

***International Economics, 7e (Gerber)***

**Chapter 2 International Economic Institutions Since World War II**

2.1 Introduction: International Institutions and Issues Since World War II

1) Institutions are

- A) the same thing as organizations.
- B) associations of individuals or groups.
- C) always embodied in a written set of rules.
- D) a set of rules governing behavior, whether written or not.

Answer: D

Topic: Introduction: International Institutions and Issues Since World War II

Difficulty: Easy

Objective: LO 2.1 Classify with examples the main types of international economic organizations.

AACSB: Application of knowledge

2) Which of the following is an example of an institution whose primary concern is global stability?

- A) NAFTA (North American Free Trade Agreement)
- B) OPEC (Oil Producing and Exporting Countries)
- C) IMF (International Monetary Fund)
- D) Asian Development Bank

Answer: C

Topic: Introduction: International Institutions and Issues Since World War II

Difficulty: Easy

Objective: LO 2.1 Classify with examples the main types of international economic organizations.

AACSB: Application of knowledge

3) Many of the important international governmental institutions that deal with the global economy have their roots in the Bretton Woods conference at the end of World War II.

Answer: TRUE

Topic: Introduction: International Institutions and Issues Since World War II

Difficulty: Easy

Objective: LO 2.1 Classify with examples the main types of international economic organizations.

AACSB: Application of knowledge

## 2.2 The IMF, the World Bank, and the WTO

1) The international organization that serves as a forum for trade discussions and the development of trade rules is called

- A) the WTO.
- B) the World Bank.
- C) the IMF.
- D) the United Nations.

Answer: A

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

2) Which of the following was NOT a creation of the Bretton Woods conference?

- A) World Bank
- B) IMF
- C) IBRD
- D) WTO

Answer: D

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

3) One of the strongest motivations for holding the Bretton Woods Conference was to design new international institutions that would

- A) contain communism.
- B) help countries avoid the mistakes of the 1920s and 1930s.
- C) provide a collective defense security for Western Europe and North America.
- D) ensure that world prices were not rising too rapidly.

Answer: B

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

- 4) One of the most important and most visible roles of the IMF is to
- A) hold regular negotiations over tariff reductions.
  - B) investigate countries that are charged with being unfair traders.
  - C) provide loans to countries that need capital to develop their economies.
  - D) intercede by invitation when countries cannot pay their international debts.

Answer: D

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

- 5) The original mission of the World Bank was to
- A) provide capital to underdeveloped countries.
  - B) provide capital to firms around the world.
  - C) provide financial assistance for the reconstruction of war-damaged nations.
  - D) help countries manage their exchange rates.

Answer: C

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

- 6) The primary mission of the World Bank today is to
- A) provide capital to underdeveloped countries.
  - B) provide capital to firms around the world.
  - C) provide financial assistance for the reconstruction of war-damaged nations.
  - D) help countries manage their exchange rates.

Answer: A

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

7) From the late 1940s until the creation of the WTO, the organization that was primarily responsible for conducting rounds of trade negotiations was the

- A) World Bank.
- B) IMF.
- C) United Nations.
- D) GATT.

Answer: D

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

8) Until the Uruguay Round of trade negotiations, which of the following sectors were NOT included in the rules for international trade?

- A) Steel and agriculture
- B) Agriculture and apparel
- C) Steel and textiles
- D) Automobiles and agriculture

Answer: B

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

9) Most favored nation (MFN) status means that a country treats another country

- A) better than its other trading partners.
- B) the same as its other trading partners.
- C) worse than its other trading partners.
- D) any way it chooses since it is the "most favored nation."

Answer: B

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

10) When the United States gives MFN status to China, it means that

- A) China is treated better than other U.S. trading partners.
- B) China is treated the same as other U.S. trading partners.
- C) China is treated worse than other U.S. trading partners.
- D) China is legally bound to reciprocate.

Answer: B

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

11) The Tokyo Round of the GATT negotiations was notable because it was the first round

- A) that included Japan.
- B) that included textiles and apparel.
- C) to begin establishing rules on subsidies.
- D) to begin discussions of exchange rates.

