Chapter 2—The Global Economy

TRUE/FALSE

1. The volume of international trade has been steadily decreasing over the last few decades.

   ANS: F PTS: 1 DIF: Easy REF: p. 18
   NAT: Analytic | Diversity

2. Adam Smith's theory of specializing in what you are best at producing is known as *absolute advantage*.

   ANS: T PTS: 1 DIF: Easy REF: p. 20
   NAT: Analytic | Diversity

3. An average Italian worker produces 500 shirts per year or 1,000 bottles of perfume per year and an average Spanish worker produces 300 shirts per year or 1,500 bottles of perfume per year. The Italian worker has an absolute advantage over the Spanish worker in the production of perfume.

   ANS: F PTS: 1 DIF: Moderate REF: p. 20
   NAT: Analytic | Diversity

4. Comparative advantage measures a product's cost of production in monetary terms.

   ANS: F PTS: 1 DIF: Moderate REF: p. 20-21
   NAT: Analytic | Diversity

5. Comparative advantage illustrates that relative rather than absolute differences in productivity can form a determining basis for international trade.

   ANS: T PTS: 1 DIF: Moderate REF: p. 20-21
   NAT: Analytic | Diversity

6. An accounting record of the transactions between the residents of one country and the residents of the rest of the world over a given period of time is called *balance of transactions*.

   ANS: F PTS: 1 DIF: Difficult REF: p. 25
   NAT: Analytic | Diversity

7. Outflows of funds involves both goods and services.

   ANS: T PTS: 1 DIF: Easy REF: p. 25
   NAT: Analytic | Diversity

8. Portfolio investments are long-term ownership interests, such as business capital outlays in foreign subsidiaries, in which the purchaser holds complete management control.

   ANS: F PTS: 1 DIF: Moderate REF: p. 26
   NAT: Analytic | Diversity

9. A change in the value of the U.S. dollar exchange rate from 1.1 euros to 1.2 euros is an appreciation of the U.S. dollar against the euro.

ANS: T PTS: 1 DIF: Moderate REF: p. 26
NAT: Analytic | Diversity

10. The main purpose of central banks is to trade currency and make large profits for the country.

ANS: F PTS: 1 DIF: Easy REF: p. 27
NAT: Analytic | Diversity

11. Supply and demand determines the exchange rates for "free floating currencies."

ANS: T PTS: 1 DIF: Easy REF: p. 28
NAT: Analytic | Diversity

12. Today the exchange rate for all currencies is determined by supply and demand.

ANS: T PTS: 1 DIF: Difficult REF: p. 28-29
NAT: Analytic | Diversity

13. Exporters often are happy when their home currency appreciates against the currency of the market they sell to because buyers in that market can afford to buy more of their exports.

ANS: F PTS: 1 DIF: Moderate REF: p. 28
NAT: Analytic | Diversity

14. High inflation rates can cause a currency to appreciate.

ANS: F PTS: 1 DIF: Moderate REF: p. 28
NAT: Analytic | Diversity

15. The International Monetary Fund was originally established by the U.S. government to assist U.S. multinational corporations to expand to Europe after World War II.

ANS: F PTS: 1 DIF: Easy REF: p. 34
NAT: Analytic | Diversity

16. Finance ministers and central bank governors from the United States, Japan, Germany, France, Britain, Italy, and Canada are members of the Group of Seven (G7).

