

*International Marketing, 18e (Cateora)*

**Chapter 2 The Dynamic Environment of International Trade**

- 1) The Marshall Plan was developed by the United States as a method to assist Europe in rebuilding after World War II.
- 2) The GATT became part of the World Trade Organization in 1995 with the ratification of the Uruguay Round agreements.
- 3) The United States faced decreasing competition in export markets beginning in 1970 with the ending of the Vietnam War.
- 4) By the year 1971, the United States was selling less to other countries than it bought from them; that is, the United States had a trade deficit.
- 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.
- 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.
- 7) In a balance-of-payments record, the current account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.
- 8) When reviewing a balance-of-payments statement, you would check the reserves account to view exports and imports of gold.
- 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.
- 10) Establishing a tariff on fabrics imported from Uruguay so that U.S. manufacturers sell more fabrics is an example of a protectionist measure.
- 11) In general, economists do not recognize "protection of the home market" as a valid argument for protectionist measures.
- 12) Quotas, boycotts, monetary barriers, and market barriers are examples of tariff barriers.
- 13) In general, a tariff will decrease inflationary pressures.
- 14) Tariffs are often used as reprisals against protectionist moves of trading partners.
- 15) The United States has placed a limit on the tons of sugar that can be imported into the country. This is an example of a tariff.
- 16) An import license limits the quantities that can be imported on a case-by-case basis.

- 17) Voluntary export restraints are common in the agricultural industry when an agreement is made between the importing and exporting countries for a restriction on the volume of exports.
- 18) An embargo sets a limit on the quantity of goods one country can sell to another.
- 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.
- 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.
- 21) An exchange permit issued by a government can stipulate an unfavorable rate of exchange depending on the desires of the government.
- 22) The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets.
- 23) Antidumping laws encourage foreign producers to sell their products at a higher cost than the cost of production and create more opportunities for free trade.
- 24) The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets, but does not get involved in trade practices.
- 25) Under the Omnibus Trade and Competitiveness Act, the U.S. president has the authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.
- 26) One advantage of the Omnibus Trade and Competitiveness Act is a more flexible process to obtain export licenses.
- 27) The GATT panels were formed to resolve bilateral trade disputes and have both advisory and enforcement powers.
- 28) The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.
- 29) The International Monetary Fund was created before World War II to help individual states regain economic profitability.
- 30) As both special drawing rights (SDRs) and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to gold and silver rather than dollars.

31) After World War II, the United States led efforts to provide financial and industrial development assistance to rebuild Japan and channeled funds to foster economic growth in the underdeveloped world. These efforts were primarily aimed at

- A) halting the growth of Nazi Germany.
- B) dampening the spread of communism.
- C) dampening the spread of capitalism.
- D) building a stronger defense force.
- E) creating a worldwide trade bloc to counter the OPEC countries' clout.

32) After World War II, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. As a result, most of the noncommunist economies in the world

- A) stagnated.
- B) grew significantly.
- C) failed.
- D) quickly matched the U.S. economy.
- E) faced high inflation rates.

33) What was the most apparent reciprocal impact of the foreign economic assistance given by the United States following World War II?

- A) European countries formed an alliance to counter the OPEC countries' clout.
- B) Outflow of labor to the recipient countries increased dramatically.
- C) All recipient countries appointed Americans to manage their central banks.
- D) Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.
- E) Distribution of economic power and potential became more uneven.

34) What factor was primarily responsible for the excess in production capacity in the United States after World War II?

- A) The United States government raised the tariffs on most imports by 60%.
- B) Many firms from other nations shifted their production facilities to the United States.
- C) Domestic demand was at a historic low and resulted in excess capacity.
- D) The returning military after World War II increased the labor supply in the United States.
- E) The implementation of the Marshall Plan dampened the overseas demand.

35) How did GATT prevent the repeat of the economic disaster that occurred after World War I?

- A) It provided short-term loans to struggling nations.
- B) It promoted dumping policies to allow stronger ties between member nations.
- C) It fostered isolationism for nations that were market leaders.
- D) It provided for a third party, the United Nations, to negotiate peace treaties.
- E) It provided a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

36) Why did the Smoot-Hawley Act play a role in sending the world's economies into the Great Depression?

