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Chapter 02

The Dynamic Environment of International Trade

True / False Questions

1. After World War II, the U.S. provided assistance to other countries to develop their markets and improve global trade though it gained no returns on these initiatives.

True False

2. The GATT became part of the World Trade Organization in 1995, with the ratification of the Uruguay Round agreements.

True False

3. As part of the worldwide economic growth and rebuilding after World War II, countries once

classified as less developed were reclassified as underdeveloped countries.

True False

4. By the year 1971, the United States was selling more to other countries than it bought from them; that is, the United States had a favorable balance of trade.

True False

5. The Organization for Economic Cooperation and Development (OECD) has estimated that the economies of the developed world will expand at much faster rates when compared to the developing economies.

True False

6. A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time.

True False

7. In a balance-of-payments record, if the credit and debit offset each other, it means that a nation is in particularly good financial condition.

True False

8. The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

True False

9. As the U.S. trade deficit has grown, pressures have begun to push the value of the dollar to higher levels.

True False

10. Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

True False

11. A case might be made for temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

True False

12. To encourage development of domestic industries, governments work on reducing trade barriers.

True False

13. In general, tariffs decrease inflationary pressures.

True False

14. Tariffs are often used as reprisals against protectionist moves of trading partners.

True False

15. Quotas strictly permit importing on a case-by-case basis.

True False

16. Quotas are more flexible than import licenses.

True False

17. A VER is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

True False

18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.

True False

19. In the context of blocked currency, blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.

True False

20. It is mandatory for importers who want to buy a foreign good to apply for a business permit in that country.

True False

21. The exchange permit can stipulate an unfavorable rate of exchange depending on the desires of the government.

True False

22. The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets.

True False

23. Antidumping laws were specifically designed to prevent foreign producers from investing in the U.S. local markets.

True False

24. The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

True False

25. The Omnibus Trade and Competitiveness act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.

True False

26. Obtaining export licenses for products on the export control list is more arduous than for those items that are exempted from the list.

True False

27. The GATT panels were formed to resolve bilateral trade disputes and thus have both advisory and enforcement powers.

True False

28. The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.

True False

29. The World Bank was formed with the primary objective of overcoming inadequate monetary reserves and dealing with unstable currencies which were particularly vexing problems in global trade.

True False

30. Since both SDRs and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to gold rather than dollars.

True False

Multiple Choice Questions

31. After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled to foster economic growth in the underdeveloped world. These efforts were primarily aimed at:

- A. halting the growth of Nazi Germany.
- B. dampening the spread of communism.
- C. dissolving the colonial powers.
- D. building a stronger defense force.
- E. creating a worldwide trade bloc to counter the OPEC countries' clout.

32. After World War II, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. The____, aimed at assisting in rebuilding Europe, is the plan most closely associated with this endeavor.

- A. Eisenhower Plan
- B. Marshall Plan
- C. Bradley Plan
- D. Roosevelt Plan
- E. Truman Plan

33. What was the most apparent reciprocal impact of the foreign economic assistance given by the United States?
- A. European countries formed an alliance to counter the OPEC countries' clout.
 - B. European countries formed an alliance to counter the OPEC countries' clout.
 - C. All recipient countries appointed Americans to manage their central banks.
 - D. Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.
 - E. Distribution of economic power and potential became more uneven.
34. Which of the following factors was primarily responsible for the excess production capacity in the U.S. in the first half of the twentieth century?
- A. Technological innovation revolutionized production during this time.
 - B. Many firms from other nations shifted their production facilities to the U.S.
 - C. Domestic demand was at a historic low and resulted in excess capacity.
 - D. Swelling labor supply of returning military after World War II.
 - E. Influx of migrant laborers from Europe and Japan.
35. Which of the following was the most significant move of the 1980s that contributed toward international cooperation among trading nations?
- A. Formation of the United Nations Development Programme.
 - B. Creation of the United Nations.
 - C. Establishment of the World Trade Organization.
 - D. Signing of the Montreal Protocol.
 - E. Negotiation of the General Agreement on Tariffs and Trade.

36. Which of the following acronyms refers to the international forum that was created for member countries to engage in the negotiation of tariffs and other barriers to trade?

- A. UNHCR
- B. GATT
- C. WMO
- D. NPT
- E. UNDP

37. What was the outcome for the GATT after the ratification of the Uruguay Round agreements?

- A. With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.
- B. It became part of the World Trade Organization.
- C. It led to the uneven distribution of economic power and potential.
- D. The European Union decided to stay away from the treaty.
- E. The original purpose was sidelined in favor of political and military intervention between member states.

38. The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance that followed World War II led to:

- A. the rise of new global marketing opportunities.
- B. the uneven distribution of economic power.
- C. the dissolution of GATT.
- D. the spread of Communism.
- E. the sharp reduction of the production capacity in the U.S.

39. Which were the two major challenges faced by U.S. multinational corporations at the close of the 1960s?
- A. The creation of the Soviet Union and the higher tariffs on imports.
 - B. Growing jingoistic nationalism and a negative population growth rate in major international markets.
 - C. Resistance to direct investment and increasing competition in export markets.
 - D. Increasing Chinese domination in the manufacturing sector and the falling dollar in global markets.
 - E. Political intervention in free trade movement and growing influence of consumer rights advocacy in the home market.
40. Post World War II, it was noticed that there was worldwide economic growth and countries once classified as less developed were reclassified as_____.
- A. capitalist countries
 - B. free trade economies
 - C. tier-II countries
 - D. developed countries
 - E. newly industrialized countries

41. Which of the following presents the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?
- A. Third World countries were excluded from this economic growth leading to stark imbalances in wealth.
 - B. The European Union became the center of world trade, taking the position away from the U.S.
 - C. The U.S. attained a positive balance of trade scenario in the 1950s and maintained it continuously till the Great Recession.
 - D. Economic power and potential became more evenly distributed among the countries of the world.
 - E. SDRs and gold lost their utility as the basic medium of financial exchange and most monetary statistics started relating to the U.S dollar.
42. Which of the following is the major reason behind the failure of American MNCs to completely dominate the European markets as predicted by Servan-Schreiber?
- A. The resurgence of competition worldwide.
 - B. The uneven distribution of economic power.
 - C. The restructuring of U.S industries.
 - D. The decadence of Communism.
 - E. The dissolution of colonial powers.

43. Which of the following strategies was employed by the US to regain its lost market share for capital goods by the late 1990s?
- A. Funding the Communist nations.
 - B. Restructuring its industries to be more lean and mean.
 - C. Providing financial assistance to the under-developed countries.
 - D. Raising average U.S. tariffs on more than 20,000 imported goods.
 - E. Outsourcing its production activities to other countries.
44. By the year 1971, the United States was witnessing: By the year 1971, the United States was witnessing:
- A. an increase in protectionist federal policies.
 - B. a positive balance of trade.
 - C. a sharp rise in domestic and international demand.
 - D. a huge trade deficit.
 - E. an economic situation of the magnitude of the Great Depression.
45. In the late 1990s, most of the countries of the world saw a slow down in the unprecedented and precipitous growth of their economies. However, _____ remained unaffected by this trend.
- A. the United States
 - B. Germany
 - C. China
 - D. Japan
 - E. France

46. The World Bank estimates that five countries whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union. _____ is one of the countries included in this list.
- A. Canada
 - B. Nigeria
 - C. Netherlands
 - D. Indonesia
 - E. Rhodesia
47. The system of accounts that records a nation's international financial transactions is most accurately called its:
- A. supply chain management system.
 - B. gross domestic product system.
 - C. net domestic product payments.
 - D. balance of payments.
 - E. net national product systems.
48. Which of the following ensures that balance-of-payments records are always in balance?
- A. The sum of squares recording system.
 - B. The ledger entry model.
 - C. The double-entry bookkeeping system.
 - D. The archival records system.
 - E. The multifactor recording system.

49. Which of the following is true regarding the balance-of-payments records?
- A. The balance-of-payments accounts do not consider income brought in by non-resident citizens of a country.
 - B. The fact that assets and liabilities balance does not essentially mean that a nation is in a particularly good financial condition.
 - C. A balance of payments is not a record of condition.
 - D. A balance of payments is a determinant of condition.
 - E. A balance of payments records all the financial transactions of a country since 1980.
50. Which of the following is a defining characteristic of a balance-of-payments statement?
- A. It is a record of the transactions between the government of a country and the private companies.
 - B. It records all financial transactions between the residents of a country and those of the rest of the world.
 - C. It records the trade policies of the member nations of the WTO.
 - D. It is an annual record of the profitable foreign transactions made by a particular country.
 - E. It is a local firm's financial statement, where the credits and debits must offset each other.
51. Which of the following falls on the plus side of the U.S. balance of payments?
- A. Payments to the United States for insurance.
 - B. The costs of goods imported.
 - C. Spending by American tourists overseas.
 - D. New overseas investments.
 - E. The cost of foreign military.

