Test Bank for International Marketing 17th Cateora

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Chapter 02

The Dynamic Environment of International Trade

True / False Questions

1. After World War II, the United States provided assistance to other countries to develop their markets and improve global trade though it gained no returns on these initiatives.

   True False

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

   True False

3. As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as underdeveloped countries.

   True False

4. By the year 1971, the United States was selling more to other countries than it bought from them; that is, the United States had a favorable balance of trade.

   True False

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.

   True False

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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.

True False

7. In a balance-of-payments record, if the credit and debit offset each other, it means that a nation is in particularly good financial condition.

True False

8. The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

True False

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.

True False

10. Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

True False

11. A case might be made for the temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

True False

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

True False

13. In general, tariffs decrease inflationary pressures.

True False

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

True False

15. Quotas strictly permit importing on a case-by-case basis.

True False

16. Quotas are more flexible than import licenses.

True False

17. A voluntary export restraint (VER) is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

True False

18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.

True False

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.

True False

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.

True False

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

True False

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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.

True False

23. Antidumping laws were specifically designed to prevent foreign producers from investing in the U.S. markets.

True False

24. The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

True False

25. 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.

True False

26. It is harder to obtain export licenses for products on the export control list than for the products that are excluded from the export control list.

True False

27. The GATT panels were formed to resolve bilateral trade disputes and have both advisory and enforcement powers.

True False

28. The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.

True False

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29. The World Intellectual Property Organization was formed with the primary objective of overcoming inadequate monetary reserves and dealing with unstable currencies which were particularly vexing problems in global trade.

True False

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 rather than dollars.

True False

Multiple Choice Questions

31. After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled 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.

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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. The _____, aimed at assisting in rebuilding Europe, is the plan most closely associated with this endeavor.

A. Eisenhower Plan
B. Marshall Plan
C. Bradley Plan
D. Roosevelt Plan
E. Kennedy Plan

33. What was the most apparent reciprocal impact of the foreign economic assistance given by the United States?

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.

34. Which of the following factors 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.

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35. Which of the following was the most significant move of the 1980s that contributed toward international cooperation among trading nations?

A. Formation of the United Nations Development Program
B. Creation of the United Nations
C. Establishment of the World Trade Organization
D. Signing of the Montreal Protocol
E. Negotiation of the General Agreement on Tariffs and Trade

36. Which of the following acronyms refers to the international forum that was created for member countries to engage in the negotiation of tariffs and other barriers to trade?

A. UNHCR
B. GATT
C. WMO
D. NPT
E. UNDP

37. What was the outcome for the GATT after the ratification of the Uruguay Round agreements?

A. The GATT allowed the United States to increase its import tax.
B. The GATT became part of the World Trade Organization.
C. The 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.

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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 the GATT.
D. the spread of communism by the United States.
E. the sharp reduction in the production capacity of the United States.

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

40. Post-World War II, it was noticed that there was worldwide economic growth and countries 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

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41. Which of the following 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.

42. Which of the following 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

43. Which of the following strategies was employed by the United States to regain its lost market share for capital goods by the late 1990s?

A. Funding the communist 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%
E. Provoking increased protectionism from other countries

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44. By the year 1971, the United States was witnessing a(n):

A. increase in protectionist federal policies.
B. positive balance of trade.
C. sharp rise in domestic and international demand for all its goods.
D. huge trade deficit.
E. economic situation of the magnitude of the Great Depression.

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

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. _____ is one of the countries included in this list.

A. Canada
B. Nigeria
C. Netherlands
D. Indonesia
E. Zimbabwe

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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.

48. Which of the following ensures 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

49. Which of the following statements is true of the balance-of-payments records?

A. The balance-of-payments accounts do not consider income brought in by nonresident citizens of a country.
B. The fact that assets and liabilities balanced in a balance-of-payments statement does not mean that a nation is in a particularly good financial condition.
C. A balance of payments is not a record of the financial condition of a nation.
D. A balance of payments is a good determinant of the financial condition of a nation.
E. A balance-of-payments record is maintained on a single-entry bookkeeping system.