- A) It encouraged the majority of world economies to lower tariffs to imported goods.
- B) It raised U.S. tariffs on thousands of imported goods by more than 60 percent.
- C) It created an embargo on all agricultural products.
- D) It divided the United States into factions based on race.
- E) It forced independent countries to band together to stay economically viable.

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

- A) GATT allowed the United States to increase its import tax.
- B) GATT became part of the World Trade Organization.
- C) GATT directly led to the uneven distribution of economic power and potential.
- D) The European Union decided to stay away from the treaty.
- E) The original purpose was sidelined in favor of political and military intervention between member states.

38) The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance that followed World War II, led to

- A) the rise of new global marketing opportunities.
- B) the decrease in demand for American goods worldwide.
- C) the dissolution of GATT.
- D) the spread of communism by the United States.
- E) the sharp reduction in the production capacity of the United States.

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, worldwide economic growth was in strong evidence and countries that were once classified as less developed were reclassified as

- A) communist countries.
- B) free trade economies.
- C) tier-II countries.
- D) developed countries.
- E) newly industrialized countries.

- 41) Which statement presents the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?
- A) Third World countries have been excluded from this economic growth leading to stark imbalances in wealth.
  - B) The European Union has become the center of world trade, taking the position away from the United States.
  - C) The United States has continuously maintained the positive balance of trade it attained during the 1950s.
  - D) Economic power and potential has become more evenly distributed among the countries of the world.
  - E) SDRs and gold have lost their utility as the basic medium of financial exchange and most monetary statistics have started relating to the U.S. dollar.
- 42) What is the major reason behind the failure of American MNCs to completely dominate the European markets as predicted by Servan-Schreiber?
- A) The resurgence of competition for U.S. businesses from all over the world
  - B) The elimination of import taxes in the European countries
  - C) The restructuring of U.S industries
  - D) The decadence of communism
  - E) The dissolution of colonial powers
- 43) What strategy was employed by the United States to regain its lost market share for capital goods by the late 1990s?
- A) funding the competitive developing nations
  - B) restructuring its industries to be more "lean and mean"
  - C) decreasing its exports and increasing its imports
  - D) raising average U.S. tariffs on more than 20,000 imported goods by 60 percent
  - E) provoking increased protectionism from other countries
- 44) Following World War II, it is noted that the West created the trade patterns. This was especially true in which one of the following?
- A) North America
  - B) Europe
  - C) South America
  - D) Asia
  - E) Central America
- 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. Which of these countries is included on this list?

- A) Canada
- B) Nigeria
- C) Netherlands
- D) Indonesia
- E) Zimbabwe

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) What is used to ensure that balance-of-payments records are always in balance?

- A) sum of squares recording system
- B) bank reconciliation system
- C) double-entry bookkeeping system
- D) archival records system
- E) multifactor recording system

49) A balance-of-payments statement for a country reveals

- A) how rich or poor a country is financially.
- B) a record of the country's financial condition.
- C) a comparison of one country's finances to another country's debt.
- D) a balanced budget for the country.
- E) the spending power available to the country for specific goods.

50) What is a defining characteristic of a balance-of-payments statement?

- A) It is a record of the domestic transactions between the government of a country and the private companies in that country.
- B) It records all financial transactions between the residents of a country and those of the rest of the world.
- C) It records the trade policies of the member nations of the WTO.
- D) It is an annual record of the profitable foreign transactions made by a particular country.
- E) It is a financial statement in which the credits must exceed the debits.

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
- 53) What occurs in the balance of payments account when international payments are greater than receipts?
- A) a tariff
  - B) inflation
  - C) recession
  - D) a credit
  - E) a deficit
- 54) The \_\_\_\_\_ account of the balance-of-payments statement is used to record all merchandise exports, imports, and services plus unilateral transfers of funds.
- A) current
  - B) capital
  - C) credit
  - D) receivables
  - E) reserves
- 55) Which account in the balance-of-payments statement is a record of direct investment, portfolio investment, and short-term movement of cash and technology to and from countries?
- A) current account
  - B) capital account
  - C) credit account
  - D) receivables account
  - E) reserves account
- 56) The \_\_\_\_\_ of the balance-of-payments statement is used to record increases or decreases in foreign exchange and increases or decreases in liabilities to foreign central banks.
- A) current account
  - B) capital account
  - C) credit account
  - D) receivables account
  - E) reserves account
- 57) What argument regarding the need for protectionism is recognized by economists as valid?
- A) need to keep money at home
  - B) encouragement of capital accumulation
  - C) industrialization of a low-wage nation
  - D) conservation of natural resources
  - E) maintenance of employment and reduction of unemployment

