International Marketing 18th edition Cateora Test Bank

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International Marketing, 18e **(Cateora)**
Chapter 2 The Dynamic Environment of International Trade

1) The Marshall Plan was developed by the United States as a method to assist Europe in rebuilding after World War II.

Answer: TRUE
Explanation: The United States wanted to infuse capitalism throughout the world to dampen the spread of communism. The Marshall Plan was a means to assist Europe in rebuilding after World War II.
Difficulty: 2 Medium
Topic: Western Europe's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

3) The United States faced decreasing competition in export markets beginning in 1970 with the ending of the Vietnam War.

Answer: FALSE
Explanation: At the close of the 1960s, U.S. MNCs were facing resistance to direct investments and increasing competition in export markets.
Difficulty: 1 Easy
Topic: How Formal Institutions Affect Domestic and International Competition
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
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4) By the year 1971, the United States was selling less to other countries than it bought from them; that is, the United States had a trade deficit.

Answer: TRUE
Explanation: Before 1971, the United States sold more to other countries than it bought from them, so the United States had a favorable balance of trade. By 1971, however, the United States had a trade deficit of $2 billion that grew steadily until it peaked at $160 billion in 1987.
Difficulty: 1 Easy
Topic: Overview of Trade
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
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5) The Organization for Economic Cooperation and Development (OECD) estimates that the economies of the developed world will expand at much faster rates when compared to the developing economies.

Answer: FALSE
Explanation: The Organization for Economic Cooperation and Development (OECD) estimates that the economies of developed countries will expand an average of 3 percent annually for the next 25 years, the same rate as in the past 25 years. Conversely, the economies of developing countries will expand an average of 6 percent annually for the next 25 years, higher than the 4 percent rate in the past 25 years.
Difficulty: 1 Easy
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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7) In a balance-of-payments record, the current account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

Answer: FALSE
Explanation: In a balance-of-payments statement, the current account is a record of all merchandise exports, imports, and service plus unilateral transfers of funds.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
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8) When reviewing a balance-of-payments statement, you would check the reserves account to view exports and imports of gold.

Answer: TRUE
Explanation: The reserves account is a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) When foreign currencies can be traded for more dollars, U.S. products and companies are more expensive for the foreign customer and exports decrease.

Answer: FALSE
Explanation: When foreign currencies can be traded for more dollars, U.S. products (and companies) are less expensive for the foreign customer and exports increase, and foreign products are more expensive for the U.S. customer and the demand for imported goods is dampened.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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10) Establishing a tariff on fabrics imported from Uruguay so that U.S. manufacturers sell more fabrics is an example of a protectionist measure.

Answer: TRUE
Explanation: Protectionism occurs when nations utilize legal barriers, exchange barriers, and psychological barriers to restrain the entry of unwanted goods.
Difficulty: 2 Medium
Topic: Overview of Importing and Exporting
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) In general, economists do not recognize "protection of the home market" as a valid argument for protectionist measures.

Answer: TRUE
Explanation: In general, economists recognize arguments regarding protection of an infant industry, national defense, and the industrialization of underdeveloped countries as valid.
Difficulty: 1 Easy
Topic: The Changing Nature of the Global Economy
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

12) Quotas, boycotts, monetary barriers, and market barriers are examples of tariff barriers.

Answer: FALSE
Explanation: A tariff is a tax imposed by a government on goods entering at its borders. It is used to encourage development of domestic industry and protect existing industry. Governments may establish such barriers to trade as tariffs and a variety of nontariff barriers including quotas, boycotts, monetary barriers, and market barriers.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
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13) In general, a tariff will decrease inflationary pressures.

Answer: FALSE
Explanation: In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs (they beget other tariffs via reciprocity).
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: Tariffs can be arbitrary, discriminatory, and require constant administration and supervision. In addition, tariffs are often used as reprisals against protectionist moves of trading partners.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

15) The United States has placed a limit on the tons of sugar that can be imported into the country. This is an example of a tariff.

Answer: FALSE
Explanation: A quota is a specific unit or dollar limit applied to a particular type of good. The United States has specific guidelines restricting how many tons of sugar can be imported.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
AACSB: Knowledge Application
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16) An import license limits the quantities that can be imported on a case-by-case basis.

Answer: TRUE
Explanation: The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas. Quotas permit importing until the quota is filled while import licenses limit quantities on a case-by-case basis.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

17) Voluntary export restraints are common in the agricultural industry when an agreement is made between the importing and exporting countries for a restriction on the volume of exports.

Answer: TRUE
Explanation: A voluntary export restraint (VER) is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established. It is common in the textiles, clothing, steel, agriculture, and automobile industries.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

18) An embargo sets a limit on the quantity of goods one country can sell to another.

Answer: FALSE
Explanation: An embargo is a refusal to sell to a specific country.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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19) In the context of blocked currency, blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.

Answer: TRUE
Explanation: Blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

20) It is mandatory for importers who want to buy a foreign good from a foreign country to apply for a business permit in that country.

Answer: FALSE
Explanation: Importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.
Difficulty: 1 Easy
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) An exchange permit issued by a government can stipulate an unfavorable rate of exchange depending on the desires of the government.

Answer: TRUE
Explanation: An exchange permit issued by a government can stipulate an unfavorable rate of exchange depending on the desires of the government.
Difficulty: 1 Easy
Topic: The Main Instruments and Institutions of the Foreign Exchange Market
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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22) The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets.

