

**Chapter 2: The Evolution of International Business**

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**TRUE/FALSE**

1. 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.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 36                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Evaluation

2. One way international trade benefits consumers is by providing lower living standards.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 36                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

3. It is estimated that for every billion dollars worth of exports from the United States, 100,000 domestic jobs are created.

ANS: F                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 37                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

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.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

5. Emerging countries like Brazil, Russia, India, and China (BRIC) that have large populations, an expanding middle class, and a combination of relatively low wage-rates and rapidly growing economies tend to attract sizable less amounts of foreign investment.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

6. Dubai, a regional center for global companies, continues to attract sizable amounts of foreign investment given its strategic location, world-class infrastructure, and productive workforce.

ANS: T                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

7. 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.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 40                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

8. Factor price equalization theory, states that when factors are allowed to move freely among trading nations, efficiency increases, which leads to equality of factor prices among these countries.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 43                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

9. 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.

ANS: F                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 44                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Evaluation

10. 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.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 44                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

11. 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.

ANS: F                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 45                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

12. An ad valorem tariff describes a tax on imports levied as a constant percentage of the monetary value of one unit of the imported good.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 47                      OBJ: LO: 02-03                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

13. An export taxes refers to a negative tariff or tax aimed at boosting exports by lowering export prices. On the other hand, export subsidy is meant to discourage exports and to keep production at home.

ANS: F                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 47                      OBJ: LO: 02-03                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

14. Managed trade aims to replace global market or economic forces with government actions to determine trade outcomes.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 49                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

15. Developed countries often resort to managed trade for reasons of unethical labor practices and violation of basic human rights.

ANS: T                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 51                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

## MULTIPLE CHOICE

1. The world's two largest economies in terms of national income in the early-19<sup>th</sup> 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

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 35                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

2. Analysts believe that by 2020 \_\_\_\_\_ will become the world's largest economy, followed by \_\_\_\_\_ and \_\_\_\_\_.  
a. India; the United States and China  
b. China; the United States and India  
c. Japan; China and Mexico  
d. India; Japan and Canada  
e. the United States; Mexico and Canada

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 35                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

3. 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 \_\_\_\_\_
- a. international business
  - b. in-border business
  - c. environmental business
  - d. national business
  - e. domestic business

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 36                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Application

4. The two-way flow of exports and imports of goods and services is known as \_\_\_\_\_.
- a. a partnership
  - b. a sole proprietorship
  - c. angel investing
  - d. a joint venture
  - e. trade

ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 36                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

5. 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.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 37                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

6. 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

ANS: B                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 37                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

7. Which of the following was NOT one of the top exporting nations in 2010?
- a. The United States
  - b. South Korea

- c. Italy
- d. Australia
- e. Belgium

ANS: D                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Evaluation

8. 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

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

9. 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.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 38                      OBJ: LO: 02-01                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

10. Endowments used to produce goods and services are called \_\_\_\_\_.  
a. factor equalizations  
b. imports  
c. outputs  
d. factors of production  
e. mercantilism

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 40                      OBJ: LO: 02-02                      NAT: BUSPROG: Analytic  
STA: DISC: Creation of Value                      KEY: Bloom's: Knowledge

11. The oldest form of trade theory is called \_\_\_\_\_.  
a. mercantilism  
b. factor equalization  
c. Machiavellianism  
d. absolute advantage  
e. comparative advantage

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 40                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

12. When was mercantilism practiced?

- a. 1300-1400
- b. 1500-1750
- c. 1820-1875
- d. 1900-1975
- e. 1990-2010

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 40                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

13. 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.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 40                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
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14. During the mid-18<sup>th</sup> century, British economist \_\_\_\_\_, who came to be known as the father of free market and open trade systems, recognized the absurdity of Mercantilism.