52. Which of the following falls on the minus side of the U.S. balance of payments?
- A. Payments to the United States for insurance.
 - B. Payments of dividends and interest on investments abroad.
 - C. Return on capital invested abroad.
 - D. New foreign investments in the United States.
 - E. Spending by American tourists overseas.
53. A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?
- A. Investment account
 - B. Receivables account
 - C. Services account
 - D. Credit account
 - E. Reserves account
54. The_____of the balance-of-payments statement is most likely to record all merchandise exports, imports, and services plus unilateral transfers of funds.
- A. current account
 - B. capital account
 - C. credit account
 - D. receivables account
 - E. reserves account

55. Which of the following sections of the balance-of-payments statement is a record of the direct investment, portfolio investment, and short-term movement of cash and technology to and from countries?
- A. Current account
 - B. Capital account
 - C. Credit account
 - D. Receivables account
 - E. Reserves account
56. The _____ account of the balance-of-payments statement is most likely to record all exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.
- A. current
 - B. capital
 - C. credit
 - D. receivables
 - E. reserves
57. Which of the following arguments regarding the need for protectionism is recognized by economists as valid?
- A. Need to keep money at home.
 - B. Encouragement of capital accumulation.
 - C. Protection of an infant industry.
 - D. Conservation of natural resources.
 - E. Maintenance of employment and reduction of unemployment.

58. Randall Smithe-Jones believes that protectionism is the only way to save the United Kingdom from outside competitors. He has seen small businesses go bankrupt because cheaper foreign goods have been more popular. The cell-phone manufacturing industry has just started in U.K and Smithe-Jones' company is one of the first to try its hand at cell-phone manufacturing. Which of the following would probably be the argument that Smithe-Jones would use to persuade his government representatives that protectionism is still needed in the U.K.?

- A. Protection of an infant industry.
- B. The need to keep money at home.
- C. Conservation of natural resources.
- D. National defense.
- E. Maintenance of standard of living.

59. A tax imposed by a government on goods entering at its borders is most accurately termed as a(n) _____.

- A. boycott
- B. asterisk bill
- C. tariff
- D. quota
- E. writ

60. In general, tariffs weaken:

- A. inflationary pressures.
- B. special interests' privileges.
- C. balance-of-payments positions.
- D. government control in economic matters.
- E. reciprocal tariffs by other countries.

61. Which of the following is true of tariffs?

- A. They strengthen balance-of-payments positions.
- B. They strengthen supply-and-demand patterns.
- C. They increase special interests' privileges.
- D. They strengthen international relations.
- E. They promote competition.

62. In general, tariffs restrict:

- A. inflationary pressures.
- B. special interests' privileges.
- C. government control in economic matters.
- D. the number of reciprocal tariffs.
- E. manufacturers' supply sources.

63. A specific unit or dollar limit applied to a particular type of good is called a(n):
- A. trade license.
 - B. quota.
 - C. asterisk bill.
 - D. predatory price.
 - E. exchange rate.
64. Which of the following is an example of a nontariff trade barrier?
- A. Compound duties
 - B. Revenue tariffs
 - C. Administrative fees
 - D. Specific duties
 - E. Duties
65. Which of the following types of nontariff barriers strictly falls under the category of specific limitations on trade?
- A. Import credit discriminations
 - B. Export subsidies
 - C. Voluntary export restraints
 - D. Embargoes
 - E. Packaging, labeling, or marking standards

66. In the context of nontariff barriers, antidumping practices fall under the category of:
- A. specific limitations on trade.
 - B. customs and administrative entry procedures.
 - C. standards.
 - D. governmental participation in trade.
 - E. charges on imports.
67. The fundamental difference between quotas and import licenses is that:
- A. import licenses have greater flexibility than quotas.
 - B. quotas impose specific limitations on trade and import licenses take care of standards.
 - C. quotas are imposed on export goods and import licenses are imposed on import goods.
 - D. for quotas the exporting country sets the limits but licenses are issued by the importing country.
 - E. unlike licenses, quotas limit quantities on a case-by-case basis.
68. Exporting countries primarily agree to voluntary export restraints (VERs) to:
- A. gain greater exposure in the home country.
 - B. reduce market competitiveness.
 - C. avoid the chances of stiffer quotas and tariffs.
 - D. take over local industries.
 - E. avoid criminal prosecution.

69. An agreement signed willingly between the importing country and the exporting country for a restriction on the volume of exports is called a:
- A. None of these.
 - B. tariff.
 - C. voluntary export restraint.
 - D. special interests' privilege.
 - E. balance-of-payment.
70. Which of the following is a defining characteristic of VERs?
- A. International regulatory bodies set export/import limits.
 - B. The importing country can levy heavier import tariffs to override the VERs.
 - C. The exporting country sets the limits on the quantity it will export.
 - D. It is a mandatory tax imposed by a government on goods entering at its borders.
 - E. It is an absolute restriction against the importation of certain goods.
71. The marketing manager for Grand Products wants to export the company's range of beer products to a Gulf country. However, he discovers that there is a complete restriction on the import of any form of liquor into that country. This is an accurate example of_____.
- A. OMAs
 - B. quotas
 - C. tarrifs
 - D. VERs
 - E. boycotts

72. When the United States refuses to sell goods to Iran because of the perception that the country harbors radicals and terrorists, the refusal is most accurately referred to as a(n):

- A. antidumping penalty.
- B. embargo.
- C. tariff.
- D. orderly market agreement.
- E. voluntary export restraint.

73. Blockage is ideally accomplished:

- A. when a country refuses to allow an importer to exchange its national currency for the seller's currency.
- B. when two countries enter into a voluntary agreement to restrict volume of exports.
- C. when a country applies specific unit or dollar limit to a particular type of good.
- D. when countries limit the export of certain goods on a case-by-case basis.
- E. when the government imposes a mandatory tax on goods entering at its borders.

74. In order to effectively secure foreign exchange, which of the following is most likely to be used by countries experiencing severe shortages of foreign exchange?

- A. Import quota
- B. Government approval
- C. Tariff
- D. VERs
- E. Embargo

75. Which of the following trade policy tools makes it mandatory for its importers who want to buy a foreign good to apply for an exchange permit?

- A. Tariff
- B. Import quota
- C. Blocked currency
- D. Government approval
- E. Export levies

76. The exchange permit can stipulate:

- A. the quantity of goods that can be exchanged for a particular sum of foreign currency.
- B. the number of parties that can be involved in an exchange transaction.
- C. the amount to be exchanged to be deposited in a local bank for a set period.
- D. the parties involved to declare collaterals to avail of exchange permits.
- E. the number of times one party can avail of exchange permits.

77. Tall Pine Plywood Company has just received a notice that a shipment of plywood (2 metric tons) has been rejected by Japanese customs because the knotholes commonly found on a plywood sheet are too large. Which of the following categories of nontariff barriers primarily checks such quality issues?

- A. Quotas
- B. Licenses
- C. Embargoes
- D. Boycotts
- E. Standards

78. The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the stringent usage of _____ to restrict trade.

- A. exchange permits
- B. embargoes
- C. blocked currencies
- D. standards
- E. antidumping penalties

79. _____ is the practice whereby a foreign producer intentionally sells their products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A. Basing point pricing
- B. Offensive pricing
- C. Defensive pricing
- D. Counterpoint pricing
- E. Predatory pricing

80. _____ is a new nontariff barrier that was designed to prevent foreign producers from using predatory pricing.

