

Chapter 02

The Dynamic Environment of International Trade

True / False Questions

1. The reciprocal impact of U.S. assistance to other countries to develop their markets and improve global trade was that the recipient countries provided funds for American domestic infrastructure development efforts.

True False

2. The GATT became part of the World Trade Organization in 1995, with the ratification of the Uruguay Round agreements.

True False

3. As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as underdeveloped countries.

True False

4. As a result of the increasing global trade, the United States was able to increase its share of the world gross national product (GNP) from less than 25 percent in 1950 to over 39 percent in 2010.

True False

5. A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time.

True False

6. The fact that the credit and debit side in a balance-of-payments record balance means that a nation is in particularly good financial condition.

True False

7. The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

True False

8. Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

True False

9. A case might be made for long-term protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

True False

10. Barriers to trade are encouraged by local industry.

True False

11. In general, tariffs decrease inflationary pressures.

True False

12. Tariffs often are used as reprisals against protectionist moves of trading partners.

True False

13. Quotas are more flexible than import licenses.

True False

14. A VER is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

True False

15. Blocked currency is used by refusing to allow an exporter to exchange its national currency for the buyers' currency.

True False

16. Importers who want to buy a foreign good must apply for a business permit, that is, permission to exchange an amount of local currency for foreign currency.

True False

17. The exchange permit may stipulate an unfavorable rate of exchange depending on the desires of the government.

True False

18. The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets. This is an example of how countries use antidumping rules to protect their own industries.

True False

19. Antidumping laws were designed to prevent foreign producers from "predatory pricing."

True False

20. Among the many proposals brought forward for lowering the trade deficit, most deal with fairness of trade with some of our trading partners instead of reducing imports or adjusting other trade policies.

True False

21. The issue of the openness of markets for U.S. goods is addressed as market expansion section of the Omnibus Trade and Competitiveness Act of 1988.

True False

22. Obtaining export licenses for products on the export control list is more arduous than for those items that are exempt from the list.

True False

23. The GATT panels formed to resolve bilateral trade disputes are only advisory and have no enforcement powers.

True False

24. The decisions of the World Trade Organization in trade dispute among members are binding decisions.

True False

25. The World Bank was formed to overcome inadequate monetary reserves and unstable currencies which were particularly vexing problems in global trade.

True False

Multiple Choice Questions

26. After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled to foster economic growth in the underdeveloped world, while helping to create a world economy were aimed toward:

- A. halting the growth of Nazi Germany.
- B. dampening the spread of communism.
- C. dissolving the colonial powers.
- D. gaining access to the European market.
- E. a worldwide trade bloc to counter the OPEC countries' clout.

27. What was the reciprocal impact of the foreign economic assistance given by the United States?

- A. European countries supplied funds for U.S. welfare programs.
- B. Immigration to the U.S. from the recipient countries was reduced owing to increased economic activity at home.
- C. All recipient countries appointed Americans to manage their central banks.
- D. Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.
- E. The NAFTA was formed on this platform.

28. Which of the following factors was responsible for the excess production capacity in the U.S. in the first half of the twentieth century?

- A. Technological innovation revolutionized production during this time.
- B. Many firms from other nations shifted their production facilities to the U.S.
- C. Domestic demand was at a historic low, which produced excess capacity.
- D. Swelling labor supply of returning military after World War II.
- E. Influx of migrant laborers from Europe and Japan.

29. Which of the following, in addition to U.S. economic assistance, was a significant move toward international cooperation among trading nations?

- A. Forming of the United Nations Development Programme
- B. Signing of the Treaty on Open Skies
- C. Establishment of the World Federation of Trade Unions
- D. Negotiation of the General Agreement on Tariffs and Trade
- E. Signing of the Montreal Protocol

30. Which of the following acronyms refer to the international forum for member countries to negotiate a reduction of tariffs and other barriers to trade?

- A. WTO
- B. GATT
- C. OECD
- D. OPEC
- E. UNDP

31. What was the outcome for GATT, after the ratification of the Uruguay Round agreements?
- A. It came into effect retrospectively, leading to huge payment deficits for member nations.
 - B. It became part of the World Trade Organization.
 - C. It triggered formation of competitive treaties from Asian nations.
 - D. The European Union decided to stay away from the treaty.
 - E. The original purpose was sidelined in favor of political and military intervention between member states.
32. According to the text, which were the two major challenges U.S. multinational corporations were facing at the close of the 1960s?
- A. The rise of socialism/communism in the (former) Soviet Union and the higher tariffs on imports
 - B. Growing jingoistic nationalism and a negative population growth rate in major international markets
 - C. Resistance to direct investment and increasing competition in export markets
 - D. Increasing Chinese domination in the manufacturing sector and the falling dollar in global markets
 - E. Political intervention in free trade movement and growing influence of consumer rights advocacy in the home market
33. In the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as ____.
- A. greenfield countries
 - B. growth economies
 - C. tier-II countries
 - D. developing countries
 - E. newly industrialized countries

34. Which of the following is the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?

- A. Third World countries were excluded from this economic growth, thus leading to stark imbalances in wealth.
- B. The European Union became the center of world trade, taking the position away from the U.S.
- C. Japan became the dominant player in the world market, beating American and European multinationals.
- D. Economic power and potential became more evenly distributed among countries.
- E. Americans were able to reiterate their dominance in world trade through direct investment and growing exports.

35. The World Bank estimates that five countries whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union. Which of the following is NOT one of those five countries?

- A. Brazil
- B. China
- C. India
- D. Indonesia
- E. Rhodesia

36. The United States has many successful trade relationships. Four of these relationships account for a tremendous volume of trade. All of the following countries are among the top trade partners for the U.S. EXCEPT:

- A. Canada
- B. Mexico
- C. Japan
- D. India
- E. China

37. After World War II, United States set out to infuse the ideal of capitalism throughout as much of the world as possible through efforts like the _____ which was aimed at assisting in rebuilding Europe.

- A. Eisenhower Plan
- B. Marshall Plan
- C. Bradley Plan
- D. Roosevelt Plan
- E. Truman Plan

38. With respect to the nationality of the world's 100 largest industrial corporations, the United States is home to the largest number of the top 100 firms. Which of the following countries is home to the second largest number of these firms?

- A. Germany
- B. United Kingdom
- C. France
- D. Netherlands
- E. Japan

39. After 1888, the United States had unparalleled growth and a favorable balance of trade until _____. After this date, the United States has a negative balance of trade.

- A. 1950
- B. 1963
- C. 1968
- D. 1971
- E. 1985

40. In 2007 this country ranked second behind the United States in the ranking of the world's largest corporations.

- A. Netherlands
- B. Japan
- C. France
- D. Germany
- E. South Korea

41. The system of accounts that records a nation's international financial transactions is called its:

- A. trade balance.
- B. national accounts system.
- C. EX-IM (exports-imports) account.
- D. balance of payments.
- E. exchange rate.

42. Which of the following ensures that balance-of-payments records are always in balance?

- A. The balance sheet record
- B. The ledger entry model
- C. A double-entry bookkeeping system
- D. A deficit-surplus record system
- E. An import/export bookkeeping system

43. Which of the following is true regarding balance-of-payments records?

- A. The fact that assets and liabilities balance means a nation is in particularly good financial condition.
- B. The fact that assets and liabilities balance does not mean a nation is in particularly poor financial condition.
- C. A balance of payments is not a record of condition.
- D. A balance of payments is a determinant of condition.
- E. A balance of payments reflects all the financial transactions that occurred in the country.

