

chapter 2

Indicate whether the statement is true or false.

1. Singapore, a regional center for global companies, continues to attract sizable amounts of foreign investment given its strategic location, world-class infrastructure, and productive workforce.
 - a. True
 - b. False

2. It is estimated that for every billion dollars worth of exports from the United States, 100,000 domestic jobs are created.
 - a. True
 - b. False

3. Factor price equalization theory, states that when factors are allowed to move freely among trading nations, efficiency increases, which leads to superior allocation of production of goods and services among countries.
 - a. True
 - b. False

4. Foreign direct investment (FDI) in a country brings funds and business culture from abroad, creates new well-paying jobs, introduces innovative technologies, and enhances the skills of domestic workers.
 - a. True
 - b. False

5. The growth trends in China and India today illustrate the impact that international business has on blue-collar and white-collar workers in wealthy countries as relatively low-skill factory jobs as well as high-skill service profession jobs migrate overseas.
 - a. True
 - b. False

6. One way international trade benefits consumers is by providing lower living standards.
 - a. True
 - b. False

7. Porter stresses the importance of domestic demand for goods and services when determining a nation's competitive advantage. When domestic demand remains high, the number of suppliers will also be high.
 - a. True
 - b. False

8. The decoupling of world economic order and the move to a multipolar world helps explain why China is now the world's largest recipient of FDI.
 - a. True
 - b. False

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9. Competitive industrial structures are unlikely to create innovative or dynamic firms willing to compete abroad. However, a monopolistic industry will foster innovative, cost efficient, aggressive firms that can adjust to changing economic conditions at home and will be well prepared to compete abroad.
- a. True
 - b. False
10. A specific tariff describes a tax on imports levied as a constant percentage of the monetary value of one unit of the imported good.
- a. True
 - b. False
11. Porter exemplifies China as a powerhouse for consumer electronics because of the quality and quantity of its engineers, and the ability and willingness of Chinese consumers to try out new electronic products that are perfected and later exported.
- a. True
 - b. False
12. Under a preferential duties system, goods imported from a country outside the preferred group are subject to a higher tariff.
- a. True
 - b. False
13. Mercantilists believed that for a nation to become wealthy, that nation must export as much as possible and, in turn, import as little as possible.
- a. True
 - b. False
14. The infant industry argument is part of the socio-economic category of managed trade.
- a. True
 - b. False
15. Developed countries often resort to managed trade for reasons of unethical labor practices and violation of basic human rights.
- a. True
 - b. False

Indicate the answer choice that best completes the statement or answers the question.

16. It is estimated that for every billion dollars worth of exports from the United States _____ domestic jobs are created.
- a. 5,000
 - b. 20,000
 - c. 100,000
 - d. 500,000
 - e. 1,000,000

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17. As of 2013, was the world's largest economy, followed by _____ and _____.
- India; the United States and China
 - the United States; China and India
 - Japan; China and Mexico
 - India; Japan and Canada
 - the United States; Mexico and Canada
18. Taxes on imports that are collected by a designated government agency responsible for regulating imports are called _____.
- custom duties
 - ad valorem tariffs
 - specific tariffs
 - preferential tariffs
 - generalized tariffs
19. Someone who believes in the infant industry argument would be MOST likely to support _____ for a new industry.
- high tariffs
 - illegal trade
 - an export cartel
 - an embargo
 - domestic content provisions
20. In the 3,000 B.C., Sumerian farmers realized that the grain surplus they produced could be used as barter for things they did not have. Therefore, the Sumerians obtained copper from Sinai Desert traders who were located several hundred miles to the west in order to make weapons and repel nomadic raiders. The Sumerians engaged in _____
- international business
 - in-border business
 - environmental business
 - national business
 - domestic business
21. The key assumptions for the H-O theory to work are: (1) perfect immobility of factors of production among countries; and (2) _____.
- perfect competition in the workplace
 - superior allocation of production of goods and services
 - very small labor force
 - the existence of a trade surplus
 - the acceleration of a trade deficit

