

Chapter 02

International Trade and Foreign Direct Investment

True / False Questions

1. Record levels of American outward foreign direct investment from 2000 to 2009, totaling more than \$2 trillion, caused U.S. exports to decline during this time period.

True False

2. Small and medium-sized enterprises accounted for nearly one-third of all U.S. exporters.

True False

3. International trade includes exports, imports, and foreign direct investment.

True False

4. Importing and foreign direct investment are two approaches to meeting overseas demand.

True False

5. International firms must export their products or services in order to establish and expand their overseas operations.

True False

6. The dollar value of total world exports in 2010 was greater than the gross national product of every nation in the world except China.

True False

7. The magnitude of international trade and how it has grown are reflected in the fact that one-fourth of everything grown or made in the world is now exported.

True False

8. Globally, the overall level and rate of growth of merchandise exports exceed those of commercial services.

True False

9. The proportion of merchandise exports coming from Latin America and the Middle East decreased between 1980 and 2010.

True False

10. The level of merchandise exports coming from Africa decreased between 1980 and 2010.

True False

11. The proportion of merchandise exports coming from Asia increased by over 90 percent between 1980 and 2010, with China accounting for nearly two-thirds of that increase.

True False

12. In 2009, the top 10 exporting and importing nations collectively accounted for over half of all exports and imports of merchandise and services worldwide.

True False

13. Both developed nations and developing nations tend to trade more with developed nations.

True False

14. Approximately 70 percent of the exports from developed countries go to developed countries.

True False

15. The development of expanded regional trade agreements, such as the Association of Southeast Asian Nations, Mercosur, and the EU, can substantially alter the level and proportion of trade flows within and across regions.

True False

16. There are a number of advantages in focusing attention on a nation that is already a sizable purchaser of goods coming from the would-be exporter's country.

True False

17. China, Mexico, and Japan are the three largest trading partners of the United States, in terms of the total volume of imports and exports.

True False

18. The first formulation of international trade theory, by Adam Smith, was motivated by political considerations.

True False

19. The central idea of mercantilism is that there should be an export surplus so a nation can accumulate precious metals.

True False

20. Arguments in support of mercantilism largely disappeared after the end of the mercantilist era in the late 1700s.

True False

21. The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently.

True False

22. Adam Smith explained how countries can benefit from international trade even if they lack any absolute advantage over their trade partners.

True False

23. According to the theory of comparative advantage, a nation can gain from trade if it is not equally less efficient in producing two goods.

True False

24. If a Chinese worker earns \$1 a day, then goods produced by this worker will cost less than the same goods produced by an American earning \$18 an hour.

True False

25. An arrangement in which one or more activities that could be provided in-house are instead provided by another company is offshoring.

True False

26. Some observers have argued that American industry and the American economy as a whole will be strengthened by offshoring activities to workers in India or other nations that have comparative advantages in areas such as labor costs.

True False

27. The price of one currency stated in terms of another currency is the exchange rate.

True False

28. Currency devaluation helps a nation avoid losing markets and regain competitiveness in world markets.

True False

29. Linder's theory of overlapping demand explains the direction of trade for minerals and agricultural products.

True False

30. Michael Porter claims that demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry, rather than government and chance, are factors that affect national competitiveness.

True False

31. A nation's relative ability to design, produce, distribute, or service products within an international trading context, while earning increasing returns on its resources, is known as national competitiveness.

True False

32. The primary reason for international trade is a lack of natural resources in the developed nations.

True False

33. According to the text, differences in taste, a demand variable, can reverse the direction of trade predicted by the theory.

True False

34. International trade theory shows that nations will attain a higher level of living by specializing in goods for which they possess a comparative advantage and importing those for which they have a comparative disadvantage.

True False

35. Portfolio investment is the purchase of sufficient stock in a firm to obtain significant management control.

True False

36. *Direct investment* refers to overseas purchases of stocks and bonds to gain a return on the funds invested.

True False

37. The book value, or the value of the total outstanding stock, of all foreign direct investment worldwide was \$19 trillion at the beginning of 2010.

True False

38. The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by two-thirds between 1980 and 2010.

True False

39. Reflecting their continued economic development, developing countries have dramatically increased their share of FDI stock, from 1 percent in 1980 to 14 percent in 2010.

True False

40. An important development in the level of worldwide FDI is the emergence of what has been called the "bamboo network" of ethnic Chinese family businesses based outside China.

True False

41. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad has been spent to acquire going companies rather than to establish new ones.

True False

42. Industrialized nations invest primarily in one another just as they trade more with one another.

True False

43. If a nation is continuing to receive appreciable amounts of foreign investment, its investment climate must be favorable.

True False

44. Historically, foreign direct investment has followed foreign trade, and one reason is that foreign trade is typically less costly and less risky than making a direct investment into foreign markets.

True False

45. Developed by the United Nations Conference on Trade and Development, the Trade and Development Index is a tool whose goal is to assist efforts "to systematically monitor the trade and development performance of developing countries with a view to facilitating national and international policies and strategies that would ensure that trade serves as a key instrument of development."

True False

46. Foreign direct investment may be an attempt by foreign companies to establish competitive advantage over potential competitors in other markets, due to possession of advantages not available to local firms. Such advantages possessed by foreign companies over their local competitors include knowledge about local market conditions and cost efficiencies from operating at a distance.

True False

47. Internalization theory suggests that what an organization is good at should not be outsourced without very careful consideration.

True False

48. The dynamic capability theory states that for a firm to invest overseas, it must have three kinds of advantages: ownership specific, internalization, and location specific.

True False

49. Dunning's eclectic theory of international production provides an explanation for the choice by the international firm of its overseas production facilities.

