

Chapter 01: The International Economy and Globalization

1. Which of the following is a dimension of integration into the world economy?

- a. Fair labor standards.
- b. Flexible exchange rates.
- c. Decreased foreign competition.
- d. Dependence on imported materials.

ANSWER:

d

2. Which of the following is a disadvantage of globalization?

- a. Living standards can increase more rapidly.
- b. Global competition and cheap imports keep a constraint on prices.
- c. Easier access to foreign investment and low interest rates.
- d. Companies building state-of-the-art factories in low-wage countries.

ANSWER:

d

3. Which statement about globalization is true?

- a. It has led to more quotas on trade around the world.
- b. It is a purely economic term used to describe interrelated global markets.
- c. It has been fueled by trade, immigration, and foreign investment.
- d. It is the process by which more countries are becoming economically self-sufficient around the globe.

ANSWER:

c

4. Which statement is true about import restrictions?

- a. They decrease the volume of exports.
- b. They lead to more jobs for domestic workers.
- c. They decrease imports and increase exports.
- d. They are more conducive to prosperity than free trade.

ANSWER:

a

5. Most of the world's population now lives in nations that are

- a. integrated or becoming integrated into world markets.
- b. trying to overcome economic isolation.
- c. cutting back on foreign investment.
- d. economically independent.

ANSWER:

a

6. International trade generally

- a. decreases jobs.
- b. generates income.
- c. decreases productivity.
- d. reduces competition.

ANSWER:

b

7. The largest amount of trade with the United States in recent years has been conducted with

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- a. China.
- b. Germany.
- c. Canada.
- d. the United Kingdom.

ANSWER:

a

8. What led to the sharp loss of market share in the example of the Eastman Kodak Company?

- a. increased desire for higher-quality product substitutes
- b. consumer concern over Eastman Kodak's near monopoly in the U.S. markets
- c. lack of innovation in emerging digital technologies
- d. increased profits of domestic import-competing industries

ANSWER:

c

9. Which statement is true about international trade?

- a. It is zero-sum game.
- b. Imports always result in domestic unemployment.
- c. Tariffs on imports always protect domestic jobs.
- d. Imports and exports are connected; as one falls, the other generally rises.

ANSWER:

d

10. North Carolina produces sweet potatoes in its rich soil, but does not have the climate to grow oranges well. It is correct to say that, relative to Florida, North Carolina has which of the following?

- a. An absolute advantage in sweet potato production.
- b. A monopoly on sweet potato production.
- c. A comparative advantage in sweet potato production.
- d. A trade imbalance in sweet potato production.

ANSWER:

c

11. According to human rights activists, which organization supports governments that permit sweatshops?

- a. The International Organization for Standardization
- b. The International Monetary Fund
- c. The World Health Organization
- d. The World Trade Organization

ANSWER:

b

12. With globalization and import competition, U.S. prices generally

- a. increase.
- b. decrease.
- c. remain stable.
- d. fluctuate wildly.

ANSWER:

b

13. The United States was less open to international trade between

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- a. 1870 and 1914.
- b. 1944 and 1980.
- c. 1890 and 1950.
- d. 1980 and the present.

ANSWER:

c

14. A sudden shift from import tariffs to free trade may induce short-term unemployment in

- a. import-competing industries.
- b. industries that are only exporters.
- c. industries that sell domestically as well as export.
- d. industries that neither import nor export.

ANSWER:

a

15. Economic interdependence occurs through

- a. trade.
- b. protectionism.
- c. war.
- d. tariffs.

ANSWER:

a

16. Small countries tend to have higher measures of openness than larger countries because

- a. their productivity is higher.
- b. they are more reliant on international trade.
- c. they are less reliant on international trade.
- d. they are more economically diverse.

ANSWER:

b

17. Following World War II, the U.S.

- a. became less open.
- b. helped construct a global economic order.
- c. negotiated increases in trade barriers.
- d. went through a period of economic isolationism.