58) Rishi, a protectionist, has seen several small businesses go bankrupt because they were unable to compete with the cheaper prices of goods provided by foreign companies. The cell-phone manufacturing industry has just started in the United Kingdom, and Rishi's company is one of the first to try its hand at cell-phone manufacturing. What argument is most likely to be used by Rishi to persuade his government to restrict the import of foreign cell phones from foreign companies?

- A) protection of an infant industry
- B) the need to keep money at home
- C) conservation of natural resources
- D) national defense
- E) maintenance of standard of living

59) What is a tariff?

- A) It is a tax levied by a government on goods being exported out of the country.
- B) It is a tax paid by individual states to the federal government for goods transferred across state lines.
- C) It is a tax imposed by a government on goods that are imported into the country.
- D) It is a limit on the amount of goods that can be imported into the country.
- E) It is a limit on the amount of goods that can be exported out of the country.

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 statement is true of tariffs?

- A) They strengthen balance-of-payments positions.
- B) They strengthen supply-and-demand patterns.
- C) They increase special interests' privileges.
- D) They strengthen international relations.
- E) They promote competition.

62) The tariff on certain goods is based on the percentage of the determined value of the item being imported. What type of tariff is this?

- A) compound duty
- B) quota duty
- C) specific duty
- D) reciprocal duty
- E) ad valorem duty

- 63) A specific unit or dollar limit applied to a particular type of good is called a(n)
- A) trade license.
  - B) quota.
  - C) ad valorem duty.
  - D) predatory price.
  - E) exchange rate.
- 64) A boycott on importing produce from Mexico would be an example of a
- A) compound duty.
  - B) revenue tariff.
  - C) nontariff barrier.
  - D) specific duty.
  - E) quota embargo.
- 65) If a country refuses to sell some products to another country, it is utilizing which barrier to trade?
- A) import credit discriminations
  - B) export subsidies
  - C) voluntary export restraints
  - D) embargoes
  - E) packaging, labeling, or marking standards
- 66) If a country decided to refuse to allow an importer to exchange its national currency for the sellers' currency, it would be an example of a(n) \_\_\_\_\_ currency.
- A) blocked
  - B) spot
  - C) embargo
  - D) taxed
  - E) quota
- 67) Exporting countries primarily agree to voluntary export restraints (VERs) to
- A) minimize exposure in the importing country.
  - B) reduce market competitiveness.
  - C) avoid stiffer quotas being set by the importing country.
  - D) take over local industries of the importing country.
  - E) avoid criminal prosecution.
- 68) A voluntary export restraint is an agreement signed willingly between the importing country and the exporting country for a restriction on the
- A) overall tax.
  - B) number of businesses eligible for imports.
  - C) volume of exports.
  - D) government's portion of the paid tariff.
  - E) balance-of-payments statements.

69) Voluntary export restraints are commonly used in what industry?

- A) finance
- B) furniture
- C) agriculture
- D) media
- E) education

70) The marketing manager for Glorious Products wants to export the company's line of fashion boots to an EU country. However, she discovers that there is a complete restriction on the import of any form of leather into that country. This is an example of

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

71) One country refuses to sell goods to its neighboring country based on the belief that the neighboring country harbors radicals and terrorists. In this case, the refusal is referred to as a(n)

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

72) In the context of monetary barriers, blockage is ideally accomplished when

- A) a country refuses to allow an importer to exchange its national currency for the country's currency.
- B) two countries enter into a voluntary agreement to determine the value of their currencies.
- C) a country applies a specific unit or dollar limit to a particular type of good.
- D) money dealers limit the rate at which foreign currencies are exchanged.
- E) the government of a country imposes a mandatory tax on goods entering at its borders.

