

True/False and Multiple Choice Chapter 02

True/False

1. The global economy has emerged without much help from the United Nations and its specialized agencies F
2. United Nations' agencies were developed to oversee and integrate international infrastructures for telecommunications, aviation, shipping, trade, commercial laws and other functions T
3. The League of Nations failed because many countries were forced to focus on internal problems rather than external liaisons with other nations between 1919 and 1939 T
4. The International Telecommunications Union coordinates national telecommunications policies and aids the cross-border standardization of equipment, protocols and operating procedures T
5. The Universal Postal Union deals with regulations concerning the global shipping industry F
6. The UN Commission on International Trade laws helps countries set up their own legal systems to deal with intellectual property issues F
7. The World Intellectual Property Organization's task is to enforce and protect corporate patents on a worldwide basis F
8. The International Labor Organization helps countries draw up their own national labor laws, social security, health and safety rules T
9. The International Monetary Fund oversees international exchange rates and the orderly exchange of foreign currencies T
10. In the Gold Standard era, currencies were evaluated in terms of their gold values to establish exchange rate values for currencies T
11. The Gold Standard system of establishing currency values in terms of gold survived until the 1970s F
12. The Bretton Woods system of exchange rates was based on the gold-dollar evaluation and exchange, with other currencies pegging their exchange rates to the US dollar T
13. The Bretton Woods system of exchange rates broke down as other world currencies kept appreciating against the US dollar, causing the US to incur major trade surpluses F
14. During the 1945-71 period, foreign countries could use US dollars earned to buy gold at \$35 an ounce T
15. 1971-3 saw the birth of a new system of exchange rates based on fixed and floating exchange rates T
16. 1999 saw the establishment of some new sets of exchange rate arrangements framed under eight major categories T
17. Today, all countries have their own unique national currencies. F
18. A number of countries use the US dollar as their own official currency T
19. Currency Board Arrangements allow currencies such as the Euro to have their value determined by a Board of Central Banks F
20. Currency Board Arrangements have full and free convertibility for their currencies, but central banks must match foreign currency reserves with national money supplies T

21. Many countries peg their foreign exchange rates to country/countries with whom they have the most commercial dealings T
22. Currencies pegged to single or multiple currencies are not allowed any upward or downward movements at all against those currency values F
23. Currencies pegged within a horizontal band are allowed to move slightly upwards or downwards around a pre-determined exchange rate T
24. Crawling pegs are usually used when national exchange rates are consistently going up (i.e. appreciating) in value against other major currencies F
25. Crawling pegs are usually used when national exchange rates are consistently going down (i.e. depreciating) in value against other major currencies T
26. Crawling pegs are used when countries have consistent inflation problems causing governments to constantly appreciate their national currencies (i.e. more national currency units per dollar or Euro). F
27. Under crawling band exchange rate systems, governments constantly re-peg national currency values within a pre-determined range F
28. Under crawling band systems, governments adjust the range within which exchange rate values can move T
29. Under managed float exchange rate systems, governments do not interfere with the supply and demand market forces for their national currencies F
30. Under managed float exchange rate systems, governments can influence their exchange rate values through fiscal (taxation) and/or monetary (interest rate) policies T
31. Independently floating exchange rates have their values determined by supply and demand for their currencies T
32. When currencies float independently, good economic news tends to create demand for and therefore weaken the national currency F
33. When the European Union is doing well economically, the Euro is likely to appreciate in value T
34. Dollar supply consists of dollars leaving the US and being converted into foreign currencies T
35. Dollar supply consists of dollars being converted back from foreign currencies into US dollars F
36. When Japanese firms repatriate profits from the US to Japan, this creates demand for dollars F
37. When European tourists come to the US and convert their money, this creates demand for US dollars T
38. When European firms export to the USA, dollars leave the US and create demand for Euros T
39. When the US exports to the Euro zone in Western Europe, this increases the supply of dollars leaving the US and increases demand for Euros F
40. When Japanese companies invest in the US, they create demand for dollars T
41. When European tourists go to Japan, they increase the supply of Euros leaving Western Europe and increase demand for Japanese yen T
42. When aggregate demand for dollars exceeds aggregate supply, the dollar is likely to depreciate in value F
43. When aggregate demand for dollars exceeds aggregate supply, the dollar is likely to appreciate in value T

