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Module 02 International Trade and Investment

True / False Questions

1. Record levels of American outward foreign direct investment from 2010 to 2013, totaling more than $1.4 trillion, caused U.S. exports to decline during this time period.

   True False

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

   True False

3. Nearly 60 percent of global output is now destined for international trade.

   True False

4. The proportion of world trade coming from Latin America, Africa, and the Middle East has decreased since 1980.

   True False

5. All regions of the world experienced an absolute increase in the dollar volume of their services exports since 1980, although the U.S. proportion has risen by approximately one-third since that time.

True False

6. In 2013, the top 10 exporting and importing nations collectively accounted for over half of all exports and imports of merchandise and services worldwide.

True False

7. Approximately two-thirds of the exports from developed countries go to developed countries.

True False

8. 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

9. 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

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

True False

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

True False

12. The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently, based on naturally occurring endowments such as minerals.

True False

13. 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

14. If a Chinese worker earns $1.00 a day, then goods produced by this worker will cost less than the same goods produced by an American earning $18.00 an hour.

True False

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

True False

16. A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developed countries whose resource endowments are likely to be very similar, than with developing countries whose endowments are dissimilar.

True False

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

True False

18. The international product life-cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first.

True False

19. The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as the experience curve.

True False

20. 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

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

True False

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

True False

23. The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by two-thirds over the past 20 years.

True False

24. The overall volume of outward FDI from developing nations in 2013 was four times the level in 2003.

True False

25. The vast proportion of outward FDI, about two-thirds, originates from the developed countries.

True False

26. Worldwide, the volume of FDI flowing into the developing countries as a whole was seven times larger in 2000 than in 1990 and had nearly tripled again by 2013.

True False

27. 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

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

True False

29. 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

30. Dunning's Eclectic Theory of International Production provides an explanation for the choice by the international firm of its overseas production facilities.

True False

Multiple Choice Questions

31. Foreign direct investment (FDI) from the United States to the rest of the world reached a record high of $1.4 trillion from 2010 to 2013. This volume of FDI was __________ the U.S. average a decade before.

A. one and a half times
B. double
C. almost three times
D. five times
E. more than nine times

32. 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

33. Regarding the volume of international trade, exports of U.S. goodsand services____________in 2014.

A. were nearly $1.0 trillion

B. reached $1.6 trillion

C. were $2.3 trillion

D. were nearly $5.0 trillion

E. exceeded $24.5 trillion

34. The level of merchandise exports in 2013, worldwide, was

A. $4.6 trillion.

B. $8.5 trillion.

C. $12.3 trillion.

D. $18.8 trillion.

E. $23.4 trillion.

35. The level of services exports in 2013, worldwide, was

A. $4.6 trillion.
B. $8.5 trillion.
C. $12.3 trillion.
D. $18.8 trillion.
E. $23.4 trillion.

36. In examining the volume of international trade

A. exports of goods and services quadrupled between 1990 and 2013.
B. exports of services grew faster than trade in merchandise for the last 20 years.
C. the proportion of world exports of commercial services accounted for by the U.S. fell by nearly 20 percent since 1980.
D. the proportion of world exports of commercial services accounted for by Asian nations increased by nearly 20 percent since 1980.
E. the proportion of world exports of commercial services accounted for by Latin American nations increased by nearly 20 percent since 1980.

37. One measure of the magnitude of international trade and how it has grown is ______________ of global output that is now destined for international trade.

A. 10 percent
B. 25 percent
C. almost 50 percent
D. 60 percent
E. 75 percent

38. The proportion of world trade accounted for by North America has evidenced______since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. no change

39. The proportion of world trade accounted for by Latin America has evidenced______since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. no change

40. The proportion of world trade accounted for by Asia has______since 1980.

A. increased by 20 percent
B. tripled
C. seen an overall decline
D. almost doubled
E. increased fivefold

41. The proportion of world trade in services accounted for by North America has evidenced______since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. an increase of one-third

42. The proportion of world trade in services accounted for by the European Union has evidenced ______ since 1980.

A. an increase of 20 percent

B. a tripling

C. an overall decline

D. more than a fivefold increase

E. an increase of one-third

43. The rapid expansion of world exports since 1980 demonstrates that

A. businesspeople can expect to meet lower levels of competition in their domestic markets.

B. domestic business cannot compete with cheap imports.

C. the opportunity to increase sales by exporting is a viable growth strategy.

D. jobs will inevitably decline in developed countries due to import competition.

E. companies that do not export will probably not survive.

44. In examining the volume of international trade, the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations in 2013

A. exceeded 70 percent.

B. was approximately 25 percent.

C. exceeded 50 percent.

D. was approximately one-third.

E. was 40 percent.

45. In examining which nations are responsible for the large and growing levels of merchandise and services trade that we have seen worldwide

A. the 10 largest exporters and importers are all from developed countries.

B. China ranks as the largest in levels of both merchandise and services exports.

C. the U.S. ranks as the largest in levels of both merchandise and services imports.

D. the European Union ranks as the largest country for merchandise exports.

E. China ranks first or second in each of merchandise and services exports and imports.

46. More than one-half of the exports from developing countries go to___________countries, and this proportion has been____________.

A. developed; increasing

B. developing; increasing

C. developed; decreasing

D. developing; decreasing

E. developing; stable over time

47. Regarding the direction of world trade

A. the proportion of exports going from developing nations to developed nations has been increasing over the past 35 years.

B. approximately 75 percent of exports from developed economies go to other industrialized nations.

C. approximately 70 percent of exports from developing countries go to developed nations.

D. more than half of the exports from developing nations go to developed nations.

E. more than half of the exports from developing nations go to other developing nations.

48. Regarding the direction of world trade

A. approximately three-quarters of the exports from North American nations went to other nations in North America in 2014.

B. approximately 25 percent of exports from Asian nations went to other Asian nations in 2014.

C. approximately 70 percent of exports from European countries went to other European countries in 2014.

D. nearly 20 percent of U.S. exports went to Canada in 2014.

E. nearly half of all world trade occurred within regional trade agreements in 2014.

49. 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 the fact that

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. the two countries are part of the same regional trade agreement.

E. the countries have similar levels of economic development.

50. 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 the fact that

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. the trading partner has lower labor costs.

E. both countries are economically prosperous.

51. 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 all of the following except

A. the business climate in these importing nations is already relatively favorable.
B. there are abundant natural resources in the importing nation.
C. satisfactory transportation facilities have already been established.
D. export and import regulations are not insurmountable.
E. currency from the foreign country is available to pay for the exports.

52. 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 all of the following except

A. the business climate in these importing nations is already relatively favorable.
B. import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area.
C. satisfactory transportation facilities have already been established.
D. export and import regulations are not insurmountable.
E. the cultures of the two countries should be relatively similar and compatible.

53. Regarding the major trading partners of the United States

A. the top 10 accounted for nearly 50 percent of total U.S. goods exports.
B. the top 10 accounted for nearly 50 percent of total U.S. goods imports.
C. China was the largest recipient of U.S. goods exports.
D. China, Canada, and Japan were the three largest sources of U.S. goods imports.
E. China, Canada, and Mexico were the three largest markets for U.S. goods exports.

54. In 2013, the United States exported the most goods to_______, and imported the most goods from ______.

A. Canada; Mexico
B. China; Canada
C. Mexico; China
D. Canada; China
E. Germany; China

55. The three largest markets for American exports of goods in 2013 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.

56. The three nations that exported the largest amount of goods to the United States in 2013 were

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

57. According to the text, the countries accounting for the largest amount of goods exported from the U.S. were

A. Canada; Mexico.
B. China; Canada.
C. Mexico; China.
D. Canada; China.
E. Germany; China.

58. Many of the same Asian countries that are major exporters to the United States are also significant importers of American goods because of all of the following reasons except

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 U.S.
D. they prefer to deal with the U.S. democratic system than the political systems of Europe.
E. their governments have sent buying missions to the United States to look for products to import.

59. 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 benefitted consumers and emerging industrialists.
D. included prominent economists such as Adam Smith.
E. fervently believed in free trade.

60. 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. governments should promote selective industrialization in order to achieve balanced trade.

61. Which of the following statements is not true?

A. Although the mercantilist era ended in the late 1700s, its arguments live on.
B. Many of the world's managers see China as a present-day "fortress of mercantilism" that raises barriers to imported goods while giving its own exporters an unfair advantage.
C. Many people see trade as a zero-sum activity, in which one party must lose for another to gain. We still use the term *favorable* trade balance to mean a nation exports more goods and services than it imports.
D. Mercantilism generated benefits for certain economic groups, such as emerging industrialists and shippers, though at a cost to other groups including consumers.
E. Mercantilists viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare.