True False

50. The major part of foreign direct investment is made by large, research-intensive firms in oligopolistic industries.

True False

Multiple Choice Questions

51. According to the Exporter Data Base, small and medium-sized enterprises accounted for _____ of all U.S. exporters.

- A. under 10 percent
- B. 25 percent
- C. nearly half
- D. 86 percent
- E. nearly 98 percent

52. Regarding the volume of international trade, exports of goods and services _____ in 2010.

- A. were nearly \$4.0 trillion
- B. reached \$5.8 trillion
- C. were \$10.4 trillion
- D. were nearly \$19.0 trillion
- E. exceeded \$24.5 trillion

53. One measure of the magnitude of international trade and how it has grown is that _____ of everything grown or made in the world is now exported.

- A. 10 percent
- B. 25 percent
- C. 32 percent
- D. 45 percent
- E. over two-thirds

54. In examining the volume of international trade:

- A. exports of merchandise grew nearly fivefold between 1990 and 2010.
- B. exports of services grew more than 10-fold between 1980 and 2010.
- C. the proportion of world exports of commercial services accounted for by the United States fell by nearly 20 percent between 1980 and 2010.
- D. all of the above.
- E. two of A, B, and C.

55. The level of merchandise exports in 2010, worldwide, was:

- A. \$3.7 trillion.
- B. \$8.5 trillion.
- C. \$15.2 trillion.
- D. \$18.9 trillion.
- E. \$23.4 trillion.

56. The level of services exports in 2010, worldwide, was:

- A. \$3.7 trillion.
- B. \$8.5 trillion.
- C. \$15.2 trillion.
- D. \$18.9 trillion.
- E. \$23.4 trillion.

57. Between 1980 and 2010, the level of merchandise exports from Africa:

- A. doubled as a proportion of overall world merchandise exports.
- B. increased by 250 percent.
- C. declined by half.
- D. grew more rapidly as a proportion of world merchandise exports than did the European Union.
- E. two of the above.

58. The proportion of world commercial services exports accounted for by _____ has evidenced an overall decline since 1980.

- A. the European Union
- B. Africa
- C. the United States
- D. all of the above
- E. two of A, B, and C

59. The proportion of world commercial services exports accounted for by _____ has evidenced an overall decline since 1980.

- A. Asia
- B. the Middle East
- C. Latin America
- D. all of the above
- E. two of A, B, and C

60. The rapid expansion of world exports since 1980 demonstrates that:

- A. businesspeople must be prepared to meet increased competition.
- B. domestic business cannot compete with cheap imports.
- C. the opportunity to increase sales by exporting is a viable growth strategy.
- D. all of the above.
- E. two of A, B and C

61. In examining the volume of international trade:

- A. the proportion of manufacturing value added generated by South and East Asia has quadrupled since 1980.
- B. the proportion of manufacturing value added generated by Latin America has doubled since 1980.
- C. the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations exceeded 70 percent in 2010.
- D. all of the above.
- E. two of A, B, and C.

62. More than one-half of the exports from developing countries go to _____ countries, and this proportion has been _____ over the past 35 years.

- A. developed; increasing
- B. developing; increasing
- C. developed; decreasing
- D. developing; decreasing
- E. none of the above

63. More than half of the exports from developing nations go to developed nations, and:

- A. this proportion has been declining over the past 35 years.
- B. approximately 70 percent of exports from developed economies also go to other industrialized nations.
- C. the proportion of world trade accounted for by members of regional trade agreements has grown to nearly 50 percent.
- D. all of the above.
- E. two of A, B, and C.

64. When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include:

- A. the cultures of the two countries should be relatively similar and compatible.
- B. the climate for foreign direct investment in the importing nation is relatively favorable.
- C. export and import regulations are not insurmountable.
- D. all of the above.
- E. two of A, B, and C.

65. When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include:

- A. the political climate in the importing nation is relatively stable.
- B. there are abundant natural resources in the importing nation.
- C. satisfactory transportation facilities have already been established.
- D. all of the above.
- E. two of A, B, and C.

66. The three largest markets for American exports of goods in 2010 were:

- A. Japan, the UK, and China.
- B. Japan, Mexico, and the UK.
- C. Canada, Mexico, and China.
- D. Canada, Japan, and the UK.
- E. Japan, Mexico, and China.

67. The three nations that exported the largest amount of goods to the United States in 2010 were:

- A. Japan, Canada, and China.
- B. China, Mexico, and the UK.
- C. Japan, China, and Saudi Arabia.
- D. Canada, Japan, and Mexico.
- E. Canada, Mexico, and China.

68. Many of the Asian countries that are major exporters to the United States are also significant importers of American goods because:

- A. their rising standards of living enable their people to afford more imported products.
- B. they are purchasing large amounts of capital goods to further their industrial expansion.
- C. they are importing raw materials and components that will be assembled and subsequently be exported, often to the United States.
- D. all of the above.
- E. two of A, B, and C.

69. Supporters of mercantilism:

- A. viewed accumulation of precious metals as an activity essential to a nation's welfare.
- B. viewed industrial development as the primary source of a nation's wealth.
- C. promoted trade policies that generally benefited consumers and emerging industrialists.
- D. all of the above.
- E. two of A, B, and C.

70. Mercantilists believed that:

- A. merchants should import goods to raise the level of living.
- B. governments should lower import duties.
- C. a nation should have an export surplus in order to accumulate precious metals.
- D. a nation should produce goods for which there is a comparative advantage.
- E. two of the above.

71. Adam Smith claimed that:

- A. governments, not market forces, should determine the directions, volume, and composition of international trade.
- B. a nation could trade advantageously if it had a comparative advantage.
- C. market forces, not government controls, should determine direction, volume, and the composition of international trade.
- D. customers' tastes are affected by income levels.
- E. two of the above.