- A. Quota
- B. Embargo
- C. Import license
- D. Antidumping law
- E. License

81. Which of the following trading partners of the U.S. became its topmost "trade problem" at the beginning of the 21st century?
- A. United Kingdom
 - B. Japan
 - C. Germany
 - D. Canada
 - E. China
82. Which of the following was designed to primarily deal with trade deficits, protectionism, and the overall fairness of the U.S. trading partners?
- A. The Neutrality Pact of 1941.
 - B. The Omnibus Trade and Competitiveness Act of 1988.
 - C. The League of Nations Act of 1920.
 - D. The Hawley-Smoot Tariff Act of 1930.
 - E. The International Monetary Fund Act.
83. Which of the following is an area that is considered critical in improving U.S. trade in the context of the Omnibus Trade and Competitiveness Act?
- A. Market access
 - B. Market availability
 - C. Exchange stability
 - D. Export restriction
 - E. Sustainability in trade

84. The Foreign Corrupt Practices Act (FCPA) is specifically addressed in the _____ section of the Omnibus Trade and Competitiveness act.
- A. market access
 - B. export expansion
 - C. import relief
 - D. foreign exchange regulation
 - E. trade deficit
85. Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm?
- A. The market access section.
 - B. The export expansion section.
 - C. The import relief section.
 - D. The foreign exchange regulation section.
 - E. The trade deficit section.
86. Which of the following is one of the four ongoing forces supporting the growth of international trade?
- A. Warsaw Pact
 - B. Kyoto Protocol
 - C. International Monetary Fund
 - D. World summit on sustainable development
 - E. Treaty of Waitangi

87. Which of the following is true of the GATT?
- A. The U.S, U.K, and Germany were the original signatories of the GATT.
 - B. The original agreement provided a process to increase the required tariffs.
 - C. Member nations seek to resolve their trade disputes unilaterally.
 - D. The GATT panels have enforcement powers apart from advisory powers.
 - E. It created an agency to serve as watchdog over world trade.
88. As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the GATT platform, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated, termed the_____.
- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
 - B. Trade-Related Investment Measures (TRIMs)
 - C. General Agreement on Trade in Services (GATS)
 - D. Comprehensive Economic Cooperation Agreement (CECA)
 - E. Trade in Services and Investment Obligations Act
89. Which of the following agreements makes it possible for firms to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?
- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
 - B. Trade-Related Investment Measures (TRIMs)
 - C. General Agreement on Trade in Services (GATS)
 - D. Marrakesh Agreement
 - E. Stockholm Agreement

90. Which of the following emerged as a successor to the GATT following the Uruguay Round of GATT negotiations?

- A. International Monetary Fund
- B. World Bank
- C. European Services Forum
- D. World Trade Organization
- E. Association of Southeast Asian Nations

91. One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

- A. member nations are exempt from import tariffs to other member nations.
- B. all tariffs shall be abolished among member nations at the time of membership.
- C. the World Court shall review all claims and make final judgments.
- D. trade shall be conducted on a nondiscriminatory basis.
- E. trade in services and investments will be excluded from the purview of the GATT.

92. Which of the following is the most popular way to circumvent WTO guidelines and impose new duties?

- A. Antidumping duties
- B. Boycotts
- C. Orderly market agreements
- D. Voluntary export restraints
- E. Embargoes

93. Several nations are frustrated with the slow progress of the most recent round of WTO trade negotiations. To vent their frustration, several countries are:
- A. negotiating bilateral trade agreements.
 - B. forming a rival organization.
 - C. refusing to honor rules and regulations imposed by the WTO.
 - D. using legal means to sue the WTO.
 - E. opting out of membership in the WTO.
94. _____ and the World Bank Group are two global institutions created primarily to assist nations in becoming and remaining economically viable.
- A. The United Nations
 - B. The World Court
 - C. The International Monetary Fund
 - D. The International Red Cross
 - E. The League of Nations
95. To overcome the problems of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.
- A. European Union
 - B. World Trade Organization
 - C. Federation of International Trade Associations
 - D. International Monetary Fund
 - E. United Nations Development Programme

96. Developed by the IMF to cope with universally floating exchange rates, _____ represent(s) an average base of value derived from the value of a group of major currencies.
- A. exchange permits
 - B. special drawing rights
 - C. floating currencies
 - D. the gold rate
 - E. dollar parities
97. Another term for IMF special drawing rights (SDRs) is:
- A. black gold.
 - B. exchange permits.
 - C. floating currencies.
 - D. paper gold.
 - E. virtual dollars.
98. Which of the following is a criticism associated with the global financial institutions?
- A. They failed to focus on the aim of reducing inequalities between the rich and the poor countries.
 - B. They failed to help the Asian countries substantially when they underwent a major financial crisis in the 1990s.
 - C. They failed to respect the autonomy of member nations by deeming any bilateral agreements between members as illegal if made without their approval.
 - D. They failed to foresee and counter the unintended effects of globalizations like pollution, exploitation, and cultural exploitation.
 - E. They failed to suppress the terrorists who were responsible for the attack in London that coincided with the G8 summit.

99. Which of the following is an adverse consequence of globalization?

- A. Nationalization of private sector holdings.
- B. Lower and more competitive oil prices.
- C. Reduced variety and quality of goods and services.
- D. Worker exploitation and domestic job losses.
- E. Provision of loans from the World Bank.

100. Which of the following statements is true with regard to the status of protests against global financial institutions?

- A. Organized protests against global financial institutions began with the establishment of the IMF in 1945.
- B. The sole focus of the anticapitalist protestors has been the environmental impact of globalization and the need for stability.
- C. The "antisweatshop" campaigns by students in America have translated into changes in policy.
- D. The entire gamut of anticapitalist protests have been weak and ineffectual in the face of the tremendous power of the global financial institutions.
- E. The protests against the global financial institutions have been organized yet non violent as a rule.

Essay Questions

101. Briefly discuss the efforts taken by the U.S to promote global trade after World War II.

102. What is the significance of balance of payments figures?

103. How is the balance ensured in a balance-of-payments record? What does a balanced record signify?

104. Briefly describe the elements of a balance-of-payments statement.

105. What are the arguments in favor of protectionism? Which of them are recognized by economists?

106. List the effects of imposing tariffs.

107. Describe VERs.

108. What are the areas primarily focused in the Omnibus Trade and Competitiveness Act of 1988?

109. List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

110. Why was the IMF formed? How does the IMF deal with universally floating rates?

Chapter 02 The Dynamic Environment of International Trade **Answer Key**

True / False Questions

1. After World War II, the U.S. provided assistance to other countries to develop their markets and improve global trade though it gained no returns on these initiatives.

FALSE

For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

2. The GATT became part of the World Trade Organization in 1995, with the ratification of the Uruguay Round agreements.

TRUE

With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.

~~ABC~~

Blooms: Remember

~~DEF~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworld tradefollowing World War II

~~GHI~~

3. As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as underdeveloped countries.

FALSE

As part of the worldwide economic growth and rebuilding after World War II, countries once classified as less developed were reclassified as newly industrialized countries (NICs).

~~ABC~~

Blooms: Remember

~~DEF~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~GHI~~

4. By the year 1971, the United States was selling more to other countries than it bought from them; that is, the United States had a favorable balance of trade.

FALSE

Between 1888 and 1971, the United States sold more to other countries than it bought from them; that is, the United States had a favorable balance of trade. By 1971, however, the United States had a trade deficit of \$2 billion that grew steadily until it peaked at \$160 billion in 1987.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

5. The Organization for Economic Cooperation and Development (OECD) has estimated that the economies of the developed world will expand at much faster rates when compared to the developing economies.

FALSE

The Organization for Economic Cooperation and Development (OECD) estimates that the economies of member countries will expand an average of 3 percent annually for the next 25 years, the same the economies of the developing world will grow at faster rates—from an annual rate of 4 percent in the past quarter century to a rate of 6 percent for the next 25 years.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

6. A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time.

TRUE

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.

~~ANS~~

Blooms: Remember

~~Obj~~

~~Learning Objectives~~

~~Page~~

7. In a balance-of-payments record, if the credit and debit offset each other, it means that a nation is in particularly good financial condition.

FALSE

The balance-of-payments record is maintained on a double-entry bookkeeping system; it must always be in balance. Like a company's statement, the fact that the credit and debit balance does not mean a nation is in particularly good or poor financial condition.

~~ANS~~

Blooms: Analyze

~~Obj~~

~~Learning Objectives~~

~~Page~~

8. The reserves account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

FALSE

The capital account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

~~ASU~~

Blooms: Remember

~~Q145~~

~~ing Q145E p145d145p145t145z145g145y~~

~~Q145d145t~~

9. As the U.S. trade deficit has grown, pressures have begun to push the value of the dollar to higher levels.

FALSE

As the U.S. trade deficit has grown, pressures have begun to push the value of the dollar to lower levels.

