

c01; Chapter 1: Introduction to the Global Economy

Multiple Choice

1. Which of the following is not a sign of globalization?
 - A) the increased availability of a variety of goods in the market
 - B) the opportunity to invest in financial assets worldwide
 - C) promotion of “Buy American” ideology everywhere
 - D) being able to talk to anybody across the world over telephone

Answer: C

Section: 1.1

2. In many developing nations, _____ provide employment opportunities and _____ to pay for the many products that cannot be produced in the home country.
 - A) imports, earnings
 - B) exports, earnings
 - C) exports, outputs
 - D) imports, outputs

Answer: B

Section: 1.3

3. The economic relationship and integration among nations is defined as:
 - A) microeconomics
 - B) economic interdependence
 - C) macroeconomics
 - D) open economies

Answer: B

Section: 1.3

4. The ratio between a country's imports and exports of goods or services to their gross domestic product (GDP) is a measure of that country's:
 - A) microeconomics
 - B) openness as an economy

- C) macroeconomics
- D) economic interdependence

Answer: D

Section: 1.3

5. The total value of all goods and services produced within a nation's borders is called:

- A) GDP
- B) net exports
- C) current account balance
- D) GNP

Answer: A

Section: 1.3

6. The economic interdependence among nations has _____ in the recent past.

- A) decreased
- B) remained the same
- C) increased
- D) hurt the world

Answer: C

Section: 1.3

7. In 2001, the world GDP _____, while the world trade level _____ by 1 percent.

- A) decreased, increased
- B) increased, decreased
- C) decreased, decreased
- D) increased, increased

Answer: B

Section: 1.3

8. When interest rates increase in the United States, capital flows from abroad will:

- A) increase
- B) decrease
- C) no change

D) not be available anymore

Answer: A

Section: 1.3

9. Which of the following is most restricted to flow across national boundaries?

- A) People
- B) Capital Flows
- C) Financial and Portfolio Investment
- D) Foreign Direct Investment

Answer: A

Section: 1.4

10. Which of the following analyzes the basis for and gains from trade?

- A) Balance of payments
- B) Foreign exchange market
- C) International trade policy
- D) International trade theory

Answer: D

Section: 1.5

11. Which of the following examines the reasons for and effects of trade restrictions?

- A) Balance of payments
- B) Foreign exchange market
- C) International trade policy
- D) International trade theory

Answer: C

Section: 1.5

12. A summary statement of all the international transactions of the residents of a nation with the rest of the world during a particular period of time is called:

- A) Balance of payments
- B) Net exports
- C) GNP
- D) GDP

Answer: A
Section: 1.5

13. The framework for the exchange of one national currency for another is:
- A) the central bank
 - B) the foreign exchange market
 - C) the bond market
 - D) the World Trade Organization

Answer: B
Section 1.5

14. The open-economy macroeconomic processes for correcting balance-of-payments disequilibria are collectively called :
- A) discretionary fiscal policy
 - B) foreign exchange market
 - C) monetary policy
 - D) adjustment in the balance of payments

Answer: D
Section: 1.5

15. International trade theory and policies as they relate to individual nations are the _____ aspects of international economics.
- A) International finance
 - B) microeconomic
 - C) national income accounting
 - D) macroeconomic

Answer: B
Section: 1.5

16. _____ has grown at a faster rate than _____, indicating an increase in economic interdependence among nations.
- A) World trade, world production
 - B) US GDP, world GDP
 - C) World production, world trade

D) Output in the US, incomes in the US

Answer: A

Section: 1.3

17. What are the microeconomic aspects of international economies?

- A) Balance of payments issues
- B) International trade theory and policies
- C) Adjustments in the balance of payments
- D) GDP

Answer: B

Section: 1.5

18. An inflow of capital funds to the United States tends to increase the international value of the dollar, stimulating _____ and discouraging _____.

