

## Chapter 02 Testbank

Student: \_\_\_\_\_

1. Capitalism was considered to be the first theory of international trade.

True False

2. A situation in which a gain by one party results in a loss by another is called a zero-sum game.

True False

3. The Heckscher-Ohlin theory emphasises the interplay between the proportions in which the factors of production (such as land, labour and capital) are available in different countries, explaining why some countries export oil while others export textiles.

True False

4. Raymond Vernon proposed the product life cycle theory in the mid-1960s and then developed the technology life cycle theory in the 1980s.

True False

5. New trade theory points out that through its impact on economies of scale, trade can increase the variety of goods available to consumers and decrease the average costs of those goods.

True False

6. The theory of national competitive advantage, developed by Michael Porter, focuses on the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.

True False

7. The product life-cycle theory suggests that trade patterns are influenced by where a new product is introduced.

True False

8. The most contentious implication of new trade theory is that it generates an argument for government and strategic trade policy.

True False

9. Michael Porter's (1990) 'Diamond' has four attributes of a nation: (a) factor endowments; (b) domestic demand conditions; (c) relating and supporting industries; and (d) firm strategy, structure and rivalry. Focus therefore centres on national competitive advantage.

True False

10. The 'stage' theories suggest that firms initiating imports should target countries that are psychically close.

True False

11. According to the textbook, most economists prefer the Heckscher-Ohlin theory to Ricardo's theory (i.e. comparative advantage) because of which of the following two factors?

- A. It makes fewer simplifying assumptions and it has been subjected to many empirical tests.
- B. It has been subjected to many empirical tests and it has stood the test of time.
- C. It makes fewer simplifying assumptions and it has been acknowledged by the World Trade Organization as the better of the two theories.
- D. It has been acknowledged as the better of the two theories by the World Trade Organization and it has stood the test of time.

12. Which of the following has historically been noted as being an accurate explanation for international trade patterns?

- A. product life-cycle theory
- B. absolute advantage theory
- C. competitive advantage theory
- D. the Leontief paradox

13. If a national market is large, there should be enough demand to enable producers to realise \_\_\_\_\_ for certain products.

- A. profit margins
- B. economies of scale
- C. a sufficient quantity of buyers
- D. efficient allocation

14. A contentious issue in the new trade theory is that it generates an argument for \_\_\_\_\_ and \_\_\_\_\_.

- A. low-cost production; government intervention
- B. increased trade; government intervention
- C. government intervention; entrepreneurship
- D. government intervention; strategic trade policy

15. Porter suggested that the four attributes making up the 'diamond' consist of factor endowments, relating and supporting industries, firm strategy and structure and rivalry, and \_\_\_\_\_.

- A. supply conditions
- B. demand conditions
- C. first-mover advantage
- D. late-mover disadvantage

16. The theories of international trade claim that promoting free trade is generally in the best interest of a country, although it may not be in the best interest of \_\_\_\_\_.

- A. firms
- B. governments
- C. contractors
- D. society

17. Free trade is:

- A. an agreement between two parties to sell goods to one another with the absence of currency transaction.
- B. the re-routing of imports from non-members through the member that has the lowest tariffs in a free trade area.
- C. when low-cost external suppliers are replaced by high-cost suppliers inside the free trade area.
- D. the absence of barriers to the free flow of goods and services between countries.

18. Diminishing returns imply that when a firm already has significant value built into its product offering, \_\_\_\_\_ value by a relatively \_\_\_\_\_ amount requires \_\_\_\_\_ costs.

- A. decreasing; large; offset
- B. increasing; small; significant
- C. offsetting; medium; low
- D. supporting; low; high

19. A study by Wassily Leontief (1953), having raised questions about the validity of Heckscher-Ohlin theory, became known as the:

- A. Leontief paradigm.
- B. Leontief principle.
- C. Leontief paradox.
- D. Leontief parallax.

20. Cost advantages associated with large-scale production are called:

- A. economies of scale.
- B. economies of scope.
- C. economies of skill.
- D. economies of structure.

21. British economist John Dunning, who became known for developing the *eclectic paradigm*, suggested the following elements of advantage:

- A. operations, localisation and internationalisation.
- B. outsourcing, legal and institutional.
- C. ownership, location and internalisation.
- D. oligopolistic, language and intellectual.