73) In order to effectively secure foreign exchange, what is most likely to be used by countries experiencing severe shortages of foreign exchange?

- A) privatization
- B) government approval
- C) spot pricing
- D) voluntary export restriction
- E) monopoly

74) What trade policy tool makes it mandatory for its importers who want to buy a foreign good to apply for an exchange permit?

- A) tariff
- B) import quota
- C) blocked currency
- D) government approval
- E) export levy

75) An exchange permit can stipulate the

- A) quantity of goods that can be exchanged for a particular sum of foreign currency.
- B) number of parties that can be involved in an exchange transaction.
- C) amount to be exchanged that must be deposited in a local bank for a set period.
- D) quality standards of the goods involved in an exchange.
- E) number of times one party can avail exchange permits.

76) Active Bicycle Company has just received notice that a shipment of 300 bicycles has been rejected by the customs administration of the recipient country because the bikes did not include a metal plate surrounding the chain. What category of nontariff barriers primarily uses such quality issues as a trade barrier?

- A) quotas
- B) licenses
- C) embargoes
- D) boycotts
- E) standards

77) The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the stringent usage of \_\_\_\_\_ to restrict trade.

- A) exchange permits
- B) embargoes
- C) blocked currencies
- D) standards
- E) antidumping penalties

78) \_\_\_\_\_ pricing is the practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A) Basing point
- B) Spot
- C) Defensive
- D) Counterpoint
- E) Predatory

79) \_\_\_\_\_ is/are a nontariff barrier that was specifically designed to prevent foreign producers from using predatory pricing to take control of U.S. markets.

- A) Quotas
- B) Embargoes
- C) Blocked currency
- D) Antidumping laws
- E) Exchange permits

80) Which trading partner of the United States became its number one "trade problem" at the beginning of the 21st century?

- A) United Kingdom
- B) Japan
- C) Germany
- D) Canada
- E) China

81) What legislative decision was designed to primarily deal with trade deficits, protectionism, and the overall fairness of U.S. trading partners?

- A) the Neutrality Pact of 1941
- B) the Omnibus Trade and Competitiveness Act of 1988
- C) the League of Nations Act of 1920
- D) the Hawley-Smoot Tariff Act of 1930
- E) the International Monetary Fund and Bank Act of 1945

82) What was the impetus for the Omnibus Trade and Competitiveness Act?

- A) Markets in the U.S. were open to most of the world but markets in Europe and many Asian countries were relatively closed.
- B) The U.S. market was relatively closed to the rest of the world.
- C) Markets in the U.S. were being driven by foreign demand.
- D) The trade volume in the U.S. was declining.
- E) Markets in the U.S. were trading with partners based on how they hoped they would respond rather than how they actually operated.

83) The Foreign Corrupt Practices Act (FCPA) was specifically addressed in the \_\_\_\_\_ section of the Omnibus Trade and Competitiveness Act.

- A) market access
- B) export expansion
- C) import relief
- D) foreign exchange regulation
- E) trade deficit

84) Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and possibly severe financial harm?

- A) the market access section
- B) the export expansion section
- C) the import relief section
- D) the foreign exchange regulation section
- E) the trade deficit section

85) What is one of the four ongoing activities that support the growth of international trade?

- A) Warsaw Pact
- B) Kyoto Protocol
- C) International Monetary Fund
- D) World Summit on Sustainable Development
- E) Treaty of Waitangi

86) Which statements accurately describes the General Agreement on Tariffs and Trade (GATT)?

- A) The United States, the United Kingdom, and Germany were the only signatories of the original GATT.
- B) The original agreement provided a process to increase the tariffs on trade goods.
- C) GATT member nations seek to resolve their trade disputes unilaterally.
- D) The GATT panels have enforcement powers apart from advisory powers.
- E) It created an agency to serve as watchdog over world trade.

87) What does GATT use as the primary method to solve global trade problems?

- A) GATT works with government agencies of trade members.
- B) GATT uses coercion.
- C) GATT uses consultation.
- D) GATT implements the legislative agenda of trade members.
- E) GATT creates binding agreements between member nations.

88) What agreement makes it possible to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels?

