Name: ____________________ Class: ____________________ Date: __________

chapter 2

Indicate whether the statement is true or false.

1. Imperfect markets represent conditions under which factors of production are immobile.
   a. True
   b. False

2. A product cycle is the process by which a firm provides a specialized sales or service strategy, support assistance, and possibly an initial investment in the franchise in exchange for periodic fees.
   a. True
   b. False

3. The imperfect markets theory states that factors of production are somewhat immobile, allowing firms to capitalize on a foreign country's resources.
   a. True
   b. False

Indicate the answer choice that best completes the statement or answers the question.

4. Changes in country ownership of long-term and short-term assets are measured in the balance of payments with the capital account.
   a. true.
   b. false.

5. The World Bank's Multilateral Investment Guarantee Agency (MIGA):
   a. offers various forms of export insurance.
   b. offers various forms of import insurance.
   c. offers various forms of exchange rate risk insurance.
   d. provides loans to developing countries.
   e. offers various forms of political risk insurance.

6. Direct foreign investment into the US represents a ____.
   a. capital inflow
   b. trade inflow
   c. capital outflow
   d. trade outflow

7. Which of the following theories identifies the non-transferability of resources as a reason for international business?
   a. Theory of comparative advantage
   b. Imperfect markets theory
   c. Product cycle theory
   d. None of the above

8. The World Bank was established to:
   a. enhance development solely in Asia through grants.
   b. enhance economic development through non-subsidized loans (at market interest rates).
   c. enhance economic development through low-interest rate loans (below-market rates).

d. enhance economic development of the private sector through investment in stock of corporations.

9. The standardization of product specifications throughout Europe during the 1990s removed a very large trade barrier.

a. true. b. false.

10. Portfolio investment represents transactions involving long-term financial assets (such as stocks and bonds) between countries that do not affect the transfer of control.

a. true. b. false.

11. A tariff is a maximum limit on imports.

a. true. b. false.

12. A high home inflation rate relative to other countries would ____ the home country's current account balance, other things equal. A high growth in the home income level relative to other countries would ____ he home country's current account balance, other things equal.

a. increase; increase
b. increase; decrease
c. decrease; decrease
d. decrease; increase

13. Which of the following is not a commonly occurring subtle trade restriction?

a. Firms based in one country are not subject to certain restrictions and can produce products at a lower cost than firms in other countries.
b. Firms based in a country receive subsidies from their government, produce products, and then export those products at a cheap price.
c. Firms based in one country are allowed by their government to offer bribes to large customers when pursuing business deals in a particular industry.
d. All of the above describe commonly occurring subtle trade restrictions.

14. The J curve effect is the initial worsening of the UK trade balance due to a weakening dollar because of established trade relationships that are not easily changed; as the dollar weakens, the dollar value of imports initially rises before the UK trade balance is improved.

a. true. b. false.

15. A weak home currency may not be a perfect solution to correct a balance of trade deficit because:

a. it reduces the prices of imports paid by local companies.
b. it increases the prices of exports by local companies.
c. it prevents international trade transactions from being prearranged.
d. foreign companies may reduce the prices of their products to stay competitive.

16. An increase in the current account deficit will place ____ pressure on the home currency value, other things equal.

a. upward
b. downward
c. no
d. upward or downward (depending on the size of the deficit)

Name: ________________ Class: ________________ Date: ________________

chapter 2

17. If the home currency begins to appreciate against other currencies, this should ____ the current account balance, other things equal (assume that substitutes are readily available in the countries, and that the prices charged by firms remain the same).

a. increase
b. have no impact on
c. reduce
d. all of the above are equally possible

18. Which of the following theories suggests that firms seek to penetrate new markets over time?

a. Theory of comparative advantage
b. Imperfect markets theory
c. Product cycle theory
d. None of the above

19. An increase in the use of quotas is expected to:

a. reduce the country's current account balance, if other governments do not retaliate.
b. increase the country's current account balance, if other governments do not retaliate.
c. have no impact on the country's current account balance unless other governments retaliate.
d. increase the volume of a country's trade with other countries.

20. The current account represents the investment in fixed assets in foreign countries that can be used to conduct business operations.

a. true. b. false.

21. Also known as the 'central banks' central bank', the ____ attempts to facilitate cooperation among countries with regard to international transactions and provides assistance to countries experiencing a financial crisis.

a. World Bank
b. International Financial Corporation (IFC)
c. World Trade Organization
d. International Development Association (IDA)
e. Bank for International Settlements (BIS)

22. As a result of the European Union, restrictions on exports between ____ were reduced or eliminated.

a. member countries and the US
b. member countries
c. member countries and European non-members
d. none of the above

23. Like the International Monetary Fund (IMF), the ____ is composed of a collection of nations as members. However, unlike the IMF, it uses the private rather than the government sector to achieve its objectives.

a. World Bank
b. International Financial Corporation (IFC)
c. World Trade Organization (WTO)
d. International Development Association (IDA)

e. Bank for International Settlements (BIS)

24. The World Bank frequently enters into cofinancing agreements. Under these agreements, financing is provided by the World Bank and/or official aid agencies, export credit agencies, or commercial banks.

a. true.
b. false.