Answer: TRUE
Explanation: The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of how countries use standards to protect their domestic industry.
Difficulty: 1 Easy
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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23) Antidumping laws encourage foreign producers to sell their products at a higher cost than the cost of production and create more opportunities for free trade.

Answer: FALSE
Explanation: Antidumping laws were designed to prevent foreign producers from "predatory pricing," a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.
Difficulty: 2 Medium
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
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24) The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets, but does not get involved in trade practices.

Answer: FALSE
Explanation: The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
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25) Under the Omnibus Trade and Competitiveness Act, the U.S. president has the authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.

Answer: TRUE
Explanation: The Omnibus Trade and Competitiveness Act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Understand
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26) One advantage of the Omnibus Trade and Competitiveness Act is a more flexible process to obtain export licenses.

Answer: TRUE
Explanation: The act has resulted in a much more flexible process for obtaining export licenses, in fewer products on the export control list and in greater access to information.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
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27) The GATT panels were formed to resolve bilateral trade disputes and have both advisory and enforcement powers.

Answer: FALSE
Explanation: GATT member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action. The panels are only advisory and have no enforcement powers.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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28) The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.

Answer: TRUE
Explanation: The World Trade Organization sets many rules governing trade among its 160 members, provides a panel of experts to hear and rule on trade disputes among members, and, unlike GATT, issues binding decisions.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
Bloom's: Remember
AACSB: Analytical Thinking
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29) The International Monetary Fund was created before World War II to help individual states regain economic profitability.

Answer: FALSE
Explanation: The International Monetary Fund (IMF) was formed to overcome international market barriers such as inadequate monetary reserves and unstable currencies which are particularly vexing problems in global trade.
Difficulty: 2 Medium
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
Bloom's: Understand
AACSB: Analytical Thinking
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30) As both special drawing rights (SDRs) and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to gold and silver rather than dollars.

Answer: FALSE
Explanation: As both gold and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to SDRs rather than dollars. The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies.
Difficulty: 1 Easy
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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31) After World War II, the United States led efforts to provide financial and industrial development assistance to rebuild Japan and channeled funds to foster economic growth in the underdeveloped world. These efforts were primarily aimed at
A) halting the growth of Nazi Germany.
B) dampening the spread of communism.
C) dampening the spread of capitalism.
D) building a stronger defense force.
E) creating a worldwide trade bloc to counter the OPEC countries' clout.

Answer: B
Explanation: After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
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32) After World War II, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. As a result, most of the noncommunist economies in the world
A) stagnated.
B) grew significantly.
C) failed.
D) quickly matched the U.S. economy.
E) faced high inflation rates.

Answer: B
Explanation: As these countries worked to gain economic independence, the financial assistance provided by the United States allowed the economies of most of the noncommunist world to grow and new markets were created.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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33) What was the most apparent reciprocal impact of the foreign economic assistance given by the United States following World War II?
A) European countries formed an alliance to counter the OPEC countries' clout.
B) Outflow of labor to the recipient countries increased dramatically.
C) All recipient countries appointed Americans to manage their central banks.
D) Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.
E) Distribution of economic power and potential became more uneven.

Answer: D
Explanation: For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
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34) What factor was primarily responsible for the excess in production capacity in the United States after World War II?
A) The United States government raised the tariffs on most imports by 60%.
B) Many firms from other nations shifted their production facilities to the United States.
C) Domestic demand was at a historic low and resulted in excess capacity.
D) The returning military after World War II increased the labor supply in the United States.
E) The implementation of the Marshall Plan dampened the overseas demand.

Answer: D
Explanation: The overseas demand created by the Marshall Plan and other programs was important to the U.S. economy because the vast manufacturing base built to supply World War II and the swelling labor supply of returning military created a production capacity well beyond domestic needs.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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35) How did GATT prevent the repeat of the economic disaster that occurred after World War I?
A) It provided short-term loans to struggling nations.
B) It promoted dumping policies to allow stronger ties between member nations.
C) It fostered isolationism for nations that were market leaders.
D) It provided for a third party, the United Nations, to negotiate peace treaties.
E) It provided a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

Answer: E
Explanation: Determined not to repeat the economic disaster that followed World War I, world leaders created the General Agreement on Tariffs and Trade (GATT), a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
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36) Why did the Smoot-Hawley Act play a role in sending the world's economies into the Great Depression?
A) It encouraged the majority of world economies to lower tariffs to imported goods.
B) It raised U.S. tariffs on thousands of imported goods by more than 60 percent.
C) It created an embargo on all agricultural products.
D) It divided the United States into factions based on race.
E) It forced independent countries to band together to stay economically viable.

Answer: B
Explanation: The Smoot-Hawley Act raised average U.S. tariffs on more than 20,000 imported goods to levels in excess of 60 percent and in retaliation 60 countries erected high tariff walls, and international trade stalled. A major worldwide recession catapulted the world's economies into the Great Depression.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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37) What was the outcome for GATT after the ratification of the Uruguay Round agreements?
A) GATT allowed the United States to increase its import tax.
B) GATT became part of the World Trade Organization.
C) GATT directly led to the uneven distribution of economic power and potential.
D) The European Union decided to stay away from the treaty.
E) The original purpose was sidelined in favor of political and military intervention between member states.

Answer: B
Explanation: With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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38) The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance that followed World War II, led to
A) the rise of new global marketing opportunities.
B) the decrease in demand for American goods worldwide.
C) the dissolution of GATT.
D) the spread of communism by the United States.
E) the sharp reduction in the production capacity of the United States.