ANS: T PTS: 1 DIF: Easy REF: p. 35
NAT: Analytic | Diversity

17. The World Bank acts as an intermediary between private equity funds and developed countries.

ANS: F PTS: 1 DIF: Difficult REF: p. 34
NAT: Analytic | Diversity

18. Tariffs are imposed to protect local industries and to generate revenue for the government.

ANS: T PTS: 1 DIF: Easy REF: p. 37
NAT: Analytic | Diversity

19. Increased tariffs are a way to ensure that imports will increase in price.

ANS: F PTS: 1 DIF: Moderate REF: p. 37
NAT: Analytic | Diversity

20. Tariffs are a means to encourage imports.

ANS: F PTS: 1 DIF: Moderate REF: p. 37
NAT: Analytic | Diversity

21. Quotas are taxes on imported goods.

ANS: F PTS: 1 DIF: Easy REF: p. 37-38
NAT: Analytic | Diversity

22. Quotas are a means to encourage exports.

ANS: F PTS: 1 DIF: Moderate REF: p. 37-38
NAT: Analytic | Diversity

23. Quotas on imported goods help consumers by increasing their choices and lowering prices.

ANS: F PTS: 1 DIF: Moderate REF: p. 37-38
NAT: Analytic | Diversity

24. Voluntary export restrictions are explicit agreements between countries to limit foreign export sales.

ANS: T PTS: 1 DIF: Easy REF: p. 38
NAT: Analytic | Diversity

25. High environmental standards for emissions from cars set by the European authorities are an example of a possible nontariff barrier.

ANS: T PTS: 1 DIF: Easy REF: p. 38
NAT: Analytic | Diversity

26. Replacing tariffs with nontariff barriers was one of the objectives of GATT.

ANS: F PTS: 1 DIF: Moderate REF: p. 39
NAT: Analytic | Diversity

27. Most favored nation (MFN) status occurs when two countries agree bilaterally to give each other preferred trading rights.

ANS: F PTS: 1 DIF: Difficult REF: p. 39
NAT: Analytic | Diversity

28. Most favored nation status was outlawed under GATT.

ANS: F PTS: 1 DIF: Moderate REF: p. 39
NAT: Analytic | Diversity

29. China never joined the WTO because it wanted to remain a communist country.

ANS: F PTS: 1 DIF: Difficult REF: p. 40
NAT: Analytic | Diversity

30. Nearly all WTO members belong to at least one regional trading pact.

    ANS: T PTS: 1 DIF: Difficult REF: p. 40
    NAT: Analytic | Diversity

31. Custom unions possess the characteristics of free trade areas but with the added feature of a common external/tariff barrier for member countries.

    ANS: T PTS: 1 DIF: Moderate REF: p. 42
    NAT: Analytic | Diversity

32. Mercosur is a free trade agreement between Central American countries and Mexico.

    ANS: F PTS: 1 DIF: Moderate REF: p. 39
    NAT: Analytic | Diversity

33. As a member of NAFTA, Mexico must coordinate its domestic tax rate with Canada and United States.

    ANS: F PTS: 1 DIF: Easy REF: p. 40
    NAT: Analytic | Diversity

34. NAFTA is an example of a customs union.

    ANS: F PTS: 1 DIF: Moderate REF: p. 39-40
    NAT: Analytic | Diversity

35. Free-trade areas possess the characteristics of custom unions but with the added feature of a common currency.

    ANS: F PTS: 1 DIF: Difficult REF: p. 40
    NAT: Analytic | Diversity

36. In customs unions, a supranational policymaking committee decides common tariffs for member countries.

    ANS: T PTS: 1 DIF: Moderate REF: p. 40
    NAT: Analytic | Diversity

37. The European Union is an example of a monetary union.

    ANS: T PTS: 1 DIF: Moderate REF: p. 43
    NAT: Analytic | Diversity

38. Currency fluctuations can cause marketers to leave a foreign market. The European Union is an example of a monetary union.

    ANS: T PTS: 1 DIF: Easy REF: p. 30
    NAT: Analytic | Diversity

MULTIPLE CHOICE

1. The *absolute advantage* of a nation refers to
   a. being strategically located near large markets.
   b. producing and selling what it is best at.
   c. producing and selling profitably even if competitors are better.
   d. All of the above.

   ANS: B PTS: 1 DIF: Easy REF: p. 20
   NAT: Analytic | Diversity

2. If Spanish workers can produce 100 cars or 50 elevators and a Russian worker can produce 60 cars or 20 elevators, the theory of comparative advantage would suggest that
   a. Russia and Spain will not trade in cars or elevators.
   b. Russia should trade elevators for cars made in Spain.
   c. Spain should trade elevators for cars made in Russia.
   d. None of the above.

   ANS: C PTS: 1 DIF: Moderate REF: p. 20
   NAT: Analytic | Diversity

3. The theory of ____ focuses on the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.
   a. new trade
   b. absolute advantage
   c. comparative advantage
   d. competitive advantage

   ANS: D PTS: 1 DIF: Moderate REF: p. 22
   NAT: Analytic | Diversity

4. A country will have significant impact on the competitive advantage of an industry depending on the
   a. elements of production in the country.
   b. nature of domestic demand.
   c. presence of appropriate supplier or related industries.
   d. All of the above.

