Chapter 02
The Global Macroeconomic Environment

True / False Questions

1. *(p. 27)* Efforts to bring about freer trade among nations started with the World Trade Organization negotiations as early as 1948.
FALSE

Difficulty: Easy

2. *(p. 27)* Treaty of Rome in 1957 created the European Economic Community.
TRUE

Difficulty: Easy

3. *(p. 28)* Government procurement procedure that favors domestic suppliers is an example of a tariff barrier.
FALSE

Difficulty: Medium

4. *(p. 29)* Principle of "national treatment" under GATT requires countries to treat foreign businesspeople and foreign companies differently from domestic business people and domestic companies.
FALSE

Difficulty: Easy

5. *(p. 30)* Regional economic integration through trade blocs serves as primary catalysts in promoting unified political and economic policies and institutions.
FALSE

Difficulty: Easy

6. *(p. 30)* A common market demands the transfer of considerable economic sovereignty to supranational institutions.
FALSE

Difficulty: Medium

7. *(p. 31)* Harmonized and Unified Economic Policies and Institutions are the hallmark of a customs union.
FALSE

Difficulty: Easy

8. *(p. 32)* When new trade is created among member countries that does not displace third-country imports, it is called trade diversion.
FALSE

Difficulty: Medium

9. *(p. 32)* Trade creation can generally be high when the economies of the member countries are very competitive and not specialized in the production of certain industries and products.
TRUE

Difficulty: Medium

10. *(p. 32)* Trade creation is expected to be high when member countries in the common market are at different levels of economic development.
FALSE

Difficulty: Medium

11. *(p. 33)* Potential world welfare is lowered when trade diversion causes the substitution of higher-cost production within the common market for lower-cost production outside the union.
TRUE

Difficulty: Medium

12. *(p. 33)* Market extension is one benefit of a common market.
TRUE

Difficulty: Easy

13. *(p. 30, 34)* The NAFTA is a customs union.
FALSE

Difficulty: Easy

14. *(p. 35)* In addition to dismantling trade barriers in industrial goods, NAFTA includes agreements on services, investment, intellectual property rights, agriculture, and strengthening of trade rules.
TRUE

Difficulty: Easy

15. *(p. 37)* The ASEAN leaders adopted the ASEAN Vision 2020, aimed at forging closer economic integration within the region.
TRUE

Difficulty: Easy

16. *(p. 39)* There are many similarities between the European Union and the United States.
TRUE

Difficulty: Easy

17. *(p. 42)* Since Maastricht, economic integration has progressed rapidly in Europe.
TRUE

Difficulty: Easy

18. *(p. 46)* One force that has gone unnoticed in promoting international trade is the rapidly falling freight costs.
TRUE

Difficulty: Easy

19. *(p. 48)* All things being equal, corporations shift production to those countries wherein labor is cheap, not most productive.
FALSE

Difficulty: Medium

20. *(p. 51)* Multinational companies must determine the key success factors for the business prior to deciding on the foreign entry mode.
TRUE

Difficulty: Easy

Multiple Choice Questions

21. *(p. 28)* Which of the following is NOT an example of a non-tariff barrier?
A. Government procurement procedures that favor domestic suppliers.
B. A tax imposed by a government on physical goods as they move in and out of a country.
C. Weak enforcement of antitrust laws designed to foster competition.
D. Restrictions on inward direct foreign investment.

Difficulty: Medium

22. *(p. 29)* The difference between GATT and the WTO is that:
A. GATT allowed member nations to avoid any ruling they did not like.
B. WTO is a temporary entity.
C. WTO had always been considered a partial agreement among member nations.
D. GATT has an elaborate institutional mechanism of councils and committees.

Difficulty: Medium

23. *(p. 30)* Which of the following statements is NOT true of the current wave of regionalism?
A. Almost every country belongs to at least one trade bloc.
B. Member nations of all trade blocs have coordinated political and social policies.
C. Most trade blocs have been formed among neighboring countries.
D. Regional arrangements are put forward or accelerated in various parts of the world.

Difficulty: Medium

24. *(p. 30)* What was the motivation for the formation of the ASEAN?
A. Sharing of common boarders.
B. Similar ethnic and cultural backgrounds.
C. Implementation of a common currency.
D. Regional political needs and considerations.

Difficulty: Medium

25. *(p. 30)* The loosest form of economic integration is the:
A. customs union.
B. political union.
C. free trade area.
D. common market.

Difficulty: Easy

26. *(p. 30)* The following agreement among member countries eliminates the duties and also establishes common external positions regarding trade with non-bloc members.
A. Customs union
B. GATT
C. Free trade area
D. NAFTA

Difficulty: Easy

27. *(p. 30)* A tariff on bicycles being imported from China would be the same for all countries participating in a:
A. free trade area.
B. common union.
C. political market.
D. customs union.

Difficulty: Easy

28. *(p. 31)* A(n) _____ demands the transfer of considerable economic sovereignty to supranational nations.
A. economic union
B. common market
C. customs union
D. free trade area

Difficulty: Medium

29. *(p. 31)* A(n) _____ is the ultimate step in regional integration.
A. customs union
B. political union
C. free trade area
D. common market

Difficulty: Medium

30. *(p. 31)* The United States of America is a(n):
A. political union.
B. customs union.
C. free trade area.
D. common market.