Answer: A
Explanation: The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance, led to new global marketing opportunities.
Difficulty: 2 Medium
Topic: Challenges and Opportunities Created by Globalization
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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39) Which were the two major challenges faced by U.S. multinational corporations at the close of the 1960s?
A) the creation of the Soviet Union and the higher tariffs on imports
B) growing jingoistic nationalism and a negative population growth rate in major international markets
C) resistance to direct investment and increasing competition in export markets
D) increasing Chinese domination in the manufacturing sector and the falling dollar in global markets
E) the decreased demand for U.S. goods in the global market and the growing influence of consumer rights advocacy in the home market

Answer: C
Explanation: At the close of the 1960s, U.S. multinational corporations (MNCs) were facing major challenges on two fronts: resistance to direct investment and increasing competition in export markets.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
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40) Post-World War II, worldwide economic growth was in strong evidence and countries that were once classified as less developed were reclassified as
A) communist countries.
B) free trade economies.
C) tier-II countries.
D) developed countries.
E) newly industrialized countries.

Answer: E
Explanation: The post-World War II era witnessed worldwide economic growth and countries once classified as less developed were reclassified as newly industrialized countries (NICs). Various NICs such as Brazil, Mexico, South Korea, Taiwan, Singapore, and Hong Kong experienced rapid industrialization.
Difficulty: 1 Easy
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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41) Which statement presents the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?
A) Third World countries have been excluded from this economic growth leading to stark imbalances in wealth.
B) The European Union has become the center of world trade, taking the position away from the United States.
C) The United States has continuously maintained the positive balance of trade it attained during the 1950s.
D) Economic power and potential has become more evenly distributed among the countries of the world.
E) SDRs and gold have lost their utility as the basic medium of financial exchange and most monetary statistics have started relating to the U.S. dollar.

Answer: D
Explanation: As a result of the expansionary trade measures led by the United States, economic power and potential has become more evenly distributed among countries than was the case when Servan-Schreiber warned Europe about U.S. multinational domination.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

42) What is the major reason behind the failure of American MNCs to completely dominate the European markets as predicted by Servan-Schreiber?
A) The resurgence of competition for U.S. businesses from all over the world
B) The elimination of import taxes in the European countries
C) The restructuring of U.S industries
D) The decadence of communism
E) The dissolution of colonial powers

Answer: A
Explanation: Servan-Schreiber's prediction did not come true for many reasons, but one of the more important was that American MNCs confronted a resurgence of competition from all over the world.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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43) What strategy was employed by the United States to regain its lost market share for capital goods by the late 1990s?
A) funding the competitive developing nations
B) restructuring its industries to be more "lean and mean"
C) decreasing its exports and increasing its imports
D) raising average U.S. tariffs on more than 20,000 imported goods by 60 percent
E) provoking increased protectionism from other countries

Answer: B
Explanation: In the 1980s, the United States saw its competitive position in capital goods such as computers and machinery erode sharply. But U.S. industry got a wake-up call and responded by restructuring its industries, in essence, "getting lean and mean." By the late 1990s, the United States was once again holding its own in capital goods, particularly with trade surpluses in the high-tech category.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
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44) Following World War II, it is noted that the West created the trade patterns. This was especially true in which one of the following?
A) North America
B) Europe
C) South America
D) Asia
E) Central America

Answer: D
Explanation: By the last decade of the 20th century, Asia was controlled and managed by Asians for the first time in 400 years. During the decades since World War II, the West set the patterns for trade, but increasingly, Asia will be a major force.
Difficulty: 2 Medium
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
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45) In the last few years, most of the countries of the world saw a dramatic slowdown in the growth of their economies with the exception of
A) the United States.
B) Spain.
C) China.
D) Greece.
E) France.

Answer: C
Explanation: The unprecedented and precipitous growth of the U.S. economy in the late 1990s slowed dramatically in the last few years, and of course dramatically so in 2009. Growth in most of the rest of the world has followed suit, with the exception of China.
Difficulty: 1 Easy
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
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46) The World Bank estimates that five countries whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union. Which of these countries is included on this list?
A) Canada
B) Nigeria
C) Netherlands
D) Indonesia
E) Zimbabwe

Answer: D
Explanation: The World Bank estimates that five countries—Brazil, China, India, Indonesia, and Russia—whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union.
Difficulty: 1 Easy
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
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47) The system of accounts that records a nation's international financial transactions is most accurately called its
A) supply chain management system.
B) gross domestic product system.
C) net domestic product payments.
D) balance of payments.
E) net national product systems.

Answer: D
Explanation: The system of accounts that records a nation's international financial transactions is called its balance of payments. A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Remember
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48) What is used to ensure that balance-of-payments records are always in balance?
A) sum of squares recording system
B) bank reconciliation system
C) double-entry bookkeeping system
D) archival records system
E) multifactor recording system

Answer: C
Explanation: As the balance-of-payments record of a nation is maintained on a double-entry bookkeeping system, it must always be in balance.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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49) A balance-of-payments statement for a country reveals
A) how rich or poor a country is financially.
B) a record of the country's financial condition.
C) a comparison of one country's finances to another country's debt.
D) a balanced budget for the country.
E) the spending power available to the country for specific goods.