44. A nation's balance-of-payments statement records all financial transactions between:

- A. its member states and its primary trading partners.
- B. its residents and those of the rest of the world during a given period of time.
- C. its suppliers and receivers.
- D. profit and nonprofit organizations over a five-year period of time.
- E. its top 100 companies and the global top 100 companies.

45. A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

- A. Investment account
- B. Receivables account
- C. Services account
- D. Credit account
- E. Reserves account

46. Which of the following would be the balance-of-payments account that is a record of all merchandise exports, imports, and services plus unilateral transfers of funds?

- A. Current account
- B. Capital account
- C. Credit account
- D. Receivables account
- E. Reserves account

47. The marketing manager for Healthy Horse Products wants to export to Australia but learns the labeling requirements are quite difficult to comply with limiting imports. This is a type of:

- A. blockage.
- B. protectionism.
- C. trade refusal.
- D. stonewalling.
- E. boycotting.

48. Which of the following arguments regarding protections is recognized by economists as valid?

- A. Need to keep money at home
- B. Encouragement of capital accumulation
- C. Protection of an infant industry
- D. Conservation of natural resources
- E. Maintenance of employment and reduction of unemployment

49. All of the following would be considered to be reasons for adopting an attitude of protectionism with respect to world trade EXCEPT:

- A. to protect political stability.
- B. protection of an infant industry.
- C. protection of a home market.
- D. the need to keep money at home.
- E. to encourage capital accumulation.

50. Randall Smithe-Jones believes that protectionism is the only way to save the United Kingdom from outside competitors. He has seen small business after small business go bankrupt because cheaper foreign goods have been more popular. The UK has just started a cell-phone manufacturing industry and Smithe-Jones' company is one of the first to try their hand at cell-phone manufacturing. Which of the following would probably be the argument that Smithe-Jones would use to persuade his government representatives that protectionism is still needed in the U.K.?

- A. Protection of an infant industry
- B. The need to keep money at home
- C. Conservation of natural resources
- D. National defense
- E. The industrialization of a low-wage nation

51. Section 301 of the Omnibus Trade and Competitiveness Act authorizes the U.S. government to _____ and _____ against specific foreign trade barriers judged to be unfair.

- A. suppress, attack
- B. educate, substantiate
- C. investigate, retaliate
- D. market, dominate
- E. litigate, retaliate

52. A(n) _____ is simply a tax imposed by a government on goods entering at its borders.

- A. quota
- B. trade penalty
- C. tariff
- D. boycott
- E. embargo

53. In general, tariffs weaken:

- A. inflationary pressures.
- B. special interests' privileges.
- C. balance-of-payments positions.
- D. government control in economic matters.
- E. reciprocal tariffs by other countries.

54. In general, tariffs restrict:

- A. inflationary pressures.
- B. special interests' privileges.
- C. government control in economic matters.
- D. the number of tariffs.
- E. manufacturers' supply sources.

55. A specific unit or dollar limit applied to a particular type of good is called a(n):

- A. tariff.
- B. quota.
- C. standard.
- D. embargo.
- E. boycott.

56. All of the following would be considered to be nontariff barriers that could be erected to restrict trade EXCEPT:

- A. quotas.
- B. taxes.
- C. packaging requirements.
- D. border taxes.
- E. embargoes.

57. Which of the following types of nontariff barriers would be considered to be "specific limitations on trade" by international marketers?

- A. Fees
- B. Export subsidies
- C. Voluntary export restraints
- D. Embargoes
- E. Packaging, labeling, or marking standards

58. Cybil Chan has been asked by her company to review a series of published nontariff barriers that is used by the Hong Kong Port Authority to control customs and administrative entry procedures. Which of the following nontariff barriers should Ms. Chan look for under the category called customs and administrative entry procedures?

- A. Orderly marketing agreements
- B. Voluntary export restraints
- C. Countervailing duties
- D. Export subsidies
- E. Documentation requirements

59. Exporting countries sometimes agree to voluntary export restraints (VER) as an alternative to the threat of:

- A. expulsion.
- B. disorderly marketing agreements.
- C. stiffer quotas and tariffs.
- D. export subsidies.
- E. standardization disparities.

60. An agreement between the importing country and the exporting country for a restriction on the volume of exports is called a(n):

- A. tariff.
- B. standards option.
- C. voluntary export restraint(VER).
- D. trade block.
- E. documentation requirement.

61. Which of the following is true regarding VERs?
- A. International regulatory bodies set export/import limits.
 - B. The importing sets the trade limits for import.
 - C. The exporting country sets the limits.
 - D. It is a common reaction to lenient tariffs and quotas by the importing country.
 - E. A VER is established in agreement with the importing country.
62. When the United States refuses to sell goods to Iran because of the perception that the country harbors radicals and terrorists, the refusal is called a(n):
- A. boycott.
 - B. embargo.
 - C. tariff.
 - D. orderly market agreement.
 - E. currency block.
63. _____ is accomplished by refusing to allow importers to exchange its national currency for the seller's currency.
- A. Boycotted money
 - B. Embargoed capital
 - C. Blocked currency
 - D. Anti-banking
 - E. Cartel dissolution
64. In order to secure foreign exchange, which of the following is used by countries experiencing severe shortages of foreign exchange?
- A. Import quotas
 - B. Government approval
 - C. Tariffs
 - D. Blocked currency
 - E. Differential exchange rates

65. Which of the following trade policy tools requires the importers who want to buy a foreign good to apply for an exchange permit?

- A. Tariffs
- B. Import quota
- C. Blocked currency
- D. Government approval
- E. Export levies

66. Which of the following can the exchange permit stipulate?

- A. The quantity of goods that can be exchanged for a particular sum of foreign currency
- B. The number of parties that can be involved in an exchange transaction
- C. The amount to be exchanged to be deposited in a local bank
- D. The parties involved to declare collaterals to avail of exchange permits
- E. The number of times one party can avail of exchange permits

67. Tall Pine Plywood Company has just received notice that a shipment of plywood (2 metric tons) has been rejected by Japanese customs because the knotholes commonly found on a plywood sheet are too large. This would be an illustration of which of the following nontariff barriers to trade?

- A. Quota
- B. Predatory pricing
- C. Embargo
- D. Boycott
- E. Standards

68. The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the usage of _____ to restrict trade.

- A. exchange permits
- B. quotas
- C. tariffs
- D. standards
- E. antidumping penalties

69. According to the information provided in the text, a new nontariff barrier that was designed to prevent foreign producers from using predatory pricing is called:

- A. quotas.
- B. fees.
- C. standards.
- D. antidumping laws.
- E. licenses.

70. _____ is the practice whereby a foreign producer intentionally sells their products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A. Basing point pricing
- B. Offensive pricing
- C. Defensive pricing
- D. Counterpoint pricing
- E. Predatory pricing

71. Which of the following trading partners has become the number one "trade problem" for the United States at the beginning of the 21st century?

- A. The United Kingdom
- B. Japan
- C. Germany
- D. Canada
- E. China

72. Which of the following acts was designed to deal with trade deficits, protectionism, and the overall fairness of our trading partners?