   ANS: D PTS: 1 DIF: Moderate REF: p. 22
   NAT: Analytic | Diversity

5. A good example of a country that enjoys a competitive advantage in digital products is
   a. Spain.
   b. South Korea.
   c. Russia.
   d. Poland.

   ANS: B PTS: 1 DIF: Difficult REF: p. 22
   NAT: Analytic | Diversity

6. An accounting record of the transactions between the residents of one country and the residents of the rest of the world is called the
   a. international transactions record.
   b. balance of payments.
   c. global trade account.
   d. foreign accounts record.

   ANS: B PTS: 1 DIF: Moderate REF: p. 25

NAT: Analytic | Diversity

7. Transactions in which domestic residents purchase assets from abroad are considered
   a. inflows of funds.
   b. outflows of funds.
   c. asset depreciation.
   d. asset appreciation.

   ANS: B PTS: 1 DIF: Easy REF: p. 25
   NAT: Analytic | Diversity

8. Unilateral transfers may include which of the following?
   a. Royalties
   b. Payments for services
   c. Payments for imports
   d. Remittances

   ANS: D PTS: 1 DIF: Difficult REF: p. 25
   NAT: Analytic | Diversity

9. Which of the following is *not* a principal part of the balance of payments statement?
   a. Current account
   b. Official transactions account
   c. Savings account
   d. Capital account

   ANS: C PTS: 1 DIF: Moderate REF: p. 26
   NAT: Analytic | Diversity

10. A stock purchase in a foreign company that entailed substantial control over that foreign company would be designated a
    a. portfolio investment.
    b. direct investment.
    c. remittance.
    d. unilateral transfer.

    ANS: B PTS: 1 DIF: Moderate REF: p. 26
    NAT: Analytic | Diversity

11. The ratio that measures the value of one currency in terms of another is called the
    a. currency ratio.
    b. exchange ratio.
    c. exchange rate.
    d. balance of payments.

    ANS: C PTS: 1 DIF: Moderate REF: p. 26
    NAT: Analytic | Diversity

12. The strengthening of the U.S. dollar against the Japanese yen has a negative effect on
    a. U.S. exporters.
    b. U.S. importers.
    c. Japanese exporters.
    d. German exporters.

    ANS: A PTS: 1 DIF: Easy REF: p. 26
    NAT: Analytic | Diversity

13. For a free floating currency, the exchange rate is affected by
   a. the forces of supply and demand.
   b. WTO regulations.
   c. the IMF that determines exchange rates.
   d. None of the above.

   ANS: A PTS: 1 DIF: Difficult REF: p. 26
   NAT: Analytic | Diversity

14. The focus of IMF activities has shifted from exchange rate relations among industrialized countries to ____.
   a. the prevention of economic instability in developing countries.
   b. reducing quota and tariff barriers in developed countries.
   c. promoting exports from former Soviet Union states.
   d. promoting investment into sub-Saharan Africa.

   ANS: A PTS: 1 DIF: Moderate REF: p. 34
   NAT: Analytic | Diversity

15. Which country is *most likely* to have a soft currency?
   a. United States
   b. France
   c. Japan
   d. Chad

   ANS: D PTS: 1 DIF: Easy REF: p. 28
   NAT: Analytic | Diversity

16. Another name for the World Bank is ____.
   a. World Trade Organization.
   b. International Bank for Reconstruction and Development.
   c. International Monetary Fund.
   d. Group of Seven.

   ANS: B PTS: 1 DIF: Easy REF: p. 34
   NAT: Analytic | Diversity

17. A tax levied on imports is known as a ____.
   a. Quota.
   b. Voluntary export restriction.
   c. Nontarrif barrier.
   d. Tariff.

   ANS: D PTS: 1 DIF: Difficult REF: p. 37
   NAT: Analytic | Diversity

18. The World Bank acts as an intermediary between
   a. developed and developing countries.
   b. private capital markets and developing nations.
   c. the WTO and developing nations.
   d. private capital markets and developed nations.

