

**The Choice: A Fable of Free Trade and Protectionism, 3rd ed.,
by Russell Roberts
REVIEW QUESTIONS
Dr. Walker, ECON 310**

Preface

1. Whereas the first edition of the book was written at a time when the U.S. was concerned with _____, the second edition when our concern was _____, this edition is focused on our concerns with _____ and _____. (countries)

Ch. 1, "Minutes of the Heavenly Court: Soul of David Ricardo"

2. What was Ricardo's most important achievement?

Ch. 2, "The Challenge of Foreign Competition"

3. On the way home from the company picnic, Ed says that he's worried about his business because of _____.
4. Who is Frank Bates?
5. To what movie does Dave refer to help explain his "situation" similar to being an angel?

Ch. 3, "The Roundabout Way to Wealth"

6. What is the "roundabout way to wealth"? What is it for making televisions?
7. Is trade competitive or cooperative? Explain.
8. Why is it useful to think of "days of work it takes to make enough money to buy a color TV" rather than salary, as a measure of the standard of living?

Ch. 4, "Is Trade Good for America?"

9. Has real hourly compensation increased significantly in the U.S. since the 1960s?
10. Do individuals typically worry about lost jobs when they don't make their own clothing, food, housing, etc.? Should they? Should nations worry about it? Is there a difference?
11. What's the biggest mistake people make when they think about trade?
12. Would it be good if all diseases disappeared? What about doctors' jobs?
13. How does Dave explain that small business closings can actually improve the futures of affected families?
14. What has happened to the total number of jobs in the U.S. between 1960 and 2004?

Ch. 5, "Are Manufacturing Jobs Better than Service Jobs?"

15. What are the two reasons manufacturing has declined in the U.S. relative to other sectors?
16. By 2004, what percentage of women was working in the U.S.?
17. What was the change in percentage of jobs in manufacturing between 1960 and 2004? Has output changed similarly?
18. Are cheaper wages, including those in some foreign countries, an indication that production costs will be lower?
19. Why haven't all U.S. jobs moved to Mississippi if low wages attract jobs?

Ch. 6, "Is Outsourcing a Threat to American Prosperity?"

20. What type of website does Susan have?
21. What device does Dave try to explain to Ed?

22. Should Americans take free cars from foreigners, if they're offered? Would you?
23. Can you get richer by destroying your stuff? What if the destruction leads to increased employment?
24. What was the percentage change in U.S. computer programmers from 1999 to 2004? What about software engineers?
25. If we continue "outsourcing our good jobs," will we all eventually be working at the laundromat or picking up trash at carwashes?

Ch. 7, "Do Tariffs Protect American Jobs?"

26. Would a self-sufficient America be wealthier?
27. What's a tariff? A quota? (Hint: A quota is not a coin worth 25¢.)
28. Why do domestic firms raise their prices when there's a tax on imported goods?
29. Why does Dave suggest that the gains to the TV industry workers are a form of extortion?
30. Does the tariff create more domestic jobs overall? Explain.

Ch. 8, Tariffs vs. Quotas

31. Why does the total number of TVs produced fall when there is an import quota?
32. What is a voluntary export restraint (VER)? Are these good? For who?
33. Did Zenith win its dumping case?
34. Has trade led to better or worse cars being produced in the U.S. and around the world?

Ch. 9, Road Trip

35. Dave claims that tourism is like exports. How?
36. What U.S. tourist place is described in this chapter as having been closed?

Ch. 10, "The Case for Protection"

37. What arguments in favor of protection are discussed in the chapter?
38. Was the concord project successful, overall?
39. What is Sematech?
40. What is strategic trade policy?

Ch. 11, "Do Trade Deficits Hurt America?"

41. What is "fair trade"?
42. Are you upset that you have a trade deficit with Wal-Mart (or your favorite store)? Should you be?
43. What does a capital account surplus have to do with a trade deficit?
44. How can a capital account surplus be a sign of economic strength?
45. What countries were the largest purchasers (in order) of U.S. capital assets during the 1980s?

Ch. 12, "Fair Trade Versus Free Trade"

46. Do American automakers who complain that the Japanese don't buy enough U.S.-built cars actually want to see more cars in Japan? What is their true aim, and how is the U.S. consumer affected?
47. How does the U.S. Department of Commerce define "dumping"?

48. Recount the Polish golf cart case.
49. Who is the ultimate loser of policies designed to bring about "fair" trade?
50. If Japan imposes restrictions on U.S. goods sold in Japan, what is the best policy for the U.S. to follow?
51. Is there any truth to the idea that "free trade only works if everyone follows it"?
52. What is the WTO and what does it do?

Ch. 13, "Is Globalization Good for the Poor"

53. According to Dave, were the IMF and World Bank effective?
54. Why doesn't money meant for the poor always get to them?
55. Does the U.S. get blamed and/or deserve the blame for the failure of international aid organizations?
56. How much more expensive is sugar in the U.S. than it would be under free trade conditions?
57. Should we try to create good economies in countries with bad governments?
58. About what percentage of the U.S. labor force is unionized?
59. Are the labor and environmental laws in the U.S. today basically the same as in 1850?
60. Should the U.S. demand that other countries have the same environmental and labor laws, drive the same nice cars, and eat only at expensive restaurants, etc.? Wouldn't that make them better off?
61. What's the best way to help the poor people of the world?

Ch. 14, "Self Sufficiency Is the Road to Poverty"

62. Even if workers have all the know-how and capital (machinery) to be able to manufacture all that we import, we're still worse off banning imports. Why?
63. Is it irrational to sometimes bake your own bread? If it tastes better than the store-bought bread, why do you ever buy bread at the store? Why not always make it at home?
64. What explains why the marginal cost of production tends to rise as quantity rises?
65. Governments have placed trade embargoes on countries like Cuba and North Korea. (In 12/06, ABC News reported that the U.S. has recently banned the sale of iPods, brandy, and Mercedes to N. Korea because its leader particularly likes those items.) If these restrictions are meant to be punishment, or to encourage its citizens to overthrow their government, why do politicians in the U.S. impose these types of policies on their own citizens?
66. Should you always buy American made products whenever they're an option? Or should you just look for the best product a the best price, whoever makes it?
67. In what sense was the increased wealth due to the quota – and seen by Ed's employees – illusory?
68. What happens to export industries when you ban imports?
69. Why would we be poorer if we produced everything the direct way? (Answer this as an individual and as a nation.)

Ch. 15, "The Choice"

70. Does Ed deliver the entire speech as it was written?
71. Does he address the negative consequences of tariffs and quotas in his speech?
72. To what extent does he promote free trade in his speech?
73. Is the choice between "more or fewer jobs" or "dynamic or static" world? Explain.

Ch. 16, "A Final Word from David Ricardo"

74. Is money "everything" according to economists?
75. Does Dave want people to make fun of economists?

Ch. 17, "Explanations, Sources, etc."

You may skip this chapter unless you're interested in more information on a particular chapter.