62. Adam Smith claimed

A. that 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. that market forces, not government controls, should determine direction, volume, and the composition of international trade.
D. that customers' tastes are affected by income levels.
E. that trade surpluses were beneficial to countries and should be the focus of tradepolicy.

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

A. comparative advantage.

B. absolute advantage.

C. mercantilist advantage.

D. trade surplus.

E. example of perfect competition.

64. 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 other goods.

B. Ecuador would do well to produce its own wheat rather than import it from Bolivia.

C. Argentina should focus on producing coffee and trade for wheat.

D. there will be a perfect trade balance between the two countries.

E. the gains in trade by both countries will be equal.

65. A market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products is known as

A. absolute advantage.

B. comparative advantage.

C. competitive advantage.

D. perfect competition.

E. monopoly.

66. A country________when it decides to use its resources to produce only the product in which it has an absolute advantage.

A. monopolizes

B. specializes

C. rejects trade

D. globalizes

E. achieves equilibrium

67. A nation having absolute disadvantages in the production of two goods with respect to another nation has a/an___________in the production of the good in which its absolute disadvantage is less.

A. comparative advantage

B. absolute advantage

C. mercantilist advantage

D. competitive advantage

E. monopolistic advantage

68. According to the theory of comparative advantage

A. a nation should produce the goods for which its absolute disadvantage is less.

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. a nation should strive to produce trade surpluses to acquire supplies of precious metals.

E. a nation should produce goods that are the most technologically advanced.

69. Which of the following statements is not true?

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

B. India, with relatively few resources but a large population, should have a comparative advantage in the production of goods or services that require large amounts of expensive labor.

C. India may have a comparative advantage over some other developing countries because about 350 million of its people are able to read English, and 100 million of those also understand spoken English and can communicate in English sentences.

D. The sophistication and skill levels required for jobs outsourced to India are rising rapidly, driven by the abundance of qualified and low-cost workers in India.

E. An estimated 1.6 million U.S. individual and corporate tax returns are prepared annually in India.

70. 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. high-cost labor will automatically cause a country to be uncompetitive in export markets.

E. devaluation of a country's currency will cause domestic prices to decrease.

71. 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. exchange rates

72. The theory of resource endowment

A. explains why France sends cosmetics, wine, and clothing to Chile.

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-intensiveprocess.

D. explains why transportation costs may be ignored when calculating the costs of imports.

E. shows how larger countries will have an advantage in trade.

73. 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. explains the existence of similar preferences and demands among countries with similar income levels.

E. explains where competitive clusters will occur.

74. The theory of overlapping demand suggests that

A. international trade in services will be more common between countries with high and low relative levels of labor costs.
B. countries with similar geography will have similar demand traits.
C. trade wars will usually occur between countries that have similar levels of income.
D. international trade in manufactured goods will be more common between countries with similar levels of income.
E. if a home country can find a product that is desired in another country, then producing demand for that product within the home country will result in increased economic growth.

75. 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. explains why mercantilism failed.
E. requires perfect competition as an assumption underlying successful trade.

76. According to the international product life cycle

A. innovation occurs in the U.S. and then goes to other nations.
B. exporting begins in the second stage.
C. exporting replaces direct investment in the second stage.
D. foreign-produced products compete in export markets in the third stage.
E. foreign producers eliminate U.S. producers through continued product innovation.

77. The international product life cycle theory

A. may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in foreign markets first.
B. may have its greatest usefulness in explaining trade and investment behavior when product life cycles are short.
C. may have its greatest usefulness in explaining the emergence of "born global" companies.
D. may have its greatest usefulness in explaining trade and investment behavior when international firms first introduce new products in their home markets.
E. may have its greatest usefulness in explaining whether companies will innovate or imitate.

78. 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. explain the international life cycles of products.
E. are only relevant for manufacturing industries.

79. Economies of scale

A. refer to the rising scale on which efficiency improves as a result of cumulative experience and learning.
B. are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
C. are only relevant to manufacturing industries.
D. occur due to the presence of abundance resource endowments within a nation.
E. are difficult to achieve if fixed costs are high.

80. Experience curve

A. refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.
B. is the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
C. is only relevant to manufacturing industries.
D. occurs only in nations with highly skilled labor forces.
E. is difficult to achieve if fixed costs are high.

81. Which of the following elements is included in Porter's diamond model of national advantage?

A. Competitive conditions
B. Export conditions
C. Social conditions
D. Supply conditions
E. Demand conditions

82. Which of the following elements is included in Porter's diamond model of national advantage?

A. Competitive conditions
B. Export conditions
C. Factor conditions
D. Supply conditions
E. Political conditions

83. Which of the following elements is not included in Porter's diamond model of national advantage?

A. Demand conditions
B. Factor conditions
C. Export conditions
D. Government
E. Related and supporting industries

84. Porter's diamond model of national advantage

A. claims that the ability of local firms in a country to use the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry.
B. links intra industry trade to relative levels of per capita income.
C. is based on anecdotal evidence.
D. explains trade surpluses.
E. is not affected by chance.

85. 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. it exists only due to the presence of exporting.
E. the distinction between portfolio investments and direct investments has begun to blur.

86. Which of the following is not true regarding foreign investment?

A. Persons residing outside the United States owned U.S. stocks and bonds other than Treasury securities with a value of $8.0 trillion at the beginning of 2014.
B. The value of U.S. stocks and bonds other than Treasury securities that were owned by persons residing outside the United States was 10 times larger in 2014 than in 1994.
C. The value of U.S. stocks and bonds other than Treasury securities that were owned by persons residing outside the United States was more than double the level in 2014 than in 2004.
D. U.S. investors owned $8.7 billion in foreign securities at the beginning of 2014.
E. The value of foreign securities owned by U.S. investors at the beginning of 2014 was five times larger than in 2004.

87. At the beginning of 2014, the value of the outstanding stock of foreign direct investment of all nations totaled more than

A. $3 billion.
B. $8 trillion.
C. $19 trillion.
D. $26 trillion.
E. $42 trillion.

88. Firms from__________had the largest total outstanding stock of direct overseas investment at the beginning of 2014.

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

89. Regarding the value of the outstanding stock of foreign direct investment, which of the following is not true?

A. During the prior three decades up to 2014, the proportion of FDI accounted for by the European Union increased.
B. During the prior three decades up to 2014, the proportion of FDI accounted for by the European Union decreased by over half.
C. Developing countries have dramatically increased their share of FDI stock, from 1 percent in 1980 to 19 percent at the beginning of 2014.
D. The value of the outstanding stock of foreign direct investment of the European Union was more than 50 percent higher than the level for the United States at the beginning of 2014.
E. The value of the outstanding stock of foreign direct investment of the developing countries was higher than the level for the United States at the beginning of 2014.

90. Regarding the annual outflows of foreign direct investment, which of the following is not true?

A. The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003.
B. The proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to over 32 percent in 2013.
C. U.S. FDI outflows of $338 billion in 2013 were more than the combined outflows of the next three largest sources of FDI: Japan, China, and Saudi Arabia.
D. The United States and the EU combined have continued to account for one-third to one-half of worldwide FDI in recent years.
E. The United States was the leading single national source of FDI outflows through most of the period from 1990 to 2013, with an average of nearly one-quarter of total FDI outflows for 2010-2013.

91. Regarding the annual outflows of foreign direct investment, which of the following is not true?

A. The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003.
B. The proportion of worldwide outward FDI that came from developing nations was 19 percent in 2013.
C. About two-thirds of annual outflows of FDI originates from the developed countries.
D. The United States and the EU combined have continued to account for one-third to one-half of worldwide FDI in recent years.
E. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad have been spent to acquire going companies rather than to establish new ones.

92. Regarding annual inflows of FDI, which of the following statements is incorrect?

A. African nations have participated relatively little in the growing flow of inward FDI, accounting for an average of about 3 percent of all inflows from 1985 to 2013.
B. The proportion of inward FDI going to developing countries was 49 percent from 2010 to 2013.
C. The volume of FDI flowing into the developing countries as a whole was seven times larger in 2000 than in 1990 and had nearly tripled again by 2013.
D. The proportion of annual FDI investments going into developed countries has declined significantly in recent years.
E. The U.S. and the European Union accounted for an average of less than 25 percent for 2010-2013.

93. Regarding annual inflows of FDI, which of the following statements is incorrect?

A. Asia accounted for almost half of all investments not directed to the United States and the European Union for the years 2010-2013.
B. the proportion of Asian FDI directed to China and its territories, which represented almost 75 percent of the total FDI flowing to Asia from 2010 to 2013.
C. some of the FDI previously directed toward other Asian nations might have been redirected toward these Chinese investments, which may have slowed these other nations' ability to develop their economies.
D. African nations have participated relatively little in the growing flow of inward FDI, accounting for an average of about 3 percent of all inflows from 1985 to 2013.
E. in Latin America, annual FDI inflows have exhibited substantial fluctuations although the region has exhibited a trend toward an increasing proportion of worldwide FDI inflows.