72. The capability of one nation to produce more of a good with the same amount of input than another country is:

- A. a comparative advantage
- B. an absolute advantage
- C. a mercantilist advantage
- D. none of the above
- E. two of A, B, and C

73. If Ecuador has an absolute advantage in coffee and Argentina in wheat, then, according to trade theory:

- A. Ecuador should focus production on coffee and trade for wheat.
- B. Ecuador would do well to produce its own coffee rather than import it from Bolivia.
- C. Argentina should focus on producing wheat and trade for coffee.
- D. all of the above.
- E. two of A, B, and C.

74. A nation having absolute disadvantages in the production of two goods with respect to another nation has _____ in the production of the good in which its absolute disadvantage is less.

- A. a comparative advantage
- B. an absolute advantage
- C. a mercantilist advantage
- D. none of the above
- E. two of A, B, and C

75. According to the theory of comparative advantage:

- A. a nation should produce those goods which it is more efficient at producing than are other nations.
- B. a nation can gain from trade if it is equally inefficient in producing two goods.
- C. a nation must have an absolute advantage in at least one good to gain from trade.
- D. all of the above.
- E. none of A, B, or C.

76. Locating activities in another nation is:

- A. outsourcing.
- B. offshoring.
- C. foreign direct investment.
- D. all of the above.
- E. two of A, B, and C.

77. Offshoring is an application of:

- A. comparative advantage.
- B. differences in taste.
- C. money market rates.
- D. exchange rate theory.
- E. none of the above.

78. According to trade theory:

- A. traders need to know the exchange rate between their own currency and that of the nation they are considering trading with before they can decide whether it is advantageous to import, export, or buy locally.
- B. if a currency's exchange rate strengthens, then its exporters will no longer be able to profitably export their products.
- C. devaluation of a currency will automatically cause a nation's products to be price-competitive in international markets.
- D. all of the above.
- E. two of A, B, and C.

79. Theory based on _____ states that international and interregional differences in production costs occur because of differences in the supply of production factors.

- A. comparative advantage
- B. absolute advantage
- C. mercantilist advantage
- D. resource endowments
- E. none of the above

80. The theory of resource endowment:

- A. explains why France exports cosmetics, wine, commercial aircraft, and clothing.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explains why an automobile can be made either by hand or by a capital-intensive process.
- D. explains why transportation costs may be ignored when calculating the costs of imports.
- E. none of the above.

81. The theory of overlapping demand:

- A. explains how international trade in manufactured goods will be linked to gross national income.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explains why companies will add excess capacity to their production systems.
- D. two of the above.
- E. none of A, B, or C.

82. The international product life cycle:

- A. explains how international trade in manufactured goods will be linked to gross national income.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. is concerned with the role of innovation in trade patterns.
- D. two of the above.
- E. none of A, B, or C.

83. Economies of scale and the experience curve:

- A. explain how international trade in manufactured goods will be linked to gross national income.
- B. state that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explain why many companies will engage in international trade.
- D. two of the above.
- E. none of A, B, or C.

84. Which of the following elements are included in Porter's Diamond Model of national advantage?

- A. Competitive conditions
- B. Export conditions
- C. Social conditions
- D. Supply conditions
- E. None of the above

85. Porter's Diamond Model of national advantage:

- A. claims that the ability of local firms in a country to utilize the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, substitute products, and firm strategy, structure, and rivalry.
- B. links intraindustry trade to relative levels of per capita income.
- C. is not affected by chance.
- D. all of A, B, and C.
- E. two of A, B, and C.

86. _____ occurs primarily because of relative price differentials among nations.

- A. Foreign direct investment
- B. International trade
- C. Portfolio investment
- D. All of the above
- E. Two of A, B, and C

87. To sum up international trade theory, we can say that the primary reason for trade is:

- A. the increase in OPEC oil prices.
- B. governments want to accumulate money.
- C. the existence of price differentials among nations.
- D. the creation of new nations from former colonies.
- E. none of the above.

88. Which of the following is explained by international trade theory?

- A. Differences in production costs
- B. Differences in levels of technology
- C. Foreign exchange rates
- D. Differences in efficiency of factor use
- E. All of the above

89. Regarding foreign investment:

- A. it can be divided into three components: international trade, portfolio investment, and direct investment.
- B. portfolio investment involves investors who participate in the management of the firm in addition to receiving a return on their money.
- C. deals that result in the foreign investor's obtaining at least 10 percent of the shareholdings are classified as portfolio investments.
- D. two of A, B, and C.
- E. none of A, B, and C.

90. Firms from _____ had the largest total outstanding stock of direct overseas investment at the beginning of 2010.

- A. Germany
- B. the United States
- C. the United Kingdom
- D. Japan
- E. China

91. At the beginning of 2010, the value of the outstanding stock of foreign direct investment of all nations totaled more than:

- A. \$500 billion.
- B. \$3 trillion.
- C. \$12 trillion
- D. \$19 trillion.
- E. \$21 trillion.

92. Regarding the annual outflows of foreign direct investment:

- A. the overall volume that came from developing nations in 2009 was nearly five times the level from those nations in 1990.
- B. the proportion that came from the United States and Europe was nearly 50 percent in 2009.
- C. much of the recent increase has been associated with mergers, acquisitions, and other international investments made by companies in industries facing increased competition and global consolidation.
- D. nearly half went to China and its territories from 2007 to 2009.
- E. all of the above.

93. Regarding annual inflows of FDI:

- A. industrialized nations primarily invest in one another.
- B. an average of nearly 70 percent of annual FDI investments has been going into developed countries in recent years.
- C. developed countries obtained a 70 percent increase in the level of FDI between 2000 and 2009.
- D. all of the above.
- E. two of A, B, and C.