- A. The World Trade Organization Act
- B. The Omnibus Trade and Competitiveness Act of 1988
- C. The League of Nations Act of 1920
- D. The Hawley-Smoot Tariff Act of 1930
- E. The International Monetary Fund Act

73. The issue of the openness of markets for U.S. goods is addressed as ____.

- A. market access
- B. market availability
- C. exchange fairness
- D. trade equity
- E. fair trade policy

74. Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm?

- A. The market access section
- B. The export expansion section
- C. The import relief section
- D. The foreign exchange regulation section
- E. The trade deficit section

75. Which of the following is NOT one of the four ongoing activities that support the growth of international trade?

- A. GATT
- B. WTO
- C. The International Monetary Fund
- D. The World Bank Group
- E. The Global Development Network

76. Which of the following were the original signatories to the General Agreement on Tariffs and Trade (GATT) shortly after World War II?

- A. The United States, The United Kingdom, and Germany
- B. The United States and 22 other countries
- C. The United States, countries of Europe, and Japan
- D. The United States and 6 other countries
- E. The United States, France, Germany, The U.K., and Japan

77. Which of the following is NOT true of the GATT?

- A. The United States and 22 other countries signed the GATT shortly after World War II.
- B. The GATT paved the way for the first effective worldwide tariff agreement.
- C. Member nations seek to resolve their trade disputes unilaterally.
- D. The GATT panels are only advisory and have no enforcement powers.
- E. It created an agency to serve as watchdog over world trade.

78. As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the GATT platform, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated, termed the ____.

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)
- C. General Agreement on Trade in Services (GATS)
- D. Comprehensive Economic Cooperation Agreement (CECA)
- E. Marrakesh Agreement

79. Which of the following agreements permits challenging the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)
- C. General Agreement on Trade in Services (GATS)
- D. Marrakesh Agreement
- E. Stockholm Agreement

80. Which was the most notable achievement of the Uruguay Round of GATT negotiations?

- A. The signing of the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement
- B. The formulation of the Kyoto Protocol
- C. The inclusion of Africa and Indonesia into its member-list
- D. The creation of the World Trade Organization
- E. The ratification of the Internet as a global business platform

81. All of the following activities or organizations are designed to support the growth of international trade EXCEPT:

- A. the General Agreement on Tariffs and Trade (GATT).
- B. the World Trade Organization (WTO).
- C. the International Trade Administration (ITA).
- D. the World Bank Group.
- E. the International Money Fund (IMF).

82. One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

- A. member nations are exempt from import tariffs to other member nations.
- B. all tariffs shall be abolished among member nations by 2010.
- C. the World Court shall review all claims and make final judgments.
- D. trade shall be conducted on a nondiscriminatory basis.
- E. the United Nations Trade Agency (UNTA) shall serve as watchdog.

83. The ratification of the WTO by the United States was challenged in the U.S. Congress for all of the following reasons EXCEPT:

- A. possible loss of sovereignty over its trade laws to the WTO.
- B. the lack of veto power by the U.S.
- C. the ability of a WTO member to challenge trade laws of individual states.
- D. the amount of funds that must be supplied to the WTO to run its organization.
- E. a majority of WHO members could impose decisions on the U.S.

84. Which of the following is the most popular way to circumvent WTO guidelines?

- A. Antidumping duties
- B. Tariffs
- C. Quotas
- D. Fees
- E. Licenses

85. Several nations are frustrated with the slow progress of the most recent round of WTO trade negotiations. To vent this frustration, several countries are:

- A. negotiating bilateral trade agreements.
- B. forming a rival organization.
- C. refusing to honor rules and regulations imposed by the WTO.
- D. using legal means to sue the WTO.
- E. opting out of membership in the WTO.

86. _____ and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

- A. The United Nations
- B. The World Court
- C. The International Monetary Fund
- D. The International Red Cross
- E. The League of Nations

87. To overcome the particular market barriers of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.

- A. World Bank
- B. United Nations Organization
- C. International Trade Federation
- D. International Monetary Fund
- E. United Nations Development Programme

88. Which of the following is one of the primary objectives of the International Monetary Fund (IMF)?

- A. The abolishment of unfavorable exchange rates for any nation.
- B. The abolishment of debt for impoverished nations.
- C. The stabilization of foreign exchange rates.
- D. The waiver of all debts from World War II.
- E. The establishment of global nondiscriminatory prices.

89. Developed by the IMF to cope with universally floating exchange rates, _____ represent(s) an average base of value derived from the value of a group of major currencies.

- A. exchange permits
- B. special drawing rights
- C. floating currencies
- D. the gold rate
- E. dollar parities

90. Another term for IMF special drawing rights (SDRs) is:

- A. black gold.
- B. exchange permits.
- C. floating currencies.
- D. paper gold.
- E. virtual dollars.

91. The five institutions of the World Bank Group perform all the following services EXCEPT:

- A. lending money to the governments of developing countries to finance development projects in education, health, and infrastructure.
- B. providing assistance to governments for developmental projects to the poorest developing countries.
- C. helping strengthen the private sector in developing countries with long-term loans, equity investments, and other financial assistance.
- D. providing investors with investment guarantees against "commercial risk".
- E. providing facilities for the conciliation and arbitration of disputes between governments and foreign investors.

92. The complaints against the WTO, IMF, and others include all of the following EXCEPT:

- A. environmental concerns.
- B. worker exploitation and domestic job losses.
- C. cultural integration.
- D. higher oil prices.
- E. diminished sovereignty of nations.

Essay Questions

93. Briefly describe the American efforts toward global trade and its impact.
94. What is the significance of balance of payments figures?
95. How is the balance ensured in a balance-of-payments record? What does a balanced record signify?
96. Briefly describe the elements of a balance-of-payments statement.

97. What are the arguments in favor of protectionism? Which of them are recognized by economists?

98. List the effects of imposing tariffs.

99. Describe VERs.

100. What are the main focus areas of the Omnibus Trade and Competitiveness Act of 1988?

101. List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

102. Why was the IMF formed? How does the IMF deal with universally floating rates?

Chapter 02 The Dynamic Environment of International Trade **Answer Key**

True / False Questions

1. (p. 29) The reciprocal impact of U.S. assistance to other countries to develop their markets and improve global trade was that the recipient countries provided funds for American domestic infrastructure development efforts.

FALSE

For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

2. (p. 29) The GATT became part of the World Trade Organization in 1995, with the ratification of the Uruguay Round agreements.

TRUE

With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

3. (p. 30) As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as underdeveloped countries.

FALSE

As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as newly industrialized countries (NICs).

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

4. (p. 30) As a result of the increasing global trade, the United States was able to increase its share of the world gross national product (GNP) from less than 25 percent in 1950 to over 39 percent in 2010.

FALSE

Contrary to Servan-Schreiber's prediction about American domination of Europe, economic power and potential became more evenly distributed among countries. Instead the U.S. position in world trade is now shared with other countries. For example, in 1950, the United States represented 39 percent of world gross national product (GNP), but by 2010, it represented less than 25 percent.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

5. (p. 33) A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time.

TRUE

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

6. (p. 33) The fact that the credit and debit side in a balance-of-payments record balance means that a nation is in particularly good financial condition.