94. 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.

95. Regarding economic and social development

A. foreign direct investment was found to have a significant and negative impact on export performance, but only for developing countries.
B. foreign direct investment was found to have a significant and negative impact on export performance, but only for developed countries.
C. foreign direct investment was found to have a significant and negative impact on export performance for both developed and developing countries.
D. FDI plays a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods.
E. the impact of FDI is strongest for the two best-performing groups of exporters and at their later stages of export development.

96. 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. management can expand the business in small increments through trade, although this requires considerably greater investment and associated risk.

97. The establishment of new facilities from the ground up is known as

A. cross-border acquisition.

B. exporting.

C. greenfield investment.

D. gray market trade.

E. international entrepreneurship.

98. The purchase of an existing business in another nation is known as a(an)

A. cross-border acquisition.

B. strategic alliance.

C. greenfield investment.

D. home country expansion.

E. international entrepreneurship.

99. 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. duplicate

100. 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.

101. An industry that has a limited number of competing firms, such as the U.S. mobile phone market in which four firms controlled 98 percent of the market in 2014, is known as

A. perfect competition.
B. a monopoly.
C. an oligopolistic industry.
D. deregulated.
E. anticompetitive.

102. The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. competitive imitation theory.
E. eclectic theory.

103. The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. dynamic capabilities theory.
E. eclectic theory.

104. The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. dynamic capabilities theory.
E. eclectic theory.

105. 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. ownership-specific, location-specific, and internalization.
D. technological, financial, and human resource.
E. political, technological, and human resource.

Fill in the Blank Questions

106. In 2013, trade in____________reached a total of $18.8 trillion worldwide.

____

107. In 2013, trade in____________reached a total of $4.6 trillion worldwide.

____

108. Nearly______percent of global output is now destined for international trade.

____

109. ______was the country that exported the highest total value of merchandise exports in 2013.

____

110. ______was the country that exported the highest total value of service exports in 2013.

____

111. Illustrating the regionalization of trade, approximately half of the exports from North American nations in 2014 went to____________.

____

112. The country that imported the highest total value of goods from the United States in 2013 was ____________.

____

113. The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's____________.

____

114. The amount by which the value of a nation's exports exceed the value of its imports is known as the country's__________.

____

115. __________is an economic philosophy based on the belief that (1) a nation's wealth depends on accumulated treasure, usually precious metals such as gold and silver, and (2) to increase wealth, government policies should promote exports and discourage imports.

____

116. __________refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

____

117. _________is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

____

118. ________is a term used to describe the situation where a nation decides to use its resources to produce only the product in which it has an absolute advantage.

____

119. The ratio of international prices for goods being traded between two countries is known as the __________.

____

120. When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a____________in the production of that good for which its absolute disadvantage is less.

____

121. The price of one currency stated in terms of another is knownas the____________.

____

122. ___________refers to a reduction in the value of a country's currency relative to othercurrencies.

____

123. Some countries have abundant___________, or the land, labor, capital, and related production factors a nation possesses.

____

124. Economist Stefan Linder proposed his theory of_____________, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

____

125. _____________refers to the unique differences that producers build into their products, with the intent of positively influencing demand.

____

126. The__________is a theory explaining why a product that begins as a nation's export eventually becomes its import.

____

127. __________ refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

____

128. The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the __________.

____

129. __________ is a nation's ability to design, produce, distribute, or service products within an international trading context while earning increasing returns on its resources.

____

130. The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include ________, __________, related and supporting industries, and firm strategy, structure and rivalry.

____

131. The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include demand conditions, factor conditions, _______, and __________.

____

132. The purchase of stocks and bonds to obtain a return on the funds invested is known as __________.

____

133. The purchase of sufficient stock in a firm to obtain significant management control is known as _________.

____

134. The_________—or the value of the total outstanding stock—of all foreign direct investment (FDI) worldwide was $26.3 trillion at the beginning of 2014.

____

135. Individuals and corporations from____________accounted for $6.3 trillion invested abroad in 2014, a total more than three times the FDI of the next-largest investor nation.

____

136. Reflecting their continued economic development,____________have dramatically increased their share of FDI stock, from 1 percent in 1980 to 19 percent at the beginning of 2014.

____

137. The vast proportion of outward FDI, about two-thirds, still originates from the____________.

____

138. Much of the world's outward FDI has been associated with____________, including, historically, approximately two-thirds of the value of corporate investments made in the United States from abroad.

____

139. Regarding the nations and regions from which FDI originated, the____________invest primarily in one another, just as they trade more with one another.

____

140. UNCTAD's Trade and Development Index initiative revealed that____________had a significant and positive impact on export performance for all the nations studied and in every time period, playing a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods.

____

141. Historically, foreign direct investment has followed____________.

____

142. ____________refers to the establishment of new facilities from the ground up.

____

143. ____________refers to the purchase of an existing business in another nation.

____

144. ____________is a theory that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms.

____

145. A(n)____________is an industry with a limited number of competing firms.

____

146. The____________theory suggests that strategic rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep a competitor from gaining an advantage.

____

147. ____________theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

____

148. ____________theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

____

149. The____________theory of international production proposes states that for a firm to invest in facilities overseas, it must have three kinds of advantages.

____

150. Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and_________.

____

Essay Questions

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

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

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

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

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

Module 02 International Trade and Investment Answer Key

True / False Questions

1. Record levels of American outward foreign direct investment from 2010 to 2013, totaling more than $1.4 trillion, caused U.S. exports to decline during this time period.

   FALSE

   American outward FDI reached a record $1.40 trillion from 2010 to 2013. These figures represent almost three times the U.S. average a decade before. Yet the overall level of American exports of goods and services increased from $1.1 trillion in 2000 to $2.3 trillion in 2010, an increase of more than 100 percent.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

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

   FALSE

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

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

3. Nearly 60 percent of global output is now destined for international trade.

TRUE

Nearly 60 percent of global output is now destined for international trade—another indication of the extent to which international trade has become a critical factor in the economic activity of many, if not most, of the countries of the world.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown
Topic: The Changing Nature of the Global Economy

4. The proportion of world trade coming from Latin America, Africa, and the Middle East has decreased since 1980.

TRUE

Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1980, reflecting the greater level of export growth in other regions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

5. All regions of the world experienced an absolute increase in the dollar volume of their services exports since 1980, although the U.S. proportion has risen by approximately one-third since that time.

TRUE

All regions and essentially all of the primary-world nations experienced an absolute increase in the dollar volume of their services exports, though the proportion of world exports of commercial services from Latin America, the European Union, Africa, and the Middle East has declined since 1980. However, the U.S. proportion has risen by approximately one-third since 1980.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

6. In 2013, the top 10 exporting and importing nations collectively accounted for over half of all exports and imports of merchandise and services worldwide.

TRUE

Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. As you can see, they are generally developed countries, although China ranks in the top five on each list and India in the top 10 for imports of merchandise and for both imports and exports of services. These 10 largest exporters and importers collectively account for over half the world's exports and imports, which highlights the fact that international trade continues to be unevenly distributed across countries and regions of the world.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

7. Approximately two-thirds of the exports from developed countries go to developed countries.

TRUE

More than half the exports from developing nations do go to developed countries, but this proportion has been declining as the developing nations participate more extensively in trade with other developing nations, from 72 percent in 1970 to about 50 percent by 2013. About two-thirds of exports from developed economies go to other industrialized nations.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

8. 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

World trade continues to be dominated by exchanges within—not between—geographic regions. For example, in 2014, approximately half the exports from North American nations went to other nations in North America. A little more than half of Asian nations' exports were to other Asian nations, and more than 70 percent of exports from European nations went to other European countries. This regionalization of trade is being reinforced by the development of expanded regional trade associations and agreements, such as the Association of Southeast Asian Nations (ASEAN, which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), Mercosur in South America (comprised of Argentina, Bolivia, Brazil, Paraguay, Uruguay, and Venezuela, and the 28-nation European Union).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

9. 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

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) The business climate in these importing nations is already relatively favorable. (2) Export and import regulations are not insurmountable. (3) There should be no strong cultural objections at home 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) Currency from the foreign country is available to pay for the exports. (7) The government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

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

TRUE

A profoundly influential early attempt to develop an international trade theory was actually politically motivated. Adam Smith, a Scottish philosopher and economist, was incensed by British government intervention and control over both domestic and foreign trade. In 1776, he published *An Inquiry into the Nature and Causes of the Wealth of Nations*, in which he attacked the mercantilist philosophy that prevailed at that time.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.

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

TRUE

A complex political and economic theory, mercantilism viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

12. The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently, based on naturally occurring endowments such as minerals.