   ANS: B PTS: 1 DIF: Moderate REF: p. 34
   NAT: Analytic | Diversity

19. Which is constitutionally prohibited in the United States?
    a. Orderly marketing arrangements
    b. Export tariffs
    c. Import tariffs
    d. Nontariff barriers

    ANS: B PTS: 1 DIF: Moderate REF: p. 37
    NAT: Analytic | Diversity

20. The main objective behind imposing tariffs on imported goods is to
    a. improve trade relations with other nations.
    b. generate foreign exchange.
    c. protect local industries.
    d. control inflation rates.

    ANS: C PTS: 1 DIF: Easy REF: p. 37
    NAT: Analytic | Diversity

21. Quotas are
    a. taxes on imported goods.
    b. taxes on exported goods.
    c. subsidies for exported goods.
    d. physical limits on the amount of goods that can be imported into a country.

    ANS: D PTS: 1 DIF: Moderate REF: p. 37
    NAT: Analytic | Diversity

22. GATT was a
    a. custom union.
    b. free-trade association.
    c. monetary union.
    d. None of the above.

    ANS: D PTS: 1 DIF: Easy REF: p. 39
    NAT: Analytic | Diversity

23. Which was *not* a founding principal of GATT?
    a. Reciprocity
    b. Transparency
    c. Orderly marketing arrangements
    d. Nondiscrimination

    ANS: C PTS: 1 DIF: Difficult REF: p. 39
    NAT: Analytic | Diversity

24. Transparency was a founding principle of
    a. OPIC.
    b. GATT.
    c. EuroDisney.
    d. the United States.

    ANS: B PTS: 1 DIF: Easy REF: p. 39
    NAT: Analytic | Diversity

25. Transparency refers to
    a. the free trade of goods and services.

b. reciprocity in trade agreements.
c. when trade restrictions are overt.
d. when trade restrictions are limited to nontariff barriers.

ANS: C PTS: 1 DIF: Easy REF: p. 39
NAT: Analytic | Diversity

26. The final act of GATT was to
a. replace itself with the World Trade Organization.
b. establish the IMF and the World Bank.
c. replace itself with NAFTA.
d. establish the European Monetary Union.

ANS: A PTS: 1 DIF: Easy REF: p. 40
NAT: Analytic | Diversity

27. The General Agreement on Tariffs and Trade was the precursor to
a. the IMF.
b. the European Union.
c. the WTO.
d. NAFTA.

ANS: C PTS: 1 DIF: Easy REF: p. 40
NAT: Analytic | Diversity

28. One of the challenges faced by the WTO is
a. movement towards a global currency.
b. the spread of regional trade agreements.
c. controlling inflation in developing countries.
d. None of the above.

ANS: B PTS: 1 DIF: Easy REF: p. 40
NAT: Analytic | Diversity

29. The Battle of Seattle involved
a. the U.S.-E.U dispute over "Frankenstein food."
b. the U.S.-Canada dispute over pharmaceutical prices.
c. protests against NAFTA.
d. protests against the WTO.

ANS: D PTS: 1 DIF: Easy REF: p. 43
NAT: Analytic | Diversity

30. A group of nations that agrees to drop trade barriers but permits members to maintain independent trade relations with non-group nations, is called
a. a customs union.
b. a common market.
c. a free-trade area.
d. monetary unions.

ANS: C PTS: 1 DIF: Moderate REF: p. 41-42
NAT: Analytic | Diversity

31. Common markets
a. have all the characteristics of customs unions plus free flow of resources between members.

b. have all the characteristics of free-trade regions and free flow of resources between members.
c. export and import from the same countries.
d. have the same currency.