~~ASU~~

~~Books/145~~

~~Q145d145t~~

~~ing Q145E p145d145p145t145z145g145y~~

~~Q145d145t~~

10. Protection of an infant industry is recognized by economists as a valid argument in favor of protectionism.

TRUE

Economists in general recognize only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries in favor of protectionism.

~~ASAP~~

Blooms: Remember

~~QWERTY~~

~~ing QWERTY~~

~~QWERTY~~

11. A case might be made for temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition.

TRUE

A case might be made for temporary protection of markets with excess productive capacity or excess labor when such protection could facilitate an orderly transition. Unfortunately such protection often becomes long term and contributes to industrial inefficiency while detracting from a nation's realistic adjustment to its world situation.

~~ASAP~~

~~QWERTY~~

~~QWERTY~~

~~ing QWERTY~~

~~QWERTY~~

12. To encourage development of domestic industries, governments work on reducing trade barriers.

FALSE

While the inspiration for trade barriers may be economic or political, they are encouraged by domestic industries.

ASAP
Book
Equation *ing* *Equation*
Equation

13. In general, tariffs decrease inflationary pressures.

FALSE

In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs (they beget other tariffs via reciprocity).

ASAP
Book
Equation *ing* *Equation*
Equation

14. Tariffs are often used as reprisals against protectionist moves of trading partners.

TRUE

Tariffs are often used as reprisals against protectionist moves of trading partners.

~~ASAP~~
~~Remember~~
~~Learning Objectives~~
~~Table~~

15. Quotas strictly permit importing on a case-by-case basis.

FALSE

Quotas permit importing until the quota is filled; licensing limits quantities on a case-by-case basis.

~~ASAP~~
Blooms: Remember
~~Learning Objectives~~
~~Table~~

16. Quotas are more flexible than import licenses.

FALSE

The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas.

~~ASAP~~
~~Remember~~

~~17. A VER is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.~~
~~TRUE~~

17. A VER is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

TRUE

A VER is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

~~18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.~~
~~FALSE~~
Blooms: Remember

18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.

FALSE

A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries. This restriction can even include travel bans, like the one currently in place for Chinese tourists; the Beijing government refuses to designate Canada as an approved tourism destination.

~~18. A government boycott is a partial restriction against the purchase and importation of certain goods and/or services from other countries.~~
~~FALSE~~
Blooms: Remember

19. In the context of blocked currency, blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.

TRUE

Blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.

~~ANS~~

Blooms: Remember

~~OBJ~~

~~Learning Objectives~~

~~Item~~

20. It is mandatory for importers who want to buy a foreign good to apply for a business permit in that country.

FALSE

Importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.

~~ANS~~

Blooms: Remember

~~OBJ~~

~~Learning Objectives~~

~~Item~~

21. The exchange permit can stipulate an unfavorable rate of exchange depending on the desires of the government.

TRUE

The exchange permit can stipulate the rate of exchange, which can be an unfavorable rate depending on the desires of the government.

~~ANS~~

Blooms: Remember

~~Q145~~

~~ing (2013) Exports~~

~~2017~~

22. The United States and other countries require some products to contain a percentage of "local content" to gain admission to their markets.

TRUE

The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of how countries use standards to protect domestic industry.

~~ANS~~

Blooms: Remember

~~Q145~~

~~ing (2013) Exports~~

~~2017~~

23. Antidumping laws were specifically designed to prevent foreign producers from investing in the U.S. local markets.

FALSE

Antidumping laws were designed to prevent foreign producers from "predatory pricing," a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

24. The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

TRUE

The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

25. The Omnibus Trade and Competitiveness act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.

TRUE

The Omnibus Trade and Competitiveness act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.

~~ABQ~~

Blooms: Remember

~~Q14~~

~~ing Q14 E p m d s C o n t e n t C o p y r i g h t~~

~~7/10/13~~

26. Obtaining export licenses for products on the export control list is more arduous than for those items that are exempted from the list.

FALSE

Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the Omnibus Trade and Competitiveness Act. Export licenses could be obtained more easily and more quickly for products on the export control list.

~~ABQ~~

~~Bloms: Remember~~

~~Q14~~

~~ing Q14 E p m d s C o n t e n t C o p y r i g h t~~

~~7/10/13~~

27. The GATT panels were formed to resolve bilateral trade disputes and thus have both advisory and enforcement powers.

FALSE

GATT member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action. The panels are only advisory and have no enforcement powers.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

28. The decisions taken by the World Trade Organization in solving trade disputes among members are binding ones.

TRUE

The World Trade Organization sets many rules governing trade among its 157 members, provides a panel of experts to hear and rule on trade disputes among members, and, unlike GATT, issues binding decisions.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

29. The World Bank was formed with the primary objective of overcoming inadequate monetary reserves and dealing with unstable currencies which were particularly vexing problems in global trade.

FALSE

The International Monetary Fund (IMF) was formed to overcome inadequate monetary reserves and unstable currencies which were particularly vexing problems in global trade.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

30. Since both SDRs and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to gold rather than dollars.

FALSE

Since both gold and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to SDRs rather than dollars. The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies.

~~ANS~~

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~~ANS~~

~~ANS~~

~~ANS~~

Multiple Choice Questions

31. After World War II, the United States led efforts like the Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled to foster economic growth in the underdeveloped world. These efforts were primarily aimed at:
- A. halting the growth of Nazi Germany.
 - B. dampening the spread of communism.
 - C. dissolving the colonial powers.
 - D. building a stronger defense force.
 - E. creating a worldwide trade bloc to counter the OPEC countries' clout.

After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible.

~~Answer~~

~~Result~~

~~Question~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~Feedback~~

32. After World War II, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. The , aimed at assisting in rebuilding Europe, is the plan most closely associated with this endeavor.

- A. Eisenhower Plan
- B. Marshall Plan
- C. Bradley Plan
- D. Roosevelt Plan
- E. Truman Plan

The Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled through the Agency for International Development and other groups designed to foster economic growth in the underdeveloped world were used to help create a strong world economy.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

33. What was the most apparent reciprocal impact of the foreign economic assistance given by the United States?

- A. European countries formed an alliance to counter the OPEC countries' clout.
- B. European countries formed an alliance to counter the OPEC countries' clout.
- C. All recipient countries appointed Americans to manage their central banks.
- D. Purchases of U.S. agricultural products, manufactured goods, and services by the recipient countries increased.
- E. Distribution of economic power and potential became more uneven.

For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services.

~~ASD~~

~~Book~~

~~1/1/11~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~1/1/11~~

34. Which of the following factors was primarily responsible for the excess production capacity in the U.S. in the first half of the twentieth century?
- A. Technological innovation revolutionized production during this time.
 - B. Many firms from other nations shifted their production facilities to the U.S.
 - C. Domestic demand was at a historic low and resulted in excess capacity.
 - D. Swelling labor supply of returning military after World War II.
 - E. Influx of migrant laborers from Europe and Japan.

The overseas demand created by the Marshall Plan and other programs was important to the U.S. economy because the vast manufacturing base built to supply World War II and the swelling labor supply of returning military created a production capacity well beyond domestic needs.

~~ASD~~

~~Book~~

~~1/1/11~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~1/1/11~~

35. Which of the following was the most significant move of the 1980s that contributed toward international cooperation among trading nations?

- A. Formation of the United Nations Development Programme.
- B. Creation of the United Nations.
- C. Establishment of the World Trade Organization.
- D. Signing of the Montreal Protocol.
- E. Negotiation of the General Agreement on Tariffs and Trade.

In addition to U.S. economic assistance, a move toward international cooperation among trading nations was manifest in the negotiation (1986–1994) of the General Agreement on Tariffs and Trade (GATT).

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

36. Which of the following acronyms refers to the international forum that was created for member countries to engage in the negotiation of tariffs and other barriers to trade?

- A. UNHCR
- B. GATT
- C. WMO
- D. NPT
- E. UNDP

World leaders created GATT, a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~ANS~~

37. What was the outcome for the GATT after the ratification of the Uruguay Round agreements?
- A. With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.
 - B. It became part of the World Trade Organization.
 - C. It led to the uneven distribution of economic power and potential.
 - D. The European Union decided to stay away from the treaty.
 - E. The original purpose was sidelined in favor of political and military intervention between member states.