94. Regarding foreign direct investment and trade:

- A. historically, foreign trade has followed foreign direct investment.
- B. foreign trade is typically more costly and more risky than making a direct investment into foreign markets.
- C. typically, a firm would hire sales representatives to live in overseas markets as a first step in developing international trade.
- D. fewer government barriers to trade, increased competition from globalizing firms, and new production and communications technology are causing many international firms to disperse the activities of their production systems to locations close to available resources.
- E. all of the above.

95. Regarding economic and social development:

- A. international trade has an important role in influencing nations' economic and social performance, with this role being even more fundamental in the case of developed countries.
- B. expansion of trade guarantees improvement for a country and its people.
- C. the Trade and Development Index attempts to provide a quantitative indication of a nation's social and economic development.
- D. the 30 highest-ranked nations in the initial Trade and Development Index were all developed countries.
- E. for the Trade and Development Index, the best regional performance among developing countries was that of the countries of the East Asia and Pacific region.

96. The monopolistic advantage theory suggests that firms in oligopolistic industries are likely to _____ foreign direct investment when they have technical and other advantages over indigenous firms.

- A. increase
- B. reduce
- C. ignore
- D. not change
- E. none of the above

97. The monopolistic advantage theory states that:

- A. a firm that has a monopoly has a major advantage in overseas investment.
- B. FDI is made by firms in oligopolistic industries possessing technical advantages over local companies.
- C. a firm that has a monopoly domestically will have no competition making overseas investments.
- D. the firm making the overseas investment first has a monopolistic advantage.
- E. none of the above.

98. Dunning's eclectic theory of international production states that if a firm is going to invest in production facilities abroad, it must have the following kinds of advantages:

- A. ownership specific, location specific, and internationalization.
- B. strategic, organizational, and technological.
- C. political, technological, and human resource.
- D. technological, financial, and human resource.
- E. none of the above.

Essay Questions

99. Discuss the advantages in focusing attention on a nation that is already a sizable purchaser of goods coming from the exporter's home country.

100. Explain the logic of mercantilism and why it is generally viewed as a deficient theory.

101. Discuss the theory of absolute advantage and how it explains the basis for trade between nations.

102. Discuss the keystone of international trade, the theory of comparative advantage.

103. Discuss Dunning's eclectic theory of international production as a theory to explain flows of international trade and foreign direct investment.

Chapter 02 International Trade and Foreign Direct Investment **Answer Key**

True / False Questions

1. Record levels of American outward foreign direct investment from 2000 to 2009, totaling more than \$2 trillion, caused U.S. exports to decline during this time period.

FALSE

American outward FDI reached a record \$1.20 trillion from 2006 to 2009. These figures represent more than 1.3 times the U.S. average a decade before, from 1996 to 1999. Yet the overall level of American exports of goods and services increased from \$1.1 trillion in 2000 to \$1.8 trillion in 2010, an increase of 64 percent in a decade.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: Firms Invest Overseas, but They Also Export

2. Small and medium-sized enterprises accounted for nearly one-third of all U.S. exporters.

FALSE

Small and medium-sized enterprises (SMEs) accounted for nearly 98 percent of all U.S. exporters and nearly one-third of the total value of American exports.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: Firms Invest Overseas, but They Also Export

3. International trade includes exports, imports, and foreign direct investment.

FALSE

International trade includes exports and imports, not foreign direct investment.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

4. Importing and foreign direct investment are two approaches to meeting overseas demand.

FALSE

Exporting and foreign direct investment are two approaches to meeting overseas demand.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

5. International firms must export their products or services in order to establish and expand their overseas operations.

FALSE

ICs can engage in foreign direct investment to establish and expand their overseas operations.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

6. The dollar value of total world exports in 2010 was greater than the gross national product of every nation in the world except China.

FALSE

The dollar value of total world exports in 2010 was greater than the gross national product of every nation in the world except the United States.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

7. The magnitude of international trade and how it has grown are reflected in the fact that one-fourth of everything grown or made in the world is now exported.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

8. Globally, the overall level and rate of growth of merchandise exports exceed those of commercial services.

FALSE

The level of merchandise exports, at \$15.2 trillion in 2010, is much higher than the level of commercial services trade, at \$3.7 trillion. However, services exports are growing more rapidly than merchandise exports.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

9. The proportion of merchandise exports coming from Latin America and the Middle East decreased between 1980 and 2010.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

10. The level of merchandise exports coming from Africa decreased between 1980 and 2010.

FALSE

The level of merchandise exports from Africa grew by over 250 percent from 1980 to 2010, but the proportion of overall world merchandise exports coming from Africa declined by half.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

11. The proportion of merchandise exports coming from Asia increased by over 90 percent between 1980 and 2010, with China accounting for nearly two-thirds of that increase.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

12. In 2009, the top 10 exporting and importing nations collectively accounted for over half of all exports and imports of merchandise and services worldwide.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

13. Both developed nations and developing nations tend to trade more with developed nations.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Direction of trade

14. Approximately 70 percent of the exports from developed countries go to developed countries.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Direction of trade

15. The development of expanded regional trade agreements, such as the Association of Southeast Asian Nations, Mercosur, and the EU, can substantially alter the level and proportion of trade flows within and across regions.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Direction of trade

16. There are a number of advantages in focusing attention on a nation that is already a sizable purchaser of goods coming from the would-be exporter's country.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

17. China, Mexico, and Japan are the three largest trading partners of the United States, in terms of the total volume of imports and exports.

FALSE

China, Mexico, and Canada are the three largest trading partners of the United States.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

18. The first formulation of international trade theory, by Adam Smith, was motivated by political considerations.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

19. The central idea of mercantilism is that there should be an export surplus so a nation can accumulate precious metals.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

20. Arguments in support of mercantilism largely disappeared after the end of the mercantilist era in the late 1700s.

FALSE

Mercantilist sentiments are still cited for explaining or criticizing behavior of countries such as China and when arguing that exports are "good" for a country or that imports are "bad."