FALSE

Like a company's statement, the fact that the credit and debit balance does not mean a nation is in particularly good or poor financial condition.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

7. (p. 33) The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

FALSE

The capital account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

8. (p. 35) Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

TRUE

Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Hard
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protection Logic and Illogic

9. (p. 35) A case might be made for long-term protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

FALSE

A case might be made for temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition. Unfortunately such protection often becomes long term and contributes to industrial inefficiency while detracting from a nation's realistic adjustment to its world situation.

AACSB: Reflective Thinking
Bloom's: Comprehension
Difficulty Level: Hard
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protection Logic and Illogic

10. (p. 36) Barriers to trade are encouraged by local industry.

TRUE

While the inspiration for trade barriers may be economic or political, they are encouraged by local industry.

AACSB: Reflective Thinking
Bloom's: Comprehension
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

11. (p. 37) In general, tariffs decrease inflationary pressures.

FALSE

In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs (they beget other tariffs via reciprocity).

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

12. (p. 37) Tariffs often are used as reprisals against protectionist moves of trading partners.

TRUE

Tariffs often are used as reprisals against protectionist moves of trading partners.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

13. (p. 38) Quotas are more flexible than import licenses.

FALSE

The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

14. (p. 39) A VER is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

TRUE

A VER is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

15. (p. 40) Blocked currency is used by refusing to allow an exporter to exchange its national currency for the buyers' currency.

FALSE

Blockage is accomplished by refusing to allow an importer to exchange its national currency for the sellers' currency.

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

16. (p. 40) Importers who want to buy a foreign good must apply for a business permit, that is, permission to exchange an amount of local currency for foreign currency.

FALSE

Importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

17. (p. 41) The exchange permit may stipulate an unfavorable rate of exchange depending on the desires of the government.

TRUE

The exchange permit may stipulate the rate of exchange, which can be an unfavorable rate depending on the desires of the government.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

18. (p. 41) The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets. This is an example of how countries use antidumping rules to protect their own industries.

FALSE

The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of how countries use standards to protect domestic industry.

AACSB: Reflective Thinking
Bloom's: Comprehension
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

19. (p. 41) Antidumping laws were designed to prevent foreign producers from "predatory pricing."

TRUE

Antidumping laws were designed to prevent foreign producers from "predatory pricing," a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

20. (p. 42) Among the many proposals brought forward for lowering the trade deficit, most deal with fairness of trade with some of our trading partners instead of reducing imports or adjusting other trade policies.

TRUE

Lowering the trade deficit has been a priority of the U.S. government for a number of years. Among the many proposals brought forward for lowering the trade deficit, most deal with fairness of trade with some of the country's trading partners instead of reducing imports or adjusting other trade policies.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: Easing Trade Restrictions

21. (p. 42) The issue of the openness of markets for U.S. goods is addressed as market expansion section of the Omnibus Trade and Competitiveness Act of 1988.

FALSE

The issue of the openness of markets for U.S. goods is addressed as market access section of the Omnibus Trade and Competitiveness Act of 1988.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

22. (p. 43) Obtaining export licenses for products on the export control list is more arduous than for those items that are exempt from the list.

FALSE

Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the Omnibus Trade and Competitiveness Act. Export licenses could be obtained more easily and more quickly for products on the export control list.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

23. (p. 43) The GATT panels formed to resolve bilateral trade disputes are only advisory and have no enforcement powers.

TRUE

GATT member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action. The panels are only advisory and have no enforcement powers.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

24. (p. 45) The decisions of the World Trade Organization in trade dispute among members are binding decisions.

TRUE

The World Trade Organization sets many rules governing trade among its 148 members, provides a panel of experts to hear and rule on trade disputes among members, and, unlike GATT, issues binding decisions.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: World Trade Organization

25. (p. 47) The World Bank was formed to overcome inadequate monetary reserves and unstable currencies which were particularly vexing problems in global trade.

FALSE

The International Monetary Fund (IMF) was formed to overcome inadequate monetary reserves and unstable currencies which were particularly vexing problems in global trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

Multiple Choice Questions

26. (p. 28) After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled to foster economic growth in the underdeveloped world, while helping to create a world economy were aimed toward:

- A. halting the growth of Nazi Germany.
- B. dampening the spread of communism.**
- C. dissolving the colonial powers.
- D. gaining access to the European market.
- E. a worldwide trade bloc to counter the OPEC countries' clout.

After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

27. (p. 29) What was the reciprocal impact of the foreign economic assistance given by the United States?

- A. European countries supplied funds for U.S. welfare programs.
- B. Immigration to the U.S. from the recipient countries was reduced owing to increased economic activity at home.
- C. All recipient countries appointed Americans to manage their central banks.
- D. Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.**
- E. The NAFTA was formed on this platform.

For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

28. (p. 29) Which of the following factors was responsible for the excess production capacity in the U.S. in the first half of the twentieth century?

- A. Technological innovation revolutionized production during this time.
- B. Many firms from other nations shifted their production facilities to the U.S.
- C. Domestic demand was at a historic low, which produced excess capacity.
- D. Swelling labor supply of returning military after World War II.**
- E. Influx of migrant laborers from Europe and Japan.

The overseas demand created by the Marshall Plan and other programs was important to the U.S. economy because the vast manufacturing base built to supply World War II and the swelling labor supply of returning military created a production capacity well beyond domestic needs.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

29. (p. 29) Which of the following, in addition to U.S. economic assistance, was a significant move toward international cooperation among trading nations?

- A. Forming of the United Nations Development Programme
- B. Signing of the Treaty on Open Skies
- C. Establishment of the World Federation of Trade Unions
- D. Negotiation of the General Agreement on Tariffs and Trade**
- E. Signing of the Montreal Protocol

In addition to U.S. economic assistance, a move toward international cooperation among trading nations was manifest in the negotiation (1986-1994) of the General Agreement on Tariffs and Trade (GATT).

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

30. (p. 29) Which of the following acronyms refer to the international forum for member countries to negotiate a reduction of tariffs and other barriers to trade?

- A. WTO
- B. GATT**
- C. OECD
- D. OPEC
- E. UNDP

Determined not to repeat the economic disaster that followed World War I, world leaders created GATT, a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

31. (p. 29) What was the outcome for GATT, after the ratification of the Uruguay Round agreements?

- A. It came into effect retrospectively, leading to huge payment deficits for member nations.
- B. It became part of the World Trade Organization.**
- C. It triggered formation of competitive treaties from Asian nations.
- D. The European Union decided to stay away from the treaty.
- E. The original purpose was sidelined in favor of political and military intervention between member states.

With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

32. (p. 30) According to the text, which were the two major challenges U.S. multinational corporations were facing at the close of the 1960s?

- A. The rise of socialism/communism in the (former) Soviet Union and the higher tariffs on imports
- B. Growing jingoistic nationalism and a negative population growth rate in major international markets
- C. Resistance to direct investment and increasing competition in export markets
- D. Increasing Chinese domination in the manufacturing sector and the falling dollar in global markets
- E. Political intervention in free trade movement and growing influence of consumer rights advocacy in the home market

At the close of the 1960s, U.S. multinational corporations (MNCs) were facing major challenges on two fronts: resistance to direct investment and increasing competition in export markets.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

33. (p. 30) In the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as ____.