44. When the dollar moves from 115 yen to 90 yen, the dollar has appreciated in value F
45. When the dollar moves from 0.95 Euros to 1.12 Euros, , the dollar has depreciated in value F
46. When the Euro moves from 127 yen to 140 yen, the yen has depreciated in value T
47. Developing nations all want strong, appreciating currencies to improve their export and foreign direct investment prospects F
48. International firms prefer investment in weak currency countries to enhance their sourcing prospects to strong currency markets T
49. International firms prefer investment in strong currency countries to enhance their sourcing prospects to weak currency markets F
50. When the US currency appreciates in value against major world currencies, currencies pegged to the dollar have problems exporting to non-dollar-based major markets T
51. Major currencies such as the dollar, yen, Euro and pound sterling float independently in world currency markets T
52. Forward purchases of currencies over 1, 3, and 6 months time frames are available in all world currencies F
53. A convertible currency is one that is not acceptable as a means of payment outside of its country of origin F
54. A soft, or inconvertible currency is one that is not acceptable as a means of payment outside of its country of origin T
55. When countries have hard, convertible currencies, they must pay for imports with soft inconvertible currencies earned from exports F
56. Nations with soft, inconvertible currencies often import more than they export and in so doing build up hard currency debts T
57. Currency convertibility is all about establishing realistic currency values acceptable to the world's financial currency markets T
58. In the currency convertibility process, countries float their currencies with the result that the currency rapidly appreciates against other world currencies F
59. The role of the International Monetary Fund is to lend money to nations to allow them to 'buy back', create demand for and stabilize their depreciating currencies T
60. The World Trade Organization was established in 1947-8 to oversee the trade liberalization movement F
61. The General Agreement on Tariffs and Trade (GATT) was given powers to arbitrate and make rulings on trade disputes F
62. The World Trade Organization replaced the General Agreement on Tariffs and Trade in the mid-1990s T
63. A major free trade argument is that it promotes global competition that benefits consumers through lower prices and increased varieties of products T
64. Free trade arguments include the uneven distribution of global resources, contributing to the development of emerging nations, and the creation of jobs T
65. Free trade creates jobs but entails little job loss particularly in developed nations F
66. Developed and developing nations both agree that low wage rates are legitimate competitive tools in the world marketplace F
67. Strategic industries that many governments feel need protection usually include agriculture, military and nuclear sectors T

68. One protectionist argument is that as jobs are exported from developed to developing countries, the developed nation's less educated labor sector suffers disproportionately as national manufacturing gets 'hollowed out' T
69. The World Bank is mainly concerned with helping countries develop adequate national infrastructures (roads, power etc.) and food supplies T
70. Private infrastructure development is mainly organized through the United Nations F
71. Private sector contributions to world development include the activities of global retailers, advances in shipping and aviation, E-commerce and global media development T
72. Free trade areas abolish internal tariffs among member states and instigate a common external tariff F
73. Common markets have no internal tariffs, a common external tariff, and free movement of labor and capital T
74. Political integration of market blocs involves member states sacrificing national political and economic sovereignty to have region-wide fiscal, monetary policies and a common currency T
75. The European Union originated as the European Coal and Steel Community in the late 1940s and early 1950s T
76. The Treaty of Rome established the European Economic Community in 1957 and had ten original members F
77. European economic unification (EC'92) established the Euro as the common regional currency F
78. European economic unification (EC'92) included common industry standards for major European industries, the elimination of border controls, and privatization and deregulation of a number of industries T
79. The political superstructure of the European Union includes a European Commission, a European Parliament, a Council of Ministers, and a Court of Justice T
80. By 2007, the European Union increased in size to 27 nations T
81. The North American Free Trade Area (NAFTA) originated in 1989 with the US, Canada and Mexico as the original members F
82. The Free Trade Agreement of the Americas has established a free trade area covering North, Central and South America F
83. The Asia-Pacific Economic Cooperation group comprises countries mainly from Asia but includes nations such as the United States T
84. African trade blocs are among the most successful examples of regional integration in the world today F
85. Privatization is the process of selling government-owned industries back to the private sector T
86. Deregulation is the process of selling government-owned industries back to the private sector F
87. As companies are privatized, they have few adjustments to make in order to compete effectively in competitive settings F
88. The growth of public and private infrastructures globally have contributed little to the worldwide expansion of international corporations F

