International Business 2nd edition Geringer Test Bank

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Module 02 International Trade and Investment

1) International trade includes exports, imports, and foreign direct investment.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

International trade includes exports and imports, but not foreign direct investment.

2) Nearly 60 percent of global output is now destined for international trade.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

Nearly 60 percent of global output is now destined for international trade—another indication of the extent to which international trade has become a critical factor in the economic activity of many, if not most, of the countries of the world.

3) The proportion of world trade coming from North America, Latin America, Africa, and the Middle East has decreased since 1983.

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1983, reflecting the greater level of export growth in other regions.

4) Currently, the United States is the largest exporter in the world.

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

Not only has China become the largest exporter in the world, but also 500 million Chinese have been lifted out of poverty by the country's trade-driven policies.

5) Thanks in part to communication advancements, international trade has stabilized and become evenly distributed across all countries of the world.

◎ true
◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

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The 10 largest exporters and importers collectively account for over half the world's exports and imports, which highlights the fact that international trade continues to be unevenly distributed across countries and around the world.

6) The development of expanded regional trade agreements, such as the Association of Southeast Asian Nations, Mercosur, and the EU, can substantially alter the level and proportion of trade flows within and across regions.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

World trade continues to be dominated by exchanges within—not between—geographic regions. This regionalization of trade is being reinforced by the development of expanded regional trade associations and agreements, such as the Association of Southeast Asian Nations (ASEAN, which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), Mercosur in South America (comprised of Argentina, Bolivia, Brazil, Paraguay, Uruguay, and Venezuela, and the 28-nation European Union).

7) The first formulation of international trade theory, by Adam Smith, was motivated by political considerations.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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A profoundly influential early attempt to develop an international trade theory was actually politically motivated. Adam Smith, a Scottish philosopher and economist, was incensed by British government intervention and control over both domestic and foreign trade. In 1776, he published *An Inquiry into the Nature and Causes of the Wealth of Nations,* in which he attacked the mercantilist philosophy that prevailed at that time.

8) The central idea of mercantilism is based on the specialization of goods and services as a way for a company to distinguish itself from others.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

A complex political and economic theory, mercantilism viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver.

9) The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently, based on naturally occurring endowments such as minerals.

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Specialization should be based on market forces, and its absolute advantage could be either natural or acquired.

10) According to the theory of comparative advantage, international trade can still be a positive-sum game that benefits both countries having an absolute advantage over one another.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

British economist David Ricardo demonstrated in 1817 that even though one nation held an absolute advantage over another in the production of each of two different goods, international trade could still be a positive-sum game in which both countries benefit. The only limitation to such benefit-creating trade is that the less-efficient nation cannot be *equally* less efficient in the production of both goods.

11) Currency devaluation helps a nation avoid losing markets and regain competitiveness in world markets.

- ◎ true
- ◎ false

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Difficulty : 2 Medium
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Topic : Trade Theories and Their Implications

A nation can attempt to regain competitiveness in world markets through currency devaluation, which lowers the value of a nation's currency relative to other currencies and therefore effectively lowers the prices of its exports.

12) The international product life-cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

The international product life-cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first. For example, personal computers were initially introduced in the United States, then exported to other countries. Over time, production moved to lower-cost locations such as Taiwan and China, and now almost all computers sold in the United States are imported from abroad.

13) The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as the experience curve.

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as an economy of scale. An experience curve refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.

14) Michael Porter claims that at least 10 types of variables can influence a firm's ability to gain competitive advantage.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model

Porter's diamond model of national advantage identified four kinds of variables that can influence a firm's ability to gain competitive advantage: demand conditions, factor conditions, related and supporting industries, and firm strategy.

15) Portfolio investment is the purchase of sufficient stock in a firm to obtain significant management control.

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

Portfolio investment is the purchase of stocks and bonds to obtain a return on the funds invested. Direct investment is the purchase of sufficient stock in a firm to obtain significant management control.

16) The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by two-thirds over the past 20 years.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by almost 30 percent in the past 20 years. U.S. individuals and corporations still had $7.8 trillion invested abroad in 2018. This total was more than four times the FDI of the next-largest investor, Hong Kong.

17) The vast proportion of outward FDI, about two-thirds, originates from the developed countries.

- ◎ true
- ◎ false

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

The vast proportion of outward FDI, about two-thirds, originates from the developed countries.

18) The majority of the world's outward FDI has been in the form of imports and exports.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

Much of the world's outward FDI has been associated with mergers and acquisitions. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad have been spent to acquire existing companies rather than to establish new ones

19) Internalization theory suggests that when an organization has superior knowledge, it may obtain a better price by selling it to the open market.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Internalization theory suggests that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

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20) The dynamic capability theory states that for a firm to invest overseas, it must have three kinds of advantages: ownership specific, internalization, and location specific.