With the ratification of the Uruguay Round agreements, the GATT became part of the World Trade Organization (WTO) in 1995, and its 117 original members moved into a new era of free trade.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

38. The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance that followed World War II led to:
- A. the rise of new global marketing opportunities.
 - B. the uneven distribution of economic power.
 - C. the dissolution of GATT.
 - D. the spread of Communism.
 - E. the sharp reduction of the production capacity in the U.S.

The rapid growth of war-torn economies and previously underdeveloped countries, coupled with large-scale economic cooperation and assistance, led to new global marketing opportunities.

~~ASD~~

~~Book~~

~~1/1/11~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~1/1/11~~

39. Which were the two major challenges faced by U.S. multinational corporations at the close of the 1960s?
- A. The creation of the Soviet Union and the higher tariffs on imports.
 - B. Growing jingoistic nationalism and a negative population growth rate in major international markets.
 - C. Resistance to direct investment and increasing competition in export markets.
 - D. Increasing Chinese domination in the manufacturing sector and the falling dollar in global markets.
 - E. Political intervention in free trade movement and growing influence of consumer rights advocacy in the home market.

At the close of the 1960s, U.S. multinational corporations (MNCs) were facing major challenges on two fronts: resistance to direct investment and increasing competition in export markets.

~~ASU~~

~~Book~~

~~1/12/11~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~1/12/11~~

40. Post World War II, it was noticed that there was worldwide economic growth and countries once classified as less developed were reclassified as_____.

- A. capitalist countries
- B. free trade economies
- C. tier-II countries
- D. developed countries
- E. newly industrialized countries

The post World War II era witnessed worldwide economic growth and countries once classified as less developed were reclassified as newly industrialized countries (NICs). Various NICs such as Brazil, Mexico, South Korea, Taiwan, Singapore, and Hong Kong experienced rapid industrialization.

~~ANS~~

Blooms: Remember

~~Q45~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANSWER~~

41. Which of the following presents the correct picture of the outcome of increased world trade after the 1950s, contrary to Servan-Schreiber's prediction?
- A. Third World countries were excluded from this economic growth leading to stark imbalances in wealth.
 - B. The European Union became the center of world trade, taking the position away from the U.S.
 - C. The U.S. attained a positive balance of trade scenario in the 1950s and maintained it continuously till the Great Recession.
 - D. Economic power and potential became more evenly distributed among the countries of the world.
 - E. SDRs and gold lost their utility as the basic medium of financial exchange and most monetary statistics started relating to the U.S dollar.

As a result of the expansionary trade measures led by the United States, economic power and potential became more evenly distributed among countries than was the case when Servan-Schreiber warned Europe about U.S. multinational domination.

~~ASB~~

Blooms: Understand

~~U.S.~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradedfollowing World War II

~~ASB~~

42. Which of the following is the major reason behind the failure of American MNCs to completely dominate the European markets as predicted by Servan-Schreiber?

- A. The resurgence of competition worldwide.
- B. The uneven distribution of economic power.
- C. The restructuring of U.S industries.
- D. The decadence of Communism.
- E. The dissolution of colonial powers.

Servan-Schreiber's prediction did not come true for many reasons, but one of the more important was that American MNCs confronted a resurgence of competition from all over the world.

~~ASD~~

~~Book~~

~~1/1/11~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~1/1/11~~

43. Which of the following strategies was employed by the US to regain its lost market share for capital goods by the late 1990s?
- A. Funding the Communist nations.
 - B. Restructuring its industries to be more lean and mean.
 - C. Providing financial assistance to the under-developed countries.
 - D. Raising average U.S. tariffs on more than 20,000 imported goods.
 - E. Outsourcing its production activities to other countries.

In the 1980s, the United States saw its competitive position in capital goods such as computers and machinery erode sharply. But U.S. industry got a wake-up call and responded by restructuring its industries, in essence, "getting lean and mean." By the late 1990s, the United States was once again holding its own in capital goods, particularly with trade surpluses in the high-tech category.

~~ANS~~

~~ANSWER~~

~~ANSWER~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~ANSWER~~

44. By the year 1971, the United States was witnessing: By the year 1971, the United States was witnessing:
- A. an increase in protectionist federal policies.
 - B. a positive balance of trade.
 - C. a sharp rise in domestic and international demand.
 - D. a huge trade deficit.
 - E. an economic situation of the magnitude of the Great Depression.

Between 1888 and 1971, the United States sold more to other countries than it bought from them; that is, the United States had a favorable balance of trade. By 1971, however, the United States had a trade deficit of \$2 billion that grew steadily until it peaked at \$160 billion in 1987.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

45. In the late 1990s, most of the countries of the world saw a slow down in the unprecedented and precipitous growth of their economies. However, _____ remained unaffected by this trend.

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

The unprecedented and precipitous growth of the U.S. economy in the late 1990s slowed dramatically in the last few years, and of course dramatically so in 2009. Growth in most of the rest of the world has followed suit, with the exception of China.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II

~~ANS~~

46. The World Bank estimates that five countries whose share of world trade is barely one-third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union. _____ is one of the countries included in this list.

- A. Canada
- B. Nigeria
- C. Netherlands
- D. Indonesia
- E. Rhodesia

The World Bank estimates that five countries—Brazil, China, India, Indonesia, and Russia—whose share of world trade is barely one third that of the European Union will, by 2020, have a 50 percent higher share than that of the European Union.

~~ANS~~

Blooms: Remember

~~ANS~~

Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

~~ANS~~

47. The system of accounts that records a nation's international financial transactions is most accurately called its:

- A. supply chain management system.
- B. gross domestic product system.
- C. net domestic product payments.
- D. balance of payments.
- E. net national product systems.

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.

ASB

Blooms: Remember

LO 1

Learning Objective 1: Explain the components of the balance of payments.

2013

48. Which of the following ensures that balance-of-payments records are always in balance?

- A. The sum of squares recording system.
- B. The ledger entry model.
- C. The double-entry bookkeeping system.
- D. The archival records system.
- E. The multifactor recording system.

As the balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance.

ASB

2013

49. Which of the following is true regarding the balance-of-payments records?
- A. The balance-of-payments accounts do not consider income brought in by non-resident citizens of a country.
 - B. The fact that assets and liabilities balance does not essentially mean that a nation is in a particularly good financial condition.
 - C. A balance of payments is not a record of condition.
 - D. A balance of payments is a determinant of condition.
 - E. A balance of payments records all the financial transactions of a country since 1980.

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year. The fact that assets and liabilities balance does not mean a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition.

50. Which of the following is a defining characteristic of a balance-of-payments statement?
- A. It is a record of the transactions between the government of a country and the private companies.
 - B. It records all financial transactions between the residents of a country and those of the rest of the world.
 - C. It records the trade policies of the member nations of the WTO.
 - D. It is an annual record of the profitable foreign transactions made by a particular country.
 - E. It is a local firm's financial statement, where the credits and debits must offset each other.

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year.

~~ANS~~
Blooms: Remember
~~ANS~~
~~ANS~~
~~ANS~~

51. Which of the following falls on the plus side of the U.S. balance of payments?

- A. Payments to the United States for insurance.
- B. The costs of goods imported.
- C. Spending by American tourists overseas.
- D. New overseas investments.
- E. The cost of foreign military.

On the plus side of the U.S. balance of payments are merchandise export sales; money spent by foreign tourists; payments to the United States for insurance, transportation, and similar services; payments of dividends and interest on investments abroad; return on capital invested abroad; new foreign investments in the United States; and foreign government payments to the United States.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

52. Which of the following falls on the minus side of the U.S. balance of payments?

- A. Payments to the United States for insurance.
- B. Payments of dividends and interest on investments abroad.
- C. Return on capital invested abroad.
- D. New foreign investments in the United States.
- E. Spending by American tourists overseas.

On the minus side are the costs of goods imported, spending by American tourists overseas, new overseas investments, and the cost of foreign military and economic aid. A deficit results when international payments are greater than receipts.

~~ANS~~

Blooms: Remember

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~~ANS~~

53. A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

- A. Investment account
- B. Receivables account
- C. Services account
- D. Credit account
- E. Reserves account

A balance-of-payments statement includes three accounts: the current account, the capital account, and the official reserves account.

~~ANS~~

Blooms: Remember

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~~ANS~~

54. The_____of the balance-of-payments statement is most likely to record all merchandise exports, imports, and services plus unilateral transfers of funds.

- A. current account
- B. capital account
- C. credit account
- D. receivables account
- E. reserves account

The current account is a record of all merchandise exports, imports, and services plus unilateral transfers of funds.