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22. An agreement where a large number of developed countries permit duty-free imports of a selected list of products that originate from specific countries is known as _____.
- a. a custom duty
 - b. an ad valorem agreement
 - c. an export agreement
 - d. the generalized system of preferences
 - e. an import agreement
23. Both the theory of comparative advantage in production and the H-O theory provide _____ as a basis for international trade.
- a. factor endowments
 - b. trade surplus theory
 - c. foreign direct investment
 - d. managed trade theory
 - e. trade deficit theory
24. The corporate practice of acquiring or producing quality goods or services at a lower cost abroad thereby eliminating domestic production is called _____.
- a. outsourcing
 - b. exporting
 - c. importing
 - d. foreign investment
 - e. trading
25. How does Porter's model of national competitive advantage differ from the Heckscher-Ohlin theory?
- a. It looks more closely at the quality of factor endowments.
 - b. It examines only a country's imports.
 - c. It examines only a country's exports.
 - d. It does not encourage trade.
 - e. It does not explain why there are "winners" and "losers" in international trade.
26. Assume that because of soil and climatic conditions, Brazil is more efficient in the production of coffee than the United States. At the same time, the United States is more efficient in the production of apples than Brazil. Each of these countries can be said to have a(n) _____.
- a. absolute advantage
 - b. comparative advantage
 - c. factor endowment destruction in land
 - d. bartering disadvantage
 - e. mercantile disadvantage

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27. Which would a mercantilist value the MOST?
- a. labor
 - b. a trade surplus
 - c. absolute advantage
 - d. a trade deficit
 - e. factor endowments
28. Suppose the United States exports automobiles to Saudi Arabia and agrees to import a corresponding value of oil from Saudi Arabia. This is an example of
- a. a trade deficit.
 - b. the infant industry argument.
 - c. countertrade.
 - d. a domestic content provision.
 - e. an export cartel.
29. The ability of one country that has an absolute advantage in the production of two or more goods (or services) to produce one of them relatively more efficiently than the other is called a(n) _____.
- a. opportunity cost
 - b. comparative advantage
 - c. factor price
 - d. factor endowment
 - e. advantage of specialization
30. Of the following statements about trade, which is NOT true?
- a. Trade generates jobs in both export and import sectors of an economy.
 - b. The gains from open trade are always greater than the losses.
 - c. Open trade and investment does create winners and losers.
 - d. Trade does not influence culture.
 - e. Trade is the two-way flow of exports and imports of goods and services.
31. The oldest form of trade theory is called _____.
- a. mercantilism
 - b. factor equalization
 - c. Machiavellianism
 - d. absolute advantage
 - e. comparative advantage

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32. Of the following statements about foreign direct investment, which is NOT true?
- a. FDI in a country brings funds and business culture from abroad.
 - b. Governments all over the world try to create a business-friendly environment to attract such investments.
 - c. FDI creates new well-paying jobs.
 - d. Foreign investors have little faith in high-income economies such as Canada.
 - e. Foreign investment flows are generally based on long-term global or country outlook.
33. The _____ states that when factors are allowed to move freely among trading nations, efficiency increases, which leads to price of factors becoming equal among countries.
- a. factor-price equalization theory
 - b. diamond theory
 - c. trade policy theory
 - d. managed trade theory
 - e. trade deficit theory
34. Of the following statements about mercantilism, which is NOT true?
- a. It was practiced as Europe emerged from the feudal systems of the Middle Ages and moved toward nationalism
 - b. Mercantilists believed that for a nation to become wealthy, that nation must export as much as possible and, in turn, import as little as possible.
 - c. During the time it was practiced, wealth was largely determined by the amount of land one had access to.
 - d. Mercantilists did not want, or care, to see the big picture.
 - e. Mercantilists encouraged their people to produce large families.
35. Of the following, which is NOT in the geo-political category of managed trade?
- a. Ethics and safety
 - b. National security
 - c. Strategic industries
 - d. Embargoes
 - e. Protection of critical industries
36. According to Porter's "diamond" model, the success or competitive advantage of a nation at the global stage depends upon the interaction of all of the following EXCEPT
- a. firm strategy, structure, and rivalry.
 - b. related and supporting industries.
 - c. demand conditions.
 - d. a conservative political structure.
 - e. factor conditions.