Answer: B
Explanation: A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year. A balance of payments is a record of condition, not a determinant of condition.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
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50) What is a defining characteristic of a balance-of-payments statement?
A) It is a record of the domestic transactions between the government of a country and the private companies in that country.
B) It records all financial transactions between the residents of a country and those of the rest of the world.
C) It records the trade policies of the member nations of the WTO.
D) It is an annual record of the profitable foreign transactions made by a particular country.
E) It is a financial statement in which the credits must exceed the debits.

Answer: B
Explanation: A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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51) Which of the following falls on the plus side of the U.S. balance of payments?
A) payments to the United States for insurance
B) the costs of goods imported
C) spending by American tourists overseas
D) new overseas investments
E) the cost of foreign military

Answer: A
Explanation: On the plus side of the U.S. balance of payments are merchandise export sales; money spent by foreign tourists; payments to the United States for insurance, transportation, and similar services; payments of dividends and interest on investments abroad; return on capital invested abroad; new foreign investments in the United States; and foreign government payments to the United States.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
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52) Which of the following falls on the minus side of the U.S. balance of payments?
A) payments to the United States for insurance
B) payments of dividends and interest on investments abroad
C) return on capital invested abroad
D) new foreign investments in the United States
E) spending by American tourists overseas

Answer: E
Explanation: On the minus side of the U.S. balance of payments are the costs of goods imported, spending by American tourists overseas, new overseas investments, and the cost of foreign military and economic aid. A deficit results when international payments are greater than receipts.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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53) What occurs in the balance of payments account when international payments are greater than receipts?
A) a tariff
B) inflation
C) recession
D) a credit
E) a deficit

Answer: E
Explanation: A deficit results when international payments are greater than receipts.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
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54) The _____ account of the balance-of-payments statement is used to record all merchandise exports, imports, and services plus unilateral transfers of funds.
A) current
B) capital
C) credit
D) receivables
E) reserves

Answer: A
Explanation: The current account shows a record of all merchandise exports, imports, and services plus unilateral transfers of funds.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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55) Which account in the balance-of-payments statement is a record of direct investment, portfolio investment, and short-term movement of cash and technology to and from countries?
A) current account
B) capital account
C) credit account
D) receivables account
E) reserves account

Answer: B
Explanation: The capital account of the balance-of-payments statement is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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56) The _____ of the balance-of-payments statement is used to record increases or decreases in foreign exchange and increases or decreases in liabilities to foreign central banks.
A) current account
B) capital account
C) credit account
D) receivables account
E) reserves account

Answer: E
Explanation: The reserves account of the balance-of-payments statement is a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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57) What argument regarding the need for protectionism is recognized by economists as valid?
A) need to keep money at home
B) encouragement of capital accumulation
C) industrialization of a low-wage nation
D) conservation of natural resources
E) maintenance of employment and reduction of unemployment

Answer: C
Explanation: Countless reasons to maintain government restrictions on trade are espoused by protectionists, but economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of low-wage nations.
Difficulty: 1 Easy
Topic: Economic Development
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Remember
AACSB: Analytical Thinking
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58) Rishi, a protectionist, has seen several small businesses go bankrupt because they were unable to compete with the cheaper prices of goods provided by foreign companies. The cell-phone manufacturing industry has just started in the United Kingdom, and Rishi's company is one of the first to try its hand at cell-phone manufacturing. What argument is most likely to be used by Rishi to persuade his government to restrict the import of foreign cell phones from foreign companies?
A) protection of an infant industry
B) the need to keep money at home
C) conservation of natural resources
D) national defense
E) maintenance of standard of living

Answer: A
Explanation: The case tells us that cell-phone manufacturing is a new industry in the United Kingdom. Protecting this infant industry would be the most probable reason for seeking protection from foreign competition.
Difficulty: 3 Hard
Topic: Economic Development
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Apply
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59) What is a tariff?
A) It is a tax levied by a government on goods being exported out of the country.
B) It is a tax paid by individual states to the federal government for goods transferred across state lines.
C) It is a tax imposed by a government on goods that are imported into the country.
D) It is a limit on the amount of goods that can be imported into the country.
E) It is a limit on the amount of goods that can be exported out of the country.

Answer: C
Explanation: A tariff is a tax imposed by a government on goods entering at its borders. Tariffs may be used as revenue-generating taxes or to discourage the importation of goods, or for both reasons.
Difficulty: 2 Medium
Topic: Overview of Importing and Exporting
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
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60) In general, tariffs weaken
A) inflationary pressures.
B) special interests' privileges.
C) balance-of-payments positions.
D) government control in economic matters.
E) the number of reciprocal tariffs by other countries.

Answer: C
Explanation: In general, tariffs weaken balance-of-payments positions, supply-and-demand patterns, and international relations (they can start trade wars).
Difficulty: 2 Medium
Topic: Overview of Importing and Exporting
Learning Objective: 02-04 The several types of trade barriers.
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61) Which statement is true of tariffs?
A) They strengthen balance-of-payments positions.
B) They strengthen supply-and-demand patterns.
C) They increase special interests' privileges.
D) They strengthen international relations.
E) They promote competition.

Answer: C
Explanation: In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs.
Difficulty: 2 Medium
Topic: Overview of Importing and Exporting
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
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62) The tariff on certain goods is based on the percentage of the determined value of the item being imported. What type of tariff is this?
A) compound duty
B) quota duty
C) specific duty
D) reciprocal duty
E) ad valorem duty

Answer: E
Explanation: In the United States the types of customs duties used are classified as ad valorem duties, specific duties, and compound duty. Ad valorem duties are based on a percentage of the determined value of the imported goods.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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63) A specific unit or dollar limit applied to a particular type of good is called a(n)
A) trade license.
B) quota.
C) ad valorem duty.
D) predatory price.
E) exchange rate.

