

***International Political Economy - International
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Chapter 12: A Society-Centered Approach to Monetary and Exchange-Rate Policies

Multiple Choice Questions

1. Between 2011 and 2017, the dollar rose in value against America's largest trading partners by

- a) 10%.
- b) 15%.
- c) 20%.
- d) 25%.
- e) 30%.

Answer: e

2. Governments in advanced industrial societies have consistently chosen domestic economic autonomy over exchange-rate stability only since the

- a) 1860s.
- b) 1880s.
- c) 1900s.
- d) 1920s.
- e) 1940s.

Answer: d

3. Governmental attitudes toward economic management after WW I changed because
- a) electoral systems were more restrictive concerning minimum voting age after the war.
 - b) electoral systems were more restrictive concerning minimum income or property conditions after the war.
 - c) universal male suffrage had been adopted in all Western European countries by 1911.
 - d) universal female suffrage had been adopted in all Western European countries by 1931.
 - e) Interests of workers had been but excluded from the political process until after the war.

Answer: e

4. In Great Britain until 1884, only

- a) 3.3% of the population could vote.
- b) 6.3% of the population could vote.
- c) 9.3% of the population could vote.
- d) 12.3% of the population could vote.
- e) 15.3% of the population could vote.

Answer: a

5. The rise of worker power therefore created political incentives for governments to adopt economic policies that would raise employment and keep wages relatively high. Such policies

- a) were always consistent with a continued commitment to the gold standard.
- b) were not always consistent with a continued commitment to the gold standard.
- c) created political incentives to move away from the constraints of a floating exchange-rate.
- d) created political incentives to avoid the foreign costs of balance-of-payments adjustment.
- e) created political incentives to avoid the domestic costs of inflation.

Answer: b

6. Keynesian theories and policy recommendations focused primarily on the problem of

- a) unemployment.
- b) inflation.
- c) consumer prices.
- d) exports.
- e) fixed exchange rate systems.

Answer: a

7. In the early 1920s, British unemployment rose to about

- a) 10%.
- b) 14%.
- c) 16%.
- d) 20%.
- e) 22%.

Answer: d

8. According to Keynes, economies can get stuck at high levels of unemployment because of

- a) government budget deficits.
- b) uncertainty of investment decisions.
- c) adverse parliamentary regulations.
- d) exchange rate instability.
- e) cash hoarding.

Answer: b

9. Investment expenditures typically account for about _____ of total national expenditures.

- a) 10%
- b) 20%

- c) 30%
- d) 40%
- e) 50%

Answer: b

10. Because Keynes believed that the cause of persistent high unemployment ultimately lay in adequate demand for goods, he proposed that governments use fiscal and monetary policies to

- a) manage interest rates.
- b) manage aggregate demand.
- c) manage savings rates.
- d) manage budget deficits.
- e) manage imports.

Answer: b

11. Which of the following is not a part of aggregate demand? Consumption and investment expenditures made by

- a) government.
- b) domestic customers.
- c) foreign consumers.
- d) domestic producers.
- e) foreign producers.

Answer: e

12. The three society-based models of monetary and exchange rate politics are

- a) an institutional model, a partisan model, and a factor model.
- b) an organizational model, a partisan model, and a sectoral model.
- c) an institutional model, a neutral model, and a sectoral model.
- d) an institutional model, a production model, and a sectoral model.
- e) an institutional model, a partisan model, and a sectoral model.

Answer: e

13. The “Unholy Trinity” framework deals with three government policy goals:

- a) floating exchange rate, domestic autonomy of monetary policy, and capital mobility.
- b) fixed exchange rate, domestic autonomy of monetary policy, and labor mobility.
- c) fixed exchange rate, domestic autonomy of monetary policy, and capital mobility.
- d) fixed exchange rate, domestic autonomy of fiscal policy, and capital mobility.
- e) floating exchange rate, domestic autonomy of fiscal policy, and labor mobility.