Answer: C

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

12) IMF conditionality refers to the

- A) technical assistance the IMF gives.
- B) minimum-sized loan the IMF will make.
- C) maximum-sized loan the IMF will make.
- D) changes a country must make in order to receive IMF financial assistance.

Answer: D

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

13) Which of the following is true?

- A) A country experiencing a debt or currency crisis would contact the World Trade Organization.
- B) The World Trade Organization was formed at the Bretton Woods conference.
- C) The General Agreement on Tariffs and Trade created the World Trade Organization in the negotiations and treaty known as the Uruguay Round.
- D) The World Trade Organization has no power to resolve trade disputes and to enforce their resolution.

Answer: C

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

14) A country's foreign exchange reserves refers to

- A) the currency of the nation itself.
- B) the country's holdings of gold and internationally accepted currencies.
- C) the total amount of a country's currency held by other nations.
- D) the country's Special Drawing Rights (SDRs) at the IMF.

Answer: B

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

15) Having MFN status means that the country is getting the most favorable trade terms possible with a trading partner.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

16) A country experiencing a debt or currency crisis would contact the World Bank.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

17) The World Bank was created as a result of the Bretton Woods conference and was originally focused on the reconstruction of Europe after World War II.

Answer: TRUE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

18) The IMF, because it can force nations to take loans and bail out packages, has more power than other international governmental organizations dealing with the global economy.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

19) The World Bank formed the World Trade Organization when it became clear that to alleviate poverty in developing nations, agricultural trade barriers were going to have to be reduced.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

20) A nation's votes at the IMF are proportional to its population.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

21) MFN status means that a trading partner is getting the best trade deal possible given current national trade policies.

Answer: FALSE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

22) WTO talks in the late 1990s led to openings in both financial services and telecommunications.

Answer: TRUE

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

23) Trade policies in which industries have been the most contentious in the Doha Round?

Answer: Agriculture and services

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

24) Which round of GATT first addressed subsidies?

Answer: The Tokyo Round

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

25) What result of the Uruguay Round was the most significant for global trade?

Answer: The creation of the WTO

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

26) How is the IMF funded?

Answer: It collects fees called quotas from its members.

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

27) The International Bank for Reconstruction and Development (IBRD) part of the World Bank is set up to lend to whom and for what types of projects?

Answer: Developing nations' governments for specific development projects or major government economic policy adjustments

Topic: The IMF, the World Bank, and the WTO

Difficulty: Moderate

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

28) Which round of GATT led to the formation of the WTO?

Answer: The Uruguay Round

Topic: The IMF, the World Bank, and the WTO

Difficulty: Easy

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Application of knowledge

29) Describe the primary functions of the World Bank, the IMF, and the WTO. When was each of these organizations formed?

Answer: The IMF and the World Bank were outlined at the Bretton Woods Conference and began operations at the end of World War II. Both function as banks for national governments, with the IMF playing the role of lender of last resort and the World Bank focusing its loans on economic development. A nation facing a payments crisis can contact the IMF for a loan, but it may have to change its domestic policies as part of the price of the loan package. The World Bank initially focused its lending on rebuilding war-torn areas, but then broadened its focus to development. Only developing countries can borrow from the World Bank.

The World Trade Organization was not formed until 1994. An international organization to establish rules related to world trade, business practices, and international investment was proposed at the end of World War II, but was not created. A series of trade negotiations that focused primarily on lowering tariffs were launched. A number of rounds of GATT were completed and ultimately the round known as the Uruguay Round led to the formation of the WTO. The WTO focuses on the multilateral resolution of trade disputes and on continued negotiations to further reduce barriers to trade.

Topic: The IMF, the World Bank, and the WTO

Difficulty: Difficult

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Analytical thinking

30) What is MFN status? How does the WTO reconcile the principle of equal treatment with the preferential treatment created by regional trade agreements?

Answer: MFN status is basically that you will treat all nations participating in the agreement the same. A regional trade agreement creates preferential treatment for nations that are participants. (For example, because of NAFTA, Mexico and Canada get more preferential terms with the United States than other WTO members would.) The WTO recognizes that regional agreements destroy some opportunities for trade (by making nonmembers face higher barriers than members), but believes they create more trade between participants than they destroy. The regional agreements also allow nations to try out new arrangements that may later be adopted more broadly.