Answer: B
Explanation: A quota is a specific unit or dollar limit applied to a particular type of good.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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64) A boycott on importing produce from Mexico would be an example of a
A) compound duty.
B) revenue tariff.
C) nontariff barrier.
D) specific duty.
E) quota embargo.

Answer: C
Explanation: Nontariff barriers include quotas, boycotts, monetary barriers, and market barriers.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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65) If a country refuses to sell some products to another country, it is utilizing which barrier to trade?
A) import credit discriminations
B) export subsidies
C) voluntary export restraints
D) embargoes
E) packaging, labeling, or marking standards

Answer: D
Explanation: To encourage development of domestic industry and protect existing industry, governments may establish such barriers to trade as U.S. tariffs and a variety of nontariff barriers and import policies including quotas, embargoes, import licensing requirements, minimum import price limits, and proportional restrictions of foreign to domestic goods. An embargo is a refusal to sell to a specific country.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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66) If a country decided to refuse to allow an importer to exchange its national currency for the sellers' currency, it would be an example of a(n) _____ currency.
A) blocked
B) spot
C) embargo
D) taxed
E) quota

Answer: A
Explanation: Blocked currency is used as a political weapon or as a response to difficult balance-of-payments situations. In effect, blockage cuts off all importing or all importing above a certain level. Blockage is accomplished by refusing to allow an importer to exchange its national currency for the sellers' currency.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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67) Exporting countries primarily agree to voluntary export restraints (VERs) to
A) minimize exposure in the importing country.
B) reduce market competitiveness.
C) avoid stiffer quotas being set by the importing country.
D) take over local industries of the importing country.
E) avoid criminal prosecution.

Answer: C
Explanation: A voluntary export restraint (VER) is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
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68) A voluntary export restraint is an agreement signed willingly between the importing country and the exporting country for a restriction on the
A) overall tax.
B) number of businesses eligible for imports.
C) volume of exports.
D) government's portion of the paid tariff.
E) balance-of-payments statements.

Answer: C
Explanation: Similar to quotas are the voluntary export restraints (VERs) or orderly market agreements (OMAs). Common in textiles, clothing, steel, agriculture, and automobiles, the VER is an agreement between the importing country and the exporting country for a restriction on the volume of exports.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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69) Voluntary export restraints are commonly used in what industry?
A) finance
B) furniture
C) agriculture
D) media
E) education

Answer: C
Explanation: A voluntary export restraint (VER) is called voluntary because the exporting country sets the limits on its exports. They are common in textiles, clothing, steel, agriculture, and automobiles.
Difficulty: 3 Hard
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
AACSB: Analytical Thinking
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70) The marketing manager for Glorious Products wants to export the company's line of fashion boots to an EU country. However, she discovers that there is a complete restriction on the import of any form of leather into that country. This is an example of
A) an orderly market agreement.
B) a quota.
C) a monetary barrier.
D) a voluntary export restraint.
E) a boycott.

Answer: E
Explanation: A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries. As the country mentioned in the scenario has absolutely restricted the importation of leather, it has issued a government boycott against leather.
Difficulty: 3 Hard
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
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71) One country refuses to sell goods to its neighboring country based on the belief that the neighboring country harbors radicals and terrorists. In this case, the refusal is referred to as a(n)
A) antidumping penalty.
B) embargo.
C) monetary barrier.
D) orderly market agreement.
E) voluntary export restraint.

Answer: B
Explanation: In this case, the refusal is most accurately referred to as an embargo. An embargo is a refusal to sell to a specific country.
Difficulty: 3 Hard
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
AACSB: Reflective Thinking
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72) In the context of monetary barriers, blockage is ideally accomplished when
A) a country refuses to allow an importer to exchange its national currency for the country's currency.
B) two countries enter into a voluntary agreement to determine the value of their currencies.
C) a country applies a specific unit or dollar limit to a particular type of good.
D) money dealers limit the rate at which foreign currencies are exchanged.
E) the government of a country imposes a mandatory tax on goods entering at its borders.

Answer: A
Explanation: In the context of monetary barriers, blockage is accomplished by refusing to allow an importer to exchange its national currency for the seller's currency. In effect, blockage cuts off all importing or all importing above a certain level.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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73) In order to effectively secure foreign exchange, what is most likely to be used by countries experiencing severe shortages of foreign exchange?
A) privatization
B) government approval
C) spot pricing
D) voluntary export restriction
E) monopoly

Answer: B
Explanation: Government approval to secure foreign exchange is often used by countries experiencing severe shortages of foreign exchange.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
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74) What trade policy tool makes it mandatory for its importers who want to buy a foreign good to apply for an exchange permit?
A) tariff
B) import quota
C) blocked currency
D) government approval
E) export levy

Answer: D
Explanation: Government approval requires that importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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75) An exchange permit can stipulate the
A) quantity of goods that can be exchanged for a particular sum of foreign currency.
B) number of parties that can be involved in an exchange transaction.
C) amount to be exchanged that must be deposited in a local bank for a set period.
D) quality standards of the goods involved in an exchange.
E) number of times one party can avail exchange permits.