Answer: c

14. Which of the following statements is true?

- a) When capital is mobile, imbalances arise slowly after a change in monetary policy.
- b) When capital is immobile, imbalances arise rapidly after a change in monetary policy.
- c) When capital is mobile, imbalances are usually pretty small.
- d) When capital is immobile, imbalances are usually very large.
- e) When capital is immobile, imbalances are usually pretty small.

Answer: e

15. The Philips curve is based on a tradeoff between

- a) inflation and unemployment.
- b) deflation and unemployment.
- c) inflation and budget deficit.
- d) unemployment and trade deficit.
- e) inflation and imports.

Answer: a

16. According to the electoral model, prior to an election, politicians are more likely to adopt

- a) policies that fight inflation.
- b) policies that inhibit economic growth.
- c) policies that try to lower unemployment.
- d) policies that try to stabilize exchange rates.
- e) policies that devalue the currency.

Answer: c

17. In constitutional democracies politicians must win approval of veto players to adjust macroeconomic policies to their benefit. Examples of veto players do not include

- a) opposition political parties.
- b) independent domestic government institutions.
- c) sub-national units with influence over economic policy.
- d) state governments in the United States.
- e) foreign government institutions.

Answer: e

18. Which of the following reasons is a weakness of the explanation of exchange-rate policy changes according to the electoral approach?

- a) It tells us little about exchange-rate policy at other times other than election periods.
- b) Different political parties pursue distinct macroeconomic objectives.
- c) Right wing parties are typically less concerned about unemployment and more concerned about inflation.
- d) It does not assume that all governments value monetary autonomy more than exchange-rate stability.
- e) Exchange rate policy is determined by the group that has the greatest influence regardless of elections.

Answer: a

19. Of the ten recessions that have occurred in the United States between 1946 and 2002,

- a) 4 of 10 have happened under Republican administrations.
- b) 5 of 10 have happened under Republican administrations.
- c) 6 of 10 have happened under Republican administrations.
- d) 7 of 10 have happened under Republican administrations.
- e) 8 of 10 have happened under Republican administrations.

Answer: e

20. According to Oatley, some analysts argue that market expectations of prolonged dollar weakness could lead to higher interest rates in the United States. Higher interest rates would.

- a) lower the cost of investment for the private sector.
- b) lower the federal government's borrowing costs.
- c) raise the federal government's borrowing costs.
- d) eventually prevent foreign currency retaliation.
- e) could cause foreign governments keep the euro as their primary vehicle currency and reserve asset.

Answer: c

21. According to Oatley, which of the following groups is not a domestic actor group according to the sectoral model?

- a) Import-competing producers
- b) Export-oriented producers
- c) Nontraded-goods producers
- d) Financial services industry
- e) Natural resources industry

Answer: e

22. Which of the following statements is incorrect according to the sectoral model?

- a) Export-oriented producers prefer a fixed exchange rate.
- b) Import-competing producers prefer a floating exchange rate.
- c) Nontraded producers prefer a floating exchange rate.
- d) Financial services prefer a fixed exchange rate.
- e) Financial services prefer monetary-policy autonomy.

Answer: d

23. Which of the following statements about the level of the exchange is correct according to the sectoral model?

- a) The export-oriented sector prefers a strong currency.
- b) The import-competing sector prefers a strong currency.
- c) The traded-goods sector prefers a strong currency.
- d) The nontraded goods sector prefers a weak currency.
- e) Financial services sector tend to be agnostic with respect to the level of exchange rates.

Answer: e

24. Which of the following reasons is a weakness of the explanation of exchange-rate policy changes according to the sectoral model?

- a) The sectoral approach may underestimate the importance that export-oriented firms attach to exchange rate stability.
- b) The sectoral approach may overestimate the importance that the traded goods sector attaches to a strong currency.
- c) The sectoral model tells us little about exchange-rate policy outcomes.
- d) The sectoral approach may overestimate the importance that export-oriented firms attach to monetary-policy autonomy.
- e) The sectoral approach may underestimate the importance that the traded goods sector attaches to a weak currency.