FALSE

Specialization should be based on market forces, and its absolute advantage could be either natural or acquired.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

13. 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

British economist David Ricardo demonstrated in 1817 that even though one nation held an absolute advantage over another in the production of each of two different goods, international trade could still be a positive-sum game in which both countries benefit. The only limitation to such benefit-creating trade is that the less-efficient nation cannot be *equally* less efficient in the production of both goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

14. If a Chinese worker earns $1.00 a day, then goods produced by this worker will cost less than the same goods produced by an American earning $18.00 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

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

TRUE

A nation can attempt to regain competitiveness in world markets through currency devaluation, which lowers the value of a nation's currency relative to other currencies and therefore effectively lowers the prices of its exports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

16. A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developed countries whose resource endowments are likely to be very similar, than with developing countries whose endowments are dissimilar.

FALSE

A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

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

TRUE

According to Linder's theory of overlapping demand, customers' tastes are strongly affected by their income levels, and therefore a nation's level of income per capita determines the kinds of goods its people will demand. For example, countries with high levels of average income may have substantial levels of demand for items such as large display televisions, high-fashion branded clothing, jewelry, luxury automobiles, and gourmet foods and beverages. In contrast, countries with low average incomes may exhibit greater demand for simpler and more basic items of food, clothing, and shelter. Goods produced for domestic consumption will eventually be exported to countries that have similar levels of income, and therefore, demand. This suggests that international trade in manufactured goods will be greater between nations with similar levels of per capita income than between those with dissimilar levels of per capita income. Even though two developed countries may have similar resource endowments, they still can have a large volume of trade in goods for which both countries have a demand.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

18. The international product life-cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first.

TRUE

The international product life-cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first. For example, personal computers were initially introduced in the United States, then exported to other countries. Over time, production moved to lower-cost locations such as Taiwan and China, and now almost all computers sold in the United States are imported from abroad.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

19. The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as the experience curve.

FALSE

The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as an economy of scale.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

20. 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

21. 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

22. 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

23. The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by two-thirds over the past 20 years.

FALSE

The proportion of the outstanding stock of foreign direct investment accounted for by the United States declined by over one-third in the past 20 years. U.S. individuals and corporations still had $6.3 trillion invested abroad in 2014. This total was more than three times the FDI of the next-largest investor, the United Kingdom.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

24. The overall volume of outward FDI from developing nations in 2013 was four times the level in 2003.

FALSE

The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

25. The vast proportion of outward FDI, about two-thirds, originates from the developed countries.

TRUE

As stated directly in the text, the vast proportion of outward FDI, about two-thirds, originates from the developed countries.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

26. Worldwide, the volume of FDI flowing into the developing countries as a whole was seven times larger in 2000 than in 1990 and had nearly tripled again by 2013.

TRUE

As stated directly in the text, worldwide, the volume of FDI flowing into the developing countries as a whole was seven times larger in 2000 than in 1990 and had nearly tripled again by 2013.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

27. 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

28. 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, internalization theory suggests that what an organization is good at should not be outsourced without very careful consideration.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

29. 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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

30. 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, Dunning's Eclectic Theory of International Production provides an explanation for the choice by the international firm of its overseas production facilities.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

Multiple Choice Questions

31. Foreign direct investment (FDI) from the United States to the rest of the world reached a record high of $1.4 trillion from 2010 to 2013. This volume of FDI was __________ the U.S. average a decade before.

A. one and a half times
B. double
C. almost three times
D. five times
E. more than nine times

Foreign direct investment (FDI) from the United States to the rest of the world reached a record high of $1.4 trillion from 2010 to 2013. This volume of FDI was almost three times the U.S. average a decade before.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

32. 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

Small and medium-sized enterprises (SMEs) are companies with fewer than 500 employees, and they account for nearly 98 percent of all U.S. exporters and one-third of U.S. exports' total value.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

33. Regarding the volume of international trade, exports of U.S. goodsand services____________in 2014.

A. were nearly $1.0 trillion
B. reached $1.6 trillion
C. were $2.3 trillion
D. were nearly $5.0 trillion
E. exceeded $24.5 trillion

Regarding the volume of international trade, exports of U.S. goods and services were $2.3 trillion in 2014, as shown in Figure 2.1.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

34. The level of merchandise exports in 2013, worldwide, was

A. $4.6 trillion.
B. $8.5 trillion.
C. $12.3 trillion.
D. $18.8 trillion.
E. $23.4 trillion.

Physical goods, such as automobiles, food, and clothing, accounted for $18.8 trillion of the $23.4 trillion in international trade in 2013.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

35. The level of services exports in 2013, worldwide, was

A. $4.6 trillion.
B. $8.5 trillion.
C. $12.3 trillion.
D. $18.8 trillion.
E. $23.4 trillion.

Physical goods, such as automobiles, food, and clothing, accounted for $18.8 trillion of the $23.4 trillion in international trade in 2013. Services, including such activities as insurance, travel, consulting, movies, and music, made up the remaining $4.6 trillion of international trade.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

36. In examining the volume of international trade

A. exports of goods and services quadrupled between 1990 and 2013.
B. exports of services grew faster than trade in merchandise for the last 20 years.
C. the proportion of world exports of commercial services accounted for by the U.S. fell by nearly 20 percent since 1980.
D. the proportion of world exports of commercial services accounted for by Asian nations increased by nearly 20 percent since 1980.
E. the proportion of world exports of commercial services accounted for by Latin American nations increased by nearly 20 percent since 1980.

Back in 1990, international trade in goods and services reached a milestone when its volume surpassed $4 trillion. By 2013, exports of goods and services had grown to almost six times that level. Physical goods, such as automobiles, food, and clothing, accounted for $18.8 trillion of the $23.4 trillion in international trade in 2013. Services, including such activities as insurance, travel, consulting, movies, and music, made up the remaining $4.6 trillion of international trade. Trade in services has been growing faster than trade in merchandise for the last 20 years. All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their services exports, though the proportion of world exports of commercial services from Latin America, the European Union, Africa, and the Middle East has declined since 1980. However, the U.S. proportion has risen by approximately one-third since 1980, and Asia's has grown at an even greater rate.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

37. One measure of the magnitude of international trade and how it has grown is ____________ of global output that is now destined for international trade.

A. 10 percent
B. 25 percent
C. almost 50 percent
D. 60 percent
E. 75 percent

Nearly 60 percent of global output is now destined for international trade—another indication of the extent to which international trade has become a critical factor in the economic activity of many, if not most, of the countries of the world.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

38. The proportion of world trade accounted for by North America has evidenced _____ since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. no change

Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1980, reflecting the greater level of export growth in other regions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

39. The proportion of world trade accounted for by Latin America has evidenced_____since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. no change

Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1980, reflecting the greater level of export growth in other regions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

40. The proportion of world trade accounted for by Asia has_____since 1980.

A. increased by 20 percent
B. tripled
C. seen an overall decline
D. almost doubled
E. increased fivefold

The proportion of merchandise exports from Asia has almost doubled since 1980, with China accounting for nearly two-thirds of the increase. Not only has China become the largest exporter in the world, 500 million Chinese have been lifted out of poverty by that country's trade-driven policies.

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Accessibility: Keyboard Navigation
Blooms: Understand
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Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

41. The proportion of world trade in services accounted for by North America has evidenced ______ since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. an increase of one-third

All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their services exports, though the U.S. proportion has risen by approximately one-third since 1980.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

42. The proportion of world trade in services accounted for by the European Union has evidenced ____since 1980.

A. an increase of 20 percent
B. a tripling
C. an overall decline
D. more than a fivefold increase
E. an increase of one-third

All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their services exports, though the proportion of world exports of commercial services from Latin America, the European Union, Africa, and the Middle East has declined since 1980.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
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Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

43. The rapid expansion of world exports since 1980 demonstrates that

A. businesspeople can expect to meet lower levels of competition in their domestic markets.
B. domestic business cannot compete with cheap imports.
C. the opportunity to increase sales by exporting is a viable growth strategy.
D. jobs will inevitably decline in developed countries due to import competition.
E. companies that do not export will probably not survive.

The rapid expansion of world exports since 1980 demonstrates that the opportunity to increase sales by exporting is a viable growth strategy and one that can benefit the exporting nations by creating jobs for their citizens. At the same time, however, the growth of exports from individual nations should be a warning to managers that they must be prepared to meet increased competition from these exports in their own domestic markets.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

44. In examining the volume of international trade, the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations in 2013

A. exceeded 70 percent.
B. was approximately 25 percent.
C. exceeded 50 percent.
D. was approximately one-third.
E. was 40 percent.

Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. The 10 largest exporters and importers collectively account for over half the world's exports and imports.