- ◎ true
- ◎ false

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Ownership-specific, internalization, and location-specific advantages are part of Dunning's Eclectic Theory of International Production. The dynamic capability theory suggests that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

21) The volume of international trade in services exports in 2017, worldwide, was

A) $5.4 trillion.
B) $8.5 trillion.
C) $12.3 trillion.
D) $18.8 trillion.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

Physical goods, such as automobiles, food, and clothing, accounted for $17.5 trillion of the $23 trillion in international trade in 2017. Services, including such activities as insurance, travel, consulting, movies, and music, made up the remaining $5.4 trillion of international trade.

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22) When examining the volume of international trade, how are goods and services currently represented?

A) Exports of goods and services quadrupled between 1990 and 2013.
B) Exports of services grew faster than trade in merchandise for the last 20 years.
C) There are fewer goods traded than services.
D) Goods and services have reached equal levels of trading volumes.

Question Details
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Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

Physical goods, such as automobiles, food, and clothing, accounted for $17.5 trillion of the $23 trillion in international trade in 2017. Services, including such activities as insurance, travel, consulting, movies, and music, made up the remaining $5.4 trillion of international trade. Trade in services has been growing faster than trade in merchandise for the last 20 years.

23) What percentage of global output is now bound for international trade?

A) 10 percent
B) Less than 5 percent
C) almost 50 percent
D) 60 percent

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

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Nearly 60 percent of global output is now destined for international trade—another indication of the extent to which international trade has become a critical factor in the economic activity of many, if not most, of the countries of the world.

24) Since 1983, the proportion of world trade coming from the United States has

A) increased by 20 percent.
B) tripled.
C) decreased overall.
D) not changed.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1983, reflecting the greater level of export growth in other regions.

25) The proportion of merchandise exports from Asia has _____ since 1983.

A) increased by 20 percent
B) tripled
C) seen an overall decline
D) almost doubled

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Question Details
AACSB : Reflective Thinking
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Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

The proportion of merchandise exports from Asia has almost doubled since 1983, with China accounting for over 83 percent of the increase. Not only has China become the largest exporter in the world, 500 million Chinese have been lifted out of poverty by that country's trade-driven policies.

26) Since 1980, the United States proportion of world trade in commercial services has

A) not changed.
B) increased one-third.
C) decreased overall.
D) Increased more than fivefold.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their services exports, although the proportion of world exports of commercial services from Latin America, the European Union, Africa, and the Middle East has declined since 1980. However, the United States proportion has risen by approximately one-third since 1980, and Asia's proportion has grown at an even greater rate, with China accounting for the largest part of that growth.

27) Overall, what has occurred with the dollar volume of service exports worldwide?

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A) The dollar volume of exports has maintained a low, but consistent, rate.
B) Service exports have decreased with the advent of competition.
C) There has been an absolute increase.
D) There has been no change.

Question Details
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Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their services exports, though the proportion of world exports of commercial services from Latin America, the European Union, Africa, and the Middle East has declined since 1980.

28) The rapid expansion of world exports since 1980 demonstrates that

A) businesspeople can expect to meet lower levels of competition in their domestic markets.
B) domestic business cannot compete with cheap imports.
C) the opportunity to increase sales by exporting is a viable growth strategy.
D) jobs will inevitably decline in developed countries due to import competition.

Question Details
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The rapid expansion of world exports since 1980 demonstrates that the opportunity to increase sales by exporting is a viable growth strategy and one that can benefit the exporting nations by creating jobs for their citizens. At the same time, however, the growth of exports from individual nations should be a warning to managers that they must be prepared to meet increased competition from these exports in their own domestic markets.

29) In examining the volume of international trade, the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations in 2016

A) was less than 10 percent.
B) was approximately 25 percent.
C) exceeded 50 percent.
D) was approximately one-third.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy
Bloom's : Remember
Difficulty : 1 Easy

Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. The 10 largest exporters and importers collectively account for over half the world's exports and imports.

30) Which country ranked the highest in 2016 in terms of merchandise exports?

A) United Kingdom
B) India
C) China
D) United States

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Question Details
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-01 Describe the magnitude of international trade and how it has grown.
Topic : The Changing Nature of the Global Economy

Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. As of 2016, China ranked the highest in terms of merchandise exports.

31) A major portion of the exports from developing countries go to _____ countries, and this proportion has been _____.

A) developed; increasing
B) developing; increasing
C) developed; decreasing
D) developing; decreasing

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

A major portion of the exports from developing nations do go to developed countries, but this proportion has declined from 72 percent in 1970 to about 43 percent by 2015 as developing nations participate more extensively in trade with other developing nations.

32) World trade consists mostly of exchanges

A) among nonbordering countries.
B) between geographic regions.
C) between state-owned enterprises.
D) within geographic regions.

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

World trade continues to be dominated by exchanges within—not between—geographic regions.

33) NAFTA and other treaties are the main reasons that most of Canada's exports go to

A) Mexico.
B) the European Union.
C) Asia.
D) the United States.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

In 2014, approximately half the exports from North American nations went to other nations in North America. Most of Canada's exports go to the United States and nearly 20 percent of U.S. exports go to Canada, mainly as a result of the 1994 North American Free Trade Agreement (NAFTA) and other treaties between the two nations.