ANSWER:

b

18. Which of the following is a fallacy of international trade?

- a. Trade is a zero-sum activity.
- b. Exports increase employment in exporting industries.
- c. Import restrictions increase employment in import-competing industries.
- d. Tariffs and quotas reduce trade.

ANSWER:

a

19. The first wave of globalization was brought to an end by

- a. the Great Depression.

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- b. the Second World War.
- c. the First World War.
- d. the Smoot-Hawley Act.

ANSWER:

c

20. Multilateral trade negotiations have led to

- a. continued liberalization of trade and investment.
- b. increased protectionism.
- c. higher tariffs.
- d. more expensive financing.

ANSWER:

a

21. The phrase “When the United States sneezes, the economies of other nations catch a cold” was first used to describe the impact of the economy of the United States on the rest of the world at the end of World War II. This phrase is now

- a. more true, due to the impact of growing economic interdependence.
- b. less true, due to the impact of growing economic interdependence.
- c. only true when followed by impacts in the European Union.
- d. all of these are only true in the case of an economic recession.

ANSWER:

b

22. Why has the economy of the United States realized waves of globalization?

- a. The United States consistently increases tariffs.
- b. The United States economy has been consistently opening up since the 1920s.
- c. Technology, supported by American investors, drives productivity.
- d. The trade policy of the United States has been uneven, resulting in periods of more or less openness to international trade.

ANSWER:

d

23. The decline of Kodak Inc. in the camera and film business is NOT explained by

- a. the rise of Japanese rivals such as Fuji Photo Film Co.
- b. the development of digital cameras and smartphones that operate as cameras.
- c. antimonopoly laws that broke Kodak up into small, competing companies.
- d. constant innovation and attention to changing trends in recreational photography.

ANSWER:

c

24. Today, most Schwinn bicycles are manufactured in

- a. China.
- b. Canada.
- c. Mexico.
- d. Germany.

ANSWER:

a

25. The natural gas turbine is considered a driver of globalization because the turbine

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- a. increases efficiency, moving goods from place to place.
- b. was developed in the United States.
- c. is associated with increased transportation costs.
- d. increases the labor input and decreases unemployment.

ANSWER:

a

26. Economists who suggest that the United States is losing its competitive edge cite that

- a. more American firms are choosing to manufacture overseas.
- b. the quality of education in Western countries is declining.
- c. the United States is ambivalent about technology.
- d. the Asian continent contains more raw materials than the United States.

ANSWER:

a

27. Exporting firms in the United States typically

- a. have less overall productivity.
- b. offer higher wages to workers.
- c. rely on an unskilled labor force.
- d. do not rely on capital.

ANSWER:

b

28. The slogans "Buy American" and "American goods create American jobs" reflect

- a. concern over the number of exports leaving the country.
- b. concern about the threat of foreign competition.
- c. a desire for fewer import restrictions.
- d. a lack of job security within exporting firms.

ANSWER:

b

29. As an economy opens up to international trade, domestic prices

- a. decrease.
- b. increase.
- c. become stable over time.
- d. align more with international prices.

ANSWER:

d

30. The openness ratio is measured by a country's

- a. exports as a percent of gross domestic product.
- b. imports as a percent of gross domestic product.
- c. exports minus imports as a percent of gross domestic product.
- d. exports plus imports as a percent of gross domestic products.

ANSWER:

d

31. How has technology impacted the globalization of economic activity?

- a. Technological innovation has led to decreased mechanization of economic activities.

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- b. Increased information flows have influenced production location decisions.
- c. The rise of the internet has increased communication costs in the service industry.
- d. Technology has led to a greater separation between people and enterprises.

ANSWER:

b

32. In recent decades, the United States has become tied to other nations through a rise in
- a. capital flows.
 - b. labor mobility.
 - c. domestic ownership of financial assets.
 - d. production as compared to consumption.