Multiple Choice

1. In contrast to the United Nations, which of the following statements is true about the League of Nations:
 (a) Was founded in 1919
 (b) Comprises over 80 specialized agencies
 (c) Monitors global problems
 (d) Includes agencies such as the IMF, WTO, and World Bank Answer (a)
2. Which of the following is true about the United Nations:
 (a) Came into existence in 1945
 (b) Comprises over 80 specialized agencies
 (c) Tackles worldwide problems and issues
 (d) Has helped to establish global commercial infrastructures
 (e) All of the above
 (f) None of the above Answer (e)
3. Which of the following is/are true about the International Telecommunications Union:
 (a) Helps the liberalization of world trade
 (b) Aids country efforts to maintain stable exchange rates
 (c) Allocates radio frequencies for airlines and shipping
 (d) Gives permissions for satellite launches
 (e) All of the above
 (f) Just (c) and (d). Answer (f)
4. Which of the following is/are true about the International Civil Aviation Authority:
 (a) Helps to coordinate public and private sector telecommunications initiatives
 (b) Established safety guidelines for commercial shipping
 (c) Coordinates aircraft safety and security procedures
 (d) None of the above Answer (c)
5. The International Maritime Organization (IMO) performs which of the following function(s):
 (a) Coordinates national and international mail services
 (b) Establishes safety procedures for aircraft and airports
 (c) Helps integrate global communications
 (d) Promotes safety in shipping and cleaner oceans Answer (d)
6. The Universal Postal Union performs which of the following function(s):
 (a) Coordinates telecommunications among nation states
 (b) Facilitates and coordinates global movements of packages and letters
 (c) Helps countries build national infrastructures such as roads and communications systems
 (d) Coordinates cross-border television transmissions Answer (b)

7. The United Nations Commission on International Trade Laws (UNCITRAL) does which of the following:
- (a) Arbitrates trade disputes among nations
 - (b) Initiates decreases in country tariffs
 - (c) Deals with rights and obligations of traders, shippers and carriers
 - (d) All of the above
- Answer (c)
8. The World Intellectual Property Organization performs which of the following functions:
- (a) Grants companies patent rights in world markets
 - (b) Fights legal battles against companies marketing fake products
 - (c) Helps countries set up their own laws on intellectual property issues
 - (d) All of the above
- Answer (c)
9. The International Court of Justice does all of the following except:
- (a) Tries individuals accused of crimes against humanity
 - (b) Allows companies to legally prosecute firms in other nations
 - (c) Makes rulings on national and maritime boundaries
 - (d) All of the above are Court functions
- Answer (b)
10. The International Monetary Fund performs which of the following functions:
- (a) Helps countries maintain stable and realistic exchange rates
 - (b) Lends nations money to stabilize their exchange rates
 - (c) Helps countries make their national currencies convertible
 - (d) All of the above
- Answer (d)
11. All of the following apply to the Gold Standard era of exchange rate determination except:
- (a) National currency values were determined through their value in gold
 - (b) Countries settled their international accounts using gold
 - (c) Gold backed up issues of national currencies
 - (d) The Gold Standard era ended in 1918
 - (e) All are characteristics of the Gold standard era
- Answer (d)
12. The system of exchange rates set up under the Bretton Woods agreement in 1944 did which of the following:
- (a) Allowed nations to base their exchange rates on gold valuations
 - (b) Tied the value of the US dollar to gold at \$35 per ounce
 - (c) Pegged non-US currencies to the dollar
 - (d) Allowed national currencies to fluctuate according to supply and demand
 - (e) All of the above
 - (f) Just (b) and (c).
- Answer (f)
13. The 1944 Bretton Woods agreement fell apart because of which of the following reasons:
- (a) Governments routinely devalued their currencies against the dollar
 - (b) The US government could not continue to exchange gold at \$35 per ounce
 - (c) The over-valued dollar made it difficult for US firms to export

(d) All are reasons why Bretton Woods failed Answer (d)

14. Countries that do not have their own currencies can use:

- (a) All countries have their own currencies
- (b) Another nation's currency such as the US dollar
- (c) A common currency for use only in trading with commercial partners
- (d) A common currency for internal and external use
- (e) All the above except (a).