Answer: c

25. Which of the following criticisms of the society-centered approaches to exchange rate politics is not generally valid?

- a) They don't explain outcomes.
- b) They omit the interests of noneconomic interest groups.
- c) They assume that governments do have independent preferences.
- d) They assume that policy outcomes result from decisions made by the party that controls government.
- e) They overstate the ability of domestic interest groups to influence policy.

Answer: c

True-False Questions

- 1. Between 2011 and 2017 when the dollar rose in value against America's largest trading partners, American exporters found it increasingly easier to sell in foreign markets.**

Answer: False

- 2. To maintain a fixed exchange rate, a government does not have to surrender its ability to manage the domestic economy.**

Answer: False

- 3. By 1918, universal male suffrage had been adopted in all West European countries.**

Answer: False

- 4. Keynes argued that governments must accept persistent high employment until wages fell low enough for the demand for labor to increase.**

Answer: False

- 5. Keynes believed that the cause of persistent high unemployment ultimately lay in the inadequate demand for goods.**

Answer: True

- 6. Both the institutional and partisan models of monetary and exchange-rate politics assume that all governments want to retain monetary policy autonomy in order to manage the domestic economy.**

Answer: True

- 7. The sectoral model of monetary and exchange-rate politics assumes that all governments want to value monetary policy autonomy more than exchange-rate stability.**

Answer: False

- 8. The partisan model of monetary and exchange-rate politics is based on a trade-off between unemployment and inflation.**

Answer: True

- 9. A large body of research suggests that leftist and rightist governments in the advanced industrialized countries have not in fact pursued distinct macroeconomic policies throughout the post WW II era.**

Answer: False

10. The strong dollar seemingly posed a threat to Trump's campaign promise to reduce and even eliminate America's trade deficit.

Answer: True

Essay/Discussion Questions

- 1. Explain and discuss how electoral reform had a profound effect on exchange rate policies.**
- 2. What was Keynes' explanation for high levels of unemployment in the 1920s & 1930s? How did this challenge neoclassical theory at that time?**
- 3. What is the Phillips curve? What tradeoffs does it explain? Give a contemporary example of this principle.**
- 4. Briefly explain the similarities and differences between the three society-based models of monetary and exchange-rate politics.**
- 5. Explain the concept of the "Unholy Trinity" as the trade-off between domestic economic autonomy and exchange-rate stability.**
- 6. Describe and explain the electoral model of monetary and exchange-rate politics.**
- 7. Describe and explain the partisan model of monetary and exchange-rate politics.**
- 8. Compare and contrast the similarities of the sectoral model of monetary and exchange-rate politics with the electoral and partisan models.**
- 9. What are the weaknesses of each of the three society-based models of monetary and exchange-rate politics?**
- 10. Explain the pros and cons of a weak versus a strong dollar in the contemporary international political economy.**

CHAPTER 2: The World Trade Organization and the World Trade System

Multiple Choice Questions

- 1. Annual world merchandise trade has grown during the past 70 years at an average annual rate of about 6 percent to**

- a) \$ 7 trillion.**
- b) \$ 17 trillion.**
- c) \$ 21 trillion.**
- d) \$ 24 trillion.**
- e) \$ 27 trillion.**

Answer: b

- 2. World trade has grown so rapidly over the last 60 years because**

- a) the WTO and GATT supported and encouraged such growth.**
- b) of the competition between the US and China.**
- c) as a consequence of greater wealth equality between rich and poor nations.**
- d) national economies becoming less connected.**
- e) the world's economic output has grown more than trade.**

Answer: a

- 3. The World Trade Organization – WTO**

- a) has a staff and budget about the same as the World Bank.**
- b) has a staff and budget somewhat larger than the World Bank.**
- c) has its headquarters in London.**
- d) has its headquarters in Washington, D.C.**
- e) has its headquarters in Geneva, Switzerland.**