ANSWER:

a

33. All of the following have been criticisms of globalization and trade policies EXCEPT
- a. environmental concerns.
 - b. disadvantages for corporations.
 - c. unfair competition from countries that lack labor standards.
 - d. support of countries with human rights violations such as sweatshops.

ANSWER:

b

34. Which factor contributed to the bankruptcy of the Schwinn bicycle company?
- a. Schwinn was unable to successfully promote their brand or appeal to consumers in the United States.
 - b. Schwinn was not innovative and did not add new features to their bicycles over time.
 - c. Tariffs were rising on imported bicycles.
 - d. Foreign competitors were able to manufacture competitive bicycles at a lower cost.

ANSWER:

d

35. The most profound influence driving globalization is an increased awareness of global human rights.
- a. True
 - b. False

ANSWER:

False

36. The benefits of international trade accrue in the forms of lower domestic prices.
- a. True
 - b. False

ANSWER:

True

37. In an open trading system, a country will import those commodities that it produces at relatively low cost while exporting commodities that can be produced at relatively high cost.
- a. True
 - b. False

ANSWER:

False

38. Although free trade provides benefits for consumers, it is often argued that import protection should be provided to domestic producers of strategic goods and materials vital to the nation's security.

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- a. True
- b. False

ANSWER: True

39. In the long run, competitiveness depends on an industry's natural resources, its stock of machinery and equipment, and the skill of its workers in creating goods that people want to buy.

- a. True
- b. False

ANSWER: True

40. The term *economic interdependence* implies that the wealth and success of one country impacts the wealth and success of another country.

- a. True
- b. False

ANSWER: True

41. As measured by the value of trade, China, Canada, and Mexico are the three top trading partners of the United States.

- a. True
- b. False

ANSWER: True

42. The "openness ratio" of the U.S. economy in 2018 was approximately 15 percent, the same as in 1890.

- a. True
- b. False

ANSWER: False

43. The development of diesel engines and gas turbines helped reduce transportation costs and thus increase international trade among nations.

- a. True
- b. False

ANSWER: True

44. In the late 1990s, Schwinn Inc. closed its bicycle manufacturing plants in China and moved them to the United States.

- a. True
- b. False

ANSWER: False

45. The advent of foreign competition forced Kodak Inc. to go into bankruptcy and to cease operating as a producer of cameras and film.

- a. True
- b. False

ANSWER: False

46. In the United States, tariffs and quotas are commonly used as tools designed to restrict trade among the 50 states.

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- a. True
- b. False

ANSWER: False

47. Critics maintain that U.S. trade policies have mainly benefitted large corporations rather than the average American citizen.

- a. True
- b. False

ANSWER: True

48. Workers sometimes face demands for wage reductions from employers threatening to export jobs if wage reductions are not accepted.

- a. True
- b. False

ANSWER: True

49. How has international trade forced domestic firms to become more competitive?

ANSWER: International trade has forced domestic firms to become more competitive in terms of the introduction of new products, product design and quality, and product price.

50. What are the challenges of the international trading system?

ANSWER: The international trading system faces dealing with fair labor standards and concerns about the environment, among other challenges.

51. How does competition impact product quality?

ANSWER: International competition provides domestic producers with a strong incentive to improve the quality of their products. Also, international trade usually weakens monopolies. As countries open their markets, their monopoly producers face competition from foreign firms, which generally increases product quality.

52. What are the essential arguments in favor of free trade?

ANSWER: Proponents of an open trading system contend that international trade results in higher levels of consumption and investment, lower prices of commodities, and a wider range of product choices for consumers. Trade also enables workers to become more productive, and wages of workers whose skills are scarcer internationally tend to rise.

53. What is the most important factor that contributes to competitiveness?

ANSWER: International competitiveness can be analyzed in terms of a firm, an industry, and a nation. Key to the concept of competitiveness is productivity, or output per worker hour. Productivity increases faster when countries produce goods and services in which they have a comparative advantage.