

Chapter 2: International Trade Policy and Trade Institutions

TRUE/FALSE

1. The Doha Round has emphasized safeguard measures for developing countries to protect their markets from import surges.

ANS: T PTS: 1 DIF: Moderate REF: Page 33

2. A zero sum game is also known as a win-win situation.

ANS: F PTS: 1 DIF: Moderate REF: Page 22

3. Non-tariff barriers were covered under the GATT rules.

ANS: F PTS: 1 DIF: Difficult REF: Page 32

4. The WTO consists of 148 members.

ANS: F PTS: 1 DIF: Easy REF: Page 33

5. The GATT is a separate institution from the WTO.

ANS: F PTS: 1 DIF: Moderate REF: Page 33

6. The WTO (World Transport Organization) is the world's leading authority on settling transportation disputes between shippers of products and the countries which receive these goods.

ANS: F PTS: 1 DIF: Difficult REF: Page 31

7. The original goal of the International Monetary Fund (IMF) was to provide for fixed exchange rates between member countries.

ANS: T PTS: 1 DIF: Moderate REF: Page 34

8. The World Bank was initially formed in 1944 to aid countries that were suffering from the destruction of WWII.

ANS: T PTS: 1 DIF: Easy REF: Page 34

9. Unlike the EU, the United States has been resolute in their protection of the agriculture sector.

ANS: F PTS: 1 DIF: Moderate REF: Page 36

10. Canada's largest import market in 2005 was China.

ANS: F PTS: 1 DIF: Moderate REF: Page 44

11. Trade deficits have a minimal impact on a country and its citizens.

ANS: F PTS: 1 DIF: Difficult REF: Page 45

12. Adam Smith's thoughts on international trade being a zero sum game are consistent with those of proponents of mercantilism.

ANS: F PTS: 1 DIF: Difficult REF: Page 23

13. The labour theory of value states that commodities should be valued in terms of the amount of labour embodied in their production.

ANS: T PTS: 1 DIF: Moderate REF: Page 23

14. Bilateral negotiations are carried out mainly between two nations, while multilateral negotiations are carried out among a number of nations.

ANS: T PTS: 1 DIF: Easy REF: Page 47

15. In order to be successful in international trade, policymakers must be willing to trade off long term goals to achieve short term objectives.

ANS: F PTS: 1 DIF: Difficult REF: Page 47

16. In order for comparative advantage to exist, there has to be a similarity in the relative labour requirements for the production of a particular product.

ANS: F PTS: 1 DIF: Moderate REF: Page 24

17. The Heckscher-Ohlin Model was built on the concept of absolute advantage.

ANS: F PTS: 1 DIF: Moderate REF: Page 24

18. In the second stage of the product life cycle, Canadian firms begin to export the product to other advanced countries.

ANS: T PTS: 1 DIF: Moderate REF: Page 25

19. Canada is a strong supporter of the multilateral trade framework.

ANS: T PTS: 1 DIF: Easy REF: Page 48 - Summary

MULTIPLE CHOICE

1. The dominant economic philosophy that drove national approaches to international trade and wealth accumulation from 1500 to 1750 was:

- a. Laissez-faire
- b. Mercantilism
- c. Robber barons
- d. Colonialism

ANS: B PTS: 1 DIF: Easy REF: Page 22

2. The difference between a country's exports and imports is termed its:

- a. Absolute advantage
- b. Mercantilism
- c. Balance of trade
- d. Balance of sales

ANS: C PTS: 1 DIF: Easy REF: Page 23

3. When the charter for the International Trade Organization was signed in 1948, it set forth a series of agreements to include international commercial policies, domestic business practices, and what other agreements?

- a. Unilateral veto power by the Soviet Union, China, and the United States
- b. An inter-governmental agreement allowing the U.S. to administer the ITO
- c. A closed market for all electronic components
- d. Commodity agreement, economic development, and international investment

ANS: D PTS: 1 DIF: Difficult REF: Page 32

4. Which organization has been called "a remarkable success story of postwar international organization that was never intended to become one"?

- a. GATT
- b. WTO
- c. IMF
- d. UN

ANS: A PTS: 1 DIF: Difficult REF: Page 31

5. When was the World Trade Organization founded?

- a. In 200 A.D. in the Roman Empire, as the Romans conquered more and more land
- b. As a result of China's inclusion in the global market after the Nixon summit of 1972
- c. During President Ronald Reagan's Tear Down This Wall speech in 1984
- d. In 1995 during President Clinton's first term of office

ANS: D PTS: 1 DIF: Moderate REF: Page 31

6. What is the core mission of the WTO?

- a. To enforce trade tariffs
- b. To keep salt prices at a stable price
- c. To facilitate international trade and investment
- d. To broker agricultural products between companies

ANS: C PTS: 1 DIF: Difficult REF: Page 31

7. When the International Monetary Fund was created, how did member nations pay their dues?

- a. 25% in gold or U.S. dollars, the rest in their own currency
- b. In their own nation's currency
- c. In salt or other commodities
- d. Through a common IMF currency called the Dohar

ANS: A PTS: 1 DIF: Moderate REF: Page 34

8. Another name for the International Bank for Reconstruction and Development is:

- a. the Bank of America.
- b. the United States Treasury.
- c. the World Bank.
- d. the UN Bank.