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37. Which of the following was NOT one of the top exporting nations in 2012?
- a. China
 - b. Germany
 - c. Japan
 - d. the United Kingdom
 - e. Hong Kong
38. The sale and purchase of goods and services across national borders is known as _____.
- a. exporting
 - b. entrepreneurship
 - c. angel investing
 - d. importing
 - e. trade
39. The world's two largest economies in terms of national income in the early-19th century were _____.
- a. China and India
 - b. the United States and Canada
 - c. Japan and China
 - d. India and Japan
 - e. the United States and Mexico
40. Until January 1, 2012, the price for ethanol consumers in the United States was higher than world free-market price by \$0.54 per gallon because of the \$0.54 per gallon tariff imposed by the U.S. government on ethanol imports. This is an example of a(n) _____ tariff.
- a. custom
 - b. ad valorem
 - c. specific
 - d. preferential
 - e. generalized
41. Which of the following would NOT be considered a factor of production?
- a. labor
 - b. capital
 - c. technology
 - d. trade
 - e. land

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42. During the mid-18th century, British economist _____, who came to be known as the father of free market and open trade systems, recognized the absurdity of Mercantilism.
- Bertil Ohlin
 - Eli Heckscher
 - Adam Smith
 - Henry Ford
 - John Locke
43. The U.S. government may require that apparel imported into the United States should use U.S. cotton, or use a certain amount of American labor. This is an example of a(n) _____.
- quantitative restrictions
 - qualitative restrictions
 - domestic content import
 - voluntary export restriction
 - domestic content provision
44. _____ refers to agreements, sometimes temporary, between countries (or a group of countries) that aim at achieving certain trade outcomes.
- Quantitative agreements
 - Qualitative agreements
 - Managed trade agreements
 - Voluntary export agreements
 - Domestic content provision agreements
45. The United States, the European Union, and Australia imposed various trade sanctions on _____ because of that country's annexation of Crimea and military act in east Ukraine.
- Poland
 - Bulgaria
 - Turkey
 - Uzbekistan
 - Russia

Enter the appropriate word(s) to complete the statement.

46. _____ refers to regulations that limit the amount or number of units of products that can be imported to a country.
47. The _____ objective is to sacrifice some economic efficiency for the greater good of the country in terms of national security, protection of critical industries, and international commerce.
48. _____ refers to an external shock or development that could drastically change or hasten the course of economic development.

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49. The ability of one country that has an absolute advantage in the production of two or more goods (or services) to produce one of them relatively more efficiently than the other refers to _____.
50. When the value of _____ exceeds the value of _____, this refers to trade surplus.
51. Regulations requiring that a certain percentage of the value of import be sourced domestically refers to _____.
52. _____ refers to a negative tariff or tax aimed at boosting exports.
53. Agreement in which an exporter of goods or services to another country commits to import goods or services of corresponding value from that country is called _____.
54. Mercantilism refers to a theory of international trade that supports the premise that a nation could only gain from trade if it had a trade _____.
55. The two-way flow of exports and imports of goods is called _____.

Scenario – The Audrey Firm

The Audrey Firm is an international trade consulting firm currently providing its services in eight foreign nations. The primary goal of this company is to prevent trade missteps from taking place between foreign nations conducting business with each other. The participating nations prefer to seek counsel with this firm before any of their actions result in major international involvement or World Trade Organization intervention.

In the past, the Audrey Firm's team of experts has handled international situations having the potential to create serious unrest between neighboring countries. Their guidance and expertise have been successful in keeping trade operating freely in several areas of the globe. The Audrey Firm is receiving an award for their exemplary service later this year in Washington D.C.

56. As one of the Audrey Firm's more prestigious clients, OPEC, which exemplifies an export cartel, requires constant overseeing to ensure it complies with the agreement arranged for export cartels. Which one of the following items is least likely to appear on this type of agreement?
- a. Substitutes for the goods being offered must not be available
 - b. Demand for the product in question must be elastic
 - c. There needs to be a strong demand for the product in question at basically any price
 - d. There must be no cheating on the stated agreement by the agreeing members
 - e. Inelasticity in the demand for the product being offered must exist

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57. Which one of the following would be the least restrictive way in which India and China could impede sales of Power Trip's products within their borders despite the agreement to allow free operations of the company within their nations' boundaries?