Topic: The IMF, the World Bank, and the WTO

Difficulty: Difficult

Objective: LO 2.2 Identify economic circumstances in which the IMF, the World Bank, and the WTO are active.

AACSB: Analytical thinking

### 2.3 Regional Trade Agreements

- 1) A free trade agreement plus a common set of tariffs toward non-members is called
- A) a common market.
  - B) a customs union.
  - C) a free trade area.
  - D) an economic union.

Answer: B

Topic: Regional Trade Agreements

Difficulty: Easy

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

- 2) Which of the following is FALSE?
- A) A common market is more deeply integrated than an economic union.
  - B) NAFTA is an example of a free trade area.
  - C) The European Union is a deeper form of integration than NAFTA.
  - D) Common markets allow for labor mobility between participating nations.

Answer: A

Topic: Regional Trade Agreements

Difficulty: Easy

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

3) Which of the following is true?

- A) A common market is more deeply integrated than a customs union.
- B) The European Union is a shallower and broader form of integration than NAFTA.
- C) NAFTA is an example of a customs union.
- D) Customs unions require the creation of a common currency.

Answer: A

Topic: Regional Trade Agreements

Difficulty: Easy

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

4) Which of the following is NOT a feature of a common market?

- A) Substantial coordination of macroeconomic policies among the members
- B) Free trade in goods and services between the members
- C) Common external barriers to trade
- D) Factor mobility

Answer: A

Topic: Regional Trade Agreements

Difficulty: Easy

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

5) Which of the following is a problem that arises when trying to classify regional trade agreements?

- A) Many agreements combine elements from different categories.
- B) The definition of free trade area includes that of a customs union.
- C) Some agreements include cultural issues while others do not.
- D) The most favored nation clause includes all of them.

Answer: A

Topic: Regional Trade Agreements

Difficulty: Moderate

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

6) The United States is an example of

- A) a customs union.
- B) a free trade area.
- C) an economic union.
- D) a common market.

Answer: C

Topic: Regional Trade Agreements

Difficulty: Easy

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

7) With a partial trade agreement,

- A) goods and services are allowed to cross boundaries without tariffs.
- B) two or more countries agree to liberalize trade in a selected group of categories.
- C) two or more countries set common tariffs toward non-members.
- D) two or more countries allow the free mobility of inputs such as labor and capital.

Answer: B

Topic: Regional Trade Agreements

Difficulty: Moderate

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Application of knowledge

8) Describe the potential benefits and the potential costs to global trade of the tremendous growth in regional trade agreements.

Answer: A regional trade agreement creates preferential treatment for nations that are participants, which violates the idea of MFN status in multilateral agreements, where nations agree to treat all participants the same. The WTO recognizes that regional agreements destroy some opportunities for trade by making non-members face higher barriers than members of the regional agreement. But it believes that they create more trade than they divert, and the regional agreements allow nations to try out arrangements that may later be adopted more broadly.

Topic: Regional Trade Agreements

Difficulty: Difficult

Objective: LO 2.3 Compare the different levels of integration found in regional trade agreements with examples.

AACSB: Analytical thinking

## 2.4 The Role of International Economic Institutions

1) One reason markets may fail to provide the optimal quantity of public goods is the problem of

- A) determining what the public wants.
- B) nondiscrimination.
- C) free riders.
- D) economic integration.

Answer: C

Topic: The Role of International Economic Institutions

Difficulty: Easy

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

2) If a good or service does not get used up as it is consumed, then it is said to be

- A) nonexcludable.
- B) nonrival.
- C) nondiscrimination.
- D) nonconsumable.

Answer: B

Topic: The Role of International Economic Institutions

Difficulty: Easy

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

3) An important function of international institutions during times of crisis is to

- A) make goods nonrival.
- B) make goods nonexcludable.
- C) prevent free riding.
- D) prevent nondiscrimination.

Answer: C

Topic: The Role of International Economic Institutions

Difficulty: Easy

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

4) Which of the following is NOT an example of an international public good?

- A) Capital flows to less-developed countries
- B) Last-resort lending
- C) Open markets during a recession
- D) Regional trade agreements

Answer: D

Topic: The Role of International Economic Institutions

Difficulty: Moderate

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

5) International economic crises are relatively rare events.

