

Chapter 2

Trade Institutions and Trade Policy

TRUE/FALSE

1. Most of people carry change in their pockets or purses and take for granted that coins have always been part of their lives. Common coinage was developed in ancient Rome to ensure that business transactions could easily be carried out throughout the empire.

ANS: T DIF: Easy REF: Page 30

2. European feudalism was initially set up as an alliance between farmers and organizations to protect them from invaders, thus protecting the harvests.

ANS: T DIF: Moderate REF: Page 31

3. Beginning in 1896, China experienced an explosion of international trade because of the foresight of Empress Dowager Tz'u-hsi.

ANS: F DIF: Difficult REF: Page 31

4. The Smoot-Hawley Act of the 1930s set the stage for the collapse of the world financial system.

ANS: T DIF: Difficult REF: Page 31

5. The charter for the International Trade Organization (ITO) was signed in Havana, Cuba in 1948.

ANS: T DIF: Moderate REF: Page 32

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

ANS: F DIF: Difficult REF: Page 33

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

ANS: T DIF: Moderate REF: Page 34

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

ANS: T DIF: Easy REF: Page 34

9. The European Union (EU) now represents a formidable market size internally and market power externally and is considered an economic bloc.

ANS: T DIF: Moderate REF: Page 36

10. Because the United States economy was nearly decimated by the effects of World War II, the U.S. has not been able to emerge as an economic power in the world since that time.
- ANS: F DIF: Easy REF: Page 38
11. The United States has been able to export more products than it imports since 1977, causing a trade surplus in this country which has provided jobs for thousands of Americans.
- ANS: F DIF: Difficult REF: Page 39
12. The United States has a coordinated set of continuous activities to deal with international trade, and these activities have been embraced by all presidential administrations and legislative branches since 1954; this is known as the U.S. Trade Policy Ad Hoc Relations.
- ANS: F DIF: Difficult REF: Page 41
13. Import authorization, excise duties, discretionary licensing, and trade restricting affecting electronic commerce are examples of trade barriers.
- ANS: T DIF: Moderate REF: Page 44
14. Bilateral negotiations are carried out mainly between two nations, while multilateral negotiations are carried out among a number of nations.
- ANS: T DIF: Easy REF: Page 47
15. In order to be successful in international trade, policymakers must be willing to trade off long term goals to achieve short term objectives.
- ANS: F DIF: Difficult REF: Page 47
16. The international environment is relatively static, and there is not much change in any given year.
- ANS: F DIF: Moderate REF: Page 30
17. From time to time, global divisions take place. One good example is the ideological split between the East and the West that occurred after 1945 when the Soviet Union encouraged members of the Eastern bloc not to do business with the West.
- ANS: T DIF: Moderate REF: Page 31-32
18. The government retains a vested interest in banning certain goods in order to protect public morals.
- ANS: T DIF: Moderate REF: Page 35 - The International Marketplace 2.2
19. International trade has not played a very big role in world history because trade between countries has historically been low, and governments have a tendency to separate trade from political issues.
- ANS: F DIF: Difficult REF: Page 49 - Summary

MULTIPLE CHOICE

1. In the history of the world, the following groups gained preeminence through their trade activities:
 - a. Politicians, legislators, and parliamentarians
 - b. Etruscan, Phoenicians and Egyptians
 - c. Pilots, boat captains, and pony express riders
 - d. Educators, doctors, and lawyers

ANS: B DIF: Moderate REF: Page 30

2. The Roman Empire became one of the greatest world powers through which of the following means?
 - a. Asking other countries to join them in their empire
 - b. Sending out feudal lords to marry into the extended families of neighboring lands
 - c. Encouraging international business activities
 - d. Taxing the poor

ANS: C DIF: Difficult REF: Page 30

3. When the charter for the International Trade Organization was signed in 1948, it set forth a series of agreements to include international commercial policies, domestic business practices, and what other agreements?
 - a. Unilateral veto power by the Soviet Union, China, and the United States
 - b. An inter-governmental agreement allowing the U.S. to administer the ITO
 - c. A closed market for all electronic components
 - d. Commodity agreement, economic development, and international investment

ANS: D DIF: Difficult REF: Page 32

4. Which organization has been called “a remarkable success story of postwar international organization that was never intended to become one”?
 - a. GATT
 - b. WTO
 - c. IMF
 - d. UN

ANS: A DIF: Difficult REF: Page 32

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

ANS: D DIF: Moderate REF: Page 33

6. What is the core mission of the WTO?
 - a. To enforce trade tariffs
 - b. To keep salt prices at a stable price
 - c. To facilitate international trade and investment
 - d. To broker agricultural products between companies

ANS: C DIF: Difficult REF: Page 33

7. When the International Monetary Fund was created, how did member nations pay their dues?
- 25% in gold or U.S. dollars, the rest in their own currency
 - In their own nation's currency
 - In salt or other commodities
 - Through a common IMF currency called the Dohar

ANS: A DIF: Moderate REF: Page 34

8. Another name for the International Bank for Reconstruction and Development is:
- the Bank of America.
 - the United States Treasury.
 - the World Bank.
 - the UN Bank.