- A. greenfield countries
- B. growth economies
- C. tier-II countries
- D. developing countries
- E. newly industrialized countries

In the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as newly industrialized countries (NICs). Various NICs such as Brazil, Mexico, South Korea, Taiwan, Singapore, and Hong Kong experienced rapid industrialization.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

34. (p. 30) Which of the following is the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?

- A. Third World countries were excluded from this economic growth, thus leading to stark imbalances in wealth.
- B. The European Union became the center of world trade, taking the position away from the U.S.
- C. Japan became the dominant player in the world market, beating American and European multinationals.
- D. Economic power and potential became more evenly distributed among countries.**
- E. Americans were able to reiterate their dominance in world trade through direct investment and growing exports.

As a result of the expansionary trade measures led by the United States, economic power and potential became more evenly distributed among countries than was the case when Servan-Schreiber warned Europe about U.S. multinational domination.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

35. (p. 32) The World Bank estimates that five countries whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union. Which of the following is NOT one of those five countries?

- A. Brazil
- B. China
- C. India
- D. Indonesia
- E. Rhodesia**

The World Bank estimates that five countries—Brazil, China, India, Indonesia, and Russia—whose share of world trade is barely one third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: Beyond the First Decade of the Twenty-First Century

36. (p. 28) The United States has many successful trade relationships. Four of these relationships account for a tremendous volume of trade. All of the following countries are among the top trade partners for the U.S. EXCEPT:

- A. Canada
- B. Mexico
- C. Japan
- D. India**
- E. China

Refer Exhibit 2.1

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: Trade Barriers—An International Marketer's Minefield

37. (p. 28) After World War II, United States set out to infuse the ideal of capitalism throughout as much of the world as possible through efforts like the _____ which was aimed at assisting in rebuilding Europe.

- A. Eisenhower Plan
- B. Marshall Plan**
- C. Bradley Plan
- D. Roosevelt Plan
- E. Truman Plan

The Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled through the Agency for International Development and other groups designed to foster economic growth in the underdeveloped world were used to help create a strong world economy.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

38. (p. 31) With respect to the nationality of the world's 100 largest industrial corporations, the United States is home to the largest number of the top 100 firms. Which of the following countries is home to the second largest number of these firms?

- A. Germany
- B. United Kingdom
- C. France
- D. Netherlands
- E. Japan

Refer Exhibit 2.2

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

39. (p. 31) After 1888, the United States had unparalleled growth and a favorable balance of trade until _____. After this date, the United States has a negative balance of trade.

- A. 1950
- B. 1963
- C. 1968
- D. 1971
- E. 1985

Between 1888 and 1971, the United States sold more to other countries than it bought from them; that is, the United States had a favorable balance of trade. By 1971, however, the United States had a trade deficit of \$2 billion that grew steadily until it peaked at \$160 billion in 1987.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

40. (p. 31) In 2007 this country ranked second behind the United States in the ranking of the world's largest corporations.

- A. Netherlands
- B. Japan
- C. France
- D.** Germany
- E. South Korea

Refer Exhibit 2.2

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: World Trade and U.S. Multinationals

41. (p. 33) The system of accounts that records a nation's international financial transactions is called its:

- A. trade balance.
- B. national accounts system.
- C. EX-IM (exports-imports) account.
- D.** balance of payments.
- E. exchange rate.

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

42. (p. 33) Which of the following ensures that balance-of-payments records are always in balance?

- A. The balance sheet record
- B. The ledger entry model
- C. A double-entry bookkeeping system**
- D. A deficit-surplus record system
- E. An import/export bookkeeping system

Because the balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

43. (p. 33) Which of the following is true regarding balance-of-payments records?

- A. The fact that assets and liabilities balance means a nation is in particularly good financial condition.
- B. The fact that assets and liabilities balance does not mean a nation is in particularly poor financial condition.**
- C. A balance of payments is not a record of condition.
- D. A balance of payments is a determinant of condition.
- E. A balance of payments reflects all the financial transactions that occurred in the country.

The fact that assets and liabilities balance does not mean a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition. Each of the nation's financial transactions with other countries is reflected in its balance of payments.

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

44. (p. 33) A nation's balance-of-payments statement records all financial transactions between:

- A. its member states and its primary trading partners.
- B. its residents and those of the rest of the world during a given period of time.**
- C. its suppliers and receivers.
- D. profit and nonprofit organizations over a five-year period of time.
- E. its top 100 companies and the global top 100 companies.

Each of the nation's financial transactions with other countries is reflected in its balance of payments.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

45. (p. 33) A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

- A. Investment account
- B. Receivables account
- C. Services account
- D. Credit account
- E. Reserves account**

A balance-of-payments statement includes three accounts: the current account, the capital account, and the official reserves account.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

46. (p. 33) Which of the following would be the balance-of-payments account that is a record of all merchandise exports, imports, and services plus unilateral transfers of funds?

- A.** Current account
- B. Capital account
- C. Credit account
- D. Receivables account
- E. Reserves account

The current account is a record of all merchandise exports, imports, and services plus unilateral transfers of funds.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

47. (p. 34) The marketing manager for Healthy Horse Products wants to export to Australia but learns the labeling requirements are quite difficult to comply with limiting imports. This is a type of:

- A. blockage.
- B.** protectionism.
- C. trade refusal.
- D. stonewalling.
- E. boycotting.

Protectionism involves tariffs, quotas, and nontariff barriers designed to protect a country's markets from intrusion by foreign companies. Nations utilize legal barriers, exchange barriers, and psychological barriers to restrain the entry of unwanted goods.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-03 The effects of protectionism on world trade

Topic: Protectionism

48. (p. 35) Which of the following arguments regarding protections is recognized by economists as valid?

- A. Need to keep money at home
- B. Encouragement of capital accumulation
- C. Protection of an infant industry
- D. Conservation of natural resources
- E. Maintenance of employment and reduction of unemployment

Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

49. (p. 35) All of the following would be considered to be reasons for adopting an attitude of protectionism with respect to world trade EXCEPT:

- A. to protect political stability.
- B. protection of an infant industry.
- C. protection of a home market.
- D. the need to keep money at home.
- E. to encourage capital accumulation.

There are 11 arguments favoring protectionism out of which "protection of political stability" is not one of them.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

50. (p. 35) Randall Smithe-Jones believes that protectionism is the only way to save the United Kingdom from outside competitors. He has seen small business after small business go bankrupt because cheaper foreign goods have been more popular. The UK has just started a cell-phone manufacturing industry and Smithe-Jones' company is one of the first to try their hand at cell-phone manufacturing. Which of the following would probably be the argument that Smithe-Jones would use to persuade his government representatives that protectionism is still needed in the U.K.?

- A. Protection of an infant industry
- B. The need to keep money at home
- C. Conservation of natural resources
- D. National defense
- E. The industrialization of a low-wage nation

The case tells us that cell-phone manufacturing is a nascent industry in the United Kingdom. Protecting this infant industry would be the most probable reason for seeking protection from foreign competition.

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Medium

Learning Objective: 02-03 The effects of protectionism on world trade

Topic: Protectionism

51. (p. 36) Section 301 of the Omnibus Trade and Competitiveness Act authorizes the U.S. government to _____ and _____ against specific foreign trade barriers judged to be unfair.