- a. Bertil Ohlin
- b. Eli Heckscher
- c. Adam Smith
- d. Henry Ford
- e. John Locke

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 41                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

15. Assume that because of soil and climatic conditions, Columbia is more efficient in the production of coffee than India. At the same time India is more efficient in the production of wheat than Columbia. 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

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging

REF: p. 41                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Application

16. The ability of one country to produce a good or service more efficiently than another is called a(n) \_\_\_\_\_.  
a. absolute advantage  
b. comparative advantage  
c. barter trade  
d. inorganic advantage  
e. equalization efficiency

ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 42                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

17. 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. absolute advantage  
b. comparative advantage  
c. factor price  
d. competitive advantage  
e. equalization

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 42                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

18. The \_\_\_\_\_ theory attributes the comparative advantage of a nation to its factor endowments.  
a. absolute advantage  
b. comparative advantage  
c. factor price  
d. Heckscher-Ohlin  
e. mercantilism

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 42                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

19. The key assumptions for the H-O theory to work are: 1) perfect competition in the marketplace; and (2) \_\_\_\_\_.  
a. perfect immobility of factors of production among countries  
b. superior allocation of production of goods and services  
c. very small labor force  
d. the existence of a trade surplus  
e. the acceleration of a trade deficit

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 43                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Comprehension

20. 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.
- factor-price equalization theory
  - diamond theory
  - trade policy theory
  - managed trade theory
  - trade deficit theory

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 43                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

21. When Poland entered the European Union –where there is free movement of labor across member countries –some of the abundant Polish plumbers migrated to the United Kingdom to fill the shortage there. The net result was that wages for plumbers in the U.K. stabilized or softened and wage rates for plumbers in Poland increased. As the U.K. consumer of plumbing services benefited from this development, one could argue that the real income of the British consumer was, therefore, enhanced. This is an example of the \_\_\_\_\_.
- factor-price equalization theory
  - diamond theory
  - trade policy theory
  - managed trade theory
  - trade deficit theory

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 43                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Application

22. Who authored *The Competitive Advantage of Nations*?
- Bertil Ohlin
  - Eli Heckscher
  - Michael Porter
  - Henry Ford
  - John Locke

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 43                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

23. How does Porter's model of national competitive advantage differ from the Heckscher-Ohlin theory?
- It looks more closely at the quality of factor endowments.
  - It examines only a country's imports.
  - It examines only a country's exports.
  - It does not encourage trade.
  - It does not explain why there are "winners" and "losers" in international trade.

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 44                      OBJ: LO: 02-02                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Evaluation

24. Historically, the main instrument of trade policy has been \_\_\_\_\_.

- a. export subsidy
- b. export taxes
- c. corporate duties
- d. import tariff
- e. special tariff

ANS: D

PTS: 1

DIF: Difficulty: Moderate

REF: p. 47

OBJ: LO: 02-03

NAT: BUSPROG: Diversity

STA: DISC: Environmental Influence

KEY: Bloom's: Knowledge

25. 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

ANS: C

PTS: 1

DIF: Difficulty: Challenging

REF: p. 47

OBJ: LO: 02-03

NAT: BUSPROG: Diversity

STA: DISC: Environmental Influence

KEY: Bloom's: Application

26. Taxes on imports that are collected by a designated government agency responsible for regulating imports are called \_\_\_\_\_.

- a. custom duties
- b. ad valorem tariffs
- c. specific tariffs
- d. preferential tariffs
- e. generalized tariffs

ANS: A

PTS: 1

DIF: Difficulty: Easy

REF: p. 47

OBJ: LO: 02-03

NAT: BUSPROG: Diversity

STA: DISC: Environmental Influence

KEY: Bloom's: Knowledge

27. 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

ANS: D

PTS: 1

DIF: Difficulty: Easy

REF: p. 47

OBJ: LO: 02-03

NAT: BUSPROG: Diversity

STA: DISC: Environmental Influence

KEY: Bloom's: Knowledge

28. An agreement among WTO countries in which any tariff concession granted by one member to any other country will automatically be extended to all other countries of WTO is called the \_\_\_\_\_ principle.