~~ANS~~

Blooms: Remember

~~ANS~~

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~~ANS~~

55. Which of the following sections of the balance-of-payments statement is a record of the direct investment, portfolio investment, and short-term movement of cash and technology to and from countries?

- A. Current account
- B. Capital account
- C. Credit account
- D. Receivables account
- E. Reserves account

The capital account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

56. The _____ account of the balance-of-payments statement is most likely to record all exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.

- A. current
- B. capital
- C. credit
- D. receivables
- E. reserves

The reserves account is a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.

~~ANS~~

Blooms: Remember

~~ANS~~

~~ANS~~

~~ANS~~

57. Which of the following arguments regarding the need for protectionism is recognized by economists as valid?

- A. Need to keep money at home.
- B. Encouragement of capital accumulation.
- C. Protection of an infant industry.
- D. Conservation of natural resources.
- E. Maintenance of employment and reduction of unemployment.

Countless reasons to maintain government restrictions on trade are espoused by protectionists. Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

~~ANS~~

Blooms: Remember

~~Q15~~

~~100% Correct~~

~~100%~~

58. Randall Smithe-Jones believes that protectionism is the only way to save the United Kingdom from outside competitors. He has seen small businesses go bankrupt because cheaper foreign goods have been more popular. The cell-phone manufacturing industry has just started in U.K and Smithe-Jones' company is one of the first to try its hand at cell-phone manufacturing. Which of the following would probably be the argument that Smithe-Jones would use to persuade his government representatives that protectionism is still needed in the U.K.?
- A. Protection of an infant industry.
 - B. The need to keep money at home.
 - C. Conservation of natural resources.
 - D. National defense.
 - E. Maintenance of standard of living.

The case tells us that cell-phone manufacturing is a nascent industry in the United Kingdom. Protecting this infant industry would be the most probable reason for seeking protection from foreign competition.

ASB
B
C
D
E

59. A tax imposed by a government on goods entering at its borders is most accurately termed as a(n)_____.

- A. boycott
- B. asterisk bill
- C. tariff
- D. quota
- E. writ

A tariff is a tax imposed by a government on goods entering at its borders. Tariffs may be used as revenue-generating taxes or to discourage the importation of goods, or for both reasons.

~~ASB~~
Blooms: Remember
~~Q15~~
~~King (2015) p. 101~~
~~101~~

60. In general, tariffs weaken:

- A. inflationary pressures.
- B. special interests' privileges.
- C. balance-of-payments positions.
- D. government control in economic matters.
- E. reciprocal tariffs by other countries.

In general, tariffs weaken balance-of-payments positions, supply-and-demand patterns, and international relations (they can start trade wars).

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61. Which of the following is true of tariffs?
- A. They strengthen balance-of-payments positions.
 - B. They strengthen supply-and-demand patterns.
 - C. They increase special interests' privileges.
 - D. They strengthen international relations.
 - E. They promote competition.

In general, tariffs increase inflationary pressures, special interests' privileges, government control and political considerations in economic matters, and the number of tariffs.

62. In general, tariffs restrict:
- A. inflationary pressures.
 - B. special interests' privileges.
 - C. government control in economic matters.
 - D. the number of reciprocal tariffs.
 - E. manufacturers' supply sources.

In general, tariffs restrict manufacturers' supply sources, choices available to consumers, and competition.

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63. A specific unit or dollar limit applied to a particular type of good is called a(n):
- A. trade license.
 - B. quota.
 - C. asterisk bill.
 - D. predatory price.
 - E. exchange rate.

A quota is a specific unit or dollar limit applied to a particular type of good.

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64. Which of the following is an example of a nontariff trade barrier?

- A. Compound duties
- B. Revenue tariffs
- C. Administrative fees
- D. Specific duties
- E. Duties

Administrative fees, valuation systems, antidumping practices, tariff classifications, and documentation requirements are collectively classified as customs and administrative entry procedures which represent a sub-type of non-tariff barriers.

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65. Which of the following types of nontariff barriers strictly falls under the category of specific limitations on trade?

- A. Import credit discriminations
- B. Export subsidies
- C. Voluntary export restraints
- D. Embargoes
- E. Packaging, labeling, or marking standards

Quotas, embargoes, import licensing requirements, minimum import price limits, and proportional restrictions of foreign to domestic goods are the non-tariff trade barriers that are classified under specific limitations on trade.

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66. In the context of nontariff barriers, antidumping practices fall under the category of:

- A. specific limitations on trade.
- B. customs and administrative entry procedures.
- C. standards.
- D. governmental participation in trade.
- E. charges on imports.

Administrative fees, valuation systems, antidumping practices, tariff classifications, and documentation requirements are collectively classified as customs and administrative entry procedures which represent a sub-type of non-tariff barriers.

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67. The fundamental difference between quotas and import licenses is that:

- A. import licenses have greater flexibility than quotas.
- B. quotas impose specific limitations on trade and import licenses take care of standards.
- C. quotas are imposed on export goods and import licenses are imposed on import goods.
- D. for quotas the exporting country sets the limits but licenses are issued by the importing country.
- E. unlike licenses, quotas limit quantities on a case-by-case basis.

The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas.

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68. Exporting countries primarily agree to voluntary export restraints (VERs) to:

- A. gain greater exposure in the home country.
- B. reduce market competitiveness.
- C. avoid the chances of stiffer quotas and tariffs.
- D. take over local industries.
- E. avoid criminal prosecution.

A VER is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

69. An agreement signed willingly between the importing country and the exporting country for a restriction on the volume of exports is called a:

- A. None of these.
- B. tariff.
- C. voluntary export restraint.
- D. special interests' privilege.
- E. balance-of-payment.

Similar to quotas are the voluntary export restraints (VERs) or orderly market agreements (OMAs).

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70. Which of the following is a defining characteristic of VERs?

- A. International regulatory bodies set export/import limits.
- B. The importing country can levy heavier import tariffs to override the VERs.
- C. The exporting country sets the limits on the quantity it will export.
- D. It is a mandatory tax imposed by a government on goods entering at its borders.
- E. It is an absolute restriction against the importation of certain goods.

A VER is called voluntary because the exporting country sets the limits.

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71. The marketing manager for Grand Products wants to export the company's range of beer products to a Gulf country. However, he discovers that there is a complete restriction on the import of any form of liquor into that country. This is an accurate example of_____.
- A. OMAs
 - B. quotas
 - C. tariffs
 - D. VERs
 - E. boycotts

A government boycott is an absolute restriction against the purchase and importation of certain goods and/or services from other countries.

72. When the United States refuses to sell goods to Iran because of the perception that the country harbors radicals and terrorists, the refusal is most accurately referred to as a(n):

- A. antidumping penalty.
- B. embargo.
- C. tariff.
- D. orderly market agreement.
- E. voluntary export restraint.

An embargo is a refusal to sell to a specific country.



73. Blockage is ideally accomplished:

- A. when a country refuses to allow an importer to exchange its national currency for the seller's currency.
- B. when two countries enter into a voluntary agreement to restrict volume of exports.
- C. when a country applies specific unit or dollar limit to a particular type of good.
- D. when countries limit the export of certain goods on a case-by-case basis.
- E. when the government imposes a mandatory tax on goods entering at its borders.

Blockage is accomplished by refusing to allow an importer to exchange its national currency for the sellers' currency. In effect, blockage cuts off all importing or all importing above a certain level.



74. In order to effectively secure foreign exchange, which of the following is most likely to be used by countries experiencing severe shortages of foreign exchange?

- A. Import quota
- B. Government approval
- C. Tariff
- D. VERs
- E. Embargo

Government approval to secure foreign exchange is often used by countries experiencing severe shortages of foreign exchange.

75. Which of the following trade policy tools makes it mandatory for its importers who want to buy a foreign good to apply for an exchange permit?

- A. Tariff
- B. Import quota
- C. Blocked currency
- D. Government approval
- E. Export levies

Government approval requires that importers who want to buy a foreign good must apply for an exchange permit, that is, permission to exchange an amount of local currency for foreign currency.

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76. The exchange permit can stipulate:

- A. the quantity of goods that can be exchanged for a particular sum of foreign currency.
- B. the number of parties that can be involved in an exchange transaction.
- C. the amount to be exchanged to be deposited in a local bank for a set period.
- D. the parties involved to declare collaterals to avail of exchange permits.
- E. the number of times one party can avail of exchange permits.