34) When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include the fact that

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A) the cultures of the two countries should be relatively similar and compatible.

B) the climate for foreign direct investment in the importing nation is relatively favorable.

C) export and import regulations are not insurmountable.

D) the two countries are part of the same regional trade agreement.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home to buying that nation's goods, (4) satisfactory transportation facilities have already been established, (5) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area, (6) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

35) When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include all of the following EXCEPT

A) the business climate in these importing nations is already relatively favorable.

B) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area.

C) satisfactory transportation facilities have already been established.

D) the cultures of the two countries should be relatively similar and compatible.

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home to buying that nation's goods, (4) satisfactory transportation facilities have already been established, (5) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area, (6) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

36) Mexico and Canada are major U.S. trading partners because they have the benefit of lower freight charges and shorter delivery times. Why do these benefits exist for these two nations?

A) They established these parameters in the NAFTA agreement.
B) They share a border with the United States.
C) They source production materials from China.
D) They have established economies of scale for goods and services.

Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Mexico and Canada are major U.S. trading partners in great part because they are part of NAFTA. They also each share a common border with the United States, which means lower freight charges, shorter delivery times, and easier and less expensive contacts between buyers and sellers than would otherwise be the case.

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37) Which country currently exports the most to the United States?

A) Indonesia
B) Canada
C) Mexico
D) China

Question Details
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Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade
Bloom's : Remember
Difficulty : 1 Easy

Since 1991, China has risen from sixth to first place in exports to the United States.

38) The three largest markets for American exports of goods in 2017 were

A) Japan, the United Kingdom, and China.
B) Japan, Mexico, and the United Kingdom.
C) Canada, Mexico, and China.
D) Canada, Japan, and the United Kingdom.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Figure 2.2 shows the major trading partners of the United States. Canada, Mexico, and China were the largest markets for U.S. exports of goods.

39) The three nations that exported the largest amount of goods to the United States in 2017 were

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A) China, Canada, and Mexico.
B) China, Mexico, and the United Kingdom.
C) China, Japan, and Saudi Arabia.
D) Canada, Mexico, and Japan.

Question Details
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Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Figure 2.2 shows the major trading partners of the United States. China, Canada, and Mexico were the largest sources for U.S. imports of goods.

40) Which countries have become more important trading partners to the United States as suppliers of electronic products?

A) Canada and Mexico.
B) China and Canada.
C) Germany and the United Kingdom
D) China and Malaysia

Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Besides the long-term trade partner, Japan, nations from Asia have become increasingly important trade partners in recent years. China, South Korea, India, Vietnam, Taiwan, and Malaysia supply the United States with huge quantities of electronic products and components as well as a variety of largely labor-intensive manufactured goods, many of which are produced by affiliates of U.S.-based international companies.

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41) When the value of imports into a nation exceeds the value of its exports, that nation is experiencing a(n)

A) economy of scale.
B) fixed market.
C) competitive advantage.
D) trade deficit.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

This difference is a trade deficit—the amount by which the value of imports into the nation exceeds the value of its exports.

42) Government administrations get concerned when the number and value of imports into the country are greater than the value of the country's exports. In other words, the administration is concerned about

A) product differentiation.
B) a trade deficit.
C) absolute advantage.
D) economies of scale.

Question Details
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

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This difference is a trade deficit—the amount by which the value of imports into the nation exceeds the value of its exports. Trade deficits can be the source of economic, political, and other concerns, as suggested by the Trump administration's recent efforts to renegotiate trade treaties, impose tariffs, or engage in other actions to reduce the deficit between the United States and many of its trading partners, including China.

43) Some countries send out buying missions to other countries in order to find products to import because their exports are exceeding the value of their imports. In other words, the nations are experiencing a(n)

A) economy of scale.
B) absolute advantage.
C) trade surplus.
D) product differentiation.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

When the value of a country's exports exceeds the value of the imports, the country is experiencing a trade surplus.

44) Nations encounter a trade surplus when the value of

A) exports exceeds the value of imports.
B) imports and exports doesn't change.
C) imports exceeds the value of exports.
D) imports and exports is balanced.

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AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Trade surplus—the amount by which the value of a nation's exports exceeds the value of its imports.

45) In 2016, what was included in the five largest categories of U.S. goods exported to China?

A) furniture
B) grains
C) toys
D) soft goods

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Examining these sources would reveal, for example, that in 2016 the five largest categories of U.S. goods exported to China were grains (e.g., soybeans), civilian aircraft and equipment, electrical machinery, machinery, and passenger cars, while the largest categories of goods imports from China included electrical machinery, machinery, furniture and bedding, toys and sports equipment, and footwear.

46) In 2016, what was the included in the five largest categories of U.S. goods imported from China?

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A) aircraft
B) grains
C) automobiles
D) footwear

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

Examining these sources would reveal, for example, that in 2016 the five largest categories of U.S. goods exported to China were grains (e.g., soybeans), civilian aircraft and equipment, electrical machinery, machinery, and passenger cars, while the largest categories of goods imports from China included electrical machinery, machinery, furniture and bedding, toys and sports equipment, and footwear.