ANS: A PTS: 1 DIF: Moderate REF: p. 42
NAT: Analytic | Diversity

32. A substantial proportion of India's ____ consists of information technology consulting, customer service, financial, and telecommunication services and remittances from Indians living abroad.
a. invisible exports
b. portfolio exports
c. foreign direct imports
d. unilateral imports

ANS: A PTS: 1 DIF: Moderate REF: p. 19
NAT: Reflective KEY: Application Questions

33. Country X specializes in producing the goods it produces most efficiently, and Country Y buys the products it produces less efficiently from other countries, even if it could produce the good more efficiently itself. The behavior of these countries can be explained by ____ advantage theory.
a. complete
b. probable
c. comparative
d. absolute

ANS: C PTS: 1 DIF: Moderate REF: p. 20-21
NAT: Reflective KEY: Application Questions

34. The average worker in Ghana can produce either 500 tons of rice or 4,000 tons of cocoa in one year. Over the same time period, the average South Korean worker can produce either 3,000 tons of rice or 150 tons of cocoa. In terms of cocoa production, Ghana has a(n) ____ advantage relative to South Korea
a. complete
b. probable
c. absolute
d. comparative

ANS: C PTS: 1 DIF: Moderate REF: p. 20
NAT: Reflective KEY: Application Questions

35. The average Vietnamese worker can produce either 200 machines or 800 tons of tomatoes each year, whereas the average German worker can produce either 500 machines or 1,000 tons of tomatoes. Germany has a(n) ____ advantage in both machines and tomatoes.
a. absolute
b. complete
c. pseudo
d. comparative

ANS: A PTS: 1 DIF: Moderate REF: p. 20
NAT: Reflective KEY: Application Questions

36. In the Japanese skincare industry, there are several strong local competitors, like Shiseido. When it comes to skincare products, Japanese consumers are some of the most sophisticated, knowledgeable, and demanding. There are cutting-edge research and development facilities and supplier companies geared toward the skincare industry in Japan. Japan has a(n) ____ advantage in skincare products.
a. absolute
b. comparative
c. competitive
d. leontif

ANS: C PTS: 1 DIF: Moderate REF: p. 22-23
NAT: Reflective KEY: Application Questions

37. Egypt's exports of cotton and imports of computers would be included in the ____ part of Egypt's current account.
a. merchandise account
b. payment flow
c. services category
d. unilateral transfers

ANS: A PTS: 1 DIF: Moderate REF: p. 25
NAT: Reflective KEY: Application Questions

38. India's exports of telecommunications services and imports of management consulting services would be included in the ____ part of India's current account.
a. merchandise account
b. payment flow
c. service account
d. unilateral transfers

ANS: C PTS: 1 DIF: Moderate REF: p. 25
NAT: Reflective KEY: Application Questions

39. Remittances from Mexicans working abroad, philanthropic donations to Mexican charities, and aid money donated by foreign countries would be included in the ____ part of Mexico's current account.
a. merchandise account
b. payment flow
c. service account
d. unilateral transfers

ANS: D PTS: 1 DIF: Moderate REF: p. 25
NAT: Reflective KEY: Application Questions

40. Russia's Treasury bills, certificates of deposit, and foreign exchange reserves would be included in the ____ account.
a. capital
b. current
c. portfolio
d. longevity

ANS: A PTS: 1 DIF: Moderate REF: p. 26
NAT: Reflective KEY: Application Questions

41. An American mutual fund purchases German government bonds. This is an example of ____ and it would be included in Germany's ____.
a. foreign direct investment; capital account

b. foreign direct investment; current account
c. portfolio investment; capital account
d. portfolio investment; current account

ANS: C PTS: 1 DIF: Moderate REF: p. 26
NAT: Reflective KEY: Application Questions

42. A Canadian company acquires 100 percent ownership of a Mexican company through a stock purchase. This is an example of ____ and it would be included in Mexico's ____.
a. foreign direct investment; capital account
b. foreign direct investment; current account
c. portfolio investment; capital account
d. portfolio investment; current account

ANS: A PTS: 1 DIF: Moderate REF: p. 26
NAT: Reflective KEY: Application Questions

43. Denise is taking her first international trip. She travels from the United States to France. She gives the bank located at the French airport US$100. They give her back €82.69. When she asks why, the bank teller informs her, "It's because of the ____."
a. capital account
b. current account
c. exchange rate
d. credit ratio

ANS: C PTS: 1 DIF: Easy REF: p. 26
NAT: Reflective KEY: Application Questions

44. On December 23, 2006, one U.S. dollar was worth 0.76 euros (exchange rate 1:0.76). On December 2, 2009, the U.S. dollar was worth 0.70 euros (exchange rate 1:0.70). The U.S. dollar ____ between 2006-2009.
a. appreciated
b. depreciated
c. remained constant
d. None of the above