Answer (e)

15. Currency Board Arrangements have all of the following characteristics except:

- (a) Currencies are pegged to another major currency and are fully convertible
- (b) Allows a country to use another country's currency as its own
- (c) Governments must maintain foreign exchange reserves equal to its own money supply
- (d) All of the above
- (e) Just (a) and (c).

Answer (e)

16. The exchange arrangement under which a currency is pegged to that of another currency but which is allowed a band of flexibility around a central rate is:

- (a) A Crawling peg
- (b) Exchange rate within a crawling band
- (c) Currency peg within a horizontal band

Answer (c)

17. A crawling peg:

- (a) Is used in countries with inflation problems
- (b) Allows governments to adjust the band within which an exchange rate moves
- (c) Allows countries to regularly devalue their currencies to remain internationally competitive
- (d) Allows a currency value to move up or down around a central rate
- (e) All of the above
- (f) Just (a) and (c).

Answer (f)

18. Managed floats of currencies have all of the following characteristics except:

- (a) They allow currency values to be determined purely by supply and demand
- (b) Countries can use fiscal and/or monetary policies to influence exchange rate values
- (c) Allows nations to raise or lower interest rates to attract or deter foreign capital
- (d) Permits countries to change taxation structures to encourage or discourage trade

Answer (a)

19. Independently floating currencies have which of the following characteristics; they:

- (a) Strengthen when there is bad economic news
- (b) Rely heavily on governmental support for the national currency
- (c) Have their values determined by supply and demand for the currency
- (d) Comprise mainly of minor world currencies

Answer (c)

20. In the floating exchange rate relationship between the dollar and the yen, dollar supply includes:

- (a) Japanese exports to the US
- (b) Yen to dollar conversions
- (c) US firms in Japan repatriating profits to the home market
- (d) Japanese investments to the US

Answer (a)

21. In the dollar-yen floating exchange rate relationship, dollar demand includes:

- (a) Dollar to yen conversions
- (b) Japanese exports to the US
- (c) Japanese investments in the US
- (d) US tourists going to Japan

Answer (c)

22. In the dollar-Euro floating exchange rate relationship, Euro demand includes:

- (a) Euro-based exports to the US
- (b) European tourists coming to the US
- (c) European investments in the US
- (d) All of the above

Answer (a)

23. In the dollar-Euro floating exchange rate relationship, Euro supply includes:

- (a) US firms investing in the Euro zone
- (b) Euro zone tourists coming to the US
- (c) US exports to the Euro zone
- (d) All the above
- (e) Just (b) and (c).

Answer (e)

24. Under independently floating exchange rate systems, when aggregate demand for a currency exceeds aggregate supply for a particular country:

- (a) The currency should strengthen and have more foreign currency units for each domestic unit
- (b) The currency should strengthen and have fewer foreign currency units for each domestic unit
- (c) The currency should weaken and have fewer foreign currency units for each domestic unit
- (d) The currency should weaken and have more foreign currency units for each domestic unit

Answer (a)

25. When the dollar value moves from 90 to 120 yen. This means that:

- (a) Dollar supply exceeds dollar demand
- (b) The dollar is depreciating in value
- (c) The yen is depreciating in value
- (d) US exporters should sell more in Japan

Answer (c)

26. The dollar moves from 110 yen to 85 yen, this means that:

- (a) The dollar is depreciating
- (b) Dollar supply exceeds demand

- (c) US exports should be more competitive in Japan
 - (d) All of the above
- Answer (d)

27. The Euro's value goes from 90 cents to \$1.15. This means that:
- (a) Dollar-based exports should increase to the Euro zone
 - (b) Euro zone exports to the US should increase
 - (c) Demand for Euros is greater than supply
 - (d) All the above
 - (e) Only (a) and (c).
- Answer (e)