Answer: C
Explanation: An exchange permit may stipulate that the amount to be exchanged must be deposited in a local bank for a set period prior to the transfer of goods.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
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76) Active Bicycle Company has just received notice that a shipment of 300 bicycles has been rejected by the customs administration of the recipient country because the bikes did not include a metal plate surrounding the chain. What category of nontariff barriers primarily uses such quality issues as a trade barrier?
A) quotas
B) licenses
C) embargoes
D) boycotts
E) standards

Answer: E
Explanation: Standards are sometimes used in an unduly stringent or discriminating way to restrict trade, but the sheer volume of regulations in this category is a problem in itself. Nontariff barriers of this category include standards to protect health, safety, and product quality. As the customs administration of the recipient country has used the quality of goods imported as a reason for restricting trade, it has used standards as a nontariff barrier.
Difficulty: 3 Hard
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
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77) The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the stringent usage of _____ to restrict trade.
A) exchange permits
B) embargoes
C) blocked currencies
D) standards
E) antidumping penalties

Answer: D
Explanation: Nontariff barriers of the standards category include standards to protect health, safety, and product quality. The standards are sometimes used in an unduly stringent or discriminating way to restrict trade.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
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78) _____ pricing is the practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.
A) Basing point
B) Spot
C) Defensive
D) Counterpoint
E) Predatory

Answer: E
Explanation: Antidumping laws were designed to prevent foreign producers from "predatory pricing," a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 02-04 The several types of trade barriers.
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79) _____ is/are a nontariff barrier that was specifically designed to prevent foreign producers from using predatory pricing to take control of U.S. markets.
A) Quotas
B) Embargoes
C) Blocked currency
D) Antidumping laws
E) Exchange permits

Answer: D
Explanation: Antidumping laws were designed to prevent foreign producers from predatory pricing. Violators are assessed antidumping duties for selling below cost and/or countervailing duties to prevent the use of foreign government subsidies to undermine American industry. Many countries have similar laws, and they are allowed under WTO rules.
Difficulty: 1 Easy
Topic: Elements That Influence International Pricing Strategies
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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80) Which trading partner of the United States became its number one "trade problem" at the beginning of the 21st century?
A) United Kingdom
B) Japan
C) Germany
D) Canada
E) China

Answer: E
Explanation: At the turn of the century, China took over from Japan as America's number one "trade problem."
Difficulty: 1 Easy
Topic: Overview of Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
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81) What legislative decision was designed to primarily deal with trade deficits, protectionism, and the overall fairness of U.S. trading partners?
A) the Neutrality Pact of 1941
B) the Omnibus Trade and Competitiveness Act of 1988
C) the League of Nations Act of 1920
D) the Hawley-Smoot Tariff Act of 1930
E) the International Monetary Fund and Bank Act of 1945

Answer: B
Explanation: The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices. The trade act was designed to deal with trade deficits, protectionism, and the overall fairness of U.S. trading partners.
Difficulty: 1 Easy
Topic: Trade Policy and Government Intervention in International Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
AACSB: Analytical Thinking
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82) What was the impetus for the Omnibus Trade and Competitiveness Act?
A) Markets in the U.S. were open to most of the world but markets in Europe and many Asian countries were relatively closed.
B) The U.S. market was relatively closed to the rest of the world.
C) Markets in the U.S. were being driven by foreign demand.
D) The trade volume in the U.S. was declining.
E) Markets in the U.S. were trading with partners based on how they hoped they would respond rather than how they actually operated.

Answer: A
Explanation: The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices. The trade act was designed to deal with trade deficits, protectionism, and the overall fairness of our trading partners. Congressional concern centered on the issue that U.S. markets were open to most of the world but markets in Japan, western Europe, and many Asian countries were relatively closed.
Difficulty: 2 Medium
Topic: Trade Policy and Government Intervention in International Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
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83) The Foreign Corrupt Practices Act (FCPA) was specifically addressed in the _____ section of the Omnibus Trade and Competitiveness Act.
A) market access
B) export expansion
C) import relief
D) foreign exchange regulation
E) trade deficit

Answer: B
Explanation: Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the Omnibus Trade and Competitiveness Act.
Difficulty: 1 Easy
Topic: Trade Policy and Government Intervention in International Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
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84) Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and possibly severe financial harm?
A) the market access section
B) the export expansion section
C) the import relief section
D) the foreign exchange regulation section
E) the trade deficit section

Answer: C
Explanation: Recognizing that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm, the import relief section of the Omnibus Trade and Competitiveness Act provides a menu of remedies for U.S. businesses adversely affected by imports.
Difficulty: 1 Easy
Topic: Trade Policy and Government Intervention in International Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
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85) What is one of the four ongoing activities that support the growth of international trade?
A) Warsaw Pact
B) Kyoto Protocol
C) International Monetary Fund
D) World Summit on Sustainable Development
E) Treaty of Waitangi

Answer: C
Explanation: Four ongoing activities to support the growth of international trade are GATT, the associated WTO, the International Monetary Fund (IMF), and the World Bank Group.
Difficulty: 1 Easy
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
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86) Which statements accurately describes the General Agreement on Tariffs and Trade (GATT)?
A) The United States, the United Kingdom, and Germany were the only signatories of the original GATT.
B) The original agreement provided a process to increase the tariffs on trade goods.
C) GATT member nations seek to resolve their trade disputes unilaterally.
D) The GATT panels have enforcement powers apart from advisory powers.
E) It created an agency to serve as watchdog over world trade.