47) Supporters of mercantilism would agree that

A) accumulation of precious metals is an activity essential to a nation's welfare.
B) industrial development is the primary source of a nation's wealth.
C) trade policies that generally benefited consumers and emerging industrialists should be promoted.
D) more than one nation can maintain a comparative advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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Supporters of mercantilism viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver. Of course, mercantilism also generated benefits for certain economic groups, such as domestic merchants, artisans, and shippers, though at a cost to other groups including consumers and emerging industrialists.

48) Mercantilists believed that

A) merchants should import goods to raise the level of living.
B) governments should lower import duties.
C) a nation should have an export surplus in order to accumulate precious metals.
D) a nation should produce goods for which there is a comparative advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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49) Who advocated the early attempt to develop an international trade theory in response to the practice of mercantilism?

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A) David Ricardo
B) Raymond Vernon
C) Stefan Linder
D) Adam Smith

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

A profoundly influential early attempt to develop an international trade theory was actually politically motivated. Adam Smith, a Scottish philosopher and economist, was incensed by British government intervention and control over both domestic and foreign trade. In 1776, he published *An Inquiry into the Nature and Causes of the Wealth of Nations*, in which he attacked the mercantilist philosophy that prevailed at that time.

50) Adam Smith argued against mercantilism by claiming that

A) governments, not market forces, should determine the directions, volume, and composition of international trade.
B) a nation could trade advantageously if it had a comparative advantage.
C) market forces, not government controls, should determine direction, volume, and the composition of international trade.
D) customers' tastes are affected by income levels.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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Adam Smith argued against mercantilism by claiming that market forces, not government controls, should determine the direction, volume, and composition of international trade. He advocated free, unregulated trade, in which each nation should specialize in making those goods it could produce most efficiently—goods for which it had an absolute advantage, either natural or acquired.

51) The capability of one nation to produce more of a good or service than another country for the same or lower cost of inputs is a(n)

A) comparative advantage.
B) absolute advantage.
C) mercantilist advantage.
D) trade surplus.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs.

52) The United States can produce more wheat for the same or lower costs than many other countries. This is an example of

A) a trade surplus.
B) economies of scale.
C) absolute advantage.
D) mercantilism.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs.

53) If Ecuador has an absolute advantage in coffee and Argentina in wheat, then, according to trade theory

A) Ecuador should focus production on coffee and trade for other goods.
B) Ecuador would do well to produce its own wheat rather than import it from Bolivia.
C) Argentina should focus on producing coffee and trade for wheat.
D) there will be a perfect trade balance between the two countries.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs. Nations would then export some goods to pay for imports that have been produced more efficiently elsewhere. With his theory of absolute advantage, Smith showed that both nations gain from trade, although not necessarily equally.

54) A market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products is known as

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A) absolute advantage.
B) mercantilism.
C) trade deficit.
D) perfect competition.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Perfect competition is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

55) A country _____ when it decides to use its resources to produce only the product in which it has an absolute advantage.

A) monopolizes
B) specializes
C) rejects trade
D) globalizes

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications
Difficulty : 1 Easy

Specialization is a situation in which each nation decides to use its resources to produce only the product in which it has an absolute advantage.

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56) A nation having absolute disadvantages in the production of two goods with respect to another nation has a(n) _____ in the production of the good in which its absolute disadvantage is less.

A) comparative advantage
B) absolute advantage
C) mercantilist advantage
D) competitive advantage

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

57) According to the theory of comparative advantage, trade can benefit

A) the exporting country involved in a trade.
B) neither country involved in a trade.
C) both countries involved in a trade.
D) the importing country involved in a trade.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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British economist David Ricardo demonstrated in 1817 that even though one nation held an absolute advantage over another in the production of each of two different goods, international trade could still be a positive-sum game in which both countries benefit.

58) According to the theory of comparative advantage, a nation

A) should produce the goods for which its absolute disadvantage is less.
B) can gain from trade if it is equally inefficient in producing two goods.
C) must have an absolute advantage in at least one good to gain from trade.
D) should strive to produce trade surpluses to acquire supplies of precious metals.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

The theory of comparative advantage proposes that when one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

59) A nation that is struggling to remain competitive in the world market may decide to reduce the value of the country's currency relative to other currencies. This process is called currency

A) surplus.
B) deficit.
C) customization.
D) devaluation.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

This example suggests that a nation can attempt to regain competitiveness in world markets through currency devaluation, which lowers the value of a nation's currency relative to other currencies and therefore effectively lowers the prices of its exports.

60) How are exchange rates used in international trade?

A) Exchange rates are used to convert from foreign to domestic currency.
B) Exchange rates indicate which products create an absolute advantage for trading partners.
C) Exchange rates are used to devalue property in exchange for goods.
D) Exchange rates set the costs of labor.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

To determine whether it is more advantageous to buy locally or to import, the traders need to know the prices in their own currencies. To convert from foreign to domestic currency, they use the *exchange rate*.