28. The Euro's value moves from 115 yen to 92 yen. This means that:
- (a) The Euro is appreciating in value
 - (b) Japanese investment in the Euro zone could increase
 - (c) Euro tourists to Japan will have more yen to spend for a given Euro outlay
 - (d) Euro zone investors are more likely to invest in Japan
- Answer (b)

29. International firms are more likely to invest in weakening currency countries because:
- (a) Export prospects from that country are likely to be good
 - (b) Investing companies can buy more assets for each national currency unit expended
 - (c) Repatriating profits from weak currency nations results in greater home market profits
 - (d) All of the above
 - (e) Just (a) and (b).
- Answer (e)

30. When the dollar appreciates against other world currencies, nations whose currencies are pegged to the dollar:
- (a) Generally find it easier to export their products to non-dollar countries
 - (b) Generally find it more difficult to export their products to non-dollar countries
 - (c) Do not notice any change in their trading competitiveness
- Answer (b)

31. Inconvertible currencies:
- (a) Are 'hard' currencies
 - (b) Are major currencies such as the dollar and the yen
 - (c) Are acceptable to non-nationals as means of payment
 - (d) Include many developing nations such as the Haitian gourde or the Gambian dalasi
- Answer (d)

32. When country currencies are 'soft':
- (a) They are not acceptable means of payment to non-nationals
 - (b) They are inconvertible
 - (c) Import bills are usually paid out of hard currency export earnings
 - (d) Persistent trade deficits can result in hard currency debts
 - (e) All of the above
 - (f) None of the above
- Answer (e)

33. The role of the International Monetary Fund in the currency convertibility process is to:
- (a) Lend countries money to pay their import bills
 - (b) Intervene in world financial markets to make currencies acceptable
 - (c) Lend hard currencies to nations so they can buy back their own currencies
- Answer (c)
34. Currencies become convertible after IMF interventions when:
- (a) They have depreciated down to exchange rates that are acceptable to the international financial community
 - (b) The IMF decides that the currency has depreciated enough
 - (c) The exchange rate has been stable for a significant period of time
 - (d) All of the above
 - (e) Just (a) and (c).
- Answer (e)
35. The aim of the World Trade Organization is to:
- (a) Reduce tariff and non-tariff barriers to trade
 - (b) Arbitrate trade disputes among nations
 - (c) Ensure that exchange rates are at 'fair' levels
 - (d) All of the above
 - (e) Only (a) and (b).
- Answer (e)
36. Pro free trade arguments include all of the following except:
- (a) Strategic industry arguments
 - (b) Promotes world peace
 - (c) Allows more equal distribution of world resource endowments
 - (d) Helps developing nations industrialize
- Answer (a)
37. Pro free trade arguments include:
- (a) Protecting domestic workers against foreign competition
 - (b) Forcing firms to be more efficient and innovative
 - (c) Allowing free movement of news, media and information across markets
 - (d) Allowing countries to shield their cultures from outside influences
 - (e) All of the above
 - (f) Only (b) and (c).
- Answer (f)
38. Protectionist arguments include all of the following except:
- (a) Allows countries to 'manage' their trade and keep out of debt
 - (b) Protecting the home culture from outside influences
 - (c) Allowing start-up industries to attain some maturity and efficiency before competing globally
 - (d) Consumer benefits of lower prices and increased product varieties
- Answer (d)
39. The major aim of the World Bank Group is to:
- (a) Stabilize international exchange rates
 - (b) Arbitrate trade disputes among nations
 - (c) Reduce tariff and non-tariff barriers to world trade

- (d) Provide capital for the building of country infrastructures
- (e) Just (b) and (c). Answer (d)

40. The World Bank Group does all of the following except:

- (a) Raises money on international financial markets
- (b) Tackles problems relating to countries' infrastructures, education systems and energy supplies
- (c) Allows all countries to borrow at extremely low interest rates and pay back over decades
- (d) Helps countries develop economically Answer (c)