22. A firm that starts international operations within six years of establishment seems to be emerging as the broad-based definition in the literature as:

- A. a global start-up.
- B. an international new venture.
- C. a born global.
- D. a universal corporation.

23. According to the new trade theory, firms that establish \_\_\_\_\_ advantage with regards to the production of a particular new product may subsequently dominate global trade in that product.

- A. a competitive
- B. a comparative
- C. an absolute
- D. a first-mover

24. The theories of \_\_\_\_\_ claim that promoting free trade is generally in the best interest of a country, although it may not be in the best interest of an individual firm.

- A. international trade
- B. first-mover advantage
- C. absolute advantage
- D. Adam Smith

25. The manufacture of standard electronic components is a \_\_\_\_\_ process requiring semi-skilled labour.

- A. product life-cycle
- B. capital-intensive
- C. labour-intensive
- D. first-mover advantage

26. Because of their pivotal role in international trade, \_\_\_\_\_ can exert strong influence on government trade policies.

- A. individuals
- B. entrepreneurs
- C. lobbyists
- D. businesses

27. Porter's theory of national competitive advantage suggests that it is in the best interest of business for a firm to invest in upgrading advanced factors of production. Means for accomplishing this include all but which one of the following?

- A. Increase research and development activities.
- B. Provide better training for employees.
- C. Avoid large capital investments.
- D. Develop methods to improve the skill levels of workers.

28. According to Porter's theory, government should be urged to \_\_\_\_\_ that will have a favourable impact on each component of the national diamond.

- A. reject lobby attempts
- B. accept foreign manufacturing techniques
- C. adopt policies
- D. divest outdated materials

29. According to the Uppsala model of internationalisation, firms will enter markets that are \_\_\_\_\_.

- A. geographically close
- B. psychically close
- C. psychically distant
- D. geographically distant

30. Researchers from around the world have identified (mostly) \_\_\_\_\_ firms that have internationalised rapidly.

- A. retail
- B. manufacturing
- C. high-technology
- D. mining

31. A born global is a firm that:

- A. internationalises rapidly.
- B. internationalises through joint venture.
- C. globalises in an incremental, sequential manner.
- D. internationalises within 20 years of inception.

32. In the context of factor endowments, which of the following are considered to be classified as advanced factors?

- A. demographics
- B. climate and location
- C. natural resources
- D. skilled labour and research facilities

33. New trade theory is at variance with the \_\_\_\_\_ theory, which suggests that a country will predominate in the export of a product when it is particularly well endowed with those factors used intensively in its manufacture.

- A. Heckscher-Ohlin
- B. competitive advantage
- C. comparative advantage
- D. absolute advantage

34. \_\_\_\_\_ are unit cost reductions associated with a large scale of output.

- A. Comparative advantages
- B. Competitive advantages
- C. Economies of scale
- D. Positive-sum games

35. Because of substantial economies of scale, the \_\_\_\_\_ argues that in many industries there are increasing returns to specialisation.

- A. Leontief paradox
- B. product life-cycle theory
- C. new trade theory
- D. Heckscher-Ohlin theory

36. The \_\_\_\_\_ argues that due to the presence of substantial scale economies, world demand will support only a few firms in many industries.

- A. Heckscher-Ohlin theory
- B. Leontief paradox
- C. product life-cycle theory
- D. new trade theory

37. Of the following, which one is NOT an indicator of why trade is considered to be mutually beneficial to those involved in it?

- A. It allows for specialisation.
- B. It allows for production of products at higher prices.
- C. It affords realisation of scale economies.
- D. It affords production of a larger variety of products.

38. New trade theory points out that through its impact on economies of scale, trade can increase the variety of goods available to consumers and \_\_\_\_\_ the average costs of those goods.

- A. alleviate
- B. maintain
- C. decrease
- D. support

39. In small national markets such as New Zealand, there may not be enough demand to enable producers to realise \_\_\_\_\_ for certain products.