61) Theory based on _____ states that international and interregional differences in production costs occur because of differences in the supply of production factors.

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A) comparative advantage
B) absolute advantage
C) mercantilist advantage
D) resource endowments

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar. According to this theory, countries would export products requiring large amounts of their abundant production factors and import products requiring large amounts of their scarce production factors.

62) What is an example of a resource endowment that a nation possesses?

A) government
B) land
C) religion
D) universities

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Some countries have abundant resource endowments, or the land, labor, capital, and related production factors a nation possesses.

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63) The theory of resource endowment explains

A) why France sends cosmetics, wine, and clothing to Chile.
B) that a nation will trade goods that can be produced with the production factor that is most abundant.
C) why an automobile can be made either by hand or by a capital-intensive process.
D) that a nation less efficient in producing a good has a comparative advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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64) The theory of overlapping demand explains

A) how international trade in manufactured goods will be linked to gross national income.
B) why companies will add excess capacity to their production systems.
C) the existence of similar preferences and demands among countries with similar income levels.
D) where competitive clusters will occur.

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

In contrast to resource endowment-based theory, economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

65) The theory of overlapping demand suggests that

A) international trade in services will be more common between countries with high and low relative levels of labor costs.
B) countries with similar geography will have similar demand traits.
C) trade wars will usually occur between countries that have similar levels of income.
D) international trade in manufactured goods will be more common between countries with similar levels of income.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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66) Natalie purchases Open Source bottled water from France because it is derived from natural springs and the store brand doesn't say where it comes from. What is influencing Natalie's purchase decision?

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A) a trade surplus
B) product differentiation
C) overlapping demand
D) economies of scale

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications
Bloom's : Apply

In fact, the intra-industry trade sparked by overlapping demand occurs because of product differentiation, the unique differences producers build into their products with the intention of influencing demand. In other words, whiskey from Europe is exported to the United States, and American whiskey is exported to Europe because consumers in these markets perceive a difference between the brands.

67) Product differentiation refers to the

A) availability of a variety of goods in a single product category.
B) the ability of one country to produce a product that another country cannot produce.
C) the existence and demand for similar products among nations.
D) unique differences companies build into their products.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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68) The international product life cycle is used to

A) explain how international trade in manufactured goods will be linked to gross national income.
B) show that a nation will trade goods that can be produced with the production factor that is most abundant.
C) explain the role of innovation in trade patterns.
D) explain why mercantilism failed.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export eventually becomes its import, thus viewing a product as going through a full life cycle.

69) According to the international product life cycle, which country has the largest population of high-income consumers and as a result, competition for patronage is intense?

A) Canada
B) China
C) Japan
D) the United States

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications
Difficulty : 1 Easy

Because the United States has the largest population of high-income consumers of any nation in the world, competition for their patronage is intense.

70) What is the second stage in the international product life cycle theory?

A) The United States innovates and exports.
B) Foreign competition appears in export markets.
C) Import competition appears in the United States.
D) Foreign production begins.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

The four stages of the international product life cycle theory include: The United States innovates and exports; foreign production begins; foreign competition appears in export markets; and import competition appears in the United States.

71) Green Fields Coffee Co. introduced its line of herbal coffees to the international market two years ago. They were well received and now foreign competitors are starting to appear. Which stage of the product life cycle theory is the company currently in?

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A) Stage 1
B) Stage 2
C) Stage 3
D) Stage 4

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications
Bloom's : Apply

In the third stage of the product life cycle theory, foreign competition appears in export markets.

72) Easy Play Audio/Video Corp. has been selling audio and video equipment to the international market for six years. Recently, the company decided to drop its line of televisions because the United States is importing televisions at a lower cost than the company can make their television. Which stage of the product life cycle theory is the company currently in?

A) Stage 1
B) Stage 2
C) Stage 3
D) Stage 4

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications
Bloom's : Apply

In the fourth stage of the product life cycle theory, import competition appears in the United States

73) Which statement describes economies of scale?

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A) They refer to the rising scale on which efficiency improves as a result of cumulative experience and learning.

B) They are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

C) They are only relevant to manufacturing industries.

D) They occur due to the presence of abundance resource endowments within a nation.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Economies of scale are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

74) Five years ago it cost Bernie's Bikes Inc. about $52 dollars to build a single bike. Today, it only costs the company about $31 because they have automated the process and are able to purchase component parts in larger quantities.What allowed the company to reduce the price to build a bike?

A) product differentiation

B) trade surplus

C) economies of scale

D) trade deficit

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications
Bloom's : Apply

Economies of scale are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

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75) The experience curve refers to

A) the rising scale on which efficiency improves as a result of cumulative experience and learning.

B) the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

C) the stage in the product life cycle where companies export products for the first time.

D) the lack of a suitable workforce to complete a task.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

Experience curve refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.