Answer: e

- 4. Which two core principles stand at the base of the WTO?**

- a) Political liberalism and nondiscrimination**
- b) Market liberalism and preferential discrimination**
- c) Market liberalism and nondiscrimination**
- d) Political conservatism and dispute settlement**
- e) Intergovernmental bargaining and dispute settlement**

Answer: c

- 5. “Non-discrimination” ensures that**

- a) each WTO member faces identical opportunities to trade with other WTO members.**

- b) each WTO member faces identical opportunities to trade with other non-WTO members.
- c) each WTO member faces preferential opportunities to trade with other WTO members.
- d) each WTO member are required to lower tariffs with other WTO members.
- e) each WTO member are required to raise tariffs with other non-WTO members.

Answer: a

6. Tariffs are

- a) quotas that governments impose on foreign goods entering the country.
- b) taxes that governments impose on foreign goods leaving the country.
- c) taxes that governments impose on foreign goods entering the country
- d) regulations that governments impose on domestic goods leaving the country.
- e) regulations that governments impose on foreign goods entering the country.

Answer: c

7. A public good is defined by which two characteristics?

- a) Excludability and non-rivalry
- b) Non-excludability and rivalry
- c) Undersupply and non-rivalry
- d) Oversupply and rivalry
- e) Non-excludability and non-rivalry

Answer: e

8. As a *hegemon* declines in power,

- a) it becomes more willing to bear the cost of maintaining trade rules and world trade becomes more open.
- b) it becomes more willing to bear the cost of maintaining trade rules and world trade becomes less open.
- c) it becomes less willing to bear the cost of maintaining trade rules and world trade becomes less open.
- d) it becomes less willing to bear the cost of maintaining trade rules and world trade becomes more open.
- e) it becomes less willing to bear the cost of maintaining trade rules so that more free riders will be able to profit.

Answer: c

9. The history of hegemonic transitions provides some support that
- a) world trade has flourished during periods of hegemonic leadership and floundered during periods without it.
 - b) world trade has floundered during periods of hegemonic leadership and flourished during periods without it.
 - c) the British failed to reconstruct the world economy after WW II even though it had the resources to do so.
 - d) the United States reconstructed the world economy after WW II even though it didn't have resources to do so.
 - e) The European Union could reconstruct the world economy in the coming decades because China will not have the resources to do so.

Answer: a

10. Two important probable changes within the WTO are
- a) the decline of developing countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.
 - b) the emergence of developing countries as a powerful bloc within the organization, and the decline of NGOs as a powerful force outside the organization.
 - c) the emergence of advanced countries as a powerful bloc within the organization, and the decline of NGOs as a powerful force outside the organization.
 - d) the emergence of developing countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.
 - e) the decline of advanced countries as a powerful bloc within the organization, and the emergence of NGOs as a powerful force outside the organization.

Answer: d

11. According to Oatley, developed countries
- a) liberalized industries with capital intensive manufactured goods and continued to protect industries in which they were uncompetitive.
 - b) continued to liberalize all industries in which they were uncompetitive.
 - c) continued to liberalize all industries.
 - d) liberalized industries with labor intensive manufactured goods.
 - e) protected industries with capital intensive manufactured goods.

Answer: a

12. According to Oatley, WTO rules have been criticized by NGOs as

- a) too favorable towards consumer interests.**
- b) too favorable towards producer interests.**
- c) too biased against producer interests.**
- d) too favorable towards environmental interests.**
- e) too favorable towards labor unions.**

Answer: b

13. Reforms that might make WTO decision making more inclusive

- a) would also make it more difficult to reach agreement within the organization.**
- b) would also make it less difficult to reach agreement within the organization.**
- c) would also make it more useful for governments to pursue their trade objectives.**
- d) would also make it less likely that governments will seek alternative organizations.**
- e) would also make it more hostile to developing country interests.**