- A. profit margins
- B. economies of scale
- C. a sufficient quantity of buyers
- D. efficient allocation

40. The economic and strategic advantages that accrue to early entrants in an industry are called:

- A. first-mover advantages.
- B. initial-class advantages.
- C. early entrant advantages.
- D. first-stage benefits.

41. Who initially proposed the product life-cycle theory in the mid-1960s?

- A. Cormier
- B. Heckscher-Ohlin
- C. Vernon
- D. Smith

42. Which of the following has historically been noted as being an accurate explanation for international trade patterns?

- A. Product life-cycle theory.
- B. Absolute advantage theory.
- C. Competitive advantage theory.
- D. Leontief paradox.

43. The Uppsala model of internationalisation identified four different stages in entering an international market. Which of the following is NOT a stage identified in the Uppsala model?

- A. no regular export activity
- B. export via independent representatives (agents)
- C. trial stage
- D. overseas production/manufacturing units

44. In relation to the stage models of internationalisation, which of the following statements is incorrect?

- A. There are two major categories of stage models.
- B. The stage models are limited in their ability to predict the internationalisation of small- to medium-sized firms.
- C. The stage models suggest an incremental sequential approach to internationalisation.
- D. Some researchers have criticised the stage models for being too 'deterministic'.

45. Which of the following choices correctly matches a scholar with the theory that he or she proposed?

- A. Adam Smith/Comparative advantage
- B. David Ricardo/New trade
- C. Raymond Vernon/Product life cycle
- D. Eli Heckscher/Absolute advantage

46. International new ventures (INVs) and 'born globals' internationalise rapidly due to reduced trade barriers and shorter product life cycles. These firms:

- A. do not follow an incremental sequential process to internationalisation.
- B. follow a definitive path in their development based on scale.
- C. are technology, media and telecommunications (TMT) firms.
- D. have an absolute advantage in the marketplace.

47. All of the following have important implications for international trade and international theory on business practice except:

- A. first-mover advantage.
- B. government trade policy.
- C. location.
- D. consumer confidence.

48. \_\_\_\_\_ refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country or what they can produce and sell to another country.

- A. Autonomous trade
- B. Free trade
- C. Clear commerce
- D. Unencumbered commerce

49. Considered to be the first theory of international trade, \_\_\_\_\_ principal assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce.

- A. collectivism's
- B. mercantilism's
- C. capitalism's
- D. economic conservatism's

50. The flaw with mercantilism was that it viewed trade as \_\_\_\_\_.

- A. a zero-sum game
- B. an economic necessity
- C. a non-essential economic activity
- D. a positive-sum game



# Chapter 02 Testbank **Key**

1. Capitalism was considered to be the first theory of international trade.

**FALSE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Mercantilism*

2. A situation in which a gain by one party results in a loss by another is called a zero-sum game.

**TRUE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Mercantilism*

3. The Heckscher-Ohlin theory emphasises the interplay between the proportions in which the factors of production (such as land, labour and capital) are available in different countries, explaining why some countries export oil while others export textiles.

**TRUE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Heckscher-Ohlin Theory*

4. Raymond Vernon proposed the product life cycle theory in the mid-1960s and then developed the technology life cycle theory in the 1980s.

**FALSE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Product Life-Cycle Theory*

5. New trade theory points out that through its impact on economies of scale, trade can increase the variety of goods available to consumers and decrease the average costs of those goods.

**TRUE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

6. The theory of national competitive advantage, developed by Michael Porter, focuses on the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.

**TRUE**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: National Competitive Advantage: Porter's Diamond*

7. The product life-cycle theory suggests that trade patterns are influenced by where a new product is introduced.

**TRUE**

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Product Life-Cycle Theory*

8. The most contentious implication of new trade theory is that it generates an argument for government and strategic trade policy.

**TRUE**

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: Implications of New Trade Theory*

9. Michael Porter's (1990) 'Diamond' has four attributes of a nation: (a) factor endowments; (b) domestic demand conditions; (c) relating and supporting industries; and (d) firm strategy, structure and rivalry. Focus therefore centres on national competitive advantage.

