 216
   b) 33
   c) 0
   d) -159
   e) none of the above

42. The US consumption distortion created by the tariff is
   a) 9
   b) 18
   c) 36
   d) 108
   e) none of the above

43. The US production distortion created by the tariff is
   a) 9
   b) 18
   c) 36
   d) 108
   e) none of the above

44. The US efficiency loss is
   a) 9
   b) 18
   c) 36
45. The US efficiency loss occurs because the United States produces ____ and consumes ____ due to the tariff.
   a) too much, too much
   b) too much, too little
   c) too little, too much
   d) too little, too little
   e) none of the above

46. The US terms of trade gain is
   a) 9
   b) 18
   c) 36
   d) 108
   e) none of the above

47. The US terms of trade gain occurs because the United States ____ due to the tariff.
   a) buys imports cheaper
   b) buys more imports
   c) buys fewer imports
   d) has no effect on the ROW price
   e) none of the above

48. The change in welfare in the United States due to the tariff is
   a) 180
   b) 90
   c) 50
   d) -50
   e) none of the above

49. Compared to free trade, is the United States better or worse off with this tariff?
   a) better with this tariff
   b) worse with this tariff
   c) the same with this tariff as with free trade
   d) none of the above
   e) cannot tell from the information provided
50. Why? Because the ________ outweighs the ______ for a large country (able to affect world prices) adopting a small tariff starting from free trade.

a) terms of trade gain, efficiency loss
b) efficiency loss, terms of trade gain
c) production distortion, consumption distortion
d) consumption distortion, production distortion
e) none of the above