Difficulty: Easy

31. *(p. 32)* _____ manifests comparative advantage at work.
A. Tariff barrier
B. Non-tariff barrier
C. Trade creation
D. Trade diversion

Difficulty: Medium

32. *(p. 32)* _____ leads to a substitution of efficient third-country production by inefficient production in a common market country.
A. Trade conversion
B. Trade competition
C. Trade creation
D. Trade diversion

Difficulty: Medium

33. *(p. 32)* _____ denies comparative advantage.
A. Trade diversion
B. Trade competition
C. Trade creation
D. Trade conversion

Difficulty: Easy

34. *(p. 32)* _____ would occur when consumers within a common market find that goods produced inefficiently in a member country are cheaper than efficiently produced goods in a country outside of the common market, primarily because of the high tariffs imposed on imports from non-common market countries.
A. Trade conversion
B. Trade competition
C. Trade creation
D. Trade diversion

Difficulty: Medium

35. *(p. 32)* Why trade creation is a positive effect of free trade?
A. Goods produced inefficiently in a member country are cheaper than efficiently produced goods in a country outside the common market.
B. It limits the opportunities for new trade, because the economies are already specialized with respect to each other.
C. It causes the substitution of higher-cost production within the common market for lower-cost production outside the union.
D. It leads to the substitution of inefficient domestic production in a common market country for efficient production in another common market country.

Difficulty: Medium

36. *(p. 32-33)* Which of the following conditions lead to high trade creation?
A. Transport costs are high.
B. The size of the common market is small.
C. Member countries in the common market are at different levels of economic development.
D. The pre-union tariffs of member countries were high.

Difficulty: Medium

37. *(p. 33)* ______ is one benefit of a common market.
A. Trade diversion
B. Market extension
C. Market conversion
D. Trade conversion

Difficulty: Medium

38. *(p. 33)* Which of the following is a best solution to ensure trade creation in a free trade area?
A. Increase trade barriers against the non member countries.
B. Members of a free-trade area set a common external tariff.
C. Allow exporters in nonmember countries to compete against member country producers on price.
D. Keep the economic size of the common market small.

Difficulty: Medium

39. *(p. 35)* How has NAFTA affected Mexico?
A. There is increased confidence on the part of foreign firms to invest in Mexico.
B. Reduced economic advantage of Mexican labor over its American counterpart.
C. Increased surplus of more than $2 billion in farm trade with America.
D. Reduced farm subsidies to improve the efficiency of agricultural exports.

Difficulty: Medium

40. *(p. 35)* NAFTA does NOT include agreements on:
A. services and investments.
B. intellectual property rights and agriculture.
C. strengthening of trade rules.
D. enforcing trade barriers on industrial goods.

Difficulty: Medium

41. *(p. 36)* NAFTA is supposed to be the first step in the creation of the so-called:
A. MERCOSUR.
B. FTAA.
C. EAEC.
D. ASEAN.

Difficulty: Easy

42. *(p. 37)* Which country is NOT among the five original member countries of ASEAN?
A. Cambodia
B. Indonesia
C. Malaysia
D. Thailand

Difficulty: Medium

43. *(p. 37)* Which of the following is NOT an objective of ASEAN?
A. To accelerate the economic growth, and social progress in the region.
B. To strengthen the foundation for a peaceful community of Southeast Asian nations.
C. To promote regional peace and stability.
D. To adopt unified economic and political policies and institutions.

Difficulty: Medium

44. *(p. 38)* Which of the following is the most promising free trade agreement so far?
A. NAFTA
B. MERCOSUR
C. ASEAN
D. GATT

Difficulty: Medium

45. *(p. 39)* The EU was historically known as:
A. the Common Market.
B. Unified Europe.
C. Central Europe.
D. Common Trade Center.

Difficulty: Medium

46. *(p. 41)* The European Community is in fact three separate entities governed by separate treaties. Which of the following is NOT among the three entities?
A. The European Coal and Steel Community
B. The European Atomic Energy Community
C. The European Economic Community
D. The European Development Community

Difficulty: Medium

47. *(p. 44)* A dominant context that has had the greatest influence on the strategies and operations of international companies is the phenomenon known as:
A. localization.
B. protectionism.
C. globalization.
D. mercantilism.

Difficulty: Medium

48. *(p. 44)* The tremendous growth in international trade and commerce is a specific driver of:
A. localization.
B. protectionism.
C. voluntary export restraint.
D. globalization.

Difficulty: Medium

49. *(p. 44-46)* Which one of the following is NOT a specific driver of globalization?
A. Non-porous borders between countries.
B. Tremendous growth in international trade and commerce.
C. Innovations in information technology and transportation.
D. The globalization of financial markets.

Difficulty: Easy

50. *(p. 48)* According to the study released by CEPR:
A. globalization has helped in reducing the poverty levels of low-income countries.
B. poverty can be reduced even when inequality increases.
C. poor countries can become rich by isolating themselves from global markets.
D. markets always make the rich richer and the poor poorer.

Difficulty: Medium