76) What is one of the reasons suggested by Alfred Marshall for why firms tend to cluster together on a geographic basis?

A) Production costs decline as facilities get larger.

B) Efficiency improves as the result of cumulative experience.

C) Competition will not enter the market.

D) Technological information can be readily shared.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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He suggested three reasons: (1) the pooling of a common labor force means staffing requirements can be met quickly, even with unexpected fluctuations in demand; (2) specialized local suppliers can coordinate their operations and skills with the needs of the buyers; and (3) technological information can be readily shared, enhancing the rate of innovation.

77) Which element is included in Porter's diamond model of national advantage?

A) demand conditions
B) export conditions
C) social conditions
D) supply conditions

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model
Bloom's : Remember
Difficulty : 1 Easy

Porter's diamond model of national advantage includes demand conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage.

78) Which element in Porter's diamond model of national advantage distinguishes between the land a company owns and the transportation systems available for it to use?

A) competitive conditions
B) export conditions
C) factor conditions
D) supply conditions

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model

Porter's diamond model of national advantage includes factor conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage. Porter distinguishes between basic factors (inherited factors, such as land, location, or natural resources) and advanced factors (those created from investments made by individuals, companies, or governments, such as a nation's transportation systems, or university research institutes).

79) Which of the elements in Porter's diamond model of national advantage takes into consideration the sophistication of a company's customers?

A) export conditions
B) factor conditions
C) demand conditions
D) government

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model

Demand conditions refer to the nature of domestic demand matters, rather than merely the size. If a firm's customers are sophisticated and demanding, the firm will strive to produce high-quality and innovative products and, in doing so, will obtain a global competitive advantage over companies located where domestic pressure is less.

80) Which of the elements in Porter's diamond model of national advantage takes into consideration companies that locate near the suppliers they need to produce their product?

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A) related and supporting industries
B) demand conditions
C) firm strategy, structure, and rivalry
D) factor conditions

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model

Related and supporting industries: Firms in an industry, with their suppliers, their suppliers' suppliers, and so forth, tend to form a cluster in a given location, providing a network of suppliers and subcontractors and a commercial infrastructure.

81) According to Porter, the four variables he believes influence a firm's ability to gain a competitive advantage create a

A) virtuous circle.
B) consistent triangle.
C) reliable square.
D) redundant cone.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Porter's Diamond Model

Porter argues that these factors are fundamentally interrelated, creating a "virtuous circle" of resource generation and application, as well as responsiveness in meeting the demands of customers.

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82) The two components of foreign investment include portfolio investment and

A) exporting.
B) importing.
C) government tariffs.
D) direct investment.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

The distinction between portfolio investments and direct investments has begun to blur, particularly with the growing size and number of international mergers, acquisitions, and alliances in recent years.

83) Deals that do not result in a foreign investor obtaining at least _____ of the shareholdings are classified as portfolio investments.

A) 25 percent
B) 100 percent
C) 50 percent
D) 10 percent

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment
Difficulty : 1 Easy

The value of foreign securities owned by U.S. investors at the beginning of 2014 was three times larger than in 2004.

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84) At the beginning of 2018, the value of the outstanding stock of foreign direct investment of all nations totaled more than

A) $3.4 billion.
B) $8.7 trillion.
C) $19.2 trillion.
D) $30.8 trillion.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment
Difficulty : 3 Hard

The *book value*—or the value of the total outstanding stock—of all foreign direct investment (FDI) worldwide was $30.8 trillion at the beginning of 2018.

85) Firms from _____ had the largest total outstanding stock of direct overseas investment at the beginning of 2018.

A) Germany
B) the United States
C) the United Kingdom
D) Japan

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

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Although the proportion of FDI accounted for by the United States has declined by almost 30 percent in the past 20 years, U.S. individuals and corporations still had $7.8 trillion invested abroad in 2018. This total was more than four times the FDI of the next-largest investor, Hong Kong.

86) Many firms are choosing to locate production close to available resources as a way to

A) take advantage of factor endowments in overseas locations.
B) increase transportation options.
C) motivate employees.
D) improve efficiency.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

This sort of linear path to market expansion is one that many international firms have taken and many still take today. However, the new business environment, with fewer government barriers to trade, increased competition from globalizing firms, and new production and communications technology, is causing many international firms to locate production close to available resources in order to improve efficiency.

87) The establishment of new facilities from the ground up is known as

A) cross-border acquisition.
B) exporting.
C) greenfield investment.
D) gray market trade.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment
Difficulty : 1 Easy

The establishment of new facilities from the ground up is known as greenfield investment.

88) The purchase of an existing business in another nation is known as a

A) cross-border acquisition.
B) strategic alliance.
C) greenfield investment.
D) home country expansion.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment
Difficulty : 1 Easy

The purchase of an existing business in another nation is known as a cross-border acquisition.

89) The monopolistic advantage theory suggests that firms in oligopolistic industries are likely to _____ foreign direct investment when they have technical and other advantages over indigenous firms.