- A) US exports, US imports
- B) US imports, economic activity abroad
- C) US economic activity, economic activity abroad
- D) US imports, US exports

Answer: D

Section: 1.3

19. The study of the whole economy, such as the total receipts and payments of a nation and the general price index, is considered to be a:

- A) microeconomic application
- B) macroeconomic application
- C) both micro and macroeconomic application
- D) foreign exchange application

Answer: B

Section: 1.5

20. The study of foreign exchange markets, the balance of payments, and adjustment to balance-of-payments disequilibria is:

- A) Open-economy macroeconomics
- B) International finance

- C) Both A and B
- D) none of the above

Answer: C

Section: 1.5

21. A nation that has an open economy:
- A) allows private ownership of capital
 - B) has flexible exchange rates
 - C) has fixed exchange rates
 - D) trades with other nations

Answer: D

Section: 1.5

22. The most effective trade policy would be _____, which allows each nation to specialize in efficient production of commodities.
- A) free trade
 - B) protectionism
 - C) a closed economy
 - D) restricted trade

Answer: A

Section: 1.5

23. Trade restrictions usually benefit a large majority of the _____ in the nation at the expense of a silent majority of _____.
- A) consumers, producers
 - B) producers, consumers
 - C) importers, exporters
 - D) exporters, importers

Answer: B

Section: 1.6

24. The persistence of _____ in exchange rates has led the international community to call for reforms of the current international monetary system.
- A) excessive volatility and disequilibria

- B) long run stability
- C) arbitrage opportunities
- D) equilibrium

Answer: A

Section: 1.6

25. The field of international economics:
- A) is a relatively new branch of economic study
 - B) includes contributions from distinguished economists like Adam Smith, David Ricardo and Alfred Marshall
 - C) includes macroeconomics, but not microeconomics, issues.
 - D) includes microeconomics, but not macroeconomics, issues.

Answer: B

Section: 1.5

26. With respect to international trade in the real world:
- A) most nations impose some restrictions limiting the free flow of goods.
 - B) most nations have eliminated all barriers to free trade.
 - C) most nations have a completely closed economy.
 - D) None of the above

Answer: A

Section: 1.6

27. _____ in the United States attracts funds from other nations.
- A) An increase in net exports
 - B) A decrease in interest rates
 - C) An increase in the inflation rate
 - D) An increase in interest rates

Answer: D

Section: 1.3

28. Though each nation's economic collapse in the 1990s was different, most were precipitated by a massive and sudden _____.
- A) inflow of short-term capital

- B) withdrawal of short-term capital
- C) inflow of illegal immigrants
- D) volatility of short-term interest rates

Answer: B

Section: 1.6

29. In the last decade, Western Europe averaged a _____ percent unemployment rate.

- A) 15
- B) 20
- C) 5
- D) 10

Answer: D

Section: 1.6

30. In the last decade, the United States averaged a _____ percent unemployment rate

- A) 15
- B) 20
- C) Less than 5
- D) 10

Answer: C

Section: 1.6

31. During the last decade, almost _____ of Europe's unemployed were jobless longer than one year.

- A) one out of ten
- B) all
- C) none
- D) half

Answer: D

Section: 1.6

32. During the last decade, almost _____ of United States' unemployed were jobless longer than one year.

- A) 11%

- B) 30%
- C) 45%
- D) 55%

Answer: A
Section: 1.6

33. Structural unemployment in Europe is most likely due to:
- A) Trade protectionism
 - B) rigidities and inflexibility in the labor markets
 - C) excessive fluctuations in exchange rates
 - D) the national minimum wage

Answer: B
Section: 1.6

34. _____ has/have led to sluggish growth in Europe.
- A) Free trade
 - B) Overregulation
 - C) Job insecurity
 - D) Excessive fluctuations in exchange rates

Answer: B
Section: 1.6

35. Slow growth in what two regions has led to calls for trade protectionism and dampened the growth of the entire world economy?
- A) US and South America
 - B) Japan and Europe
 - C) US and Europe
 - D) Japan and South America