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

21. The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

22. Adam Smith explained how countries can benefit from international trade even if they lack any absolute advantage over their trade partners.

FALSE

Ricardo developed an explanation of how countries can benefit from international trade even if they lack any absolute advantage over their trade partners.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

23. According to the theory of comparative advantage, a nation can gain from trade if it is not equally less efficient in producing two goods.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

24. If a Chinese worker earns \$1 a day, then goods produced by this worker will cost less than the same goods produced by an American earning \$18 an hour.

FALSE

Wage costs are neither all of the production costs nor all of the labor costs, and labor can also exhibit differences in productivity.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

25. An arrangement in which one or more activities that could be provided in-house are instead provided by another company is offshoring.

FALSE

An arrangement in which one or more activities that could be provided in-house are instead provided by another company is outsourcing. *Offshoring* refers to the location of activities in another nation, whether those activities are done by the company doing the offshoring or by another company.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

26. Some observers have argued that American industry and the American economy as a whole will be strengthened by offshoring activities to workers in India or other nations that have comparative advantages in areas such as labor costs.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

27. The price of one currency stated in terms of another currency is the exchange rate.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

28. Currency devaluation helps a nation avoid losing markets and regain competitiveness in world markets.

TRUE

As stated directly in the text.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

29. Linder's theory of overlapping demand explains the direction of trade for minerals and agricultural products.

FALSE

Linder's theory attempted to explain how demand for products was affected by income levels, and therefore a nation's income per capita, and therefore exports will be influenced by similarity in income levels across countries.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

30. Michael Porter claims that demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry, rather than government and chance, are factors that affect national competitiveness.

FALSE

Porter's theorizing about his Diamond Model of national advantage also acknowledged that competitiveness could be affected by government and chance.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

31. A nation's relative ability to design, produce, distribute, or service products within an international trading context, while earning increasing returns on its resources, is known as national competitiveness.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

32. The primary reason for international trade is a lack of natural resources in the developed nations.

FALSE

International trade occurs primarily because of relative price differences across nations, which stem from differences in production costs.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

33. According to the text, differences in taste, a demand variable, can reverse the direction of trade predicted by the theory.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

34. International trade theory shows that nations will attain a higher level of living by specializing in goods for which they possess a comparative advantage and importing those for which they have a comparative disadvantage.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

35. Portfolio investment is the purchase of sufficient stock in a firm to obtain significant management control.

FALSE

Portfolio investment is the purchase of stocks and bonds to obtain a return on the funds invested. Direct investment is the purchase of sufficient stock in a firm to obtain significant management control.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

36. *Direct investment* refers to overseas purchases of stocks and bonds to gain a return on the funds invested.

FALSE

Portfolio investment refers to overseas purchases of stocks and bonds to gain a return on the funds invested.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

37. The book value, or the value of the total outstanding stock, of all foreign direct investment worldwide was \$19 trillion at the beginning of 2010.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

38. The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by two-thirds between 1980 and 2010.

FALSE

The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by 36 percent between 1980 and 2010.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

39. Reflecting their continued economic development, developing countries have dramatically increased their share of FDI stock, from 1 percent in 1980 to 14 percent in 2010.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

40. An important development in the level of worldwide FDI is the emergence of what has been called the "bamboo network" of ethnic Chinese family businesses based outside China.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

41. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad has been spent to acquire going companies rather than to establish new ones.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

42. Industrialized nations invest primarily in one another just as they trade more with one another.

TRUE

As stated directly in the text.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

43. If a nation is continuing to receive appreciable amounts of foreign investment, its investment climate must be favorable.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

44. Historically, foreign direct investment has followed foreign trade, and one reason is that foreign trade is typically less costly and less risky than making a direct investment into foreign markets.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size; growth; and direction of foreign direct investment.

Topic Area: Are economic and social development affected by trade and investment?

45. Developed by the United Nations Conference on Trade and Development, the Trade and Development Index is a tool whose goal is to assist efforts "to systematically monitor the trade and development performance of developing countries with a view to facilitating national and international policies and strategies that would ensure that trade serves as a key instrument of development."

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size; growth; and direction of foreign direct investment.

Topic Area: Are economic and social development affected by trade and investment?

46. Foreign direct investment may be an attempt by foreign companies to establish competitive advantage over potential competitors in other markets, due to possession of advantages not available to local firms. Such advantages possessed by foreign companies over their local competitors include knowledge about local market conditions and cost efficiencies from operating at a distance.

FALSE

Lack of knowledge about local market conditions and increased costs of operating at a distance are usually liabilities, rather than advantages, for ICs.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

47. Internalization theory suggests that what an organization is good at should not be outsourced without very careful consideration.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-05 Explain several theories of foreign direct investment.

48. The dynamic capability theory states that for a firm to invest overseas, it must have three kinds of advantages: ownership specific, internalization, and location specific.

FALSE

Ownership-specific, internalization, and location-specific advantages are part of Dunning's eclectic theory of international production.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

49. Dunning's eclectic theory of international production provides an explanation for the choice by the international firm of its overseas production facilities.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

50. The major part of foreign direct investment is made by large, research-intensive firms in oligopolistic industries.

TRUE

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

Multiple Choice Questions

51. According to the Exporter Data Base, small and medium-sized enterprises accounted for _____ of all U.S. exporters.

A. under 10 percent

B. 25 percent

C. nearly half

D. 86 percent

E. nearly 98 percent

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: Firms Invest Overseas, but They Also Export

52. Regarding the volume of international trade, exports of goods and services _____ in 2010.

- A. were nearly \$4.0 trillion
- B. reached \$5.8 trillion
- C. were \$10.4 trillion
- D. were nearly \$19.0 trillion
- E. exceeded \$24.5 trillion

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

53. One measure of the magnitude of international trade and how it has grown is that _____ of everything grown or made in the world is now exported.