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50. Which of the following 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.

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

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

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53. A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

A. Investment account
B. Receivables account
C. Services account
D. Credit account
E. Official reserves account

54. The _____ of the balance-of-payments statement is most likely to record all merchandise exports, imports, and services plus unilateral transfers of funds.

A. current account
B. capital account
C. credit account
D. receivables account
E. reserves account

55. Which of the following accounts of the balance-of-payments statement is a record of the 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

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56. The _____ of the balance-of-payments statement is most likely to record all exports and imports of gold, 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

57. Which of the following arguments 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 underdeveloped countries
D. Conservation of natural resources
E. Maintenance of employment and reduction of unemployment

58. Randall, 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 Randall's company is one of the first to try its hand at cell-phone manufacturing. Which of the following arguments is most likely to be used by Randall 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

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59. A tax imposed by a government on goods entering at its borders is most accurately termed as a(n) _____.

A. boycott
B. asterisk bill
C. tariff
D. quota
E. writ

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.

61. Which of the following statements 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.

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62. In general, tariffs restrict:

A. inflationary pressures.
B. special interests' privileges.
C. government control in economic matters.
D. the number of reciprocal tariffs.
E. manufacturers' supply sources.

63. A specific unit or dollar limit applied to a particular type of good is called a(n):

A. trade license.
B. quota.
C. asterisk bill.
D. predatory price.
E. exchange rate.

64. Which of the following is an example of a nontariff trade barrier?

A. Compound duties
B. Revenue tariffs
C. Fees for administrative and custom entry procedures
D. Specific duties
E. Taxes imposed by governments on goods entering at its borders

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65. Which of the following types of nontariff barriers strictly falls under the category of specific limitations on trade?

A. Import credit discriminations
B. Export subsidies
C. Voluntary export restraints
D. Embargoes
E. Packaging, labeling, or marking standards

66. In the context of nontariff barriers, antidumping practices fall under the category of:

A. specific limitations on trade.
B. customs and administrative entry procedures.
C. standards.
D. governmental participation in trade.
E. charges on imports.

67. The fundamental difference between quotas and import licenses as a means of controlling imports is that:

A. import licenses have greater flexibility over quotas.
B. quotas impose specific limitations on trade, and import licenses take care of standards.
C. quotas are imposed on export goods, and import licenses are imposed on import goods.
D. for quotas, the exporting country sets the limits, but licenses are issued by the importing country.
E. unlike licenses, quotas limit quantities on a case-by-case basis.

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68. 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.

69. An agreement signed willingly between the importing country and the exporting country for a restriction on the volume of exports is called a:

A. monetary barrier.
B. tariff restraint.
C. voluntary export restraint.
D. special interests' privilege.
E. balance-of-payments statement.

70. Which of the following is a defining characteristic of a voluntary export restraint (VER)?

A. International regulatory bodies set export or import limits.
B. The importing country can levy heavier import tariffs to override the VERs.
C. The exporting country sets the limits on the quantity it will export.
D. It is a mandatory tax imposed by a government on goods entering at its borders.
E. It is an absolute restriction against the importation of certain goods.

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71. The marketing manager for Grand Products wants to export the company's range of beer products to a Gulf country. However, he discovers that there is a complete restriction on the import of any form of liquor into that country. This is an accurate example of a(n) _____.

A. orderly market agreement
B. quota
C. monetary barrier
D. voluntary export restraint
E. boycott

72. 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 most accurately referred to as a(n):

A. antidumping penalty.
B. embargo.
C. monetary barrier.
D. orderly market agreement.
E. voluntary export restraint.

73. 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.

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74. In order to effectively secure foreign exchange, which of the following 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

75. Which of the following trade policy tools 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

76. 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.