A) increase
B) reduce
C) ignore
D) not change

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms. Therefore, developing these advantages makes such firms likely to increase their FDI to exploit these advantages.

90) The monopolistic advantage theory states that

A) a firm that has a monopoly has a major advantage in overseas investment.
B) FDI is made by firms in oligopolistic industries possessing technical advantages over local companies.
C) a firm that has a monopoly domestically will have no competition making overseas investments.
D) the firm making the overseas investment first has a monopolistic advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, also known as oligopolistic industries, due to their possession of technical and other advantages over indigenous firms.

91) An industry that has a limited number of competing firms, such as the U.S. mobile phone market in which four firms controlled 98 percent of the market in 2018, is known as

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A) perfect competition.
B) a monopoly.
C) an oligopolistic industry.
D) deregulated.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

An industry that has a limited number of competing firms, such as the U.S. mobile phone market in which four firms controlled 98 percent of the market in 2018, is known as an oligopolistic industry.

92) The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as

A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) competitive imitation theory.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as strategic behavior theory.

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93) The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as

A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) dynamic capabilities theory.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as internalization theory.

94) The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as

A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) dynamic capabilities theory.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

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The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as dynamic capabilities theory.

95) Dunning's eclectic theory of international production states that if a firm is going to invest in production facilities abroad, it must have the following kinds of advantages:

A) ownership-specific, location-specific, and internationalization.
B) strategic, organizational, and technological.
C) ownership-specific, location-specific, and internalization.
D) technological, financial, and human resource.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

As stated directly in the text, in developing his eclectic theory of international production, British economist John Dunning proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization (not internationalization).

96) The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's _____.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade
Bloom's : Remember

The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's trade deficit.

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97) The amount by which the value of a nation's exports exceeds the value of its imports is known as the country's _____.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade
Bloom's : Remember

The amount by which the value of a nation's exports exceeds the value of its imports is known as the country's trade surplus.

98) _____ refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

Absolute advantage refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

99) The economic theory known as _____ viewed precious metals like gold and silver as the only source of wealth, and the accumulation of these metals was an essential part of a nation’s welfare.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

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A complex political and economic theory, mercantilism viewed precious metals like gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare.

100) When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a _____ in the production of that good for which its absolute disadvantage is less.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of that good for which its absolute disadvantage is less.

101) _____ refers to a reduction in the value of a country's currency relative to other currencies.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

Currency devaluation refers to a reduction in the value of a country's currency relative to other currencies.

102) Economist Stefan Linder proposed his theory of _____, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

Economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

103) _____ refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

Economy of scale refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

104) The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the _____.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Bloom's : Remember
Topic : Trade Theories and Their Implications

The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the experience curve.

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105) The purchase of stocks and bonds to obtain a return on the funds invested is known as _____.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

The purchase of stocks and bonds to obtain a return on the funds invested is known as portfolio investment.

106) The purchase of sufficient stock in a firm to obtain significant management control is known as _____.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

The purchase of sufficient stock in a firm to obtain significant management control is known as direct investment.

107) The vast proportion of outward FDI, about two-thirds, still originates from the _____ countries.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

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The overall volume of outward FDI from developing nations in 2017 was 29 times the level in 1990, and the proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to 27 percent in 2017. Despite this increase, the vast proportion of outward FDI, about two-thirds, still originates from the developed countries.

108) Much of the world's outward FDI has been associated with mergers and _____, including, historically, approximately two-thirds of the value of corporate investments made in the United States from abroad.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-04 Describe the size, growth, and direction of foreign direct investment.
Topic : Benefits and Challenges of Foreign Direct Investment

Much of the world's outward FDI has been associated with mergers and acquisitions, including, historically, approximately two-thirds of the value of corporate investments made in the United States from abroad.

109) _____ refers to the establishment of new facilities from the ground up.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Greenfield investment refers to the establishment of new facilities from the ground up.

110) A(n) _____ is an industry with a limited number of competing firms.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

An oligopolistic industry is an industry with a limited number of competing firms.

111) The _____ theory suggests that competitive rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep other firms from gaining an advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The strategic behavior theory suggests that strategic rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep a competitor from gaining an advantage.

112) _____ theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Internalization theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

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113) _____ theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Dynamic capability theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

114) The _____ theory of international production proposes that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

The eclectic theory of international production proposes states that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization.

115) Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and _____.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : 2 Medium
Bloom's : Remember
Learning Objective : 02-05 Explain several of the theories of foreign direct investment.
Topic : Theories of Foreign Direct Investment

Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization. Note: the third advantage is *not* internationalization.