- A. 10 percent
- B. 25 percent
- C. 32 percent
- D. 45 percent
- E. over two-thirds

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

54. In examining the volume of international trade:

- A. exports of merchandise grew nearly fivefold between 1990 and 2010.
- B. exports of services grew more than 10-fold between 1980 and 2010.
- C. the proportion of world exports of commercial services accounted for by the United States fell by nearly 20 percent between 1980 and 2010.
- D. all of the above.
- E. two of A, B, and C.

A and B are correct, so E is the proper response.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

55. The level of merchandise exports in 2010, worldwide, was:

- A. \$3.7 trillion.
- B. \$8.5 trillion.
- C. \$15.2 trillion.
- D. \$18.9 trillion.
- E. \$23.4 trillion.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

56. The level of services exports in 2010, worldwide, was:

- A. \$3.7 trillion.
- B. \$8.5 trillion.
- C. \$15.2 trillion.
- D. \$18.9 trillion.
- E. \$23.4 trillion.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

57. Between 1980 and 2010, the level of merchandise exports from Africa:
- A. doubled as a proportion of overall world merchandise exports.
 - B. increased by 250 percent.
 - C. declined by half.
 - D. grew more rapidly as a proportion of world merchandise exports than did the European Union.
 - E. two of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

58. The proportion of world commercial services exports accounted for by _____ has evidenced an overall decline since 1980.

A. the European Union

B. Africa

C. the United States

D. all of the above

E. two of A, B, and C

Both A and B are correct, so E is the appropriate answer.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

59. The proportion of world commercial services exports accounted for by _____ has evidenced an overall decline since 1980.

- A. Asia
- B. the Middle East
- C. Latin America
- D. all of the above
- E. two of A, B, and C

Both B and C are correct, so E is the appropriate answer.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

60. The rapid expansion of world exports since 1980 demonstrates that:

- A. businesspeople must be prepared to meet increased competition.
- B. domestic business cannot compete with cheap imports.
- C. the opportunity to increase sales by exporting is a viable growth strategy.
- D. all of the above.
- E. two of A, B and C

Both A and C are correct, so E is the appropriate answer.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

61. In examining the volume of international trade:

- A. the proportion of manufacturing value added generated by South and East Asia has quadrupled since 1980.
- B. the proportion of manufacturing value added generated by Latin America has doubled since 1980.
- C. the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations exceeded 70 percent in 2010.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Appreciate the magnitude of international trade and how it has grown.

Topic Area: International trade

62. More than one-half of the exports from developing countries go to _____ countries, and this proportion has been _____ over the past 35 years.

- A. developed; increasing
- B. developing; increasing
- C. developed; decreasing
- D. developing; decreasing
- E. none of the above

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Direction of trade

63. More than half of the exports from developing nations go to developed nations, and:

- A. this proportion has been declining over the past 35 years.
- B. approximately 70 percent of exports from developed economies also go to other industrialized nations.
- C. the proportion of world trade accounted for by members of regional trade agreements has grown to nearly 50 percent.
- D. all of the above.
- E. two of A, B, and C.

A and B are correct, meaning that response E is the best choice.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Direction of trade

64. When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include:
- A. the cultures of the two countries should be relatively similar and compatible.
 - B. the climate for foreign direct investment in the importing nation is relatively favorable.
 - C. export and import regulations are not insurmountable.
 - D. all of the above.
 - E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

65. When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include:

- A. the political climate in the importing nation is relatively stable.
- B. there are abundant natural resources in the importing nation.
- C. satisfactory transportation facilities have already been established.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

66. The three largest markets for American exports of goods in 2010 were:

- A. Japan, the UK, and China.
- B. Japan, Mexico, and the UK.
- C. Canada, Mexico, and China.
- D. Canada, Japan, and the UK.
- E. Japan, Mexico, and China.

As stated directly in the text.

Refer To: Table 2.2, Major trading partners of the United States

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

67. The three nations that exported the largest amount of goods to the United States in 2010 were:

- A. Japan, Canada, and China.
- B. China, Mexico, and the UK.
- C. Japan, China, and Saudi Arabia.
- D. Canada, Japan, and Mexico.
- E. Canada, Mexico, and China.

As stated directly in the text.

Refer To: Table 2.2, Major trading partners of the United States

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

68. Many of the Asian countries that are major exporters to the United States are also significant importers of American goods because:
- A. their rising standards of living enable their people to afford more imported products.
 - B. they are purchasing large amounts of capital goods to further their industrial expansion.
 - C. they are importing raw materials and components that will be assembled and subsequently be exported, often to the United States.
 - D. all of the above.
 - E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

69. Supporters of mercantilism:

- A. viewed accumulation of precious metals as an activity essential to a nation's welfare.
- B. viewed industrial development as the primary source of a nation's wealth.
- C. promoted trade policies that generally benefited consumers and emerging industrialists.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

70. Mercantilists believed that:

- A. merchants should import goods to raise the level of living.
- B. governments should lower import duties.
- C. a nation should have an export surplus in order to accumulate precious metals.
- D. a nation should produce goods for which there is a comparative advantage.
- E. two of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

71. Adam Smith claimed that:

- A. governments, not market forces, should determine the directions, volume, and composition of international trade.
- B. a nation could trade advantageously if it had a comparative advantage.
- C. market forces, not government controls, should determine direction, volume, and the composition of international trade.
- D. customers' tastes are affected by income levels.
- E. two of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

72. The capability of one nation to produce more of a good with the same amount of input than another country is:

A. a comparative advantage

B. an absolute advantage

C. a mercantilist advantage

D. none of the above

E. two of A, B, and C

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

73. If Ecuador has an absolute advantage in coffee and Argentina in wheat, then, according to trade theory:

- A. Ecuador should focus production on coffee and trade for wheat.
- B. Ecuador would do well to produce its own coffee rather than import it from Bolivia.
- C. Argentina should focus on producing wheat and trade for coffee.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

74. A nation having absolute disadvantages in the production of two goods with respect to another nation has _____ in the production of the good in which its absolute disadvantage is less.