- A. suppress, attack
- B. educate, substantiate
- C. investigate, retaliate
- D. market, dominate
- E. litigate, retaliate

Refer Crossing Borders 2.1

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-03 The effects of protectionism on world trade

Topic: Protectionism

52. (p. 36) A(n) _____ is simply a tax imposed by a government on goods entering at its borders.

- A. quota
- B. trade penalty
- C. tariff
- D. boycott
- E. embargo

A tariff is a tax imposed by a government on goods entering at its borders. Tariffs may be used as revenue-generating taxes or to discourage the importation of goods, or for both reasons.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Trade Barriers

53. (p. 37) In general, tariffs weaken:

- A. inflationary pressures.
- B. special interests' privileges.
- C. balance-of-payments positions.
- D. government control in economic matters.
- E. reciprocal tariffs by other countries.

In general, tariffs weaken balance-of-payments positions, supply-and-demand patterns, and international relations (they can start trade wars).

AACSB: Reflective Thinking
Bloom's: Comprehension
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

54. (p. 37) In general, tariffs restrict:

- A. inflationary pressures.
- B. special interests' privileges.
- C. government control in economic matters.
- D. the number of tariffs.
- E.** manufacturers' supply sources.

In general, tariffs restrict manufacturers' supply sources, choices available to consumers, and competition.

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

55. (p. 38) A specific unit or dollar limit applied to a particular type of good is called a(n):

- A. tariff.
- B.** quota.
- C. standard.
- D. embargo.
- E. boycott.

A quota is a specific unit or dollar limit applied to a particular type of good.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

56. (p. 38) All of the following would be considered to be nontariff barriers that could be erected to restrict trade EXCEPT:

- A. quotas.
- B. taxes.**
- C. packaging requirements.
- D. border taxes.
- E. embargoes.

Refer Exhibit 2.6 - Types of Nontariff Barriers

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

57. (p. 38) Which of the following types of nontariff barriers would be considered to be "specific limitations on trade" by international marketers?

- A. Fees
- B. Export subsidies
- C. Voluntary export restraints
- D. Embargoes**
- E. Packaging, labeling, or marking standards

Refer Exhibit 2.6 - Types of Nontariff Barriers

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

58. (p. 38) Cybil Chan has been asked by her company to review a series of published nontariff barriers that is used by the Hong Kong Port Authority to control customs and administrative entry procedures. Which of the following nontariff barriers should Ms. Chan look for under the category called customs and administrative entry procedures?

- A. Orderly marketing agreements
- B. Voluntary export restraints
- C. Countervailing duties
- D. Export subsidies
- E. Documentation requirements**

Refer Exhibit 2.6 - Types of Nontariff Barriers

AACSB: Analytic
Bloom's: Application
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

59. (p. 39) Exporting countries sometimes agree to voluntary export restraints (VER) as an alternative to the threat of:

- A. expulsion.
- B. disorderly marketing agreements.
- C. stiffer quotas and tariffs.**
- D. export subsidies.
- E. standardization disparities.

Similar to quotas are the voluntary export restraints (VERs) or orderly market agreements (OMAs).

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

60. (p. 39) An agreement between the importing country and the exporting country for a restriction on the volume of exports is called a(n):

- A. tariff.
- B. standards option.
- C. voluntary export restraint(VER).
- D. trade block.
- E. documentation requirement.

Similar to quotas are the voluntary export restraints (VERs) or orderly market agreements (OMAs).

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

61. (p. 39) Which of the following is true regarding VERs?

- A. International regulatory bodies set export/import limits.
- B. The importing sets the trade limits for import.
- C. The exporting country sets the limits.
- D. It is a common reaction to lenient tariffs and quotas by the importing country.
- E. A VER is established in agreement with the importing country.

A VER is called voluntary because the exporting country sets the limits.

AACSB: Reflective Thinking
Bloom's: Comprehension
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

62. (p. 39) When the United States refuses to sell goods to Iran because of the perception that the country harbors radicals and terrorists, the refusal is called a(n):

- A. boycott.
- B. embargo.**
- C. tariff.
- D. orderly market agreement.
- E. currency block.

A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

63. (p. 40) _____ is accomplished by refusing to allow importers to exchange its national currency for the seller's currency.

- A. Boycotted money
- B. Embargoed capital
- C. Blocked currency**
- D. Anti-banking
- E. Cartel dissolution

Blockage is accomplished by refusing to allow an importer to exchange its national currency for the sellers' currency. In effect, blockage cuts off all importing or all importing above a certain level.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

64. (p. 40) In order to secure foreign exchange, which of the following is used by countries experiencing severe shortages of foreign exchange?

- A. Import quotas
- B. Government approval**
- C. Tariffs
- D. Blocked currency
- E. Differential exchange rates

Government approval to secure foreign exchange is often used by countries experiencing severe shortages of foreign exchange.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

65. (p. 40) Which of the following trade policy tools requires the importers who want to buy a foreign good to apply for an exchange permit?

- A. Tariffs
- B. Import quota
- C. Blocked currency
- D. Government approval**
- E. Export levies

Government approval requires that importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.

AACSB: Analytic
Bloom's: Knowledge
Difficulty Level: Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Trade Barriers

66. (p. 40) Which of the following can the exchange permit stipulate?

- A. The quantity of goods that can be exchanged for a particular sum of foreign currency
- B. The number of parties that can be involved in an exchange transaction
- C. The amount to be exchanged to be deposited in a local bank**
- D. The parties involved to declare collaterals to avail of exchange permits
- E. The number of times one party can avail of exchange permits

The exchange permit may stipulate that the amount to be exchanged must be deposited in a local bank for a set period prior to the transfer of goods.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

67. (p. 41) Tall Pine Plywood Company has just received notice that a shipment of plywood (2 metric tons) has been rejected by Japanese customs because the knotholes commonly found on a plywood sheet are too large. This would be an illustration of which of the following nontariff barriers to trade?

- A. Quota
- B. Predatory pricing
- C. Embargo
- D. Boycott
- E. Standards**

Nontariff barriers of this category include standards to protect health, safety, and product quality.

AACSB: Reflective Thinking

Bloom's: Application

Difficulty Level: Medium

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

68. (p. 41) The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the usage of _____ to restrict trade.

- A. exchange permits
- B. quotas
- C. tariffs
- D.** standards
- E. antidumping penalties

Nontariff barriers of this category include standards to protect health, safety, and product quality. The standards are sometimes used in an unduly stringent or discriminating way to restrict trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

69. (p. 41) According to the information provided in the text, a new nontariff barrier that was designed to prevent foreign producers from using predatory pricing is called:

- A. quotas.
- B. fees.
- C. standards.
- D.** antidumping laws.
- E. licenses.

Antidumping laws were designed to prevent foreign producers from "predatory pricing," a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

70. (p. 41) _____ is the practice whereby a foreign producer intentionally sells their products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A. Basing point pricing
- B. Offensive pricing
- C. Defensive pricing
- D. Counterpoint pricing
- E.** Predatory pricing

Antidumping laws were designed to prevent foreign producers from "predatory pricing." Violators are assessed "antidumping" duties for selling below cost and/or "countervailing duties" to prevent the use of foreign government subsidies to undermine American industry. Many countries have similar laws, and they are allowed under WTO rules.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

71. (p. 42) Which of the following trading partners has become the number one "trade problem" for the United States at the beginning of the 21st century?