**TRUE**

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: National Competitive Advantage: Porter's Diamond*

10. The 'stage' theories suggest that firms initiating imports should target countries that are psychologically close.

**FALSE**

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Stage Models of Internationalisation: An Incremental Sequential Approach*

11. According to the textbook, most economists prefer the Heckscher-Ohlin theory to Ricardo's theory (i.e. comparative advantage) because of which of the following two factors?

- A.** It makes fewer simplifying assumptions and it has been subjected to many empirical tests.
- B. It has been subjected to many empirical tests and it has stood the test of time.
- C. It makes fewer simplifying assumptions and it has been acknowledged by the World Trade Organization as the better of the two theories.
- D. It has been acknowledged as the better of the two theories by the World Trade Organization and it has stood the test of time.

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: The Leontief Paradox*

12. Which of the following has historically been noted as being an accurate explanation for international trade patterns?

- A.** product life-cycle theory
- B. absolute advantage theory
- C. competitive advantage theory
- D. the Leontief paradox

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Evaluating the Product Life-Cycle Theory*

13. If a national market is large, there should be enough demand to enable producers to realise \_\_\_\_\_ for certain products.

- A. profit margins
- B.** economies of scale
- C. a sufficient quantity of buyers
- D. efficient allocation

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

14. A contentious issue in the new trade theory is that it generates an argument for \_\_\_\_\_ and \_\_\_\_\_.

- A. low-cost production; government intervention
- B. increased trade; government intervention
- C. government intervention; entrepreneurship
- D. government intervention; strategic trade policy**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Learning Objective: 2.4 Be familiar with the arguments of those who maintain that government can play a proactive role in promoting national competitive advantage in certain industries*

*Section: New Trade Theory*

15. Porter suggested that the four attributes making up the 'diamond' consist of factor endowments, relating and supporting industries, firm strategy and structure and rivalry, and \_\_\_\_\_.

- A. supply conditions
- B. demand conditions**
- C. first-mover advantage
- D. late-mover disadvantage

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: National Competitive Advantage: Porter's Diamond*

16. The theories of international trade claim that promoting free trade is generally in the best interest of a country, although it may not be in the best interest of \_\_\_\_\_.

- A. firms**
- B. governments
- C. contractors
- D. society

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Learning Objective: 2.6 Examine the important implications that international trade and internationalisation theory holds for business practice*

*Section: Focus on Managerial Implications*

17. Free trade is:

- A. an agreement between two parties to sell goods to one another with the absence of currency transaction.
- B. the re-routing of imports from non-members through the member that has the lowest tariffs in a free trade area.
- C. when low-cost external suppliers are replaced by high-cost suppliers inside the free trade area.
- D. the absence of barriers to the free flow of goods and services between countries.**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Section: Introduction*

18. Diminishing returns imply that when a firm already has significant value built into its product offering, \_\_\_\_\_ value by a relatively \_\_\_\_\_ amount requires \_\_\_\_\_ costs.

- A. decreasing; large; offset
- B. increasing; small; significant**
- C. offsetting; medium; low
- D. supporting; low; high

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: Extensions of the Ricardian Model*

19. A study by Wassily Leontief (1953), having raised questions about the validity of Heckscher-Ohlin theory, became known as the:

- A. Leontief paradigm.
- B. Leontief principle.
- C. Leontief paradox.**
- D. Leontief parallax.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Leontief Paradox*

20. Cost advantages associated with large-scale production are called:

- A. economies of scale.**
- B. economies of scope.
- C. economies of skill.
- D. economies of structure.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

21. British economist John Dunning, who became known for developing the *eclectic paradigm*, suggested the following elements of advantage:

- A. operations, localisation and internationalisation.
- B. outsourcing, legal and institutional.
- C. ownership, location and internalisation.**
- D. oligopolistic, language and intellectual.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Eclectic Paradigm*

22. A firm that starts international operations within six years of establishment seems to be emerging as the broad-based definition in the literature as:

- A. a global start-up.
- B. an international new venture.
- C. a born global.**
- D. a universal corporation.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Learning Objective: 2.5 Examine the reasons for rapid internationalisation/born globals*

*Section: International New Ventures/Born Global Firms*

23. According to the new trade theory, firms that establish \_\_\_\_\_ advantage with regards to the production of a particular new product may subsequently dominate global trade in that product.