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Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

45. In examining which nations are responsible for the large and growing levels of merchandise and services trade that we have seen worldwide

A. the 10 largest exporters and importers are all from developed countries.
B. China ranks as the largest in levels of both merchandise and services exports.
C. the U.S. ranks as the largest in levels of both merchandise and services imports.
D. the European Union ranks as the largest country for merchandise exports.
E. China ranks first or second in each of merchandise and services exports and imports.

Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. The 10 largest exporters and importers collectively account for more than half the world's exports and imports. There are both developed and developing countries among the top 10 rankings, and the European Union is not a country.

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Accessibility: Keyboard Navigation
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Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

46. More than one-half of the exports from developing countries go to__________countries, and this proportion has been____________.

A. developed; increasing
B. developing; increasing
C. developed; decreasing
D. developing; decreasing
E. developing; stable over time

As stated directly in the text.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

47. Regarding the direction of world trade

A. the proportion of exports going from developing nations to developed nations has been increasing over the past 35 years.
B. approximately 75 percent of exports from developed economies go to other industrialized nations.
C. approximately 70 percent of exports from developing countries go to developed nations.
D. more than half of the exports from developing nations go to developed nations.
E. more than half of the exports from developing nations go to other developing nations.

You might think international trade consists mainly of manufactured goods exported by the industrialized nations to the developing nations in return for raw materials. This is only partially correct. More than half the exports from developing nations do go to developed countries, but this proportion has been declining as the developing nations participate more extensively in trade with other developing nations, from 72 percent in 1970 to about 50 percent by 2013. About two-thirds of exports from developed economies go to other industrialized nations.

AACSB: Reflective Thinking
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Blooms: Understand
Difficulty: 3 Hard
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

48. Regarding the direction of world trade

A. approximately three-quarters of the exports from North American nations went to other nations in North America in 2014.
B. approximately 25 percent of exports from Asian nations went to other Asian nations in 2014.
C. approximately 70 percent of exports from European countries went to other European countries in 2014.
D. nearly 20 percent of U.S. exports went to Canada in 2014.
E. nearly half of all world trade occurred within regional trade agreements in 2014.

In 2014, approximately half the exports from North American nations went to other nations in North America. A little more than half of Asian nations' exports were to other Asian nations, and over 70 percent of exports from European nations went to other European countries. Most of Canada's exports go to the United States and nearly 20 percent of U.S. exports go to Canada, mainly as a result of the 1994 North American Free Trade Agreement (NAFTA) and other treaties between the two nations. The proportion of overall exports accounted for by members of regional trade agreements increased from 37 percent in 1980 to more than 70 percent by 2013.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

49. 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 the fact that

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. the two countries are part of the same regional trade agreement.
E. the countries have similar levels of economic development.

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home 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) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

AACSB: Reflective Thinking
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Difficulty: 2 Medium
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Topic: Overview of Trade

50. 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 the fact that

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. the trading partner has lower labor costs.
E. both countries are economically prosperous.

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home 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) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

AACSB: Reflective Thinking
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Topic: Overview of Trade

51. 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 all of the following except

A. the business climate in these importing nations is already relatively favorable.
B. there are abundant natural resources in the importing nation.
C. satisfactory transportation facilities have already been established.
D. export and import regulations are not insurmountable.
E. currency from the foreign country is available to pay for the exports.

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home 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) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

AACSB: Reflective Thinking
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Learning Objective: 02-02 Identify who participates in trade
Topic: Overview of Trade

52 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 all of the following except

A. the business climate in these importing nations is already relatively favorable.
B. import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area.
C. satisfactory transportation facilities have already been established.
D. export and import regulations are not insurmountable.
E. the cultures of the two countries should be relatively similar and compatible.

Why should we know which countries are our own nation's major trade partners? Here are some of the advantages: (1) the business climate in these importing nations is already relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections at home 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) currency from the foreign country is available to pay for the exports, (7) the government of a trading partner may be applying pressure on its importers to buy from countries that, like the United States, are good customers for that nation's exports.

AACSB: Reflective Thinking
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Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

53. Regarding the major trading partners of the United States

A. the top 10 accounted for nearly 50 percent of total U.S. goods exports.
B. the top 10 accounted for nearly 50 percent of total U.S. goods imports.
C. China was the largest recipient of U.S. goods exports.
D. China, Canada, and Japan were the three largest sources of U.S. goods imports.
E. China, Canada, and Mexico were the three largest markets for U.S. goods exports.

Figure 2.2 shows the major trading partners of the United States. The top 10 accounted for 62 percent of total U.S. exports and 69 percent of total U.S. imports in 2013. Canada, Mexico, and China are the three largest markets for U.S. exports, with Canada being the largest such market. China, Canada, and Mexico are the three largest sources for U.S. imports.

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Topic: Overview of Trade

54. In 2013, the United States exported the most goods to_______, and imported the most goods from_______.

A. Canada; Mexico
B. China; Canada
C. Mexico; China
D. Canada; China
E. Germany; China

Figure 2.2 shows the major trading partners of the United States. Canada was the largest market for U.S. exports of goods, and China was the largest source for U.S. imports of goods.

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Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

55. The three largest markets for American exports of goods in 2013 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.

Figure 2.2 shows the major trading partners of the United States. Canada, Mexico, and China were the largest markets for U.S. exports of goods.

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Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

56. The three nations that exported the largest amount of goods to the United States in 2013 were

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

Figure 2.2 shows the major trading partners of the United States. China, Canada, and Mexico were the largest sources for U.S. imports of goods.

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Topic: Overview of Trade

57. According to the text, the countries accounting for the largest amount of goods exported from the U.S. were

A. Canada; Mexico.
B. China; Canada.
C. Mexico; China.
D. Canada; China.
E. Germany; China.

Figure 2.2 shows the major trading partners of the United States. Canada was the largest market for U.S. exports of goods, and China was the largest source for U.S. imports of goods.

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Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

58. Many of the same Asian countries that are major exporters to the United States are also significant importers of American goods because of all of the following reasons except

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 U.S.
D. they prefer to deal with the U.S. democratic system than the political systems of Europe.
E. their governments have sent buying missions to the United States to look for products to import.

As stated directly in the text, many Asian countries are both import and export partners of the United States because (1) their rising standards of living enable their people to afford more imported products, and the countries' export earnings provide the monies necessary to pay for them; (2) they are purchasing large amounts of capital goods to further their industrial expansion; (3) they are importing raw materials and components that will be assembled into subassemblies or finished goods that will subsequently be exported, often to the United States; and (4) their governments, pressured by the U.S. government to lower their trade surplus, have sent buying missions to the United States to look for products to import.

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Topic: Overview of Trade

59. 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 benefitted consumersand emerging industrialists.
D. included prominent economists such as Adam Smith.
E. fervently believed in free trade.

Supporters of mercantilism viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver. Of course, mercantilism also generated benefits for certain economic groups, such as domestic merchants, artisans, and shippers, though at a cost to other groups including consumers and emerging industrialists.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

60. 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. governments should promote selective industrialization in order to achieve balanced trade.

Mercantilists viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver. Of course, mercantilism also generated benefits for certain economic groups, such as domestic merchants, artisans, and shippers, though at a cost to other groups including consumers and emerging industrialists.

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Topic: Trade Theories and Their Implications

61. Which of the following statements is not true?

A. Although the mercantilist era ended in the late 1700s, its arguments live on.
B. Many of the world's managers see China as a present-day "fortress of mercantilism" that raises barriers to imported goods while giving its own exporters an unfair advantage.
C. Many people see trade as a zero-sum activity, in which one party must lose for another to gain. We still use the term *favorable* trade balance to mean a nation exports more goods and services than it imports.
D. Mercantilism generated benefits for certain economic groups, such as emerging industrialists and shippers, though at a cost to other groups including consumers.
E. Mercantilists viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare.

Mercantilists viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver. Of course, mercantilism also generated benefits for certain economic groups, such as domestic merchants, artisans, and shippers, though at a cost to other groups including consumers and emerging industrialists.

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Topic: Trade Theories and Their Implications

62. Adam Smith claimed

A. that 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. that market forces, not government controls, should determine direction, volume, and the composition of international trade.
D. that customers' tastes are affected by income levels.
E. that trade surpluses were beneficial to countries and should be the focus of trade policy.

Adam Smith argued against mercantilism by claiming that market forces, not government controls, should determine the direction, volume, and composition of international trade. He advocated free, unregulated trade, in which each nation should specialize in making those goods it could produce most efficiently—goods for which it had an absolute advantage, either natural or acquired.

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Topic: Trade Theories and Their Implications

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

A. comparative advantage.
B. absolute advantage.
C. mercantilist advantage.
D. trade surplus.
E. example of perfect competition.

Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs.

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Topic: Trade Theories and Their Implications

64. 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 other goods.
B. Ecuador would do well to produce its own wheat rather than import it from Bolivia.
C. Argentina should focus on producing coffee and trade for wheat.
D. there will be a perfect trade balance between the two countries.
E. the gains in trade by both countries will be equal.

Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs. Nations would then export some goods to pay for imports that have been produced more efficiently elsewhere. With his theory of absolute advantage, Smith showed that both nations gain from trade, although not necessarily equally.

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Topic: Trade Theories and Their Implications

65. A market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products is known as

A. absolute advantage.
B. comparative advantage.
C. competitive advantage.
D. perfect competition.
E. monopoly.

Perfect competition is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

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Topic: Trade Theories and Their Implications

66. A country________when it decides to use its resources to produce only the product in which it has an absolute advantage.

A. monopolizes
B. specializes
C. rejects trade
D. globalizes
E. achieves equilibrium

Specialization is a situation in which each nation decides to use its resources to produce only the product in which it has an absolute advantage.

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Accessibility: Keyboard Navigation
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Difficulty: 1 Easy
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

67. A nation having absolute disadvantages in the production of two goods with respect to another nation has a/an__________in the production of the good in which its absolute disadvantage is less.

A. comparative advantage
B. absolute advantage
C. mercantilist advantage
D. competitive advantage
E. monopolistic advantage

When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally
Topic: Trade Theories and Their Implications

68. According to the theory of comparative advantage

A. a nation should produce the goods for which its absolute disadvantage is less.
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 fromtrade.
D. a nation should strive to produce trade surpluses to acquire supplies of precious metals.
E. a nation should produce goods that are the most technologically advanced.

The theory of comparative advantage proposes that when one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

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Topic: Trade Theories and Their Implications

69. Which of the following statements is not true?

A. Some observers have argued that American industry and the American economy as a whole will be strengthened by sending activities to workers in India or other foreign nations that have comparative advantages in areas such as labor costs.
B. India, with relatively few resources but a large population, should have a comparative advantage in the production of goods or services that require large amounts of expensive labor.
C. India may have a comparative advantage over some other developing countries because about 350 million of its people are able to read English, and 100 million of those also understand spoken English and can communicate in English sentences.
D. The sophistication and skill levels required for jobs outsourced to India are rising rapidly, driven by the abundance of qualified and low-cost workers in India.
E. An estimated 1.6 million U.S. individual and corporate tax returns are prepared annually in India.

India, with relatively few resources but a large population, should have a comparative advantage in the production of goods or services that require large amounts of *inexpensive* labor and relatively little capital.

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Topic: Trade Theories and Their Implications

70. 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. high-cost labor will automatically cause a country to beuncompetitive in export markets.
E. devaluation of a country's currency will cause domestic prices to decrease.

To determine whether it is more advantageous to buy locally or to import, the traders need to know the prices in their own currencies. To convert from foreign to domestic currency, they use the *exchange rate*.

AACSB: Reflective Thinking
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Difficulty: 3 Hard
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

71. 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. exchange rates

A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar. According to this theory, countries would export products requiring large amounts of their abundant production factors and import products requiring large amounts of their scarce production factors.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

72. The theory of resource endowment

A. explains why France sends cosmetics, wine, and clothing to Chile.
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. shows how larger countries will have an advantage in trade.

A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar. According to this theory, countries would export products requiring large amounts of their abundant production factors and import products requiring large amounts of their scarce production factors.

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Topic: Trade Theories and Their Implications

73. 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. explains the existence of similar preferences and demands among countries with similar income levels.
E. explains where competitive clusters will occur.

In contrast to resource endowment-based theory, economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

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74. The theory of overlapping demand suggests that

A. international trade in services will be more common between countries with high and low relative levels of labor costs.
B. countries with similar geography will have similar demand traits.
C. trade wars will usually occur between countries that have similar levels of income.
D. international trade in manufactured goods will be more common between countries with similar levels of income.
E. if a home country can find a product that is desired in another country, then producing demand for that product within the home country will result in increased economic growth.

In contrast to resource endowment-based theory, economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

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Topic: Trade Theories and Their Implications

75. 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. explains why mercantilism failed.
E. requires perfect competition as an assumption underlying successful trade.

This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export eventually becomes its import, thus viewing a product as going through a full life cycle.

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Topic: Trade Theories and Their Implications

76. According to the international product life cycle

A. innovation occurs in the U.S. and then goes to other nations.
B. exporting begins in the second stage.
C. exporting replaces direct investment in the second stage.
D. foreign-produced products compete in export markets in the third stage.
E. foreign producers eliminate U.S. producers through continued product innovation.

This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export eventually becomes its import, thus viewing a product as going through a full life cycle.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

77. The international product life cycle theory

A. may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in foreign markets first.
B. may have its greatest usefulness in explaining trade and investment behavior when product life cycles are short.
C. may have its greatest usefulness in explaining the emergence of "born global" companies.
D. may have its greatest usefulness in explaining trade and investment behavior when international firms first introduce new products in their home markets.
E. may have its greatest usefulness in explaining whether companies will innovate or imitate.

The international product life cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first. For example, personal computers were initially introduced in the United States, then exported to other countries. Over time, production moved to lower-cost locations such as Taiwan and China, and now almost all computers sold in the United States are imported from abroad.

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Topic: Trade Theories and Their Implications

78. 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. explain the international life cycles of products.
E. are only relevant for manufacturing industries.

Economies of scale and the experience curve affect international trade because they can permit a nation's industries to become low-cost producers without having an abundance of the resources used as inputs, such as minerals or labor. Then, just as in the case of comparative advantage, nations specialize in the production of a few products and trade with others to supply the rest of their needs. International trade is promoted because a nation's companies may not be able to fully achieve the potential economies of scale by serving only the domestic market, even within countries as large as the United States.

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79. Economies of scale

A. refer to the rising scale on which efficiency improves as a result of cumulative experience and learning.
B. are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
C. are only relevant to manufacturing industries.
D. occur due to the presence of abundance resource endowments within a nation.
E. are difficult to achieve if fixed costs are high.

Economies of scale are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

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80. Experience curve

A. refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.
B. is the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
C. is only relevant to manufacturing industries.
D. occurs only in nations with highly skilled labor forces.
E. is difficult to achieve if fixed costs are high.

Experience curve refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

81. Which of the following elements is included in Porter's diamond model of national advantage?

A. Competitive conditions
B. Export conditions
C. Social conditions
D. Supply conditions
E. Demand conditions

Porter's diamond model of national advantage includes demand conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

82. Which of the following elements is included in Porter's diamond model of nationaladvantage?

A. Competitive conditions
B. Export conditions
C. Factor conditions
D. Supply conditions
E. Political conditions

Porter's diamond model of national advantage includes factor conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage.

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83. Which of the following elements is not included in Porter's diamond model of national advantage?

A. Demand conditions
B. Factor conditions
C. Export conditions
D. Government
E. Related and supporting industries

Porter's diamond model of national advantage claims that the ability of local firms in a country to use the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry, as well as the influence of government and chance.

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84. Porter's diamond model of national advantage

A. claims that the ability of local firms in a country to use the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry.
B. links intra industry trade to relative levels of per capita income.
C. is based on anecdotal evidence.
D. explains trade surpluses.
E. is not affected by chance.

Porter's diamond model of national advantage claims that the ability of local firms in a country to use the country's resources to gain a competitive advantage is based on demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry.

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Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

85. 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. it exists only due to the presence of exporting.
E. the distinction between portfolio investments and direct investments has begun to blur.

The distinction between portfolio investments and direct investments has begun to blur, particularly with the growing size and number of international mergers, acquisitions, and alliances in recent years.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

86. Which of the following is not true regarding foreign investment?

A. Persons residing outside the United States owned U.S. stocks and bonds other than Treasury securities with a value of $8.0 trillion at the beginning of 2014.
B. The value of U.S. stocks and bonds other than Treasury securities that were owned by persons residing outside the United States was 10 times larger in 2014 than in 1994.
C. The value of U.S. stocks and bonds other than Treasury securities that were owned by persons residing outside the United States was more than double the level in 2014 than in 2004.
D. U.S. investors owned $8.7 billion in foreign securities at the beginning of 2014.
E. The value of foreign securities owned by U.S. investors at the beginning of 2014 was five times larger than in 2004.

The value of foreign securities owned by U.S. investors at the beginning of 2014 was three times larger than in 2004.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

87. At the beginning of 2014, the value of the outstanding stock of foreign direct investment of all nations totaled more than

A. $3 billion.
B. $8 trillion.
C. $19 trillion.
D. $26 trillion.
E. $42 trillion.

The *book value*—or the value of the total outstanding stock—of all foreign direct investment (FDI) worldwide was $26.3 trillion at the beginning of 2014.