- A) Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B) Trade-Related Investment Measures (TRIMs)
- C) General Agreement on Trade in Services (GATS)
- D) Marrakesh Agreement
- E) Stockholm Agreement

89) The Uruguay Round resulted in which institution becoming the successor to the GATT?

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

90) How are WTO decisions enforced?

- A) All WTO decisions are enforceable under law.
- B) Member nations pay a duty to join WTO and this creates natural compliance.
- C) The World Court reviews and enforces all WTO decisions.
- D) International pressure to comply with WTO decisions is expected to force compliance.
- E) Decisions must pass through both houses of Congress to be enforced.

- 91) \_\_\_\_\_ are becoming a popular way to circumvent WTO guidelines and impose new duties.
- A) Antidumping duties
  - B) Basic excise duties
  - C) Special excise duties
  - D) Production taxes
  - E) Manufacturing taxes
- 92) Several nations that have become frustrated with the slow progress of the most recent round of WTO trade negotiations are
- A) negotiating bilateral trade agreements.
  - B) forming a rival organization.
  - C) refusing to accept all the rules and regulations imposed by the WTO.
  - D) using legal means to sue the WTO.
  - E) opting out of membership in the WTO.
- 93) \_\_\_\_\_ and the World Bank Group are two global institutions created primarily to assist nations in becoming and remaining economically viable.
- A) Amnesty International
  - B) The World Court
  - C) The International Monetary Fund
  - D) The International Red Cross
  - E) The International Federation of Blue Cross
- 94) What market barriers led to the creation of the International Monetary Fund?
- A) trade embargoes
  - B) inflation and recession in Europe
  - C) new taxing bodies governing trade
  - D) inadequate monetary reserves and unstable currencies
  - E) export quotas and higher tariffs
- 95) Developed by the International Monetary Fund to cope with universally floating exchange rates, \_\_\_\_\_ represent an average base of value derived from the value of a group of major currencies.
- A) exchange permits
  - B) special drawing rights
  - C) floating currencies
  - D) gold rates
  - E) dollar parities
- 96) The special drawing rights (SDRs) developed by the IMF can be thought of as
- A) black gold.
  - B) exchange permits.
  - C) floating currencies.
  - D) paper gold.
  - E) virtual dollars.

97) What is a basic criticism of global financial institutions?  
A) They failed to focus on the aim of reducing inequalities between rich and poor countries.  
B) They failed to help the Asian countries substantially when they underwent a major financial crisis in the 1990s.  
C) They failed to respect the autonomy of member nations by deeming any bilateral agreements between members as illegal if made without their approval.  
D) They failed to foresee and counter the unintended effects of globalization like pollution, exploitation, and cultural extinction.  
E) They failed to suppress the terrorists who were responsible for the attack in London that coincided with the G8 summit.

98) While unintended, what is an adverse consequence of globalization?  
A) nationalization of private sector holdings  
B) lower and more competitive oil prices  
C) reduced variety and quality of goods and services  
D) worker exploitation and domestic job losses  
E) provision of loans from the World Bank

99) Which statement accurately explains the status of protests against global financial institutions?  
A) Organized protests against global financial institutions have been catching the attention of the world since the establishment of the IMF in 1945.  
B) The sole focus of the anticapitalist protestors has been the environmental impact of globalization and the need for stability.  
C) The "antisweatshop" campaigns by students in America have translated into changes in policy.  
D) The entire gamut of anticapitalist protests have been weak and ineffectual in the face of the tremendous power of global financial institutions.  
E) The protests against global financial institutions have been organized yet nonviolent as a rule.

100) What steps did the United States take following World War II to minimize the spread of communism around the world? Name at least one specific piece of legislation that was created.

101) Compare the U.S. position in world trade today to when Servan-Schreiber warned Europe about U.S. multinational domination.

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

103) Compare and contrast the three accounts of a balance-of-payments statement.

104) Describe the cost to the consumer when protectionist measures are in place.

105) Name three things that can be restricted when tariffs are imposed.

106) Explain the difference between a quota and a licensing limit.

107) Describe the three areas covered by the Omnibus Trade and Competitiveness Act of 1988 that are considered critical in improving U.S. trade.

108) Describe how the General Agreement on Trade in Services (GATS) helped the United States reduce barriers to international trade in services.

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