Answer: a

14. Many observers believe that regional trade arrangements

- a) don't pose a threat to the multilateral trade system.**
- b) pose a challenge to the WTO because they don't offer a more discriminatory way to organize world trade.**
- c) don't pose a challenge to the WTO because they offer a more preferential market access to another country located in the same region of the world.**
- d) don't pose a challenge to the WTO because they offer a more discriminatory way to organize world trade.**
- e) pose a challenge to the WTO because they offer a more preferential market access to another country located in the same region of the world.**

Answer: e

15. Agreements between countries in Western, Eastern, and Central Europe, and in the Mediterranean account for almost

- a) 30 percent of RTAs in operation.**
- b) 40 percent of RTAs in operation.**
- c) 50 percent of RTAs in operation.**
- d) 60 percent of RTAs in operation.**
- e) 70 percent of RTAs in operation.**

Answer: c

16. Which of the following is NOT an idea generally advanced by scholars to account for the rapid proliferation of RTAs?

- a) It has decreased a country's bargaining power in multilateral trade negotiations.
- b) The EU establishment of free-trade agreements as the first step in the accession process.
- c) A country's desire to gain a more secure access to the market of a particularly important trading partner.
- d) A government's need to signal a strong commitment to economic reform.
- e) The disintegration of the Soviet Union.

Answer: a

17. If more trade is created than diverted, an RTA

- a) pushes the world toward protectionism.
- b) has liberalized trade.
- c) undermines the WTO's nondiscrimination principle.
- d) makes it easier for *hegemons* to stabilize trade.
- e) has no net impact on trade.

Answer: b

18. WTO membership has expanded dramatically since 1985. More than 70 countries have joined, increasing total membership to 164 countries (as of January 2022).

- a) 145
- b) 178
- c) 164
- d) 190
- e) 202

Answer: c

19. The growth of the WTO membership and the emergence of the G-20 as a powerful bloc within the organization

- a) has lowered the stakes of trade negotiations.
- b) has made it easier to find packages acceptable to the full membership.

- c) has reversed the apparent tendency to place business interests before consumer interests.
- d) has made it more difficult to find packages acceptable to the full membership.
- e) has decreased market liberalism.

Answer: d

20. The emergence of a vocal NGO movement critical of the WTO's apparent tendency to place business interests before consumer interests has made

- a) it more difficult to reach agreements within the organization.
- b) it less difficult to reach agreements within the organization.
- c) it easier to reach agreements within other trade organizations.
- d) possible to expand WTO membership dramatically.
- e) no difference in reaching agreements within the organization.

Answer: a

21. Which of the following statements is NOT true about the Doha Round of trade bargaining that began in November 2001?

- a) Governments agreed to negotiate additional tariff reductions.
- b) Governments agreed to incorporate existing negotiations in services.
- c) Governments agreed to pursue meaningful liberalization of trade in agricultural products.
- d) Governments agreed to explore aspects of the relationship between trade and the environment.
- e) Governments agreed to negotiate on government procurement policy.

Answer: e

22. International institutions such as the WTO have public good characteristics. Therefore, international rules and procedures

- a) necessarily benefit all governments equally.
- b) make it easier to deny a government these benefits once an institution has been established.
- c) do not decrease as a function of the number of governments that belong to the institution.

- d) cannot be frustrated by free riding.**
- e) make it impossible to deny a government these benefits once an institution has been established.**

Answer: e; Chap 2: Page: 13; Skill: Application

23. In the 1970s and 1980s, many commentators viewed Japan's ascent as a harbinger of US hegemonic decline

- a) in spite of increasing US competitive advantage in high technology industries.**
- b) because of increasing US trade surpluses with China.**
- c) because of increasing US trade deficits with Japan.**
- d) because of increasing Japanese protectionism.**
- e) because the end of the Cold War allowed the US to increase its economic alliance with Japan.**

Answer: c

24. Free riding describes situations in which

- a) individuals rely on others to pay for a public good.**
- b) a government relies on publics to pay for a private good.**
- c) governments rely consensus to pay for a public good.**
- d) governments provide welfare for poor people.**
- e) poor people provide private benefits for wealthy individuals**