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Topic: Benefits and Challenges of Foreign Direct Investment

88. Firms from__________had the largest total outstanding stock of direct overseas investment at the beginning of 2014.

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

Although the proportion of FDI accounted for by the United States has declined by over one-third in the past 20 years, U.S. individuals and corporations still had $6.3 trillion invested abroad in 2014. This total was more than three times the FDI of the next-largest investor, the United Kingdom.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

89. Regarding the value of the outstanding stock of foreign direct investment, which of the following is not true?

A. During the prior three decades up to 2014, the proportion of FDI accounted for by the European Union increased.
B. During the prior three decades up to 2014, the proportion of FDI accounted for by the European Union decreased by over half.
C. Developing countries have dramatically increased their share of FDI stock, from 1 percent in 1980 to 19 percent at the beginning of 2014.
D. The value of the outstanding stock of foreign direct investment of the European Union was more than 50 percent higher than the level for the United States at the beginning of 2014.
E. The value of the outstanding stock of foreign direct investment of the developing countries was higher than the level for the United States at the beginning of 2014.

The value of the outstanding stock of foreign direct investment of the developing countries was lower than the level for the United States at the beginning of 2014, at $5 trillion for developing countries versus $6.4 trillion for the U.S.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

90. Regarding the annual outflows of foreign direct investment, which of the following is not true?

A. The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003.
B. The proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to over 32 percent in 2013.
C. U.S. FDI outflows of $338 billion in 2013 were more than the combined outflows of the next three largest sources of FDI: Japan, China, and Saudi Arabia.
D. The United States and the EU combined have continued to account for one-third to one-half of worldwide FDI in recent years.
E. The United States was the leading single national source of FDI outflows through most of the period from 1990 to 2013, with an average of nearly one-quarter of total FDI outflows for 2010-2013.

U.S. FDI outflows of $338 billion in 2013 were more than the combined outflows of the next three largest sources of FDI: Japan, China, and Russia (not Saudi Arabia).

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

91. Regarding the annual outflows of foreign direct investment, which of the following is not true?

A. The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003.
B. The proportion of worldwide outward FDI that came from developing nations was 19 percent in 2013.
C. About two-thirds of annual outflows of FDI originates from the developed countries.
D. The United States and the EU combined have continued to account for one-third to one-half of worldwide FDI in recent years.
E. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad have been spent to acquire going companies rather than to establish new ones.

The proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to over 32 percent in 2013.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investmen

92. Regarding annual inflows of FDI, which of the following statements is incorrect?

A. African nations have participated relatively little in the growing flow of inward FDI, accounting for an average of about 3 percent of all inflows from 1985 to 2013.
B. The proportion of inward FDI going to developing countries was 49 percent from 2010 to 2013.
C. The volume of FDI flowing into the developing countries as a whole was seven times larger in 2000 than in 1990 and had nearly tripled again by 2013.
D. The proportion of annual FDI investments going into developed countries has declined significantly in recent years.
E. The U.S. and the European Union accounted for an average of less than 25 percent for 2010-2013.

The U.S. and the European Union accounted for an average of nearly 36 percent for 2010-2013.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

93. Regarding annual inflows of FDI, which of the following statements is incorrect?

A. Asia accounted for almost half of all investments not directed to the United States and the European Union for the years 2010-2013.
B. the proportion of Asian FDI directed to China and its territories, which represented almost 75 percent of the total FDI flowing to Asia from 2010 to 2013.
C. some of the FDI previously directed toward other Asian nations might have been redirected toward these Chinese investments, which may have slowed these other nations' ability to develop their economies.
D. African nations have participated relatively little in the growing flow of inward FDI, accounting for an average of about 3 percent of all inflows from1985 to 2013.
E. in Latin America, annual FDI inflows have exhibited substantial fluctuations although the region has exhibited a trend toward an increasing proportion of worldwide FDI inflows.

The proportion of Asian FDI directed to China and its territories represented 49 percent of the total FDI flowing to Asia from 2010 to 2013.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

94. 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.

The 20 highest-ranked nations were all developed countries. This result suggests that few developing nations have been able to come close to the developed countries in terms of their trade and development performance. Nine of the bottom 10 nations are in sub-Saharan Africa, accentuating the severity of the trade and development problems confronting this region and the least-developed nations in general. The best regional performance among developing nations was that of the countries of the East Asia and Pacific region, while South Asia and sub-Saharan Africa lagged significantly behind.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

95. Regarding economic and social development

A. foreign direct investment was found to have a significant and negative impact on export performance, but only for developing countries.
B. foreign direct investment was found to have a significant and negative impact on export performance, but only for developed countries.
C. foreign direct investment was found to have a significant and negative impact on export performance for both developed and developing countries.
D. FDI plays a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods.
E. the impact of FDI is strongest for the two best-performing groups of exporters and at their later stages of export development.

Foreign direct investment was found to have a significant and positive impact on export performance for all the nations studied and in every time period. FDI plays a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods. The effect of FDI is particularly strong in knowledge-based industries, such as pharmaceuticals, telecommunications, and computers. The impact of FDI is strongest for the two poorest-performing groups of exporters and at their early stages of export development.

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Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

96. 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. management can expand the business in small increments through trade, although this requires considerably greater investment and associated risk.

Historically, foreign direct investment has followed foreign trade. One reason is that engaging in foreign trade is typically less costly and less risky than making a direct investment into foreign markets. Also, management can expand the business in small increments rather than making the considerably greater investments and finding the larger markets that a foreign production facility requires. Typically, a firm uses domestic or foreign agents to export. The new business environment, with fewer government barriers to trade, increased competition from globalizing firms, and new production and communications technology, is causing many international firms to locate production close to available resources, in order to improve efficiency.

AACSB: Reflective Thinking
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Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

97. The establishment of new facilities from the ground up is known as

A. cross-border acquisition.
B. exporting.
C. greenfield investment.
D. gray market trade.
E. international entrepreneurship.

The establishment of new facilities from the ground up is known as greenfield investment.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investmen

98. The purchase of an existing business in another nation is known as a(an)

A. cross-border acquisition.
B. strategic alliance.
C. greenfield investment.
D. home country expansion.
E. international entrepreneurship.

The purchase of an existing business in another nation is known as a cross-border acquisition.

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Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

99. 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. duplicate

The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms. Therefore, developing these advantages makes such firms likely to increase their FDI to exploit these advantages.

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Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

100. 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.

The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, also known as oligopolistic industries, due to their possession of technical and other advantages over indigenous firms.

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Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

101. An industry that has a limited number of competing firms, such as the U.S. mobile phone market in which four firms controlled 98 percent of the market in 2014, is known as

A. perfect competition.
B. a monopoly.
C. an oligopolistic industry.
D. deregulated.
E. anticompetitive.

An industry that has a limited number of competing firms, such as the U.S. mobile phone market in which four firms controlled 98 percent of the market in 2014, is known as an oligopolistic industry.

AACSB: Reflective Thinking
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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

102. The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. competitive imitation theory.
E. eclectic theory.

The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as strategic behavior theory.

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Blooms: Understand
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Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

103. The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. dynamic capabilities theory.
E. eclectic theory.

The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as internalization theory.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

104. The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as

A. internalization theory.
B. internationalization theory.
C. strategic behavior theory.
D. dynamic capabilities theory.
E. eclectic theory.

The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as dynamic capabilities theory.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

105. 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. ownership-specific, location-specific, and internalization.
D. technological, financial, and human resource.
E. political, technological, and human resource.

As stated directly in the text, in developing his eclectic theory of international production, British economist John Dunning proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership-specific, location-specific, and internalization (not internationalization).

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

Fill in the Blank Questions

106. In 2013, trade in____________reached a total of $18.8 trillion worldwide.

goods

In 2013, trade in goods reached a total of $18.8 trillion worldwide.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

107. In 2013, trade in____________reached a total of $4.6 trillion worldwide.

services

In 2013, trade in services reached a total of $4.6 trillion worldwide.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

108. Nearly_______percent of global output is now destined for international trade.

60

Nearly 60 percent of global output is now destined for international trade.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

109. ______was the country that exported the highest total value of merchandise exports in 2013.

China

China was the country that exported the highest total value of merchandise exports in 2013. Refer to Table 2.1.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

110. ______was the country that exported the highest total value of service exports in 2013.