- A. The United Kingdom
- B. Japan
- C. Germany
- D. Canada
- E.** China

At the turn of the century, China took over from Japan as America's number one "trade problem."

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: Easing Trade Restrictions

72. (p. 42) Which of the following acts was designed to deal with trade deficits, protectionism, and the overall fairness of our trading partners?

- A. The World Trade Organization Act
- B. The Omnibus Trade and Competitiveness Act of 1988**
- C. The League of Nations Act of 1920
- D. The Hawley-Smoot Tariff Act of 1930
- E. The International Monetary Fund Act

The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

73. (p. 42) The issue of the openness of markets for U.S. goods is addressed as ____.

- A. market access**
- B. market availability
- C. exchange fairness
- D. trade equity
- E. fair trade policy

Under the Omnibus Trade and Competitiveness Act of 1988, the issue of the openness of markets for U.S. goods is addressed as market access. Many barriers restrict or prohibit goods from entering a foreign market.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

74. (p. 43) Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm?

- A. The market access section
- B. The export expansion section
- C. The import relief section**
- D. The foreign exchange regulation section
- E. The trade deficit section

Recognizing that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm, the import relief section of the Omnibus Trade and Competitiveness Act provides a menu of remedies for U.S. businesses adversely affected by imports.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

75. (p. 43) Which of the following is NOT one of the four ongoing activities that support the growth of international trade?

- A. GATT
- B. WTO
- C. The International Monetary Fund
- D. The World Bank Group
- E. The Global Development Network**

Four ongoing activities to support the growth of international trade are GATT, the associated WTO, the International Monetary Fund (IMF), and the World Bank Group.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

76. (p. 43) Which of the following were the original signatories to the General Agreement on Tariffs and Trade (GATT) shortly after World War II?

- A. The United States, The United Kingdom, and Germany
- B. The United States and 22 other countries**
- C. The United States, countries of Europe, and Japan
- D. The United States and 6 other countries
- E. The United States, France, Germany, The U.K., and Japan

The United States and 22 other countries signed the General Agreement on Tariffs and Trade (GATT) shortly after World War II.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

77. (p. 43) Which of the following is NOT true of the GATT?

- A. The United States and 22 other countries signed the GATT shortly after World War II.
- B. The GATT paved the way for the first effective worldwide tariff agreement.
- C. Member nations seek to resolve their trade disputes unilaterally.**
- D. The GATT panels are only advisory and have no enforcement powers.
- E. It created an agency to serve as watchdog over world trade.

Member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

78. (p. 44) As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the GATT platform, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated, termed the ____.

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)
- C. General Agreement on Trade in Services (GATS)**
- D. Comprehensive Economic Cooperation Agreement (CECA)
- E. Marrakesh Agreement

An important objective of the United States in the Uruguay Round was to reduce or eliminate barriers to international trade in services. The General Agreement on Trade in Services (GATS) was the first multilateral, legally enforceable agreement covering trade and investment in the services sector.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

79. (p. 44) Which of the following agreements permits challenging the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)**
- C. General Agreement on Trade in Services (GATS)
- D. Marrakesh Agreement
- E. Stockholm Agreement

As a result of TRIMs, restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels can be challenged.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

80. (p. 45) Which was the most notable achievement of the Uruguay Round of GATT negotiations?

- A. The signing of the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement
- B. The formulation of the Kyoto Protocol
- C. The inclusion of Africa and Indonesia into its member-list
- D.** The creation of the World Trade Organization
- E. The ratification of the Internet as a global business platform

Perhaps the most notable achievement of the Uruguay Round was the creation of a new institution as a successor to the GATT—the World Trade Organization.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

81. (p. 43) All of the following activities or organizations are designed to support the growth of international trade EXCEPT:

- A. the General Agreement on Tariffs and Trade (GATT).
- B. the World Trade Organization (WTO).
- C.** the International Trade Administration (ITA).
- D. the World Bank Group.
- E. the International Money Fund (IMF).

Four ongoing activities to support the growth of international trade are GATT, the associated WTO, the International Monetary Fund (IMF), and the World Bank Group.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: The Omnibus Trade and Competitiveness Act

82. (p. 43-44) One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

- A. member nations are exempt from import tariffs to other member nations.
- B. all tariffs shall be abolished among member nations by 2010.
- C. the World Court shall review all claims and make final judgments.
- D. trade shall be conducted on a nondiscriminatory basis.**
- E. the United Nations Trade Agency (UNTA) shall serve as watchdog.

In general, the agreement covers these basic elements: (1) trade shall be conducted on a nondiscriminatory basis; (2) protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas; and (3) consultation shall be the primary method used to solve global trade problems.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

83. (p. 45) The ratification of the WTO by the United States was challenged in the U.S. Congress for all of the following reasons EXCEPT:

- A. possible loss of sovereignty over its trade laws to the WTO.
- B. the lack of veto power by the U.S.
- C. the ability of a WTO member to challenge trade laws of individual states.
- D. the amount of funds that must be supplied to the WTO to run its organization.**
- E. a majority of WHO members could impose decisions on the U.S.

In the United States, ratification was challenged because of concern for the possible loss of sovereignty over its trade laws to WTO, the lack of veto power (the U.S. could have a decision imposed on it by a majority of the WTO's members), and the role the United States would assume when a conflict arises over an individual state's laws that might be challenged by a WTO member.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

84. (p. 46) Which of the following is the most popular way to circumvent WTO guidelines?

- A. Antidumping duties
- B. Tariffs
- C. Quotas
- D. Fees
- E. Licenses

Antidumping duties are becoming a favorite way for nations to impose new duties. The WTO continues to fight these new, creative barriers to trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: Skirting the Spirit of GATT and WTO

85. (p. 46) Several nations are frustrated with the slow progress of the most recent round of WTO trade negotiations. To vent this frustration, several countries are:

- A. negotiating bilateral trade agreements.
- B. forming a rival organization.
- C. refusing to honor rules and regulations imposed by the WTO.
- D. using legal means to sue the WTO.
- E. opting out of membership in the WTO.

Frustrated with the slow progress of the most recent round of WTO trade negotiations, several countries are negotiating bilateral trade agreements. For example, the United States has signed free-trade agreements with Peru, Colombia, Panama, and South Korea.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: Skirting the Spirit of GATT and WTO

86. (p. 47) _____ and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

- A. The United Nations
- B. The World Court
- C. The International Monetary Fund**
- D. The International Red Cross
- E. The League of Nations

The International Monetary Fund (IMF) and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

87. (p. 47) To overcome the particular market barriers of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.

- A. World Bank
- B. United Nations Organization
- C. International Trade Federation
- D. International Monetary Fund**
- E. United Nations Development Programme

Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. So long as these conditions exist, world markets cannot develop and function as effectively as they should. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

88. (p. 47) Which of the following is one of the primary objectives of the International Monetary Fund (IMF)?

- A. The abolishment of unfavorable exchange rates for any nation.
- B. The abolishment of debt for impoverished nations.
- C. The stabilization of foreign exchange rates.**
- D. The waiver of all debts from World War II.
- E. The establishment of global nondiscriminatory prices.