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77. Tall Pine Plywood Company has just received a notice that a shipment of plywood (2 metric tons) has been rejected by the customs administration of the recipient country because the knotholes commonly found on a plywood sheet are too large. Which of the following categories of nontariff barriers primarily uses such quality issues as a trade barrier?

A. Quotas
B. Licenses
C. Embargoes
D. Boycotts
E. Standards

78. 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

79. _____ 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 pricing
B. Spot pricing
C. Defensive pricing
D. Counterpoint pricing
E. Predatory pricing

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80. _____ is a nontariff barrier that was specifically designed to prevent foreign producers from using predatory pricing to take control of U.S. markets.

A. Quota
B. Embargo
C. Blocked currency
D. Antidumping law
E. Exchange permit

81. Which of the following trading partners 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

82. Which of the following was designed to primarily deal with trade deficits, protectionism, and the overall fairness of the 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

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83. Which of the following is an area that is considered critical in improving U.S. trade in the context of the Omnibus Trade and Competitiveness Act?

A. Market access
B. Quality standards
C. Exchange stability
D. Trade volume
E. Sustainability in trade

84. 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

85. 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, occasionally, 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

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86. Which of the following is one of the four ongoing activities supporting 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

87. Which of the following statements is true of 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.

88. As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the General Agreement on Tariffs and Trade, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated. This is termed the _____.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
B. Trade-Related Investment Measures (TRIMs)
C. General Agreement on Trade in Services (GATS)
D. Comprehensive Economic Cooperation Agreement (CECA)
E. Trade in Services and Investment Obligations Act (TSIO)

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89. Which of the following agreements makes it possible to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?

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

90. Which of the following institutions emerged as a successor to the GATT following the Uruguay Round of GATT negotiations?

A. International Monetary Fund
B. World Bank
C. European Services Forum
D. World Trade Organization
E. Association of Southeast Asian Nations

91. One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

A. member nations are exempt from import tariffs to other member nations.
B. all tariffs shall be abolished among member nations at the time of membership.
C. the World Court shall review all trade disputes and make final judgments.
D. trade shall be conducted on a nondiscriminatory basis.
E. trade in services and investments will be excluded from the purview of the GATT.

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92. Which of the following 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

93. Several nations, 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.

94. _____ 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

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95. To overcome the problems of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.

A. European Union
B. World Trade Organization
C. Federation of International Trade Associations
D. International Monetary Fund
E. United Nations Development Program

96. 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

97. The special drawing rights (SDRs) developed by the IMF are in effect:

A. black gold.
B. exchange permits.
C. floating currencies.
D. paper gold.
E. virtual dollars.

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98. Which of the following is a basic criticism of global financial institutions?

A. They failed to focus on the aim of reducing inequalities between the rich and the 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.

99. Which of the following 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

100. Which of the following statements is true about 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.

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Essay Questions

101. Briefly discuss the efforts taken by the United States to promote global trade after World War II.

102. What is the significance of balance-of-payments figures?

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103. Why must the balance-of-payments record always be in balance? What does a balanced record signify?

104. Briefly describe the three accounts of a balance-of-payments statement.

105. What are the arguments in favor of protectionism? Which of them are generally recognized as valid by economists?

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106. List the effects of imposing tariffs.

107. Describe voluntary export restraints.

108. What are the three areas covered by the Omnibus Trade and Competitiveness Act of 1988 that are considered critical in improving U.S. trade?

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109. List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

110. Why was the International Monetary Fund (IMF) formed? How does the IMF deal with universally floating rates?

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Chapter 02 The Dynamic Environment of International Trade Answer Key

True / False Questions

1. After World War II, the United States provided assistance to other countries to develop their markets and improve global trade though it gained no returns on these initiatives.

   FALSE

   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.

   AACSB: Analytical Thinking
   Accessibility: Keyboard Navigation
   Blooms: Remember
   Difficulty Level: 1 Easy
   Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
   Topic: The Twentieth to the Twenty-First Century

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

   TRUE

   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.