The United States

The United States was the country that exported the highest total value of service exports in 2013. Refer to Table 2.1.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the magnitude of international trade and how it has grown.
Topic: The Changing Nature of the Global Economy

111. Illustrating the regionalization of trade, approximately half of the exports from North American nations in 2014 went to____________.

other nations in North America

World trade continues to be dominated by exchanges within—not between—geographic regions. For example, in 2014, approximately half the exports from North American nations went to other nations in North America.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

112. The country that imported the highest total value of goods from the United States in 2013 was ____________.

Canada

Figure 2.2 shows the major trading partners of the United States. The top 10 accounted for 62 percent of total U.S. exports and 69 percent of total U.S. imports in 2013. The data suggest that the United States generally follows the trend we identified earlier, that is, for developed nations to trade with one another. Mexico and Canada are major U.S. trading partners in great part because they are joined with the United States in NAFTA. They also each share a common border with the United States, which means lower freight charges, shorter delivery times, and easier and less expensive contacts between buyers and sellers than would otherwise be the case.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

113. The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's____________.

trade deficit

The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's trade deficit.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

114. The amount by which the value of a nation's exports exceed the value of its imports is known as the country's___________.

trade surplus

The amount by which the value of a nation's exports exceed the value of its imports is known as the country's trade surplus.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

115. ___________is an economic philosophy based on the belief that (1) a nation's wealth depends on accumulated treasure, usually precious metals such as gold and silver, and (2) to increase wealth, government policies should promote exports and discourage imports.

Mercantilism

Mercantilism is an economic philosophy based on the belief that (1) a nation's wealth depends on accumulated treasure, usually precious metals such as gold and silver, and (2) to increase wealth, government policies should promote exports and discourage imports.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

116. ___________ refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

Absolute advantage

Absolute advantage refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally
Topic: Trade Theories and Their Implications

117. __________ is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

Perfect competition

Perfect competition is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

118. ________ is a term used to describe the situation where a nation decides to use its resources to produce only the product in which it has an absolute advantage.

Specialization

Specialization is a term used to describe the situation where a nation decides to use its resources to produce only the product in which it has an absolute advantage.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

119. The ratio of international prices for goods being traded between two countries is known as the ________.

terms of trade.

The ratio of international prices for goods being traded between two countries is known as the terms of trade.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

120. When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a____________in the production of that good for which its absolute disadvantage is less.

comparative advantage

When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of that good for which its absolute disadvantage is less.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

121. The price of one currency stated in terms of another is known as the____________.

exchange rate.

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

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

122. ___________refers to a reduction in the value of a country's currency relative to other currencies.

Currency devaluation

Currency devaluation refers to a reduction in the value of a country's currency relative to other currencies.

AACSB: Reflective Thinking
Blooms: Remember

Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

123. Some countries have abundant___________, or the land, labor, capital, and related production factors a nation possesses.

resource endowments

Some countries have abundant resource endowments, or the land, labor, capital, and related production factors a nation possesses.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

124. Economist Stefan Linder proposed his theory of_____________, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

overlapping demand

Economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

125. _____________ refers to the unique differences that producers build into their products, with the intent of positively influencing demand.

Product differentiation

Product differentiation refers to the unique differences that producers build into their products, with the intent of positively influencing demand.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally
Topic: Trade Theories and Their Implications

126. The __________ is a theory explaining why a product that begins as a nation's export eventually becomes its import.

international product life cycle

The international product life cycle is a theory explaining why a product that begins as a nation's export eventually becomes its import.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

127. _________ refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

Economy of scale

Economy of scale refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

AACSB: Reflective Thinking
Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.

Topic: Trade Theories and Their Implications

128. The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the__________.

experience curve

The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the experience curve.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.

Topic: Trade Theories and Their Implications

129. __________is a nation's ability to design, produce, distribute, or service products within an international trading context while earning increasing returns on its resources.

National competitiveness

National competitiveness is a nation's ability to design, produce, distribute, or service products within an international trading context while earning increasing returns on its resources.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.

Topic: Trade Theories and Their Implications

130. The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include________, _________, related and supporting industries, and firm strategy, structure and rivalry.

demand conditions; factor conditions

The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry. Refer to Figure 2.4.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

131. The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include demand conditions, factor conditions,_______, and__________.

related and supporting industries; firm strategy, structure, and rivalry

The four kinds of variables that influence firms' ability to use their country's resources to gain a competitive advantage, according to Michael Porter's diamond model, include demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry. Refer to Figure 2.4.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

132. The purchase of stocks and bonds to obtain a return on the funds invested is known as

_________.

portfolio investment

The purchase of stocks and bonds to obtain a return on the funds invested is known as portfolio investment.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

133. The purchase of sufficient stock in a firm to obtain significant management control is known as

_________.

direct investment

The purchase of sufficient stock in a firm to obtain significant management control is known as direct investment.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

134. The_________—or the value of the total outstanding stock—of all foreign direct investment (FDI) worldwide was $26.3 trillion at the beginning of 2014.

book value

The book value—or the value of the total outstanding stock—of all foreign direct investment (FDI) worldwide was $26.3 trillion at the beginning of 2014.

AACSB: Reflective Thinking
Blooms: Remember

Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

135. Individuals and corporations from____________accounted for $6.3 trillion invested abroad in 2014, a total more than three times the FDI of the next-largest investor nation.

the United States

Individuals and corporations from the United States accounted for $6.3 trillion invested abroad in 2014, a total more than three times the FDI of the next-largest investor nation.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

136. Reflecting their continued economic development,____________have dramatically increased their share of FDI stock, from 1 percent in 1980 to 19 percent at the beginning of 2014.

developing countries

Reflecting their continued economic development, developing countries have dramatically increased their share of FDI stock, from 1 percent in 1980 to 19 percent at the beginning of 2014.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

137. The vast proportion of outward FDI, about two-thirds, still originates from the ___________.

developed countries

The overall volume of outward FDI from developing nations in 2013 was nine times the level in 2003, and the proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to over 32 percent in 2013. Despite this increase, the vast proportion of outward FDI, about two-thirds, still originates from the developed countries.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

138. Much of the world's outward FDI has been associated with ___________, including, historically, approximately two-thirds of the value of corporate investments made in the United States from abroad.

mergers and acquisitions

Much of the world's outward FDI has been associated with mergers and acquisitions, including, historically, approximately two-thirds of the value of corporate investments made in the United States from abroad.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investmen

139. Regarding the nations and regions from which FDIoriginated, the____________invest primarily in one another, just as they trade more with one another.

<u>industrialized nations</u>

Regarding the nations and regions from which FDI originated, the industrialized nations invest primarily in one another, just as they trade more with one another.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

140. UNCTAD's Trade and Development Index initiative revealed that____________had a significant and positive impact on export performance for all the nations studied and in every time period, playing a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods.

<u>foreign direct investment</u>

UNCTAD's Trade and Development Index initiative revealed that foreign direct investment had a significant and positive impact on export performance for all the nations studied and in every time period, playing a key role in influencing the composition of exports, including the technological content of the goods produced in a nation and the development of sufficient capacity to meet export demand for these goods.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

141. Historically, foreign direct investment has followed____________.

foreign trade

Historically, foreign direct investment has followed foreign trade. One reason is that engaging in foreign trade is typically less costly and less risky than making a direct investment into foreign markets. Also, management can expand the business in small increments rather than making the considerably greater investments and finding the larger markets that a foreign production facility requires.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Describe the size; growth; and direction of foreign direct investment.
Topic: Benefits and Challenges of Foreign Direct Investment

142. ____________ refers to the establishment of new facilities from the ground up.

Greenfield investment

Greenfield investment refers to the establishment of new facilities from the ground up.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investmen

143. ____________ refers to the purchase of an existing business in another nation.

Cross-border acquisition

Cross-border acquisition refers to the purchase of an existing business in another nation.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

144. ____________ is a theory that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms.

Monopolistic advantage

Monopolistic advantage is a theory that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

145. A(n) ____________ is an industry with a limited number of competing firms.

oligopolistic industry

An oligopolistic industry is an industry with a limited number of competing firms.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

146. The____________theory suggests that strategic rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep a competitor from gaining an advantage.

strategic behavior

The strategic behavior theory suggests that strategic rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep a competitor from gaining an advantage.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

147. ____________theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

Internalization

Internalization theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

148. ___________ theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

Dynamic capability

Dynamic capability theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

149. The ____________ theory of international production proposes states that for a firm to invest in facilities overseas, it must have three kinds of advantages.

eclectic

The eclectic theory of international production proposes states that for a firm to invest in facilities overseas, it must have three kinds of advantages.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

150. Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and ______.

internalization

Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization. Note: the third advantage is ***not*** internationalization.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment

Essay Questions

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

Answers may vary, but 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: 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.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Identify who participates in trade.
Topic: Overview of Trade

152. 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 including consumers and some emerging industrialists, and to raise the potential for retaliatory efforts by other governments who encounter trade deficits due to the policies of the mercantilist nation.

Feedback: 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 including consumers and some emerging industrialists, and to raise the potential for retaliatory efforts by other governments who encounter trade deficits due to the policies of the mercantilist nation.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

153. 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: 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.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

154. 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: 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).

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Distinguish among the theories that explain why certain goods are traded internationally.
Topic: Trade Theories and Their Implications

155. 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: 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.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain several of the theories of foreign direct investment.
Topic: Theories of Foreign Direct Investment