Answer: E
Explanation: GATT member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action. The original agreement provided a process to reduce tariffs and created an agency to serve as watchdog over world trade.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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87) What does GATT use as the primary method to solve global trade problems?
A) GATT works with government agencies of trade members.
B) GATT uses coercion.
C) GATT uses consultation.
D) GATT implements the legislative agenda of trade members.
E) GATT creates binding agreements between member nations.

Answer: C
Explanation: In general, the agreement covers these basic elements: (1) trade shall be conducted on a nondiscriminatory basis; (2) protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas; and (3) consultation shall be the primary method used to solve global trade problems.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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88) What agreement makes it possible to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels?
A) Trade-Related Aspects of Intellectual Property Rights (TRIPs)
B) Trade-Related Investment Measures (TRIMs)
C) General Agreement on Trade in Services (GATS)
D) Marrakesh Agreement
E) Stockholm Agreement

Answer: B
Explanation: As a result of TRIMs, restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels can be challenged.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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89) The Uruguay Round resulted in which institution becoming the successor to the GATT?
A) International Monetary Fund
B) World Bank
C) European Services Forum
D) World Trade Organization
E) Association of Southeast Asian Nations

Answer: D
Explanation: Perhaps the most notable achievement of the Uruguay Round was the creation of a new institution as a successor to the GATT—the World Trade Organization.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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90) How are WTO decisions enforced?
A) All WTO decisions are enforceable under law.
B) Member nations pay a duty to join WTO and this creates natural compliance.
C) The World Court reviews and enforces all WTO decisions.
D) International pressure to comply with WTO decisions is expected to force compliance.
E) Decisions must pass through both houses of Congress to be enforced.

Answer: D
Explanation: Although the WTO has no means of enforcement, international pressure to comply with WTO decisions from other member countries is expected to force compliance.
Difficulty: 3 Hard
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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91) _____ are becoming a popular way to circumvent WTO guidelines and impose new duties.
A) Antidumping duties
B) Basic excise duties
C) Special excise duties
D) Production taxes
E) Manufacturing taxes

Answer: A
Explanation: Antidumping duties are becoming a favorite way for nations to impose new duties. The WTO continues to fight these new, creative barriers to trade.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
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92) Several nations that have become frustrated with the slow progress of the most recent round of WTO trade negotiations are
A) negotiating bilateral trade agreements.
B) forming a rival organization.
C) refusing to accept all the rules and regulations imposed by the WTO.
D) using legal means to sue the WTO.
E) opting out of membership in the WTO.

Answer: A
Explanation: Frustrated with the slow progress of the most recent round of WTO trade negotiations, several countries are negotiating bilateral trade agreements. For example, the United States has signed free trade agreements with twenty countries including Peru, Colombia, Panama, and South Korea.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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93) _____ and the World Bank Group are two global institutions created primarily to assist nations in becoming and remaining economically viable.
A) Amnesty International
B) The World Court
C) The International Monetary Fund
D) The International Red Cross
E) The International Federation of Blue Cross

Answer: C
Explanation: The International Monetary Fund (IMF) and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.
Difficulty: 1 Easy
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
Bloom's: Remember
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94) What market barriers led to the creation of the International Monetary Fund?
A) trade embargoes
B) inflation and recession in Europe
C) new taxing bodies governing trade
D) inadequate monetary reserves and unstable currencies
E) export quotas and higher tariffs

Answer: D
Explanation: Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. So long as these conditions exist, world markets cannot develop and function as effectively as they should. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed.
Difficulty: 2 Medium
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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95) Developed by the International Monetary Fund to cope with universally floating exchange rates, _____ represent an average base of value derived from the value of a group of major currencies.
A) exchange permits
B) special drawing rights
C) floating currencies
D) gold rates
E) dollar parities

Answer: B
Explanation: Developed by the International Monetary Fund to cope with universally floating exchange rates, special drawing rights (SDRs) represents an average base of value derived from the value of a group of major currencies.
Difficulty: 2 Medium
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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96) The special drawing rights (SDRs) developed by the IMF can be thought of as
A) black gold.
B) exchange permits.
C) floating currencies.
D) paper gold.
E) virtual dollars.

Answer: D
Explanation: The SDR is in effect paper gold and represents an average base of value derived from the value of a group of major currencies.
Difficulty: 1 Easy
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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97) What is a basic criticism of global financial institutions?
A) They failed to focus on the aim of reducing inequalities between rich and poor countries.
B) They failed to help the Asian countries substantially when they underwent a major financial crisis in the 1990s.
C) They failed to respect the autonomy of member nations by deeming any bilateral agreements between members as illegal if made without their approval.
D) They failed to foresee and counter the unintended effects of globalization like pollution, exploitation, and cultural extinction.
E) They failed to suppress the terrorists who were responsible for the attack in London that coincided with the G8 summit.

Answer: D
Explanation: The basic complaint against the WTO, IMF, and others is the amalgam of unintended consequences of globalization: environmental concerns, worker exploitation and domestic job losses, cultural extinction, higher oil prices, and diminished sovereignty of nations.
Difficulty: 2 Medium
Topic: Challenges and Opportunities Created by Globalization
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
Bloom's: Understand
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98) While unintended, what is an adverse consequence of globalization?
A) nationalization of private sector holdings
B) lower and more competitive oil prices
C) reduced variety and quality of goods and services
D) worker exploitation and domestic job losses
E) provision of loans from the World Bank

Answer: D
Explanation: The basic complaint against the WTO, IMF, and others is the amalgam of unintended consequences of globalization: environmental concerns, worker exploitation and domestic job losses, cultural extinction, higher oil prices, and diminished sovereignty of nations.
Difficulty: 2 Medium
Topic: Challenges and Opportunities Created by Globalization
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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99) Which statement accurately explains the status of protests against global financial institutions?
A) Organized protests against global financial institutions have been catching the attention of the world since the establishment of the IMF in 1945.
B) The sole focus of the anticapitalist protestors has been the environmental impact of globalization and the need for stability.
C) The "antisweatshop" campaigns by students in America have translated into changes in policy.
D) The entire gamut of anticapitalist protests have been weak and ineffectual in the face of the tremendous power of global financial institutions.
E) The protests against global financial institutions have been organized yet nonviolent as a rule.