   AACSB: Analytical Thinking
   Accessibility: Keyboard Navigation
   Blooms: Remember
   Difficulty Level: 1 Easy
   Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
   Topic: The Twentieth to the Twenty-First Century

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3. As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as underdeveloped countries.

FALSE

As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as newly industrialized countries (NICs).

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Difficulty Level: 1 Easy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

4. By the year 1971, the United States was selling more to other countries than it bought from them; that is, the United States had a favorable balance of trade.

FALSE

Between 1888 and 1971, the United States sold more to other countries than it bought from them; that is, 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.

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Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
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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.

FALSE

The Organization for Economic Cooperation and Development (OECD) estimates that the economies of member 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 the developing world will grow at faster rates—from an annual rate of 4 percent in the past quarter century to a rate of 6 percent for the next 25 years.

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Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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.

TRUE

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.

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Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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7. In a balance-of-payments record, if the credit and debit offset each other, it means that a nation is in particularly good financial condition.

FALSE

As a nation's balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance. Unlike on an individual company's financial statement, the fact that the credits and debits offset each other does not mean a nation is in particularly good or poor financial condition.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

8. The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

FALSE

The capital account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

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Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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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.

FALSE

As the U.S. trade deficit has grown, pressures have begun to push the value of the dollar to lower levels. And 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.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

10. Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

TRUE

Economists in general recognize only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries in favor of protectionism.

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Difficulty Level: 1 Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

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11. A case might be made for the temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

TRUE

A case might be made for the temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition. Unfortunately, such protection often becomes long term and contributes to industrial inefficiency while detracting from a nation's realistic adjustment to its world situation.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

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

FALSE

Trade barriers are imposed against imports and against foreign businesses. 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.

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Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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13. In general, tariffs decrease inflationary pressures.

FALSE

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).

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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

TRUE

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

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

15. Quotas strictly permit importing on a case-by-case basis.

FALSE

Quotas permit importing until the quota is filled; licensing limits quantities on a case-by-case basis.

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Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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16. Quotas are more flexible than import licenses.

FALSE

The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

17. A voluntary export restraint (VER) is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

TRUE

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.

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Topic: Protectionism

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18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.

FALSE

A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries. This restriction can even include travel bans, like the one once in place for Chinese tourists; the Beijing government refused to designate Canada as an approved tourism destination.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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.

TRUE

Blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.

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Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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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.

FALSE

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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

TRUE

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

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

22. The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets.

TRUE

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.

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Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

23. Antidumping laws were specifically designed to prevent foreign producers from investing in the U.S. markets.

FALSE

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

24. The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

TRUE

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

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25. 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.

TRUE

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.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

26. It is harder to obtain export licenses for products on the export control list than for the products that are excluded from the export control list.

FALSE

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. Export licenses could be obtained more easily and more quickly for products on the export control list.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

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27. The GATT panels were formed to resolve bilateral trade disputes and have both advisory and enforcement powers.

FALSE

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.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

28. The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.

TRUE

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

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29. The World Intellectual Property Organization was formed with the primary objective of overcoming inadequate monetary reserves and dealing with unstable currencies which were particularly vexing problems in global trade.

FALSE

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.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

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 rather than dollars.

FALSE

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

Multiple Choice Questions

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31. After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled 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.

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.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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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. The _____, aimed at assisting in rebuilding Europe, is the plan most closely associated with this endeavor.

A. Eisenhower Plan
B. Marshall Plan
C. Bradley Plan
D. Roosevelt Plan
E. Kennedy Plan

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 and other groups designed to foster economic growth in the underdeveloped world were used to help create a strong world economy.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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33. What was the most apparent reciprocal impact of the foreign economic assistance given by the United States?

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.

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.

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Topic: The Twentieth to the Twenty-First Century

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34. Which of the following factors 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.

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.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

35. Which of the following was the most significant move of the 1980s that contributed toward international cooperation among trading nations?