Among the objectives of the IMF are the stabilization of foreign exchange rates and the establishment of freely convertible currencies to facilitate the expansion and balanced growth of international trade.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

89. (p. 47) Developed by the IMF to cope with universally floating exchange rates, _____ represent(s) an average base of value derived from the value of a group of major currencies.

- A. exchange permits
- B. special drawing rights**
- C. floating currencies
- D. the gold rate
- E. dollar parities

Developed by the IMF to cope with universally floating exchange rates, special drawing rights (SDRs) represents an average base of value derived from the value of a group of major currencies.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

90. (p. 47) Another term for IMF special drawing rights (SDRs) is:

- A. black gold.
- B. exchange permits.
- C. floating currencies.
- D. paper gold.**
- E. virtual dollars.

The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

91. (p. 48) The five institutions of the World Bank Group perform all the following services EXCEPT:

- A. lending money to the governments of developing countries to finance development projects in education, health, and infrastructure.
- B. providing assistance to governments for developmental projects to the poorest developing countries.
- C. helping strengthen the private sector in developing countries with long-term loans, equity investments, and other financial assistance.
- D. providing investors with investment guarantees against "commercial risk".**
- E. providing facilities for the conciliation and arbitration of disputes between governments and foreign investors.

The institutions provide investors with investment guarantees against "noncommercial risk," such as expropriation and war, to create an environment in developing countries that will attract foreign investment.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group

92. (p. 48-49) The complaints against the WTO, IMF, and others include all of the following EXCEPT:

- A. environmental concerns.
- B. worker exploitation and domestic job losses.
- C. cultural integration.
- D. higher oil prices.
- E. diminished sovereignty of nations.

The basic complaint against the WTO, IMF, and others is the amalgam of unintended consequences of globalization: environmental concerns, worker exploitation and domestic job losses, cultural extinction, higher oil prices, and diminished sovereignty of nations.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: Protests against Global Institutions

Essay Questions

93. (p. 28-29) Briefly describe the American efforts toward global trade and its impact.

After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. The Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled through the Agency for International Development and other groups designed to foster economic growth in the underdeveloped world were used to help create a strong world economy. With the countries newly freed from colonial powers striving to gain economic independence and the financial assistance offered by the United States, most of the noncommunist world's economies grew, and new markets were created. The benefits of the foreign economic assistance given by the United States flowed both ways. For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services. In short, the United States helped make the world's economies stronger, which enabled them to buy more from us.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

Topic: The Twentieth to the Twenty-First Century

94. (p. 33) What is the significance of balance of payments figures?

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year. Each of the nation's financial transactions with other countries is reflected in its balance of payments. A nation's balance-of-payments statement presents an overall view of its international economic position and is an important economic measure used by treasuries, central banks, and other government agencies whose responsibility is to maintain external and internal economic stability. A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

95. (p. 33) How is the balance ensured in a balance-of-payments record? What does a balanced record signify?

A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other. Because the balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance. As on an individual company's financial statement, the assets and liabilities or the credits and debits must offset each other. And like a company's statement, the fact that they balance does not mean a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition.

AACSB: Reflective Thinking

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

96. (p. 33) Briefly describe the elements of a balance-of-payments statement.

A balance-of-payments statement includes three accounts:

- the current account—a record of all merchandise exports, imports, and services plus unilateral transfers of funds;
- the capital account—a record of direct investment, portfolio investment, and short-term capital movements to and from countries; and
- the official reserves account—a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.

Of the three, the current account is of primary interest to international business.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy

Topic: Balance of Payments

97. (p. 35) What are the arguments in favor of protectionism? Which of them are recognized by economists?

Arguments forwarded by protectionists to maintain government restrictions on trade can be classified as follows: (1) protection of an infant industry, (2) protection of the home market, (3) need to keep money at home, (4) encouragement of capital accumulation, (5) maintenance of the standard of living and real wages, (6) conservation of natural resources, (7) industrialization of a low-wage nation, (8) maintenance of employment and reduction of unemployment, (9) national defense, (10) increase of business size, and (11) retaliation and bargaining.

Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-03 The effects of protectionism on world trade

Topic: Protection Logic and Illogic

98. (p. 37) List the effects of imposing tariffs.

The effects of imposing tariffs can be summarized as follows:

In general, tariffs increase:

- inflationary pressures
- special interests' privileges
- government control and political considerations in economic matters, and
- the number of tariffs (they beget other tariffs via reciprocity).

Tariffs weaken:

- balance-of-payments positions
- supply-and-demand patterns, and
- international relations (they can start trade wars).

Tariffs also restrict:

- manufacturers' supply sources,
- choices available to consumers, and
- competition.

AACSB: Analytic

Bloom's: Comprehension

Difficulty Level: Hard

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

99. (p. 39) Describe VERs.

The VER is an agreement between the importing country and the exporting country for a restriction on the volume of exports. They are similar to quotas and also referred to as orderly market agreements (OMAs). A VER is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Easy

Learning Objective: 02-04 The several types of trade barriers

Topic: Trade Barriers

100. (p. 42-43) What are the main focus areas of the Omnibus Trade and Competitiveness Act of 1988?

The Omnibus Trade and Competitiveness Act of 1988 was designed to deal with trade deficits, protectionism, and the overall fairness of America's trading partners. The bill covers three areas considered critical in improving U.S. trade: market access, export expansion, and import relief.

- The issue of the openness of markets for U.S. goods is addressed as market access. The act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.
- Besides emphasizing market access, the act recognizes that some problems with U.S. export competitiveness stem from impediments on trade imposed by U.S. regulations and export disincentives. Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the act.
- Recognizing that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm, the import relief section of the act provides a menu of remedies for U.S. businesses adversely affected by imports.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act

Topic: The Omnibus Trade and Competitiveness Act

101. (p. 44-45) List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

An important objective of the United States in the Uruguay Round was to reduce or eliminate barriers to international trade in services.

- The General Agreement on Trade in Services (GATS) was the first multilateral, legally enforceable agreement covering trade and investment in the services sector. It provides a legal basis for future negotiations aimed at eliminating barriers that discriminate against foreign services and deny them market access.
- Trade-Related Investment Measures (TRIMs) established the basic principle that investment restrictions can be major trade barriers and therefore are included, for the first time, under GATT procedures.
- Another objective of the United States for the Uruguay Round was achieved by an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). The TRIPs agreement establishes substantially higher standards of protection for a full range of intellectual property rights than are embodied in current international agreements and it provides for the effective enforcement of those standards both internally and at the border.
- Perhaps the most notable achievement of the Uruguay Round was the creation of a new institution as a successor to the GATT—the World Trade Organization.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Hard

Learning Objective: 02-06 The importance of GATT and the World Trade Organization

Topic: General Agreement on Tariffs and Trade

102. (p. 47) Why was the IMF formed? How does the IMF deal with universally floating rates?

Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed. Originally 29 countries signed the agreement; now 184 countries are members.

To cope with universally floating exchange rates, the IMF developed special drawing rights (SDRs). The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies. Rather than being denominated in the currency of any given country, trade contracts are frequently written in SDRs because they are much less susceptible to exchange rate fluctuations.

AACSB: Analytic

Bloom's: Knowledge

Difficulty Level: Medium

Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group

Topic: The International Monetary Fund and World Bank Group