The exchange permit can stipulate that the amount to be exchanged must be deposited in a local bank for a set period prior to the transfer of goods.

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77. Tall Pine Plywood Company has just received a notice that a shipment of plywood (2 metric tons) has been rejected by Japanese customs because the knotholes commonly found on a plywood sheet are too large. Which of the following categories of nontariff barriers primarily checks such quality issues?
- A. Quotas
 - B. Licenses
 - C. Embargoes
 - D. Boycotts
 - E. Standards

Nontariff barriers of this category include standards to protect health, safety, and product quality.

78. The United States and other countries require some products (automobiles in particular) to contain a percentage of "local content" to gain admission to their markets. This is an example of the stringent usage of _____ to restrict trade.

- A. exchange permits
- B. embargoes
- C. blocked currencies
- D. standards
- E. antidumping penalties

Nontariff barriers of the standards category include standards to protect health, safety, and product quality. The standards are sometimes used in an unduly stringent or discriminating way to restrict trade.

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79. _____ is the practice whereby a foreign producer intentionally sells their products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A. Basing point pricing
- B. Offensive pricing
- C. Defensive pricing
- D. Counterpoint pricing
- E. Predatory pricing

Antidumping laws were designed to prevent foreign producers from "predatory pricing." Violators are assessed "antidumping" duties for selling below cost and/or "countervailing duties" to prevent the use of foreign government subsidies to undermine American industry. Many countries have similar laws, and they are allowed under WTO rules.

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80. ____ is a new nontariff barrier that was designed to prevent foreign producers from using predatory pricing.

- A. Quota
- B. Embargo
- C. Import license
- D. Antidumping law
- E. License

Antidumping laws were designed to prevent foreign producers from “predatory pricing,” a practice whereby a foreign producer intentionally sells its products in the United States for less than the cost of production to undermine the competition and take control of the market.

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81. Which of the following trading partners of the U.S. became its topmost "trade problem" at the beginning of the 21st century?

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

At the turn of the century, China took over from Japan as America's number one "trade problem."

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King (2013) Economics

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82. Which of the following was designed to primarily deal with trade deficits, protectionism, and the overall fairness of the U.S. trading partners?

- A. The Neutrality Pact of 1941.
- B. The Omnibus Trade and Competitiveness Act of 1988.
- C. The League of Nations Act of 1920.
- D. The Hawley-Smoot Tariff Act of 1930.
- E. The International Monetary Fund Act.

The Omnibus Trade and Competitiveness Act of 1988 is many faceted, focusing on assisting businesses to be more competitive in world markets as well as on correcting perceived injustice in trade practices.

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83. Which of the following is an area that is considered critical in improving U.S. trade in the context of the Omnibus Trade and Competitiveness Act?

- A. Market access
- B. Market availability
- C. Exchange stability
- D. Export restriction
- E. Sustainability in trade

Under the Omnibus Trade and Competitiveness Act of 1988, the issue of the openness of markets for U.S. goods is addressed as market access. Many barriers restrict or prohibit goods from entering a foreign market.

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84. The Foreign Corrupt Practices Act (FCPA) is specifically addressed in the _____ section of the Omnibus Trade and Competitiveness act.

- A. market access
- B. export expansion
- C. import relief
- D. foreign exchange regulation
- E. trade deficit

Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the Omnibus Trade and Competitiveness act.

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85. Which section of the Omnibus Trade and Competitiveness Act recognizes that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm?

- A. The market access section.
- B. The export expansion section.
- C. The import relief section.
- D. The foreign exchange regulation section.
- E. The trade deficit section.

Recognizing that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm, the import relief section of the Omnibus Trade and Competitiveness Act provides a menu of remedies for U.S. businesses adversely affected by imports.

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86. Which of the following is one of the four ongoing forces supporting the growth of international trade?

- A. Warsaw Pact
- B. Kyoto Protocol
- C. International Monetary Fund
- D. World summit on sustainable development
- E. Treaty of Waitangi

Four ongoing activities to support the growth of international trade are GATT, the associated WTO, the International Monetary Fund (IMF), and the World Bank Group.

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87. Which of the following is true of the GATT?

- A. The U.S, U.K, and Germany were the original signatories of the GATT.
- B. The original agreement provided a process to increase the required tariffs.
- C. Member nations seek to resolve their trade disputes unilaterally.
- D. The GATT panels have enforcement powers apart from advisory powers.
- E. It created an agency to serve as watchdog over world trade.

Member nations seek to resolve their trade disputes bilaterally; if that fails, special GATT panels are set up to recommend action.

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88. As an outcome of the Uruguay Round of intergovernmental tariff negotiations on the GATT platform, the first multilateral, legally enforceable agreement covering trade and investment in the services sector was formulated, termed the_____.
- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
 - B. Trade-Related Investment Measures (TRIMs)
 - C. General Agreement on Trade in Services (GATS)
 - D. Comprehensive Economic Cooperation Agreement (CECA)
 - E. Trade in Services and Investment Obligations Act

An important objective of the United States in the Uruguay Round was to reduce or eliminate barriers to international trade in services. The General Agreement on Trade in Services (GATS) was the first multilateral, legally enforceable agreement covering trade and investment in the services sector.

89. Which of the following agreements makes it possible for firms to challenge the restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution?

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)
- C. General Agreement on Trade in Services (GATS)
- D. Marrakesh Agreement
- E. Stockholm Agreement

As a result of TRIMs, restrictions in Indonesia that prohibit foreign firms from opening their own wholesale or retail distribution channels can be challenged.



90. Which of the following emerged as a successor to the GATT following the Uruguay Round of GATT negotiations?

- A. International Monetary Fund
- B. World Bank
- C. European Services Forum
- D. World Trade Organization
- E. Association of Southeast Asian Nations

Perhaps the most notable achievement of the Uruguay Round was the creation of a new institution as a successor to the GATT—the World Trade Organization.



91. One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

- A. member nations are exempt from import tariffs to other member nations.
- B. all tariffs shall be abolished among member nations at the time of membership.
- C. the World Court shall review all claims and make final judgments.
- D. trade shall be conducted on a nondiscriminatory basis.
- E. trade in services and investments will be excluded from the purview of the GATT.

In general, the agreement covers these basic elements: (1) trade shall be conducted on a nondiscriminatory basis; (2) protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas; and (3) consultation shall be the primary method used to solve global trade problems.

92. Which of the following is the most popular way to circumvent WTO guidelines and impose new duties?

- A. Antidumping duties
- B. Boycotts
- C. Orderly market agreements
- D. Voluntary export restraints
- E. Embargoes

Antidumping duties are becoming a favorite way for nations to impose new duties. The WTO continues to fight these new, creative barriers to trade.

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93. Several nations are frustrated with the slow progress of the most recent round of WTO trade negotiations. To vent their frustration, several countries are:

- A. negotiating bilateral trade agreements.
- B. forming a rival organization.
- C. refusing to honor rules and regulations imposed by the WTO.
- D. using legal means to sue the WTO.
- E. opting out of membership in the WTO.

Frustrated with the slow progress of the most recent round of WTO trade negotiations, several countries are negotiating bilateral trade agreements. For example, the United States has signed free-trade agreements with Peru, Colombia, Panama, and South Korea.

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94. _____ and the World Bank Group are two global institutions created primarily to assist nations in becoming and remaining economically viable.

- A. The United Nations
- B. The World Court
- C. The International Monetary Fund
- D. The International Red Cross
- E. The League of Nations

The International Monetary Fund (IMF) and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

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95. To overcome the problems of inadequate monetary reserves and unstable currencies that plagued international trading before World War II, the _____ was formed.

- A. European Union
- B. World Trade Organization
- C. Federation of International Trade Associations
- D. International Monetary Fund
- E. United Nations Development Programme

Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. So long as these conditions exist, world markets cannot develop and function as effectively as they should. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed.

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96. Developed by the IMF to cope with universally floating exchange rates, _____ represent(s) an average base of value derived from the value of a group of major currencies.

- A. exchange permits
- B. special drawing rights
- C. floating currencies
- D. the gold rate
- E. dollar parities

Developed by the IMF to cope with universally floating exchange rates, special drawing rights (SDRs) represents an average base of value derived from the value of a group of major currencies.

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97. Another term for IMF special drawing rights (SDRs) is:

- A. black gold.
- B. exchange permits.
- C. floating currencies.
- D. paper gold.
- E. virtual dollars.