- a. Place a tariff on the products
- b. Establish an ad valorem tariff for the products
- c. Establish a generalized system of preferences (GSP)
- d. Establish a very high specific tariff
- e. Establish stringent custom duties

58. The agreement reached between Power Trip and the two foreign nations where they would sell components to Power Trip in exchange for allowing sales of its products within their borders most closely resembles which one of the following?

- a. Subsidizing exports
- b. Establishing a generalized system of preferences
- c. Development of a domestic content provision
- d. Establishment of a quantitative restriction (QR)
- e. Engagement in countertrade

Scenario – Power Trip Unlimited, LLC

Is it hurricane season? Is there a tsunami warning? Did an earthquake take place somewhere in the world? While these are not pleasant questions to ask, the Miami, Florida-based business Power Trip Unlimited needs to be ready to quickly respond to such events. This unique company offers a vast line of emergency generators and supplies to help individuals caught in the devastation these types of natural occurrences can create. Staffed by experts in the generator field, Power Trip Unlimited has assisted numerous people begin the recovery process in the aftermath of a calamity. In the past year alone, sales for this company have surpassed every goal that was set. This financial boom occurred while the company conducted sales only in the U.S. market.

Power Trip's management team now realizes that foreign markets such as India and China offer incredible opportunities for the company. Both foreign nations desire to engage in trade with the company in exchange for allowing its products to be introduced within their borders. India and China have agreed to supply Power Trip with several necessary components for its generators in exchange for allowing the company free operations inside their national boundaries. Power Trip realizes there are numerous challenges facing the company in the foreign market arena. But guided by the belief in the expertise of its staff and the quality of its products, it is ready to face any challenges foreign markets put in front of them. This company stands eagerly poised awaiting its first international sale.

59. The agreement between Power Trip Unlimited, China, and India to engage in foreign trade will ultimately provide greater opportunities for consumers of Power Trip's products. Which one of the following is least likely to be considered a benefit of this trade agreement?

- a. Consumer choices may be limited by government restrictions on the operational capacity of the various products.
- b. There will be a greater amount of choice for consumers.
- c. Consumers may be offered a lower price on the goods.
- d. Consumers will be afforded a higher living standard.
- e. Consumers may have greater access to the product during emergency situations

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Scenario – The Audrey Firm

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60. Many of the clients engaging the services of the Audrey Firm practice managed trade. All of the following would most likely be a practice these nations engage in when conducting trade with other nations except which one?

- a. Offer protection for specific companies
- b. Adhere to stringent guidelines concerning the use of child labor
- c. Pay close attention to the safety of products produced
- d. Embargoes are employed to punish nations engaging in offensive practices
- e. Strategic industries are given free rein in their trade practices

61. The clients of the Audrey Firm use various techniques to restrict imports to their countries. Which one of the following assigns a fixed amount of tax for every physical unit imported?

- a. Import quota
- b. Voluntary export restraint
- c. Ad valorem tariff
- d. Specific tariff
- e. Domestic content provision

62. Defend the following statement: Trade and foreign investment are good for society.

63. Differentiate between H-O theory and factor price equalization theory.

64. Explain Porter's "Diamond" model of national competitive advantage.

65. Explain why mercantilism fell out of favor as a theory of international trade.

66. Defend the infant industry argument, using specific examples.

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Answer Key

1. True

2. False

3. True

4. True

5. True

6. False

7. True

8. True

9. False

10. False

11. False

12. True

13. True

14. True

15. True

16. b

17. b

18. a

19. a

20. a

21. a

22. d

23. a

24. a

25. a

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- 26. a
- 27. b
- 28. c
- 29. b
- 30. d
- 31. a
- 32. d
- 33. a
- 34. c
- 35. a
- 36. d
- 37. d
- 38. e
- 39. a
- 40. c
- 41. d
- 42. c
- 43. e
- 44. c
- 45. e
- 46. Import quotas
- 47. geopolitical
- 48. Chance
- 49. comparative advantage
- 50. exports; imports

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51. domestic content provisions

52. Export subsidy

53. countertrade

54. surplus

55. trade

56. b

57. c

58. e

59. a

60. e

61. d

62. Student answers will vary.

63. Student answers will vary.

64. Student answers will vary.

65. Student answers will vary.

66. Student answers will vary.