- a. absolute advantage
- b. comparative advantage
- c. most favored nation
- d. voluntary export
- e. shared wealth

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 REF: p. 48                      OBJ: LO: 02-03                      NAT: BUSPROG: Diversity  
 STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

29. 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) \_\_\_\_\_.  
 a. quantitative restrictions  
 b. qualitative restrictions  
 c. domestic content import  
 d. voluntary export restriction  
 e. domestic content provision

ANS: E                      PTS: 1                      DIF: Difficulty: Challenging  
 REF: p. 49                      OBJ: LO: 02-03                      NAT: BUSPROG: Diversity  
 STA: DISC: Environmental Influence                      KEY: Bloom's: Application

30. \_\_\_\_\_ refers to agreements, sometimes temporary, between countries (or a group of countries) that aim at achieving certain trade outcomes.  
 a. Quantitative agreements  
 b. Qualitative agreements  
 c. Managed trade agreements  
 d. Voluntary export agreements  
 e. Domestic content provision agreements

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
 REF: p. 49                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
 STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

31. Of the following, which is NOT in the socio-economic category of managed trade?  
 a. Ethics and safety  
 b. The infant industry argument  
 c. Countertrade  
 d. National security  
 e. Export cartels

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
 REF: p. 50                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
 STA: DISC: Environmental Influence                      KEY: Bloom's: Analysis

32. During the Soviet days, the government of India imported Soviet fighter jets and other defense hardware in exchange for Indian-made consumer goods such as soaps, detergents, and copy machines. This is an example of \_\_\_\_\_.  
 a. countertrade  
 b. illegal trade  
 c. an export cartel

- d. an embargo
- e. managed trade

ANS: A                      PTS: 1                      DIF: Difficulty: Challenging  
REF: p. 50                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Application

33. A group of countries that could effectively control export volume to keep their export prices, revenues, and economic growth stable or high is known as a(n) \_\_\_\_\_.  
a. alliance  
b. joint venture  
c. export cartel  
d. embargo  
e. managed trade agreement

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
REF: p. 50                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence                      KEY: Bloom's: Knowledge

34. 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

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 52                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
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35. The United States has maintained a trade embargo for almost 50 years with \_\_\_\_\_ in an attempt to put pressure on the country to move toward democracy.  
a. the Ukraine  
b. the Netherlands  
c. Turkey  
d. Italy  
e. Cuba

ANS: E                      PTS: 1                      DIF: Difficulty: Moderate  
REF: p. 52                      OBJ: LO: 02-04                      NAT: BUSPROG: Diversity  
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## COMPLETION

1. All commercial transactions, both private and public between nations of the world refers to \_\_\_\_\_.

ANS: international business

PTS: 1                      DIF: Difficulty: Easy                      REF: p. 36

OBJ: LO: 02-01 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

2. The two-way flow of exports and imports of goods is called \_\_\_\_\_.

ANS: trade

PTS: 1 DIF: Difficulty: Easy REF: p. 36  
OBJ: LO: 02-01 NAT: BUSPROG: Diversity  
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3. \_\_\_\_\_ refers to inflows of capital from abroad for investing in domestic plant and equipment for the production of goods and/or services as well as for buying domestic companies.

ANS: Foreign direct investment

PTS: 1 DIF: Difficulty: Moderate REF: p. 37  
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4. \_\_\_\_\_ refers to the corporate practice of acquiring or producing quality goods or services abroad at a lower cost thereby eliminating domestic production.

ANS: Outsourcing

PTS: 1 DIF: Difficulty: Moderate REF: p. 38  
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5. \_\_\_\_\_ refers to a theory of international trade that supports the premise that a nation could only gain from trade if it had a trade surplus.

ANS: Mercantilism

PTS: 1 DIF: Difficulty: Moderate REF: p. 40  
OBJ: LO: 02-02 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

6. Endowments used to produce goods and services are called \_\_\_\_\_.

ANS: factors of production

PTS: 1 DIF: Difficulty: Easy REF: p. 40  
OBJ: LO: 02-02 NAT: BUSPROG: Diversity  
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7. When the value of exports exceeds the value of imports, this refers to \_\_\_\_\_.

ANS: trade surplus

PTS: 1 DIF: Difficulty: Easy REF: p. 40  
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8. \_\_\_\_\_ refers to the ability of one country to produce a good or service more efficiently than another.

ANS: Absolute advantage

PTS: 1 DIF: Difficulty: Easy REF: p. 42  
OBJ: LO: 02-02 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

9. 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 \_\_\_\_\_.