41. The private sector contributions to globalization include all of the following except:

- (a) Development of global broadcast and print media
- (b) Retailer internationalization
- (c) Privatization and deregulation of industries
- (d) More efficient shipping and airline industries Answer (c)

42. _____ eliminate internal tariffs and instigate common external tariffs:

- (a) Free trade areas
- (b) Customs unions
- (c) Common markets
- (d) Economically and politically integrated country groupings Answer (b)

43. Economic integration of trade blocs includes all of the following except:

- (a) Region-wide policies for agriculture and energy
- (b) Free movements of products and services within the group
- (c) Harmonization of product standards
- (d) Establishment of a common currency Answer (d)

44. Political integration of trade blocs includes all of the following except:

- (a) Establishment of a common currency
- (b) Loss of country-level control over some economic and political policy issues
- (c) Establishing region-wide political bodies to determine some major policies
- (d) All are characteristics of politically integrated blocs Answer (d)

45. European economic integration (EC'92) did which of the following:

- (a) Established the European Parliament and the European Commission
- (b) Eliminated border controls within the European Community
- (c) Established the Euro as the common European currency
- (d) Established Europe-wide technical standards for major industries
- (e) All of the above
- (f) Only (b) and (d). Answer (f)

46. The European Commission:

- (a) Is the civil service arm of the EU that handles policies through 20 Directorates
- (b) Is formally elected through Europe-wide elections

- (c) Makes all the major decisions concerning EU policies
 - (d) Interprets EU laws in disputes among member states Answer (a)
47. The Maastricht Agreement determined that countries joining the Euro group should:
- (a) Not have government budget deficits over 3 percent of budget totals
 - (b) Not have excessive levels of inflation
 - (c) Have stable exchange rates
 - (d) Not have public debt levels exceeding 60 percent of gross national product
 - (e) All are Maastricht criteria Answer (e)
48. The North American Free Trade Area (NAFTA):
- (a) Comprises the US, Canada and Mexico
 - (b) Includes the 34 nations of North, Central and South America
 - (c) Was founded in 1994
 - (d) Just (a) and (c) Answer (d)
49. Mercosur trade bloc has all of the following characteristics except:
- (a) Comprises countries from South America
 - (b) Has abolished all internal tariffs and imposed a common external tariff
 - (c) Has a very well developed regional infrastructure
 - (d) All are Mercosur characteristics Answer (c)
50. Asia-Pacific Economic Cooperation group (APEC) has had problems developing because:
- (a) Differences among member state economic development levels causes policy-making problems
 - (b) Vast geographic differences among participating nations
 - (c) Cultural differences among member nations
 - (d) All are APEC development problems Answer (d)
51. African trade blocs such as Comesa and the East African Community have all the following characteristics except:
- (a) Are starting to flourish as democracies and establish degrees of economic stability
 - (b) Have long histories of trade and regional commerce
 - (c) Have timetables for economic and political integration Answer (b)
52. Which of the following statement is false concerning global privatization and deregulation programs:
- (a) Throughout much of the 20th century, infrastructure industries such as airlines, utilities were state-owned
 - (b) Privatization and deregulation programs have barely begun in Latin America and Asia
 - (c) The de-escalation of US-USSR East-West tensions reduced the need for governments to control essential infrastructure
 - (d) Since the 1980s, many governments have been happy to sell off their state-owned industries Answer (b)

53. Privatization and deregulation trends have resulted in all of the following except:

- (a) Many formerly nationalized firms have 'gone international'
 - (b) Many national infrastructure industries are now very competitive sectors
 - (c) The transition from state-owned enterprise to private sector competitor has been easy to achieve
- Answer (c)

54 Which of the following has not contributed to the globalization of world commerce:

- (a) UN agencies such as the WTO, IMF, IMO, ICAO and ITU have laid the foundations for worldwide infrastructure development
 - (b) The private sector has contributed to global infrastructures through more efficient means of transportation and communication
 - (c) Countries have sacrificed some national sovereignty to be part of regional trade blocs
 - (d) Privatization and deregulation efforts have brought new industries into the world marketplace
 - (e) All the above have contributed to the globalization of world commerce
- Answer (e)