- A. a competitive
- B. a comparative
- C. an absolute
- D. a first-mover**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

24. The theories of \_\_\_\_\_ claim that promoting free trade is generally in the best interest of a country, although it may not be in the best interest of an individual firm.

- A. international trade**
- B. first-mover advantage
- C. absolute advantage
- D. Adam Smith

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: Foreign Direct Investment in the World Economy*

25. The manufacture of standard electronic components is a \_\_\_\_\_ process requiring semi-skilled labour.

- A. product life-cycle
- B. capital-intensive**
- C. labour-intensive
- D. first-mover advantage

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: The Leontief Paradox*

26. Because of their pivotal role in international trade, \_\_\_\_\_ can exert strong influence on government trade policies.

- A. individuals
- B. entrepreneurs
- C. lobbyists
- D. businesses**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.6 Examine the important implications that international trade and internationalisation theory holds for business practice*

*Section: Focus on Managerial Implications*

27. Porter's theory of national competitive advantage suggests that it is in the best interest of business for a firm to invest in upgrading advanced factors of production. Means for accomplishing this include all but which one of the following?

- A. Increase research and development activities.
- B. Provide better training for employees.
- C. Avoid large capital investments.**
- D. Develop methods to improve the skill levels of workers.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: National Competitive Advantage: Porter's Diamond*

28. According to Porter's theory, government should be urged to \_\_\_\_\_ that will have a favourable impact on each component of the national diamond.

- A. reject lobby attempts
- B. accept foreign manufacturing techniques
- C. adopt policies**
- D. divest outdated materials

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: National Competitive Advantage: Porter's Diamond*

29. According to the Uppsala model of internationalisation, firms will enter markets that are \_\_\_\_\_.

- A. geographically close
- B. psychically close**
- C. psychically distant
- D. geographically distant

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Stage Models of Internationalisation: An Incremental Sequential Approach*

30. Researchers from around the world have identified (mostly) \_\_\_\_\_ firms that have internationalised rapidly.
- A. retail
  - B. manufacturing
  - C. high-technology**
  - D. mining

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.5 Examine the reasons for rapid internationalisation/born globals*

*Section: International New Ventures/Born Global Firms*

31. A born global is a firm that:
- A. internationalises rapidly.**
  - B. internationalises through joint venture.
  - C. globalises in an incremental, sequential manner.
  - D. internationalises within 20 years of inception.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.5 Examine the reasons for rapid internationalisation/born globals*

*Section: International New Ventures/Born Global Firms*

32. In the context of factor endowments, which of the following are considered to be classified as advanced factors?
- A. demographics
  - B. climate and location
  - C. natural resources
  - D. skilled labour and research facilities**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: Heckscher-Ohlin Theory*

33. New trade theory is at variance with the \_\_\_\_\_ theory, which suggests that a country will predominate in the export of a product when it is particularly well endowed with those factors used intensively in its manufacture.
- A. Heckscher-Ohlin**
  - B. competitive advantage
  - C. comparative advantage
  - D. absolute advantage

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: Implications of New Trade Theory*



34. \_\_\_\_\_ are unit cost reductions associated with a large scale of output.

- A. Comparative advantages
- B. Competitive advantages
- C. Economies of scale**
- D. Positive-sum games

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

35. Because of substantial economies of scale, the \_\_\_\_\_ argues that in many industries there are increasing returns to specialisation.

- A. Leontief paradox
- B. product life-cycle theory
- C. new trade theory**
- D. Heckscher-Ohlin theory

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

36. The \_\_\_\_\_ argues that due to the presence of substantial scale economies, world demand will support only a few firms in many industries.

- A. Heckscher-Ohlin theory
- B. Leontief paradox
- C. product life-cycle theory
- D. new trade theory**

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

37. Of the following, which one is NOT an indicator of why trade is considered to be mutually beneficial to those involved in it?

- A. It allows for specialisation.
- B. It allows for production of products at higher prices.**
- C. It affords realisation of scale economies.
- D. It affords production of a larger variety of products.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Section: Increasing Product Variety and Reducing Costs*

38. New trade theory points out that through its impact on economies of scale, trade can increase the variety of goods available to consumers and \_\_\_\_\_ the average costs of those goods.