ANS: comparative advantage

PTS: 1 DIF: Difficulty: Moderate REF: p. 42  
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10. All government actions that seek to alter the size of merchandise and/or service flows from and to a country refers to \_\_\_\_\_.

ANS: trade policy

PTS: 1 DIF: Difficulty: Easy REF: p. 47  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

11. \_\_\_\_\_ refers to taxes on imports (also known as custom duties in some countries).

ANS: Tariffs

PTS: 1 DIF: Difficulty: Easy REF: p. 47  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

12. \_\_\_\_\_ refers to an import tax that assigns a fixed dollar amount per physical unit.

ANS: Specific tariff

PTS: 1 DIF: Difficulty: Easy REF: p. 47  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

13. A tax on imports levied as a constant percentage of the monetary value of one unit of the imported good refers to \_\_\_\_\_.

ANS: ad valorem tariff

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 47  
OBJ: LO: 02-03      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

14. \_\_\_\_\_ refers to an especially advantageous or low import tariff established by a nation for all or some goods of certain countries and not applied to the same goods of other countries.

ANS: Preferential duties

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 47  
OBJ: LO: 02-03      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

15. \_\_\_\_\_ refers to an agreement where a large number of developed countries permit duty-free imports of a selected list of products that originate from specific countries.

ANS: Generalized system of preferences

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 47  
OBJ: LO: 02-03      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

16. \_\_\_\_\_ refers to a negative tariff or tax aimed at boosting exports.

ANS: Export subsidy

PTS: 1                      DIF: Difficulty: Easy                      REF: p. 47  
OBJ: LO: 02-03      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

17. Taxes meant to raise export cost and divert production for home consumption refers to \_\_\_\_\_.

ANS: export taxes

PTS: 1                      DIF: Difficulty: Easy                      REF: p. 47  
OBJ: LO: 02-03      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

18. \_\_\_\_\_ refers to an agreement among WTO countries in which any tariff concession granted by one member to any other country will automatically be extended to all other countries of WTO.

ANS: Most favored nation

PTS: 1 DIF: Difficulty: Moderate REF: p. 48  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

19. \_\_\_\_\_ refers to regulations that limit the amount or number of units of products that can be imported to a country.

ANS: Import quotas

PTS: 1 DIF: Difficulty: Easy REF: p. 49  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

20. \_\_\_\_\_ refers to a non-tariff barrier in which an efficient exporting nation agrees to limit exports of a product to another country for a temporary period.

ANS: Voluntary export restraint

PTS: 1 DIF: Difficulty: Moderate REF: p. 49  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

21. Regulations requiring that a certain percentage of the value of import be sourced domestically refers to \_\_\_\_\_.

ANS: domestic content provisions

PTS: 1 DIF: Difficulty: Moderate REF: p. 49  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

22. Agreements, sometimes temporary, between countries (or a group of countries) that aim at achieving certain trade outcomes refers to \_\_\_\_\_.

ANS: managed trade

PTS: 1 DIF: Difficulty: Moderate REF: p. 49  
OBJ: LO: 02-04 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Knowledge

23. 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 \_\_\_\_\_.

ANS: countertrade

PTS: 1 DIF: Difficulty: Moderate REF: p. 50  
OBJ: LO: 02-04 NAT: BUSPROG: Diversity

STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

24. \_\_\_\_\_ refers to a group of countries that could effectively control export volume to keep their export prices, revenues, and economic growth stable or high.

ANS: Export cartel

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 50  
OBJ: LO: 02-04      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

25. \_\_\_\_\_ refers to the temporary provision of protection to nascent industries that have good prospects of becoming globally competitive in the medium term.

ANS: Infant industry argument

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 51  
OBJ: LO: 02-04      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

26. Trade sanctions which are imposed upon a nation to restrict trade with that country refers to \_\_\_\_\_.

ANS: embargoes

PTS: 1                      DIF: Difficulty: Easy                      REF: p. 52  
OBJ: LO: 02-04      NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence      KEY: Bloom's: Knowledge

## ESSAY

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

ANS:  
Student answers will vary.