25. If a country's government imposes a tariff on imported goods, that country's current account balance will likely ____ (assuming no retaliation by other governments).

a. decrease
b. increase
c. remain unaffected
d. Either A or C are possible.

26. The primary component of the current account is the:

a. balance of trade.
b. balance of money market flows.
c. balance of capital market flows.
d. unilateral transfers.

27. Which of the following statement is correct?

a. The BIS attempts to facilitate cooperation among countries with regard to international transactions.
b. The BIS provides assistance to countries experiencing a financial crisis.
c. The BIS is sometimes referred to as the 'central banks' central bank' or the 'lender of last resort'.
d. All of the above.

28. The balance of payments is a measurement of all transactions between domestic and foreign residents over a specified period of time.

a. true.
b. false.

29. The recent BRICS alliance is a representative group of the Canada, Brazil, India, Russia and South Africa.

a. true.
b. false.

30. The 'J curve' effect describes:

a. the continuous long-term inverse relationship between a country's current account balance and the country's growth in gross national product.
b. the short-run tendency for a country's balance of trade to deteriorate even while its currency is depreciating.
c. the tendency for exporters to initially reduce the price of goods when their own currency appreciates.
d. the reaction of a country's currency to initially depreciate after the country's inflation rate declines.

31. A country's international trade flows are affected by which of the following factors:

a. inflation.
b. national income.
c. government restrictions.
d. all of the above.

32. 'Dumping' is used in the text to represent the:

a. exporting of goods that do not meet quality standards.
b. sales of junk bonds to foreign countries.
c. removal of foreign subsidiaries by the host government.

d. exporting of goods at prices below cost.

33. The demand for UK exports tends to increase when:
   a. economic growth in foreign countries decreases.
   b. the currencies of foreign countries strengthen against the pound.
   c. UK inflation rises.
   d. none of the above

34. Exporting of products by one country to other countries at prices below cost is called elasticity.
   a. true. b. false.

35. Over time, international trade (exports plus imports) as a percentage of GDP has:
   a. increased for most major countries.
   b. decreased for most major countries.
   c. stayed about constant for most major countries.
   d. increased for about half the major countries and decreased for the others.

36. The World Bank extends loans only to developed nations, while the International Development Association (IDA) extends loans only to developing nations.
   a. true. b. false.

37. The International Development Association was established to:
   a. enhance development solely in Asia through grants.
   b. enhance economic development through non-subsidized loans (at market interest rates).
   c. enhance economic development through low-interest rate loans (below-market rates).
   d. enhance economic development of the private sector through investment in stock of corporations.

38. Which of the following would likely have the least direct influence on a country's current account?
   a. Inflation
   b. National income
   c. Exchange rates
   d. Tariffs
   e. A tax on income earned from foreign stocks

39. The direct foreign investment positions by UK firms have generally ____ over time; the direct foreign investment positions in the UK by non-UK firms have generally ____ over time.
   a. increased; increased b. increased; decreased
   c. decreased; decreased d. decreased; increased

40. A weakening of the US dollar with respect to the British pound would likely reduce the US exports to Britain and increase US imports from Britain.
   a. true. b. false.

41. Which of the following theories identifies specialization as a reason for international business?
   a. Theory of comparative advantage

b. Imperfect markets theory
c. Product cycle theory
d. None of the above

42. ____ is (are) income received by investors on foreign investments in financial assets (securities).
a. Portfolio income
b. Direct foreign income
c. Unilateral transfers
d. Factor income

43. A balance-of-trade surplus indicates an excess of merchandise imports over merchandise exports.
a. true.
b. false.

44. Which of the following is not the main component of a balance of payments statement?
a. Current account
b. Capital account
c. Financial account
d. Profit and loss account

45. Intracompany trade represents the exporting of products by one country to other countries below cost.
a. true.
b. false.

46. A General Agreement on Tariffs and Trade (GATT) accord in 1993 called for:
a. increased trade restrictions outside of North America.
b. lower trade restrictions around the world.
c. uniform environmental standards around the world.
d. uniform worker health laws.

Name: ____________________ Class: ____________________ Date: ____________

chapter 2

Answer Key

1. False

2. False

3. True

4. a

5. e

6. a

7. b

8. b

9. a

10. a

11. b

12. c

13. d

14. a

15. d

16. b

17. c

18. c

19. b

20. b

21. e

22. b

23. b

24. a

chapter 2

25. b

26. a

27. d

28. a

29. b

30. b

31. d

32. d

33. b

34. b

35. a

36. b

37. c

38. e

39. a

40. b

41. a

42. d

43. b

44. d

45. b

46. b