- A. alleviate
- B. maintain
- C. decrease**
- D. support

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

39. In small national markets such as New Zealand, there may not be enough demand to enable producers to realise \_\_\_\_\_ for certain products.

- A. profit margins
- B. economies of scale**
- C. a sufficient quantity of buyers
- D. efficient allocation

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: New Trade Theory*

40. The economic and strategic advantages that accrue to early entrants in an industry are called:

- A. first-mover advantages.**
- B. initial-class advantages.
- C. early entrant advantages.
- D. first-stage benefits.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.4 Be familiar with the arguments of those who maintain that government can play a proactive role in promoting national competitive advantage in certain industries*

*Section: Economies of Scale, First-Mover Advantages and the Pattern of Trade*

41. Who initially proposed the product life-cycle theory in the mid-1960s?

- A. Cormier
- B. Heckscher-Ohlin
- C. Vernon**
- D. Smith

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: The Product Life-Cycle Theory*

42. Which of the following has historically been noted as being an accurate explanation for international trade patterns?

- A.** Product life-cycle theory.
- B. Absolute advantage theory.
- C. Competitive advantage theory.
- D. Leontief paradox.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: The Product Life-Cycle Theory*

43. The Uppsala model of internationalisation identified four different stages in entering an international market. Which of the following is NOT a stage identified in the Uppsala model?

- A.** no regular export activity
- B. export via independent representatives (agents)
- C. trial stage
- D. overseas production/manufacturing units

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Stage Models of Internationalisation: An Incremental Sequential Approach*

44. In relation to the stage models of internationalisation, which of the following statements is incorrect?

- A. There are two major categories of stage models.
- B.** The stage models are limited in their ability to predict the internationalisation of small- to medium-sized firms.
- C. The stage models suggest an incremental sequential approach to internationalisation.
- D. Some researchers have criticised the stage models for being too 'deterministic'.

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.3 Understand the theories of internationalisation of the firm*

*Section: The Stage Models of Internationalisation: An Incremental Sequential Approach*

45. Which of the following choices correctly matches a scholar with the theory that he or she proposed?

- A. Adam Smith/Comparative advantage
- B. David Ricardo/New trade
- C.** Raymond Vernon/Product life cycle
- D. Eli Heckscher/Absolute advantage

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: The Product Life-Cycle Theory*

46. International new ventures (INVs) and 'born globals' internationalise rapidly due to reduced trade barriers and shorter product life cycles. These firms:

- A.** do not follow an incremental sequential process to internationalisation.
- B. follow a definitive path in their development based on scale.
- C. are technology, media and telecommunications (TMT) firms.
- D. have an absolute advantage in the marketplace.

*Difficulty: Hard*

*Gradable: automatic*

*Learning Objective: 2.5 Examine the reasons for rapid internationalisation/born globals*

*Section: International New Ventures/Born Global Firms*

47. All of the following have important implications for international trade and international theory on business practice except:

- A. first-mover advantage.
- B. government trade policy.
- C. location.
- D.** consumer confidence.

*Difficulty: Easy*

*Gradable: automatic*

*Learning Objective: 2.6 Examine the important implications that international trade and internationalisation theory holds for business practice*

*Section: Focus on Managerial Implications*

48. \_\_\_\_\_ refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country or what they can produce and sell to another country.

- A. Autonomous trade
- B.** Free trade
- C. Clear commerce
- D. Unencumbered commerce

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Section: Introduction*

49. Considered to be the first theory of international trade, \_\_\_\_\_ principal assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce.

- A. collectivism's
- B.** mercantilism's
- C. capitalism's
- D. economic conservatism's

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Mercantilism*

50. The flaw with mercantilism was that it viewed trade as \_\_\_\_\_.

- A.** a zero-sum game
- B. an economic necessity
- C. a non-essential economic activity
- D. a positive-sum game

*Difficulty: Medium*

*Gradable: automatic*

*Learning Objective: 2.1 Understand why nations trade with each other—benefits of trade*

*Learning Objective: 2.2 Understand the theories explaining trade flows between nations*

*Section: Mercantilism*

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