Answer: B
Section: 1.6

36. Rapid technological changes and increased competition from the manufactured exports of emerging market economies are causing _____ in the United States.
- A) downsizing and job insecurity

- B) industrial growth and job security
- C) increased wages in competing industries
- D) exchange rate fluctuations

Answer: A

Section: 1.6

37. The increasing integration of economies around the world, particularly through trade and financial flows, is:
- A) outsourcing
 - B) macroeconomics
 - C) globalization
 - D) autarky

Answer: C

Section: 1.2

38. The loose organization that blames globalization for many human and environmental problems throughout the world is:
- A) The World Trade Organization
 - B) The World Bank
 - C) the protectionist movement
 - D) the anti-globalization movement

Answer: D

Section: 1.2

39. Globalization _____:
- A) Is inevitable in a world with converging tastes for consumer goods.
 - B) increases efficiency
 - C) is often blamed for increasing inequalities in income distribution in the world.
 - D) All of the above

Answer: D

Section: 1.2

40. Which of the following Geneva based international organization sets the rules of trade between nations, implements new trade agreements and settles trade disputes between member countries
- A) World Trade Organization (WTO)
 - B) World Bank (IBDR)
 - C) International Monetary Fund (IMF)
 - D) United Nations (UN)

Answer: A

Section: 1.7

True/False

41. National and regional problems can quickly become global problems in an interdependent world.

Answer: True

Section: 1.6

42. Reform policies are being developed in struggling economies to prevent further economic collapses.

Answer: True

Section: 1.6

43. International economic relationships are similar enough to interregional economic relations that the same tools of economic analysis can be used for both.

Answer: False

Section: 1.5

44. Free trade restricts a nation's ability to specialize in specific commodities that may allow for more efficient use of resources.

Answer: False

Section: 1.6

45. Exchange rates can remain in disequilibria for long periods of time.

Answer: True

Section: 1.6

46. Roughly one-sixth of the world's population lives on less than \$1 a day

Answer: True

Section: 1.2

47. Globalization is the study of the aggregate economy.

Answer: False

Section: 1.2

48. The anti-globalization movement believes globalization benefits corporations and multinationals at the expense of human and environmental well-being.

Answer: True

Section: 1.2

49. Globalization is inevitable because consumers around the world are demanding different types of commodities.

Answer: False

Section: 1.2

Essay

50. Trade protectionism in industrial countries is one of the primary problems/issues faced by international economists and policymakers in today's economically interdependent world. Explain.

Answer: All theories of International Trade will point out the benefits of Free Trade. However, because of the slowdown of economies and for the adjustment of comparative advantage when jobs shift from one country to another, protectionist arguments start to surface. International Economists then had the added task of proving why protectionist policy will actually not bring any long term benefit for the country and they also have to point out that an industrial country should continue to innovate and find areas in which it still have comparative advantage and should specialize in those areas.

Section: 1.6

51. Even though trade is important for both large and small countries it is much more important for a smaller country than a larger one. Explain.

Answer: Larger countries like the USA have a large internal market which allows their firms to become large enough to enjoy economies of scale. They also will have more and a variety of resources. Small countries do not have a lot of resources and at the same time there internal market is small. So smaller countries have a lot at stake compared to the larger countries when it comes to trade.

Section: 1.3

52. Why is International Trade Theory and Policy considered as Microeconomic aspect of International Economics and International Finance is considered as the Macroeconomic aspect of International Finance?

Answer: International Trade Theory and Policy treats each country as a unit of measurement and deals with the relative price determination of individual products. This is why this area of International Economics is considered to deal with microeconomic issues. On the other hand, International Finance deals with the mechanisms of adjustment of the balance of payments. It analyzes the relationship between the external and internal sectors of an economy and is, therefore, considered as the macroeconomic aspect of International Economics.

Section: 1.5