A. Formation of the United Nations Development Program
B. Creation of the United Nations
C. Establishment of the World Trade Organization
D. Signing of the Montreal Protocol
E. Negotiation of the General Agreement on Tariffs and Trade

In addition to U.S. economic assistance, a move toward international cooperation among trading nations was manifest in the 1986-1994 negotiation of the General Agreement on Tariffs and Trade (GATT).

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Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

36. Which of the following acronyms refers to the international forum that was created for member countries to engage in the negotiation of tariffs and other barriers to trade?

A. UNHCR
B. GATT
C. WMO
D. NPT
E. UNDP

World leaders created GATT, a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

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Difficulty Level: 1 Easy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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37. What was the outcome for the GATT after the ratification of the Uruguay Round agreements?

A. The GATT allowed the United States to increase its import tax.
B. The GATT became part of the World Trade Organization.
C. The 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.

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.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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 the GATT.
D. the spread of communism by the United States.
E. the sharp reduction in the production capacity of the United States.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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

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.

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40. Post-World War II, it was noticed that there was worldwide economic growth and countries 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

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.

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41. Which of the following 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.

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.

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42. Which of the following 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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43. Which of the following strategies was employed by the United States to regain its lost market share for capital goods by the late 1990s?

A. Funding the communist 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%
E. Provoking increased protectionism from other countries

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

44. By the year 1971, the United States was witnessing a(n):

A. increase in protectionist federal policies.
B. positive balance of trade.
C. sharp rise in domestic and international demand for all its goods.
D. huge trade deficit.
E. economic situation of the magnitude of the Great Depression.

Between 1888 and 1971, the United States sold more to other countries than it bought from them; that is, 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.

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Accessibility: Keyboard Navigation

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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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. _____ is one of the countries included in this list.

A. Canada
B. Nigeria
C. Netherlands
D. Indonesia
E. Zimbabwe

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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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.

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

48. Which of the following ensures 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

As the balance-of-payments record of a nation is maintained on a double-entry bookkeeping system, it must always be in balance.

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Blooms: Remember
Difficulty Level: 1 Easy

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Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

49. Which of the following statements is true of the balance-of-payments records?

A. The balance-of-payments accounts do not consider income brought in by nonresident citizens of a country.
B. The fact that assets and liabilities balanced in a balance-of-payments statement does not mean that a nation is in a particularly good financial condition.
C. A balance of payments is not a record of the financial condition of a nation.
D. A balance of payments is a good determinant of the financial condition of a nation.
E. A balance-of-payments record is maintained on a single-entry bookkeeping system.

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. The fact that assets and liabilities in a balance-of-payments statement balance does not mean that a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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50. Which of the following 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.

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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

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.

AACSB: Analytical Thinking
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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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53. A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

A. Investment account
B. Receivables account
C. Services account
D. Credit account
E. Official reserves account

A balance-of-payments statement includes three accounts: the current account, the capital account, and the official reserves account.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

54. The _____ of the balance-of-payments statement is most likely to record all merchandise exports, imports, and services plus unilateral transfers of funds.

A. current account
B. capital account
C. credit account
D. receivables account
E. reserves account

The current account is a record of all merchandise exports, imports, and services plus unilateral transfers of funds.

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Blooms: Remember
Difficulty Level: 1 Easy

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Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

55. Which of the following accounts of the balance-of-payments statement is a record of the 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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56. The _____ of the balance-of-payments statement is most likely to record all exports and imports of gold, 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

57. Which of the following arguments 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 underdeveloped countries
D. Conservation of natural resources
E. Maintenance of employment and reduction of unemployment

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 underdeveloped countries.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

58. Randall, 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 Randall's company is one of the first to try its hand at cell-phone manufacturing. Which of the following arguments is most likely to be used by Randall 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

The case tells us that cell-phone manufacturing is a nascent industry in the United Kingdom. Protecting this infant industry would be the most probable reason for seeking protection from foreign competition.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty Level: 3 Hard
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

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59. A tax imposed by a government on goods entering at its borders is most accurately termed as a(n) _____.