The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies.

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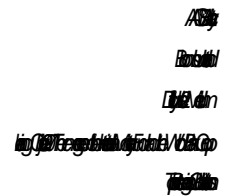
98. Which of the following is a criticism associated with the global financial institutions?
- A. They failed to focus on the aim of reducing inequalities between the rich and the poor countries.
 - B. They failed to help the Asian countries substantially when they underwent a major financial crisis in the 1990s.
 - C. They failed to respect the autonomy of member nations by deeming any bilateral agreements between members as illegal if made without their approval.
 - D. They failed to foresee and counter the unintended effects of globalizations like pollution, exploitation, and cultural exploitation.
 - E. They failed to suppress the terrorists who were responsible for the attack in London that coincided with the G8 summit.

The basic complaint against the WTO, IMF, and others is the amalgam of unintended consequences of globalization: environmental concerns, worker exploitation and domestic job losses, cultural extinction, higher oil prices, and diminished sovereignty of nations.

99. Which of the following is an adverse consequence of globalization?

- A. Nationalization of private sector holdings.
- B. Lower and more competitive oil prices.
- C. Reduced variety and quality of goods and services.
- D. Worker exploitation and domestic job losses.
- E. Provision of loans from the World Bank.

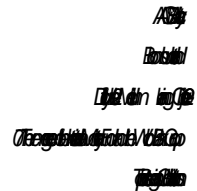
The basic complaint against the WTO, IMF, and others is the amalgam of unintended consequences of globalization: environmental concerns, worker exploitation and domestic job losses, cultural extinction, higher oil prices, and diminished sovereignty of nations.



100. Which of the following statements is true with regard to the status of protests against global financial institutions?

- A. Organized protests against global financial institutions began with the establishment of the IMF in 1945.
- B. The sole focus of the anticapitalist protestors has been the environmental impact of globalization and the need for stability.
- C. The "antisweatshop" campaigns by students in America have translated into changes in policy.
- D. The entire gamut of anticapitalist protests have been weak and ineffectual in the face of the tremendous power of the global financial institutions.
- E. The protests against the global financial institutions have been organized yet non violent as a rule.

The protest groups, some of them with responsible intent, have affected policy. For example, "antisweatshop" campaigns, mostly in America and mostly student-led, have had effects beyond college campuses.



Essay Questions

101. Briefly discuss the efforts taken by the U.S to promote global trade after World War II.

After World War II, as a means to dampen the spread of communism, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. The Marshall Plan to assist in rebuilding Europe, financial and industrial development assistance to rebuild Japan, and funds channeled through the Agency for International Development were some of the measures taken by U.S. to strengthen the world economy. With the countries newly freed from colonial powers striving to gain economic independence and the financial assistance offered by the United States, most of the noncommunist world's economies grew, and new markets were created.

The benefits of the foreign economic assistance given by the United States flowed both ways. For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars more returned in the form of purchases of U.S. agricultural products, manufactured goods, and services. In short, the United States helped make the world's economies stronger, which enabled them to buy more from us.

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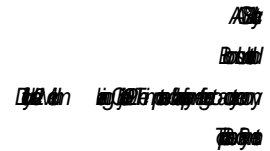
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Learning Objective: 02-01 Thebasisforthereestablishmentofworldtradefollowing World War II

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102. What is the significance of balance of payments figures?

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time—usually one year. Each of the nation's financial transactions with other countries is reflected in its balance of payments. A nation's balance-of-payments statement presents an overall view of its international economic position and is an important economic measure used by treasuries, central banks, and other government agencies whose responsibility is to maintain external and internal economic stability. A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other.



103. How is the balance ensured in a balance-of-payments record? What does a balanced record signify?

A balance of payments represents the difference between receipts from foreign countries on one side and payments to them on the other. As the balance-of-payments record is maintained on a double-entry bookkeeping system, it must always be in balance. As on an individual company's financial statement, the assets and liabilities or the credits and debits must offset each other. And like a company's statement, the fact that they balance does not mean a nation is in particularly good or poor financial condition. A balance of payments is a record of condition, not a determinant of condition.



104. Briefly describe the elements of a balance-of-payments statement.

A balance-of-payments statement includes three accounts:

- the current account—a record of all merchandise exports, imports, and services plus unilateral transfers of funds;
- the capital account—a record of direct investment, portfolio investment, and short-term capital movements to and from countries; and
- the official reserves account—a record of exports and imports of gold, increases or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.

Of the three, the current account is of primary interest to international business.

105. What are the arguments in favor of protectionism? Which of them are recognized by economists?

Arguments forwarded by protectionists to maintain government restrictions on trade can be classified as follows: (1) protection of an infant industry, (2) protection of the home market, (3) need to keep money at home, (4) encouragement of capital accumulation, (5) maintenance of the standard of living and real wages, (6) conservation of natural resources, (7) industrialization of a low-wage nation, (8) maintenance of employment and reduction of unemployment, (9) national defense, (10) increase of business size, and (11) retaliation and bargaining.

Economists in general recognize as valid only the arguments regarding infant industry, national defense, and industrialization of underdeveloped countries.

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106. List the effects of imposing tariffs.

The effects of imposing tariffs can be summarized as follows:

In general, tariffs increase:

- inflationary pressures
- special interests' privileges
- government control and political considerations in economic matters, and
- the number of tariffs (they beget other tariffs via reciprocity).

Tariffs weaken:

- balance-of-payments positions
- supply-and-demand patterns, and
- international relations (they can start trade wars).

Tariffs also restrict:

- manufacturers' supply sources,
- choices available to consumers, and
- competition.

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107. Describe VERs.

The VER is an agreement between the importing country and the exporting country for a restriction on the volume of exports. They are similar to quotas and also referred to as orderly market agreements (OMAs). A VER is called voluntary because the exporting country sets the limits; however, it is generally imposed under the threat of stiffer quotas and tariffs being set by the importing country if a VER is not established.

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108. What are the areas primarily focused in the Omnibus Trade and Competitiveness Act of 1988?

The Omnibus Trade and Competitiveness Act of 1988 was designed to deal with trade deficits, protectionism, and the overall fairness of America's trading partners. The bill covers three areas considered critical in improving U.S. trade: market access, export expansion, and import relief.

- The issue of the openness of markets for U.S. goods is addressed as market access. The act gives the U.S. president authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.
- The act recognizes that some problems with U.S. export competitiveness stem from impediments on trade imposed by U.S. regulations and export disincentives. Export controls, the Foreign Corrupt Practices Act (FCPA), and export promotion were specifically addressed in the export expansion section of the act.
- Recognizing that foreign penetration of U.S. markets can cause serious competitive pressure, loss of market share, and, occasionally, severe financial harm, the import relief section of the act provides a menu of remedies for U.S. businesses adversely affected by imports.

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109. List the major agreements reached during the Uruguay Round of GATT negotiations. Which was the most notable achievement of the Uruguay Round?

An important objective of the United States in the Uruguay Round was to reduce or eliminate barriers to international trade in services.

- The General Agreement on Trade in Services (GATS) was the first multilateral, legally enforceable agreement covering trade and investment in the services sector. It provides a legal basis for future negotiations aimed at eliminating barriers that discriminate against foreign services and deny them market access.
- Trade-Related Investment Measures (TRIMs) established the basic principle that investment restrictions can be major trade barriers and therefore are included, for the first time, under GATT procedures.
- Another objective of the United States for the Uruguay Round was achieved by an agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). The TRIPs agreement establishes substantially higher standards of protection for a full range of intellectual property rights than are embodied in current international agreements and it provides for the effective enforcement of those standards both internally and at the border.
- Perhaps the most notable achievement of the Uruguay Round was the creation of a new institution as a successor to the GATT—the World Trade Organization.

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110. Why was the IMF formed? How does the IMF deal with universally floating rates?

Inadequate monetary reserves and unstable currencies are particularly vexing problems in global trade. To overcome these particular market barriers that plagued international trading before World War II, the International Monetary Fund (IMF) was formed. Originally 29 countries signed the agreement; now 184 countries are members.

To cope with universally floating exchange rates, the IMF developed special drawing rights (SDRs). The SDR is in effect "paper gold" and represents an average base of value derived from the value of a group of major currencies. Rather than being denominated in the currency of any given country, trade contracts are frequently written in SDRs because they are much less susceptible to exchange rate fluctuations.

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