ANS: C DIF: Difficult REF: Page 34

9. The WTO, IMF, and World Bank operate on a global level. Which of the following is an example of a trade alliance that operates under this same concept on a regional basis?
- The Economic Bloc
 - The World Chamber of Commerce
 - The United Nations
 - The Foundation for a Free America

ANS: A DIF: Moderate REF: Page 36

10. NAFTA, Mercosur, and GCC represent:
- names of Soviet rockets that have made trips to the moon.
 - formal titles for the ministers of trade in South American countries.
 - the infrastructure of governmental courts related to trade.
 - examples of regional trade alliances between nations.

ANS: D DIF: Difficult REF: Page 36

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

ANS: C DIF: Difficult REF: Page 36

12. _____ is a non-governmental organization composed of business leaders from Europe and the United States.
- Transatlantic Business Dialogue
 - Transatlantic World Dialogue
 - Transpacific World Dialogue
 - Transpacific Business Dialogue

ANS: A DIF: Difficult REF: Page 36

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

ANS: B DIF: Moderate REF: Page 36

14. Which currency is most accepted worldwide?
- a. The French Mark
 - b. The U.S. Dollar
 - c. The Japanese Yen
 - d. The British Schilling

ANS: B DIF: Easy REF: Page 36

15. As of 2002, what is true about the trade status of the United States?
- a. The U.S. imports more goods than it exports.
 - b. The U.S. exports more goods than it imports.
 - c. The U.S. does not import or export since it is in a free trade zone.
 - d. The U.S. is not bound by trade treaties.

ANS: A DIF: Moderate REF: Page 37

16. In the 1960s and 1970s, why were domestic firms at a disadvantage when compared to firms in emerging nations?
- a. U.S. firms were more profitable than foreign companies during this time period..
 - b. Laws restricted the exportation of goods while allowing unprecedented importation of foreign goods.
 - c. The U.S. policy was to help and support foreign economies because it was believed that “Yankee” ingenuity and the free market of the states would by itself encourage growth.
 - d. The war on drugs was at its peak worldwide.

ANS: C DIF: Difficult REF: Page 38

17. When a firm is founded with global scope in mind from the very beginning, what do marketers call that type of company?
- a. Specialized
 - b. Stratospheric
 - c. Digital commerce
 - d. Born global

ANS: D DIF: Moderate REF: Page 39

18. _____ is considered “special” because of its affect on currency values, the fiscal and monetary policies of governments, the shaping of public perception on competitiveness, and the level of imports a country can afford?
- a. Political upheaval
 - b. Regime change
 - c. Exportation of goods and services
 - d. The legalization of previously banned products

ANS: C DIF: Moderate REF: Page 39

19. Which of the following is true about the trade deficit in the United States?
- a. Since 1975, the U.S. trade deficit has been continuous.
 - b. By law, the U.S. cannot have a trade deficit.
 - c. Because of its position in a free trade zone, the U.S. does not have a trade deficit.
 - d. By executive order, the President is the only person who can control this deficit.

ANS: A DIF: Moderate REF: Page 39

20. When a company expands its market by offering its products to international customers, it can produce more of its products and do so more efficiently, thus reducing the overall cost of each individual unit. What is this called?
- a. Over saturation
 - b. Stagnation
 - c. Economy of scale
 - d. Post production providence

ANS: C DIF: Moderate REF: Page 39

21. In light of persistent trade deficits, growing foreign direct investment, and the tendency of some firms and industries to seek legislative redress for marketing failures, the U.S. Congress in the past two decades has:
- a. left trade decisions in the hand of the WTO.
 - b. organized a ban of imported products which compete with long-standing companies.
 - c. given more power to the President to improve trade opportunities.
 - d. declared “war” on countries that do not invest directly in our country.

ANS: C DIF: Moderate REF: Page 41

22. “Voluntary” import restraints have been used mainly in areas such as textiles, automobiles, and steel and are intended to:
- a. help domestic companies regain their trade prominence of years past.
 - b. show good political citizenship by members.
 - c. penalize producers of raw materials.
 - d. situate the imports as a political component as opposed to a trade embargo.

ANS: A DIF: Difficult REF: Page 44

23. If a business entity promotes “Buying U.S.A.” (meaning, only buy products that are manufactured in the United States), and employees benefit from these purchases, this campaign would be seen as:
- a. a non-tariff barrier.
 - b. poor public relations.
 - c. significantly helping the international global market.
 - d. something the French might do.