A. boycott
B. asterisk bill
C. tariff
D. quota
E. writ

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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.

In general, tariffs weaken balance-of-payments positions, supply-and-demand patterns, and international relations (they can start trade wars).

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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61. Which of the following statements 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.

In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

62. In general, tariffs restrict:

A. inflationary pressures.
B. special interests' privileges.
C. government control in economic matters.
D. the number of reciprocal tariffs.
E. manufacturers' supply sources.

In general, tariffs restrict manufacturers' supply sources, choices available to consumers, and competition.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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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. asterisk bill.
D. predatory price.
E. exchange rate.

A quota is a specific unit or dollar limit applied to a particular type of good.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

64. Which of the following is an example of a nontariff trade barrier?

A. Compound duties
B. Revenue tariffs
C. Fees for administrative and custom entry procedures
D. Specific duties
E. Taxes imposed by governments on goods entering at its borders

Valuation systems, antidumping practices, tariff classifications, fees, and documentation requirements are collectively classified as customs and administrative entry procedures, which represent a subtype of nontariff barriers.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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65. Which of the following types of nontariff barriers strictly falls under the category of specific limitations on trade?

A. Import credit discriminations
B. Export subsidies
C. Voluntary export restraints
D. Embargoes
E. Packaging, labeling, or marking standards

Quotas, embargoes, import licensing requirements, minimum import price limits, and proportional restrictions of foreign to domestic goods are the nontariff trade barriers that are classified under specific limitations on trade.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

66. In the context of nontariff barriers, antidumping practices fall under the category of:

A. specific limitations on trade.
B. customs and administrative entry procedures.
C. standards.
D. governmental participation in trade.
E. charges on imports.

Administrative fees, valuation systems, antidumping practices, tariff classifications, and documentation requirements are collectively classified as customs and administrative entry procedures, which is a subtype of nontariff barriers.

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Difficulty Level: 1 Easy

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Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

67. The fundamental difference between quotas and import licenses as a means of controlling imports is that:

A. import licenses have greater flexibility over quotas.
B. quotas impose specific limitations on trade, and import licenses take care of standards.
C. quotas are imposed on export goods, and import licenses are imposed on import goods.
D. for quotas, the exporting country sets the limits, but licenses are issued by the importing country.
E. unlike licenses, quotas limit quantities on a case-by-case basis.

The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

68. 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.

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.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

69. An agreement signed willingly between the importing country and the exporting country for a restriction on the volume of exports is called a:

A. monetary barrier.
B. tariff restraint.
C. voluntary export restraint.
D. special interests' privilege.
E. balance-of-payments statement.

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.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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70. Which of the following is a defining characteristic of a voluntary export restraint (VER)?

A. International regulatory bodies set export or import limits.
B. The importing country can levy heavier import tariffs to override the VERs.
C. The exporting country sets the limits on the quantity it will export.
D. It is a mandatory tax imposed by a government on goods entering at its borders.
E. It is an absolute restriction against the importation of certain goods.

A voluntary export restraint (VER) is called voluntary because the exporting country sets the limits on its exports.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

71. The marketing manager for Grand Products wants to export the company's range of beer products to a Gulf country. However, he discovers that there is a complete restriction on the import of any form of liquor into that country. This is an accurate example of a(n) _____.

A. orderly market agreement
B. quota
C. monetary barrier
D. voluntary export restraint
E. boycott

A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries. As the Gulf country mentioned in the scenario has absolutely restricted the importation of any form of liquor, it has issued a government boycott against liquor.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply

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Difficulty Level: 3 Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

72. 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 most accurately referred to as a(n):

A. antidumping penalty.
B. embargo.
C. monetary barrier.
D. orderly market agreement.
E. voluntary export restraint.

In this case, the refusal is most accurately referred to as an embargo. An embargo is a refusal to sell to a specific country.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty Level: 3 Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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73. 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.