ANS: C PTS: 1 DIF: Difficult REF: Page 34

9. The WTO, IMF, and World Bank operate on a global level. Which of the following is an example of a trade alliance that operates under this same concept on a regional basis?

- a. The Economic Bloc
- b. The World Chamber of Commerce
- c. The United Nations
- d. The Foundation for a Free America

ANS: A PTS: 1 DIF: Moderate REF: Page 36

10. NAFTA, Mercosur, and GCC represent:

- a. names of Soviet rockets that have made trips to the moon.
- b. formal titles for the ministers of trade in South American countries.
- c. the infrastructure of governmental courts related to trade.
- d. examples of regional trade alliances between nations.

ANS: D PTS: 1 DIF: Difficult REF: Page 36

11. In German history, a customs union was established to eliminate tariff barriers. The ultimate goal envision was the completely free movement of capital, services, and people across national borders and the joint development of common international policies. What is the name of this regional integration union?

- a. GATT
- b. Der Union
- c. Zollverien
- d. Frankfurter Commons

ANS: C PTS: 1 DIF: Difficult REF: Page 36

12. The role of the United Nations Conference on Trade and Development (UNCTAD) is to:
- a. Work with governments of developing countries to prepare them for international trade negotiations
 - b. Enforce sanctions made by the WTO (World Trade Organization) in trade disputes between countries
 - c. Assist developing countries secure no-interest loans from the World Bank
 - d. Encourage unfettered trade between all member states of the United Nations

ANS: A PTS: 1 DIF: Difficult REF: Page 36

13. In which region is the Mercosur trade union located?
- a. Pacific Asian Rim
 - b. Latin America
 - c. Northern European States
 - d. Africa

ANS: B PTS: 1 DIF: Moderate REF: Page 36

14. Most of Canada's imports in 2005 were shipped from ____.
- a. Japan
 - b. China
 - c. The United States
 - d. United Kingdom

ANS: C PTS: 1 DIF: Moderate REF: Page 42

15. Which of the following is a tactic used by government to encourage foreign trade?
- a. Provision of market intelligence
 - b. Export subsidies
 - c. Export financing
 - d. All of these

ANS: D PTS: 1 DIF: Easy REF: Page 40

16. International trade is extremely important to the Canadian economy. In 2003 Canada's trade in goods represented what percent of the Canadian gross domestic product?
- a. 40%
 - b. 60%
 - c. 80%
 - d. 100%

ANS: B PTS: 1 DIF: Moderate REF: Page 42

17. Promises by one country to limit exports of a product to some pre-specified volume or percentage of the overall size of the foreign market are known as:
- a. GATT goals
 - b. Empty promises
 - c. Tariff Rate Quotas
 - d. Voluntary Export Restraints

ANS: D PTS: 1 DIF: Moderate REF: Page 38

18. ____ is considered “special” because of its affect on currency values, the fiscal and monetary policies of governments, the shaping of public perception on competitiveness, and the level of imports a country can afford?

- a. Political upheaval
- b. Regime change
- c. Exportation of goods and services
- d. The legalization of previously banned products

ANS: C PTS: 1 DIF: Moderate REF: Page 39

19. A strict limit on the volume of imports coming into a country is known as a(n):

- a. Quota
- b. Restrictive trade practice
- c. Import Restraint
- d. Exchange control

ANS: A PTS: 1 DIF: Easy REF: Page 38

20. When a company expands its market by offering its products to international customers, it can produce more of its products and do so more efficiently, thus reducing the overall cost of each individual unit. What is this called?

- a. Over saturation
- b. Stagnation
- c. Economy of scale
- d. Post production providence

ANS: C PTS: 1 DIF: Moderate REF: Page 39

21. Limiting the amount of foreign currency that importers can purchase is known as:

- a. Tariff Rate Quotas
- b. Ad valorem tariff
- c. Exchange controls
- d. Restrictive monetary policy

ANS: C PTS: 1 DIF: Moderate REF: Page 38

22. “Voluntary” import restraints have been used mainly in areas such as textiles, automobiles, and steel and are intended to:

- a. help domestic companies regain their trade prominence of years past.
- b. show good political citizenship by members.
- c. penalize producers of raw materials.
- d. situate the imports as a political component as opposed to a trade embargo.

ANS: A PTS: 1 DIF: Difficult REF: Page 44

23. If a business entity promotes “Buying Canadian.” (meaning, only buy products that are manufactured in Canada), and employees benefit from these purchases, this campaign would be seen as:

- a. a non-tariff barrier.
- b. poor public relations.
- c. significantly helping the international global market.
- d. something Russia might do.

ANS: A PTS: 1 DIF: Moderate REF: Page 33

24. Providing preferential treatment to domestic bidders over foreign bidders, using national standards that are not comparable to international standards, placing emphasis on design rather than performance, and providing for general difficulties in the market entry of foreign products are examples of:

- a. import/export quotas.
- b. substantial discounting by domestic partners.
- c. aggregation of intrinsic dominance.
- d. non-tariff barriers.