- A. a comparative advantage
- B. an absolute advantage
- C. a mercantilist advantage
- D. none of the above
- E. two of A, B, and C

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

75. According to the theory of comparative advantage:

- A. a nation should produce those goods which it is more efficient at producing than are other nations.
- B. a nation can gain from trade if it is equally inefficient in producing two goods.
- C. a nation must have an absolute advantage in at least one good to gain from trade.
- D. all of the above.
- E. none of A, B, or C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

76. Locating activities in another nation is:

- A. outsourcing.
- B. offshoring.
- C. foreign direct investment.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Foreign investment

77. Offshoring is an application of:

- A. comparative advantage.
- B. differences in taste.
- C. money market rates.
- D. exchange rate theory.
- E. none of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size; growth; and direction of foreign direct investment.

Topic Area: Foreign investment

78. According to trade theory:

- A. traders need to know the exchange rate between their own currency and that of the nation they are considering trading with before they can decide whether it is advantageous to import, export, or buy locally.
- B. if a currency's exchange rate strengthens, then its exporters will no longer be able to profitably export their products.
- C. devaluation of a currency will automatically cause a nation's products to be price-competitive in international markets.
- D. all of the above.
- E. two of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

79. Theory based on _____ states that international and interregional differences in production costs occur because of differences in the supply of production factors.

- A. comparative advantage
- B. absolute advantage
- C. mercantilist advantage
- D. resource endowments
- E. none of the above

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

80. The theory of resource endowment:

- A. explains why France exports cosmetics, wine, commercial aircraft, and clothing.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explains why an automobile can be made either by hand or by a capital-intensive process.
- D. explains why transportation costs may be ignored when calculating the costs of imports.
- E. none of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

81. The theory of overlapping demand:

- A. explains how international trade in manufactured goods will be linked to gross national income.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explains why companies will add excess capacity to their production systems.
- D. two of the above.
- E. none of A, B, or C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

82. The international product life cycle:

- A. explains how international trade in manufactured goods will be linked to gross national income.
- B. states that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. is concerned with the role of innovation in trade patterns.
- D. two of the above.
- E. none of A, B, or C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

83. Economies of scale and the experience curve:

- A. explain how international trade in manufactured goods will be linked to gross national income.
- B. state that a nation will trade goods that can be produced with the production factor that is most abundant.
- C. explain why many companies will engage in international trade.
- D. two of the above.
- E. none of A, B, or C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

84. Which of the following elements are included in Porter's Diamond Model of national advantage?

- A. Competitive conditions
- B. Export conditions
- C. Social conditions
- D. Supply conditions
- E. None of the above

As stated directly in the text.

Refer To: Figure 2.3, Variables affecting competitive advantage: Porter's diamond

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

85. Porter's Diamond Model of national advantage:

- A. claims that the ability of local firms in a country to utilize the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, substitute products, and firm strategy, structure, and rivalry.
- B. links intraindustry trade to relative levels of per capita income.
- C. is not affected by chance.
- D. all of A, B, and C.
- E. two of A, B, and C.

As stated directly in the text.

Refer To: Figure 2.3, Variables affecting competitive advantage: Porter's diamond

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

86. _____ occurs primarily because of relative price differentials among nations.

A. Foreign direct investment

B. International trade

C. Portfolio investment

D. All of the above

E. Two of A, B, and C

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

87. To sum up international trade theory, we can say that the primary reason for trade is:

- A. the increase in OPEC oil prices.
- B. governments want to accumulate money.
- C. the existence of price differentials among nations.
- D. the creation of new nations from former colonies.
- E. none of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

88. Which of the following is explained by international trade theory?

- A. Differences in production costs
- B. Differences in levels of technology
- C. Foreign exchange rates
- D. Differences in efficiency of factor use
- E. All of the above

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

89. Regarding foreign investment:

- A. it can be divided into three components: international trade, portfolio investment, and direct investment.
- B. portfolio investment involves investors who participate in the management of the firm in addition to receiving a return on their money.
- C. deals that result in the foreign investor's obtaining at least 10 percent of the shareholdings are classified as portfolio investments.
- D. two of A, B, and C.
- E. none of A, B, and C.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

90. Firms from _____ had the largest total outstanding stock of direct overseas investment at the beginning of 2010.

- A. Germany
- B. the United States
- C. the United Kingdom
- D. Japan
- E. China

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

91. At the beginning of 2010, the value of the outstanding stock of foreign direct investment of all nations totaled more than:

A. \$500 billion.

B. \$3 trillion.

C. \$12 trillion

D. \$19 trillion.

E. \$21 trillion.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

92. Regarding the annual outflows of foreign direct investment:

- A. the overall volume that came from developing nations in 2009 was nearly five times the level from those nations in 1990.
- B. the proportion that came from the United States and Europe was nearly 50 percent in 2009.
- C. much of the recent increase has been associated with mergers, acquisitions, and other international investments made by companies in industries facing increased competition and global consolidation.
- D. nearly half went to China and its territories from 2007 to 2009.
- E. all of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Foreign investment

93. Regarding annual inflows of FDI:

- A. industrialized nations primarily invest in one another.
- B. an average of nearly 70 percent of annual FDI investments has been going into developed countries in recent years.
- C. developed countries obtained a 70 percent increase in the level of FDI between 2000 and 2009.
- D. all of the above.
- E. two of A, B, and C.