Answer: C
Explanation: The protest groups, some of them with responsible intent, have affected policy. For example, "antisweatshop" campaigns, mostly in America and mostly student-led, have had effects beyond college campuses.
Difficulty: 2 Medium
Topic: Challenges and Opportunities Created by Globalization
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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100) What steps did the United States take following World War II to minimize the spread of communism around the world? Name at least one specific piece of legislation that was created.

Answer: After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. The Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled through the Agency for International Development were some of the measures taken by the United States to help strengthen the world economy. With the countries newly freed from colonial powers striving to gain economic independence and the financial assistance offered by the United States, most of the noncommunist world's economies grew, and new markets were created.

The benefits of the foreign economic assistance given by the United States flowed both ways. For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services. In short, the United States helped make the world's economies stronger, which enabled them to buy more from us.
Difficulty: 3 Hard
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Analyze
AACSB: Analytical Thinking
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101) Compare the U.S. position in world trade today to when Servan-Schreiber warned Europe about U.S. multinational domination.

Answer: In short, economic power and potential has become more evenly distributed among countries than was the case when Servan-Schreiber warned Europe about U.S. multinational domination. Instead, the U.S. position in world trade is now shared with other countries.
Difficulty: 3 Hard
Topic: North America's Marketplace in the World Economy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
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102) Why must the balance-of-payments record always be in balance? What does a balanced record signify?

Answer: The system of accounts that records a nation's international financial transactions is called its balance of payments. A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other. As the balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance. As on an individual company's financial statement, the assets and liabilities or the credits and debits must offset each other. And like a company's statement, the fact that they balance does not mean a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition.
Difficulty: 3 Hard
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
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103) Compare and contrast the three accounts of a balance-of-payments statement.

Answer: A balance-of-payments statement includes three accounts:

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

Of the three, the current account is of primary interest to international business.
Difficulty: 3 Hard
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Analyze
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104) Describe the cost to the consumer when protectionist measures are in place.

Answer: To give you some idea of the cost to the consumer, consider the results of a recent study of 21 protected industries. The research showed that U.S. consumers pay about $70 billion per year in higher prices because of tariffs and other protective restrictions. On average, the cost to consumers for saving one job in these protected industries was $170,000, much higher than the wages and benefits of the average America manufacturing worker. Unfortunately, protectionism is politically popular, particularly during times of declining wages and/or high unemployment, but it rarely leads to renewed growth in a declining industry. And the jobs that are saved are saved at a very high cost, which constitutes a tax that consumers unknowingly pay.
Difficulty: 3 Hard
Topic: Trade Restrictions
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Understand
AACSB: Analytical Thinking
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105) Name three things that can be restricted when tariffs are imposed.

Answer: The following are the effects of imposing tariffs:
In general, tariffs restrict:

manufacturers' supply sources
choices available to consumers
competition

Difficulty: 2 Medium
Topic: Trade Restrictions
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
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106) Explain the difference between a quota and a licensing limit.

Answer: As a means of regulating the flow of exchange and the quantity of a particular imported commodity, countries often require import licenses. The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas. Quotas permit importing until the quota is filled; licensing limits quantities on a case-by-case basis.
Difficulty: 3 Hard
Topic: Trade Restrictions
Learning Objective: 02-04 The several types of trade barriers.
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107) Describe the three areas covered by the Omnibus Trade and Competitiveness Act of 1988 that are considered critical in improving U.S. trade.

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

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

Difficulty: 3 Hard
Topic: Trade Restrictions
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Understand
AACSB: Analytical Thinking
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108) Describe how the General Agreement on Trade in Services (GATS) helped the United States reduce barriers to international trade in services.

Answer: An important objective of the United States in the Uruguay Round was to reduce or eliminate barriers to international trade in services. The *General Agreement on Trade in Services (GATS)* was the first multilateral, legally enforceable agreement covering trade and investment in the services sector. It provides a legal basis for future negotiations aimed at eliminating barriers that discriminate against foreign services and deny them market access. For the first time, comprehensive multilateral disciplines and procedures covering trade and investment in services were established. Specific market-opening concessions from a wide range of individual countries were achieved, and provision was made for continued negotiations to liberalize telecommunications and financial services further.
Difficulty: 3 Hard
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
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109) Why was the International Monetary Fund (IMF) formed? How does the IMF deal with universally floating rates?

Answer: Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed. Originally 29 countries signed the agreement; now 188 countries are members.
To cope with universally floating exchange rates, the IMF developed special drawing rights (SDRs). The SDR is in effect paper gold and represents an average base of value derived from the value of a group of major currencies. Rather than being denominated in the currency of any given country, trade contracts are frequently written in SDRs because they are much less susceptible to exchange-rate fluctuations.
Difficulty: 3 Hard
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
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