ANS: D PTS: 1 DIF: Moderate REF: Page 32

25. Which department of the Canadian government provides assistance to companies in helping formulate foreign trade and international marketing plans?

- a. Homeland Security
- b. Treasury
- c. Industry Canada
- d. Foreign Trade Canada

ANS: C PTS: 1 DIF: Difficult REF: Page 41

26. Which product category receives the largest emphasis from the Canadian Government, with regards to encouraging trade with foreign countries?

- a. Motor Vehicles
- b. Aeronautics
- c. Fishery
- d. Medicine

ANS: A PTS: 1 DIF: Difficult REF: Page 44

27. When the Export Development Canada gives loans that are composed partially of commercial interest rates and partially of highly subsidized developmental aid interest rates, these loans are known as:

- a. commercial state loans.
- b. mixed aid credits.
- c. import/export fluctuations.
- d. partial loans.

ANS: B PTS: 1 DIF: Difficult REF: Page 41

28. Canada requires bilingual labelling on food products entering the country. This is considered a:

- a. Product standard
- b. Restrictive trade practice
- c. Regional pandering
- d. Voluntary Import Restraint (VIR)

ANS: A PTS: 1 DIF: Moderate REF: Page 39

29. A country, in its international activities, that is consuming more than it is producing is said to have a(n):

- a. Trade surplus
- b. Trade deficit
- c. Trade imbalance
- d. World Bank overdraft

ANS: B PTS: 1 DIF: Easy REF: Page 45

30. Trade negotiations that are conducted between two nations are considered:

- a. unilateral.
- b. multilateral.
- c. bilateral.
- d. omnilateral.

ANS: C PTS: 1 DIF: Easy REF: Page 47

31. The disappointment with past policy measures, particularly trade negotiations, is mainly the result of:

- a. lack of funds.
- b. lack of expectations.
- c. overblown competitiveness.
- d. Overblown expectations.

ANS: D PTS: 1 DIF: Moderate REF: Page 47

32. In order for negotiations between countries to be long-lasting, policymakers must:

- a. appoint taxing authority to an outside third non-exclusive country.
- b. situate the trading bloc amongst similar aid.
- c. trade off short-term achievements for long term goals.
- d. implement profit taking in the short term.

ANS: C PTS: 1 DIF: Moderate REF: Page 47

33. In the recent past, the majority of international and global markets have:

- a. disappeared and account for less than half of all transactions in world markets.
- b. continued to grow in terms of trade and investment volume for all countries.
- c. not focused on the value of segmentation.
- d. created niche forecasting reminiscent of the feudal system.

ANS: B PTS: 1 DIF: Moderate REF: Page 48

34. When economic coordination between trading partners continues, leading trading nations will:

- a. propagate a universal religion.
- b. exploit the dollar and devalue it in relation to the Yen.
- c. compromise the WTO charter.
- d. lose some national sovereignty.

ANS: D PTS: 1 DIF: Moderate REF: Page 48

35. Policymakers will be sufficiently responsive in setting international trade policy objectives that increase opportunities for firms and choices for consumers when:

- a. the voices of retailers, consumers, wholesalers, and manufacturers are heard.
- b. all nations adopt the IMF treaty.
- c. the reconstruction of branded Europe is concluded.
- d. there is agreement between the British and Americans over salt prices.

ANS: A PTS: 1 DIF: Moderate REF: Page 47

SHORT ANSWER

1. What is a quota? Explain Absolute and Tariff Rate quotas.

ANS:

A quota is a quantitative restriction on the volume of product that can be imported into a country over a specified time period. Quotas are a form of non-tariff barrier used by countries to restrict free trade and protect domestic industries. Absolute Quota which places a strict limit on the volume of imports coming into a country. Tariff Rate Quotas impose a low tariff level on an initial quantity of imported product. Once the volume of imports is reached, the tariff rate imposed on additional volumes escalates markedly.

PTS: 1 DIF: Moderate REF: Page 38

2. Explain the 4 factors of The Diamond of National Advantage.

ANS:

- 1.) Factor conditions (country's endowment of factors of production, such as skilled labour force, energy, and other natural resources.
- 2.) Demand conditions, or the existence of a domestic base of knowledgeable and sophisticated consumers who can drive product innovation and quality standards.
- 3.) Supporting industries, firms providing professional services Germans to the company's domain of expertise.
- 4.) Firm strategy, structure, and rivalry, which drive productive efficiency and competitiveness among domestic companies, making them stronger participants in international markets.

PTS: 1 DIF: Moderate REF: Page 28-29

3. Explain the three stages of the Product Cycle Theory

ANS:

- 1.) The product is produced only in Canada. The product is new and innovative, and firms producing the product are assumed to want to market it in Canada where demand is strongest and consumer response can be adequately gauged.
- 2.) Canadian firms begin to export the product to other advanced countries such as the U.S. and those in Western Europe. This stage is the maturity stage.
- 3.) Manufacture of the product shifts to developing countries. Product is no longer considered new and innovative, manufacturing processes are now well known, and there is widespread consumer acceptance.

PTS: 1

DIF: Moderate

REF: Page 25