PTS: 1                      DIF: Difficulty: Moderate                      REF: p. 35-40  
OBJ: LO: 02-01      NAT: BUSPROG: Analytic  
STA: DISC: Environmental Influence      KEY: Bloom's: Evaluation

2. Compare and contrast theories of absolute and comparative advantages.

ANS:  
Student answers will vary.

PTS: 1                      DIF: Difficulty: Challenging                      REF: p. 41-42  
OBJ: LO: 02-02      NAT: BUSPROG: Analytic  
STA: DISC: Environmental Influence      KEY: Bloom's: Analysis

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

ANS:

Student answers will vary.

PTS: 1 DIF: Difficulty: Challenging REF: p. 42-43  
OBJ: LO: 02-02 NAT: BUSPROG: Analytic  
STA: DISC: Environmental Influence KEY: Bloom's: Analysis

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

ANS:

Student answers will vary.

PTS: 1 DIF: Difficulty: Challenging REF: p. 43-46  
OBJ: LO: 02-02 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Comprehension

5. Briefly describe some of the main instruments of trade policy that countries use to interfere with free trade.

ANS:

Student answers will vary.

PTS: 1 DIF: Difficulty: Moderate REF: p. 47-48  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Comprehension

6. Briefly explain the socio-economic and geo-political rationales that policymakers in countries use in practicing managed trade.

ANS:

Student answers will vary.

PTS: 1 DIF: Difficulty: Challenging REF: p. 49-53  
OBJ: LO: 02-03 NAT: BUSPROG: Diversity  
STA: DISC: Environmental Influence KEY: Bloom's: Analysis

## **CASE**

### **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 Tripp 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.

1. 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

ANS:

a

PTS: 1

DIF: Difficulty: Moderate

REF: p. 36-37

OBJ: LO: 02-01 NAT: BUSPROG: Reflective Thinking

STA: DISC: Environmental Influence KEY: Bloom's: Evaluation

2. 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

ANS:

c

PTS: 1 DIF: Difficulty: Moderate REF: p. 47-49  
OBJ: LO: 02-03 NAT: BUSPROG: Reflective Thinking  
STA: DISC: Environmental Influence KEY: Bloom's: Analysis

3. 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?
- Subsidizing exports
  - Establishing a generalized system of preferences
  - Development of a domestic content provision
  - Establishment of a quantitative restriction (QR)
  - Engagement in countertrade

ANS:  
e

PTS: 1 DIF: Difficulty: Moderate REF: p. 49-50  
OBJ: LO: 02-04 NAT: BUSPROG: Reflective Thinking  
STA: DISC: Environmental Influence KEY: Bloom's: Evaluation

### **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.

4. 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?
- Substitutes for the goods being offered must not be available
  - Demand for the product in question must be elastic
  - There needs to be a strong demand for the product in question at basically any price
  - There must be no cheating on the stated agreement by the agreeing members
  - Inelasticity in the demand for the product being offered must exist

ANS:  
b

PTS: 1 DIF: Difficulty: Moderate REF: p. 50-51

OBJ: LO: 02-04 NAT: BUSPROG: Reflective Thinking  
STA: DISC: Environmental Influence KEY: Bloom's: Analysis

5. 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?
- Offer protection for specific companies
  - Adhere to stringent guidelines concerning the use of child labor
  - Pay close attention to the safety of products produced
  - Embargoes are employed to punish nations engaging in offensive practices
  - Strategic industries are given free rein in their trade practices

ANS:  
e

PTS: 1 DIF: Difficulty: Moderate REF: p. 49-53  
OBJ: LO: 02-04 NAT: BUSPROG: Reflective Thinking  
STA: DISC: Environmental Influence KEY: Bloom's: Evaluation

6. The clients of the Audrey Firm use various techniques to restrict imports to their countries other than tariffs. Which one of the following would not be considered a nontariff barrier used by the clients of the Audrey Firm?
- Import quotas
  - Voluntary export restraint
  - Quantitative restrictions
  - Preferential duties
  - Domestic content provisions

ANS:  
d

PTS: 1 DIF: Difficulty: Easy REF: p. 49  
OBJ: LO: 02-03 NAT: BUSPROG: Reflective Thinking  
STA: DISC: Environmental Influence KEY: Bloom's: Evaluation