In the context of monetary barriers, blockage is accomplished by refusing to allow an importer to exchange its national currency for the sellers' currency. In effect, blockage cuts off all importing or all importing above a certain level.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

74. In order to effectively secure foreign exchange, which of the following 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

Government approval to secure foreign exchange is often used by countries experiencing severe shortages of foreign exchange.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy

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Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

75. Which of the following trade policy tools 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

76. 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.

An exchange permit can stipulate that the amount to be exchanged must be deposited in a local bank for a set period prior to the transfer of goods.

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Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

77. Tall Pine Plywood Company has just received a notice that a shipment of plywood (2 metric tons) has been rejected by the customs administration of the recipient country because the knotholes commonly found on a plywood sheet are too large. Which of the following categories of nontariff barriers primarily uses such quality issues as a trade barrier?

A. Quotas
B. Licenses
C. Embargoes
D. Boycotts
E. Standards

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.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty Level: 3 Hard
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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78. 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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79. _____ 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 pricing
B. Spot pricing
C. Defensive pricing
D. Counterpoint pricing
E. Predatory pricing

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.

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Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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80. _____ is a nontariff barrier that was specifically designed to prevent foreign producers from using predatory pricing to take control of U.S. markets.

A. Quota
B. Embargo
C. Blocked currency
D. Antidumping law
E. Exchange permit

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

81. Which of the following trading partners 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

At the turn of the century, China took over from Japan as America's number one "trade problem."

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy

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Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

82. Which of the following was designed to primarily deal with trade deficits, protectionism, and the overall fairness of the 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

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 the U.S. trading partners.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

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83. Which of the following is an area that is considered critical in improving U.S. trade in the context of the Omnibus Trade and Competitiveness Act?

A. Market access
B. Quality standards
C. Exchange stability
D. Trade volume
E. Sustainability in trade

Under the Omnibus Trade and Competitiveness Act of 1988, the issue of the openness of markets for U.S. goods is addressed as market access. Many barriers restrict or prohibit goods from entering a foreign market.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

84. 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

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.

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Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

85. 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, occasionally, 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

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.

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Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

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86. Which of the following is one of the four ongoing activities supporting 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

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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

87. Which of the following statements is true of 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.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

88. As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the General Agreement on Tariffs and Trade, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated. This is termed the _____.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
B. Trade-Related Investment Measures (TRIMs)
C. General Agreement on Trade in Services (GATS)
D. Comprehensive Economic Cooperation Agreement (CECA)
E. Trade in Services and Investment Obligations Act (TSIO)

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

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89. Which of the following agreements makes it possible to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?

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

As a result of TRIMs, restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels can be challenged.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

90. Which of the following institutions emerged as a successor to the GATT following the Uruguay Round of GATT negotiations?

A. International Monetary Fund
B. World Bank
C. European Services Forum
D. World Trade Organization
E. Association of Southeast Asian Nations

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.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization

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Topic: Easing Trade Restrictions

91. One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

A. member nations are exempt from import tariffs to other member nations.
B. all tariffs shall be abolished among member nations at the time of membership.
C. the World Court shall review all trade disputes and make final judgments.
D. trade shall be conducted on a nondiscriminatory basis.
E. trade in services and investments will be excluded from the purview of the GATT.

In general, the General Agreement on Tariffs and Trade 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.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

92. Which of the following 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

Antidumping duties are becoming a favorite way for nations to impose new duties. The WTO continues to fight these new, creative barriers to trade.

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Difficulty Level: 1 Easy
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

93. Several nations, 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.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

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94. _____ 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

The International Monetary Fund (IMF) and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

95. To overcome the problems of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.

A. European Union
B. World Trade Organization
C. Federation of International Trade Associations
D. International Monetary Fund
E. United Nations Development Program

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.

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Difficulty Level: 1 Easy
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

96. 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

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.