ANS: A DIF: Moderate REF: Page 45

24. Providing preferential treatment to domestic bidders over foreign bidders, using national standards that are not comparable to international standards, placing emphasis on design rather than performance, and providing for general difficulties in the market entry of foreign products are examples of:
- a. import/export quotas.
 - b. substantial discounting by domestic partners.
 - c. aggregation of intrinsic dominance.
 - d. non-tariff barriers.

ANS: D DIF: Moderate REF: Page 45

25. Which department of the United States government provides assistance to companies in helping formulate foreign trade and international marketing plans?
- a. Homeland Security
 - b. Treasury
 - c. Commerce
 - d. State

ANS: C DIF: Difficult REF: Page 45

26. Which product category receives the largest emphasis from the U.S. Government with regards to encouraging trade with foreign countries?
- a. Agriculture
 - b. Aeronautics
 - c. Space flight
 - d. Medicine

ANS: A DIF: Difficult REF: Page 46

27. When the Export-Import Bank of the United States gives loans that are composed partially of commercial interest rates and partially of highly subsidized developmental aid interest rates, these loans are known as:
- a. commercial state loans.
 - b. mixed aid credits.
 - c. import/export fluctuations.
 - d. partial loans.

ANS: B DIF: Difficult REF: Page 46

28. When U.S. firms work together to establish export promotion development, as allowed by the Export Trading Company Act of 1982, the companies are in effect forming a:
- a. bilateral consortium.
 - b. export-import industry.
 - c. export consortia.
 - d. run on banks.

ANS: C DIF: Moderate REF: Page 46

29. Trade promotion authority was given by Congress to:
- a. foreign governments.
 - b. the channel captains sourcing the agreement.
 - c. functional intermediaries.
 - d. the executive branch, represented by the President of the United States.

ANS: D DIF: Moderate REF: Page 47

30. Trade negotiations that are conducted between two nations are considered:
- a. unilateral.
 - b. multilateral.
 - c. bilateral.
 - d. omnilateral.

ANS: C DIF: Easy REF: Page 47

31. The disappointment with past policy measures, particularly trade negotiations, is mainly the result of
- a. lack of funds.
 - b. lack of expectations.
 - c. overblown competitiveness.
 - d. Overblown expectations.

ANS: D DIF: Moderate REF: Page 47

32. In order for negotiations between countries to be long-lasting, policymakers must:
- a. appoint taxing authority to an outside third non-exclusive country.
 - b. situate the trading bloc amongst similar aid.
 - c. trade off short-term achievements for long term goals.
 - d. implement profit taking in the short term.

ANS: C DIF: Moderate REF: Page 48

33. In the recent past, the majority of international and global markets have:
- a. disappeared and account for less than half of all transactions in world markets.
 - b. continued to grow in terms of trade and investment volume for all countries.
 - c. not focused on the value of segmentation.
 - d. created niche forecasting reminiscent of the feudal system.

ANS: B DIF: Moderate REF: Page 48

34. When economic coordination between trading partners continues, leading trading nations will:
- propagate a universal religion.
 - exploit the dollar and devalue it in relation to the Yen.
 - compromise the WTO charter.
 - lose some national sovereignty.

ANS: D DIF: Moderate REF: Page 48

35. Policymakers will be sufficiently responsive in setting international trade policy objectives that increase opportunities for firms and choices for consumers when:
- the voices of retailers, consumers, wholesalers, and manufacturers are heard.
 - all nations adopt the IMF treaty.
 - the reconstruction of branded Europe is concluded.
 - there is agreement between the British and Americans over salt prices.

ANS: A DIF: Moderate REF: Page 49

SHORT ANSWER

1. What organization should regulate E-Commerce?

ANS:

This is a difficult question to answer, and student answers will vary. The main themes to be touched on include security, privacy, taxation, tariffs, and inter-governmental agreements. At present, there is no one global authority that oversees e-commerce; however countries are in talks to discuss who and how e-commerce should be regulated. It is clear some supervision is needed, but what and how is unclear.

DIF: Moderate REF: Page 48

2. How did international trade affect the rise and fall of the Roman Empire?

ANS:

One of the major world powers in ancient history was the Roman Empire. Its impact on the thought, knowledge, and development can still be felt today. Even while expanding their territories through armed conflicts, the Romans placed primary emphasis on encouraging international business activities. The principal approaches used to implement this emphasis were the Pax Romana, or the Roman Peace, and common coinage. Safety on roads of trade and use of a common coin for trade are two principals still in use today. International trade has often played a major role in world history, and the Roman Empire is a good example.

DIF: Moderate. REF: Page 30

3. Over the last fifty years, how has U.S. international trade fared in comparison to the rest of the world?

ANS:

Over the years, the U.S. international trade position has eroded substantially, and the U.S. share of world exports has declined precipitously from 25 percent in the 1950s. This has occurred mainly because other countries have expanded their trade activities. U.S. firms have been too complacent and disinterested in foreign markets to keep up the pace. However, a new interest in and commitment to international markets bodes well for growing U.S. and global marketing activities.

DIF: Moderate REF: Page 37