ANS: B PTS: 1 DIF: Moderate REF: p. 27
NAT: Reflective KEY: Application Questions

45. On December 23, 2006, one U.S. dollar was worth 0.76 euros (exchange rate 1:0.76). On December 23, 2009, the U.S. dollar was worth 0.70 euros (exchange rate 1:0.70). The euro ____ between 2006-2009.
a. appreciated
b. depreciated
c. remained constant
d. None of the above

ANS: A PTS: 1 DIF: Easy REF: p. 27
NAT: Reflective KEY: Application Questions

46. The Albanian lek, Costa Rican colon, and Malawi kwacha are currencies that attract little global demand. These are examples of ____ currencies.
a. basket
b. situational
c. pegged

d. soft

ANS: D PTS: 1 DIF: Moderate REF: p. 28
NAT: Reflective KEY: Application Questions

47. Exchange rates for the Bolivian currency are determined by the market forces of supply and demand. Therefore, the Bolivian currency is an example of a ____ currency.
a. basket linked.
b. pegged.
c. situational
d. freely floating.

ANS: D PTS: 1 DIF: Moderate REF: p. 28
NAT: Reflective KEY: Application Questions

48. Country X maintains a managed currency. Its currency is most likely pegged to the currency of the country that County X ____.
a. owes the most money
b. trades the most with
c. is closest to geographically
d. None of the above

ANS: B PTS: 1 DIF: Moderate REF: p. 29
NAT: Reflective KEY: Application Questions

49. Since the introduction of the Bhutanese currency, the ngultrum, in 1974, it has been fixed by the Bhutan government to the Indian rupee. Therefore, the ngultrum is an example of a ____ currency.
a. basket linked
b. pegged
c. situational
d. freely floating

ANS: B PTS: 1 DIF: Moderate REF: p. 29
NAT: Reflective KEY: Application Questions

50. On December 23, 2006, one U.S. dollar was worth 0.76 euros (exchange rate 1:0.76). On December 23, 2009, the U.S. dollar was worth 0.70 euros (exchange rate 1:0.70). In the United States, exporters who send their goods to the European Union were probably ____ on December 23, 2009 because the U.S. currency had ____.
a. unhappy; appreciated
b. happy; appreciated
c. unhappy; depreciated
d. happy; depreciated

ANS: D PTS: 1 DIF: Difficult REF: p. 28
NAT: Reflective KEY: Application Questions

51. On December 23, 2006, one U.S. dollar was worth 0.76 euros (exchange rate 1:0.76). On December 23, 2009, the U.S. dollar was worth 0.70 euros (exchange rate 1:0.70). In the United States, importers who receive goods from the European Union were probably ____ on December 23, 2009 because the U.S. currency had ____.
a. unhappy, appreciated
b. happy, appreciated
c. unhappy, depreciated
d. happy, depreciated

ANS: C PTS: 1 DIF: Difficult REF: p. 28
NAT: Reflective KEY: Application Questions

52. The ____'s original goals were to promote orderly and stable foreign exchange markets, restore free convertibility of member nations' currencies, reduce international trade impediments, and provide assistance to countries that experienced temporary balance-of-payments deficits.
a. International Monetary Fund
b. European Union
c. World Bank
d. None of the above

ANS: A PTS: 1 DIF: Easy REF: p. 34
NAT: Reflective KEY: Application Questions

53. In Thailand, the ____ guaranteed government bonds for the Electricity Generating Authority. The guarantee attracted investors and spawned interest in similar programs in South Korea and the Philippines.
a. International Monetary Fund
b. Mexican government
c. World Bank
d. None of the above

ANS: C PTS: 1 DIF: Moderate REF: p. 37
NAT: Reflective KEY: Application Questions

54. A shipment of Dell laptop computers is sent from the United States to a Brazilian airport and is sitting at customs. In order to bring the laptops into the country, Dell representatives must pay the Brazilian government a tax. This is called a(n) ____.
a. quota
b. orderly marketing arrangement
c. tariff
d. local content rule

ANS: C PTS: 1 DIF: Moderate REF: p. 37
NAT: Reflective KEY: Application Questions