Answer: FALSE

Topic: The Role of International Economic Institutions

Difficulty: Moderate

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

6) A lender of last resort can prevent the spread of financial crises.

Answer: TRUE

Topic: The Role of International Economic Institutions

Difficulty: Easy

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

7) Which multilateral institution serves as the lender of last resort?

Answer: The IMF

Topic: The Role of International Economic Institutions

Difficulty: Easy

Objective: LO 2.4 Analyze the roles of international economic organizations.

AACSB: Application of knowledge

## 2.5 Criticism of International Institutions

1) Which of the following is NOT a criticism of international institutions such as the IMF, the World Bank, or the WTO?

A) They violate national sovereignty by imposing unwanted domestic policies.

B) They fail to understand the effects of their policies on the vulnerable.

C) Their decision-making is biased in favor of underdeveloped nations.

D) They ignore potentially large adjustment costs for developing nations of implementing their policies.

Answer: C

Topic: Criticism of International Institutions

Difficulty: Moderate

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

2) Which of the following criticisms is NOT directed at the IMF?

A) It lacks openness in its decision-making process.

B) It serves the interests of wealthier countries.

C) It creates a free-riding problem.

D) It violates national sovereignty.

Answer: C

Topic: Criticism of International Institutions

Difficulty: Moderate

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

3) Which of the following is FALSE?

- A) National sovereignty limits outsiders' ability to change the trade laws and practices of individual nation states.
- B) Because of international recognition of national sovereignty, individual nations are unaffected by global trade and capital flows.
- C) Foreign investors may not have a legal right to impose policies on a nation state, but the nation state may still experience consequences of poor policies.
- D) Because trade policies are laws of individual nations, it is difficult for other nations and international organizations to force changes on unwilling nation states.

Answer: B

Topic: Criticism of International Institutions

Difficulty: Difficult

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

4) Which of the following is a FALSE statement about the International Monetary Fund (IMF)?

- A) The IMF was created after the Bretton Woods Conference to help to maintain the international fixed exchange rate system that was introduced.
- B) The IMF lends to national governments, initially to maintain the fixed exchange rate system, and today to deal with debt or currency crises.
- C) Multinational corporations can get IMF loans if they agree to invest in economies that are internationally perceived as risky and otherwise unlikely to receive direct foreign investment.
- D) One of the criticisms of the IMF and other international governmental organizations that deal with the global economy is that their decision making may be biased toward policies that favor industrialized nations.

Answer: C

Topic: Criticism of International Institutions

Difficulty: Moderate

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

5) China's alternative to the IMF is called

- A) AIIB.
- B) ASEAN.
- C) MERCOSUR.
- D) TIIP.

Answer: A

Topic: Criticism of International Institutions

Difficulty: Easy

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

6) Because of the recognition internationally of the principles of national sovereignty, nations cannot be affected by the policies of other nations and international governmental organizations.

Answer: FALSE

Topic: Criticism of International Institutions

Difficulty: Easy

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

7) The majority of economists favor open capital flows.

Answer: FALSE

Topic: Criticism of International Institutions

Difficulty: Easy

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Application of knowledge

8) Describe the criticisms about decision making at the IMF and the World Bank. Which types of policies are thought to reflect bias? What types of costs are not considered? What is the fundamental question critics raise about the operations of the international governmental economic institutions?

Answer: Voting structures at the IMF and World Bank give developed nations, and the U.S. especially, control over decision making, making it hard to delineate whose interests are being served. For example, policies favoring free capital flows and privatization of publicly owned industries are thought to reflect the biases of industrialized countries rather than overwhelming economic consensus. Implementation and adjustment costs may be much greater in developing countries because they have higher overall levels of unemployment, less diversification in their economies, and fewer resources to develop new infrastructure or to do other spending necessary to take advantage of new opportunities. Fundamentally, critics ask whether they are fostering development and economic security or generating greater economic inequality and compounding risks to vulnerable groups.

Topic: Criticism of International Institutions

Difficulty: Difficult

Objective: LO 2.5 Debate the pros and cons of international economic organizations.

AACSB: Analytical thinking