AACSB: Analytical Thinking
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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

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97. The special drawing rights (SDRs) developed by the IMF are in effect:

A. black gold.
B. exchange permits.
C. floating currencies.
D. paper gold.
E. virtual 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.

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Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

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98. Which of the following is a basic criticism of global financial institutions?

A. They failed to focus on the aim of reducing inequalities between the rich and the 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.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: Protests against Global Institutions

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99. Which of the following 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

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.

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Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: Protests against Global Institutions

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100. Which of the following statements is true about 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.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: Protests against Global Institutions

Essay Questions

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101. Briefly discuss the efforts taken by the United States to promote global trade after World War II.

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.

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Difficulty Level: 2 Medium
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II
Topic: The Twentieth to the Twenty-First Century

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102. What is the significance of balance-of-payments figures?

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. Each of the nation's financial transactions with other countries is reflected in its balance of payments. A nation's balance-of-payments statement presents an overall view of its international economic position and is an important economic measure used by treasuries, central banks, and other government agencies whose responsibility is to maintain external and internal economic stability. A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other.

AACSB: Analytical Thinking
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

103. Why must the balance-of-payments record always be in balance? What does a balanced record signify?

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.

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Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

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104. Briefly describe the three accounts of a balance-of-payments statement.

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.

AACSB: Analytical Thinking
Blooms: Understand
Difficulty Level: 2 Medium
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy
Topic: Balance of Payments

105. What are the arguments in favor of protectionism? Which of them are generally recognized as valid by economists?

Arguments espoused by protectionists to maintain government restrictions on trade can be classified as follows: (1) protection of an infant industry, (2) protection of the home market, (3) need to keep money at home, (4) encouragement of capital accumulation, (5) maintenance of the standard of living and real wages, (6) conservation of natural resources, (7) industrialization of a low-wage nation, (8) maintenance of employment and reduction of unemployment, (9) national defense, (10) enhancement of business size, and (11) retaliation and bargaining. Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

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Blooms: Remember
Difficulty Level: 1 Easy
Learning Objective: 02-03 The effects of protectionism on world trade
Topic: Protectionism

106. List the effects of imposing tariffs.

The following are the effects of imposing tariffs:

•In general, tariffs increase:

◦ inflationary pressures.
◦ special interests' privileges.
◦ government control and political considerations in economic matters.
◦ the number of tariffs (they beget other tariffs via reciprocity).

• Tariffs weaken:

◦ balance-of-payments positions.
◦ supply-and-demand patterns.
◦ international relations (they can start trade wars).

• Tariffs restrict:

◦ manufacturers' supply sources.
◦ choices available to consumers.
◦ competition.

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Difficulty Level: 1 Easy
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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107. Describe voluntary export restraints.

The voluntary export restraint (VER) is an agreement between the importing country and the exporting country for a restriction on the volume of exports. They are similar to quotas and also referred to as orderly market agreements (OMAs). A 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.

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Difficulty Level: 2 Medium
Learning Objective: 02-04 The several types of trade barriers
Topic: Protectionism

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108. What are the three areas covered by the Omnibus Trade and Competitiveness Act of 1988 that are considered critical in improving U.S. trade?

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.

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Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act
Topic: Easing Trade Restrictions

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109. List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

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.
• Trade-Related Investment Measures (TRIMs) established the basic principle that investment restrictions can be major trade barriers and therefore are included, for the first time, under GATT procedures.
• Another objective of the United States for the Uruguay Round was achieved by an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). The TRIPs agreement establishes substantially higher standards of protection for a full range of intellectual property rights than are embodied in current international agreements, and it provides for the effective enforcement of those standards both internally and at the border.
• 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.

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Difficulty Level: 2 Medium
Learning Objective: 02-06 The importance of GATT and the World Trade Organization
Topic: Easing Trade Restrictions

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110. Why was the International Monetary Fund (IMF) formed? How does the IMF deal with universally floating rates?

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.

AACSB: Analytical Thinking
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Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group
Topic: The International Monetary Fund and World Bank Group

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