55. Until 2005, the United States government set a limit on how many t-shirts Turkey could export to the United States. This is called a(n)____.
a. quota
b. orderly marketing arrangement
c. tariff
d. local content rule

ANS: A PTS: 1 DIF: Moderate REF: p. 37
NAT: Reflective KEY: Application Questions

56. The U.S. Commerce Department reaches a deal with the Russian government. The Russian government agrees to only export 750,000 tons of steel from Russia to the United States. This is called a(n) ____.
a. quota
b. orderly marketing arrangement
c. tariff
d. local content rule

ANS: B PTS: 1 DIF: Moderate REF: p. 37

NAT: Reflective KEY: Application Questions

57. Despite complaints from the United States, the European Union continues to pay subsidies to Airbus, the European aircraft producer. This is called a(n) ____.
    a. local content rule
    b. orderly marketing arrangement
    c. export tariff
    d. nontariff trade barrier

    ANS: D PTS: 1 DIF: Moderate REF: p. 37
    NAT: Reflective KEY: Application Questions

58. Skiwell is a world-famous, high-performance, quality snow ski export manufacturer. Skiwell's snow skis have been thoroughly and successfully tested in numerous snow situations in Europe. Skiwell decides to enter the Japanese market. The Japanese government requires the company to conduct numerous lengthy performance and safety tests of their skis on Japanese snow before the export shipment can be sent. They claim that Japanese snow may somehow be different than European snow. Most likely this is a(n) ____.
    a. local content rule
    b. import tariff
    c. nontariff trade barrier
    d. quota

    ANS: C PTS: 1 DIF: Easy REF: p. 38
    NAT: Reflective KEY: Application Questions

59. Country X and Country Y sign an agreement to drop trade barriers among themselves. But both countries agree that each country should be allowed to maintain independent trade relations with other countries. This is an example of a(n) ____.
    a. orderly marketing arrangement
    b. customs union
    c. free trade area
    d. common market

    ANS: C PTS: 1 DIF: Moderate REF: p. 42
    NAT: Reflective KEY: Application Questions

60. Turkey signed an agreement with the European Union (EU). In this agreement, Turkey and the EU agreed to drop trade barriers among themselves. They also agreed that Turkey and the EU would employ the same trade barriers to countries outside of Turkey and the EU. This is an example of a(n) ____.
    a. orderly marketing arrangement
    b. customs union
    c. free trade area
    d. common market

    ANS: B PTS: 1 DIF: Moderate REF: p. 42
    NAT: Reflective KEY: Application Questions

61. Mexico's president, Vincente Fox, argued that the North America Free Trade Association (NAFTA) should be expanded. He believed that Canada, the U.S., and Mexico should establish common external trade barriers to non-NAFTA countries and allow for the free flow of labor and capital within NAFTA countries. This is an example of a(n) ____.
    a. orderly marketing arrangement
    b. customs union

c. free trade area
d. common market

ANS: D PTS: 1 DIF: Moderate REF: p. 42
NAT: Reflective KEY: Application Questions

62. A U.S. multinational would likely evaluate the performance of its Mexican subsidiary in terms of
a. the Mexican peso
b. the Mexican peso and the U.S. dollar
c. the euro
d. a basket of currencies

ANS: B PTS: 1 DIF: Moderate REF: p. 32
NAT: Reflective KEY: Application Questions

COMPLETION

1. The ____________________ is an accounting record of the transactions between the residents of one country and the residents of the rest of the world over a given period of time.

ANS: balance of payments

PTS: 1 DIF: Easy REF: p. 25 NAT: Analytic | Diversity

2. A ratio that measures the value of one currency in terms of another currency is called a(n) ____________________.

ANS: exchange rate

PTS: 1 DIF: Moderate REF: p. 26 NAT: Analytic

3. When a currency falls in value, it is said to ____________________.

ANS: depreciate

PTS: 1 DIF: Moderate REF: p. 27 NAT: Analytic | Diversity

4. ____________________ are taxes on goods moving across economic or political boundaries.

ANS: Tariffs

PTS: 1 DIF: Moderate REF: p. 37 NAT: Analytic | Diversity

5. ____________________ are physical limits on the amount of goods that can be imported into a country.

ANS: Quotas

PTS: 1 DIF: Moderate REF: p. 37 NAT: Analytic | Diversity