116) Discuss the advantages of focusing attention on a nation that is already a sizable purchaser of goods coming from the exporter's home country.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-02 Identify who participates in trade.
Topic : Overview of Trade

117) Explain the logic of mercantilism and why it is generally viewed as a deficient theory.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

118) Discuss the theory of absolute advantage and how it explains the basis for trade between nations.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

119) Discuss the keystone of international trade, the theory of comparative advantage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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120) Discuss the international product life cycle theory.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic : Trade Theories and Their Implications

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Answer Key

Test name: Geringer_IB_2e_Module02_Word

1) FALSE
2) TRUE
3) TRUE
4) FALSE
5) FALSE
6) TRUE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) TRUE
12) TRUE
13) FALSE
14) TRUE
15) FALSE
16) FALSE
17) TRUE
18) FALSE
19) FALSE
20) FALSE
21) A
22) B
23) D
24) C
25) D
26) B

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27) C
28) C
29) C
30) C
31) C
32) D
33) D
34) C
35) D
36) B
37) D
38) C
39) A
40) D
41) D
42) B
43) C
44) A
45) B
46) D
47) A
48) C
49) D
50) C
51) B
52) C
53) A
54) D
55) B
56) A

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57) C
58) A
59) D
60) A
61) D
62) B
63) B
64) C
65) D
66) B
67) D
68) A
69) D
70) D
71) C
72) D
73) B
74) C
75) A
76) D
77) A
78) C
79) C
80) A
81) A
82) D
83) D
84) D
85) B
86) D

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87) C
88) A
89) A
90) B
91) C
92) C
93) A
94) D
95) C
96) trade deficit
97) trade surplus
98) Absolute advantage
99) mercantilism
100) comparative advantage
101) Currency devaluation
102) overlapping demand
103) Economy of scale
104) experience curve
105) portfolio investment
106) direct investment
107) developed
108) acquisitions
109) Greenfield investment
110) oligopolistic industry
111) strategic behavior
112) Internalization
113) Dynamic capability
114) eclectic
115) internalization

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116) Answers will vary, but might include the following points: focusing on a nation that is already a sizable purchaser of goods coming from a would-be exporter's country has such potential advantages as (1) the business climate in the importing nation is relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections to buying that nation's goods, (4) satisfactory transportation facilities have already been established, (5) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area, (6) foreign exchange to pay for the exports is available, and (7) the government of a trading partner may be applying pressure on importers to buy from countries that are good customers for that nation's exports.
117) Answers will vary, but mercantilism traditionally has been interpreted as an economic philosophy that viewed the accumulation of precious metals as an activity essential to a nation's welfare because these metals were, in the mercantilists' view, the only source of wealth. As a result, the government established economic policies that promoted exports and stifled imports, resulting in a trade surplus and protection of jobs in the mercantilist nation. Mercantilist behavior tended to be costly to groups including consumers and some emerging industrialists, and to raise the potential for retaliatory efforts by other governments who encounter trade deficits due to the policies of the mercantilist nation.

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118) Answers will vary, but the theory of absolute advantage states that a nation has absolute advantage when it can produce a larger amount of a good or service for the same amount of inputs as can another country, or when it can produce the same amount of a good or service using fewer inputs than could another country. Under conditions of free, unregulated trade, each nation should specialize in producing those goods that it could produce more efficiently, exporting some of those goods to pay for imports of goods that could be produced more efficiently elsewhere and thus enabling both nations to gain from trade.
119) Answers will vary, but the theory of comparative advantage states that a nation having absolute disadvantage in the production of two goods with respect to another nation has a comparative or relative advantage in the production of the good in which its absolute disadvantage is less. Therefore, there will be potential gains from trade even if one country is less efficient than another in the production of each of two goods (as long as it is not equally less efficient in the production of both goods).

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120) Answers will vary. The concept of an international product life cycle (IPLC) was developed by Raymond Vernon of Harvard. This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export eventually becomes its import, thus viewing a product as going through a full life cycle. The theory has four stages. Stage 1. The United States innovates and exports: Because the United States has the largest population of high-income consumers of any nation in the world, competition for their patronage is intense. Manufacturers constantly search for better ways to satisfy their customers' needs, maintaining large research and development laboratories and keeping in close contact both with the home market and with suppliers of the materials they need for product development, who are often local. Stage 2. Foreign production begins: Overseas consumers, especially in developed nations, are similar to U.S. customers in their need for and their ability to purchase the product. Export volume grows and may become large enough to support production abroad, especially in larger markets. The technology for producing the good has become fairly stable, and if the innovator is a multinational firm, it will often be sending new product information to subsidiaries, with complete details on how to produce it. Stage 3. Foreign competition appears in export markets: As early foreign manufacturers gain experience in marketing and production; their costs will fall. Saturation of their local markets will cause them to look for buyers elsewhere. They may even be able to undersell the U.S. producers if they enjoy an advantage such as lower labor or raw material costs. In this stage, foreign firms are competing in U.S. export markets, and as a result, U.S. export sales will continue to decline. Stage 4. Import competition appears in the United States: If foreign producers attain sufficient economies of scale, they may be able to compete in quality with and underprice U.S. firms in the domestic market. From that point on, the U.S. market will be served exclusively

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(or nearly so) by imports. Televisions, footwear, and semiconductor chips are examples. The rise in imports puts increasing pressure on the innovating companies to achieve product innovation and improvement, which may initiate a new IPLC.

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