Both A and B are correct, so E is the proper answer.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Explaining trade: International trade theories

94. Regarding foreign direct investment and trade:

- A. historically, foreign trade has followed foreign direct investment.
- B. foreign trade is typically more costly and more risky than making a direct investment into foreign markets.
- C. typically, a firm would hire sales representatives to live in overseas markets as a first step in developing international trade.
- D. fewer government barriers to trade, increased competition from globalizing firms, and new production and communications technology are causing many international firms to disperse the activities of their production systems to locations close to available resources.
- E. all of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Are economic and social development affected by trade and investment?

95. Regarding economic and social development:

- A. international trade has an important role in influencing nations' economic and social performance, with this role being even more fundamental in the case of developed countries.
- B. expansion of trade guarantees improvement for a country and its people.
- C. the Trade and Development Index attempts to provide a quantitative indication of a nation's social and economic development.
- D. the 30 highest-ranked nations in the initial Trade and Development Index were all developed countries.
- E. for the Trade and Development Index, the best regional performance among developing countries was that of the countries of the East Asia and Pacific region.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-04 Explain the size, growth, and direction of foreign direct investment.

Topic Area: Are economic and social development affected by trade and investment?

96. The monopolistic advantage theory suggests that firms in oligopolistic industries are likely to _____ foreign direct investment when they have technical and other advantages over indigenous firms.

- A. increase
- B. reduce
- C. ignore
- D. not change
- E. none of the above

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

97. The monopolistic advantage theory states that:

- A. a firm that has a monopoly has a major advantage in overseas investment.
- B. FDI is made by firms in oligopolistic industries possessing technical advantages over local companies.
- C. a firm that has a monopoly domestically will have no competition making overseas investments.
- D. the firm making the overseas investment first has a monopolistic advantage.
- E. none of the above.

As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

98. Dunning's eclectic theory of international production states that if a firm is going to invest in production facilities abroad, it must have the following kinds of advantages:

- A. ownership specific, location specific, and internationalization.
- B. strategic, organizational, and technological.
- C. political, technological, and human resource.
- D. technological, financial, and human resource.
- E. none of the above.

Dunning's eclectic theory of international production states that if a firm is going to invest in production facilities abroad, it must have the following kinds of advantages: ownership specific, location specific, and internalization (not internationalization).

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment

Essay Questions

99. Discuss the advantages in focusing attention on a nation that is already a sizable purchaser of goods coming from the exporter's home country.

Answers may vary, but they might include the following points: Focusing on a nation that is already a sizable purchaser of goods coming from a would-be exporter's country has such potential advantages as (1) the business climate in the importing nation is relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections to buying that nation's goods, (4) satisfactory transportation facilities have already been established, (5) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area, (6) foreign exchange to pay for the exports is available, and (7) the government of a trading partner may be applying pressure on importers to buy from countries that are good customers for that nation's exports.

Feedback: As stated directly in the text.

Refer To: Table 2.2, Major trading partners of the United States, 2010

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Identify the direction of trade; or who trades with whom; and trends in such trade.

Topic Area: Major trading partners: Their relevance for managers

100. Explain the logic of mercantilism and why it is generally viewed as a deficient theory.

Answers may vary, but mercantilism traditionally has been interpreted as an economic philosophy that viewed the accumulation of precious metals as an activity essential to a nation's welfare because these metals were, in the mercantilists' view, the only source of wealth. As a result, the government established economic policies that promoted exports and stifled imports, resulting in a trade surplus and protection of jobs in the mercantilist nation. Mercantilist behavior tended to be costly to groups such as consumers and some emerging industrialists and to raise the potential for retaliatory efforts by other governments that encounter trade deficits due to the policies of the mercantilist nation.

Feedback: As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

101. Discuss the theory of absolute advantage and how it explains the basis for trade between nations.

Answers may vary, but the theory of absolute advantage states that a nation has absolute advantage when it can produce a larger amount of a good or service for the same amount of inputs as can another country or when it can produce the same amount of a good or service using fewer inputs than could another country. Under conditions of free, unregulated trade, each nation should specialize in producing those goods that it could produce more efficiently, exporting some of those goods to pay for imports of goods that could be produced more efficiently elsewhere and thus enabling both nations to gain from trade.

Feedback: As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

102. Discuss the keystone of international trade, the theory of comparative advantage.

Answers may vary, but the theory of comparative advantage states that a nation having absolute disadvantage in the production of two goods with respect to another nation has a comparative or relative advantage in the production of the good in which its absolute disadvantage is less. Therefore, there will be potential gains from trade even if one country is less efficient than another in the production of each of two goods (as long as it is not equally less efficient in the production of both goods).

Feedback: As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Outline the theories that attempt to explain why certain goods are traded internationally.

Topic Area: Explaining trade: International trade theories

103. Discuss Dunning's eclectic theory of international production as a theory to explain flows of international trade and foreign direct investment.

Answers may vary, but Dunning's eclectic theory of international production is currently the most widely cited and accepted theory for explaining FDI. The theory maintains that if a firm is going to invest in production facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization. The firm must have both location and ownership advantages to invest in a foreign plant. It will invest where it is most profitable to internalize its monopolistic advantage. These investments can be proactive, being strategically anticipated and controlled in advance by the firm's management team, or reactive, in response to the discovery of market imperfections.

Feedback: As stated directly in the text.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain several theories of foreign direct investment.

Topic Area: Explaining FDI: Theories of international investment