Answer: a

25. An emerging free-trade area in Pacific Asia could be seen as a response to

- a) a breakdown of regionalism in Europe and the Western Hemisphere.**
- b) increased regionalism in Europe and the Western Hemisphere.**
- c) increasing US trade surpluses with China.**
- d) increasing US trade deficits with Japan.**
- e) increasing trade cooperation between China and Russia.**

Answer: b

True-False Questions

1. **Internationalization has been brought about by the decisions corporations have made about the rules and institutions that govern world trade.**

Answer: False

2. ***Market liberalism* asserts that every country –no matter how rich or poor- enjoys a higher standard of living with trade than it can achieve without trade.**

Answer: True

3. ***National treatment* allows governments to use taxes, regulations, and other domestic policies to provide an advantage to domestic firms at the expense of foreign firms.**

Answer: False

4. ***Most-Favored Nation* (MFN) requires each WTO member to treat all WTO members the same.**

Answer: True

5. ***Non-tariff barriers* are taxes that governments impose on foreign goods entering the country.**

Answer: False

6. **Governments in most developing countries were skeptical about the ability to foster development through trade.**

Answer: True

7. **Assertions of US hegemonic decline proved accurate when American unilateralism subsided in the mid-1990s.**

Answer: False

8. **Under the leadership of China, Brazil, and India developing countries have constructed a powerful bloc within the WTO in the past decade.**

Answer: True

9. **Governments, under WTO rules, cannot ban imports of a product on health or safety grounds unless a preponderance of scientific evidence indicates that the product is, in fact, harmful.**

Answer: True

10. Many observers believe that regional trade arrangements (RTAs) pose no challenge to the multilateral trade system.

Answer: False

Essay/Discussion Questions

- 1. Explain how the operation of global markets depends upon rules created by political structures. Why do most political economists believe that if governments had never created this institutional framework after World War II world trade would not have grown so rapidly?**
- 2. Define and explain how the principles of market liberalism and nondiscrimination are the core principles at the heart of WTO operations. What is meant by Most-Favored Nation (MFN) rules and when exceptions are allowed?**
- 3. How are WTO rules created through intergovernmental bargaining? What role do ministerial conferences play in this process?**
- 4. Mexico shifted from a highly protectionist to a more liberal trade policy in the mid-1980s. The success of that strategy hinged in part on Mexico's ability to attract foreign investment from the United States. What prevented Mexico from shifting back to protectionism and nationalizing foreign investments?**
- 4. What is hegemonic stability theory? Why does it depend upon the provision of international public goods? What historical evidence is cited to support hegemonic stability theory?**
- 5. What are historical examples of hegemonic transition in the past two centuries? Is the United States still an economic hegemon? Will China become the next economic hegemon or will it resemble Japan in the 1980s and 1990s?**
- 6. What substantial changes will the WTO face from the growing power of developing countries within the organization? Will more members make consensus of trade issues easier or more difficult? How? Why?**
- 7. What substantial changes will the WTO face from the growing power non-governmental organizations (NGOs) striving to influence the organization? Why do NGOs worry about how WTO rules affect the ability of governments to safeguard consumer and environmental interests?**

- 8. Why do many observers believe that regional trade arrangements (RTAs) pose the single greatest challenge to the current multilateral trade system? What factors have influenced the rapid growth of RTAs?**
- 9. Why did the United States abandon its exclusive strategy through the multilateral trade system in the late 1980s? Why do proponents of agreements like NAFTA believe that the US can achieve more through regionalism than it can achieve within the WTO? What do opponents of regionalism claim?**
- 10. There is an increasing momentum in the international community to characterize China's treatment of the Uyghurs as genocide. Chinese officials deny that they infringe on the Uyghur's human rights, and state that what is occurring in the region is an "internal matter." How has the United States has responded with diplomatic and economic measures?**