International Trade 5th edition Feenstra Test Bank

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Name:_____ Class:_____ Date:_____

Chapter 01

Multiple Choice

1. Which of the following was NOT an impact of the coronavirus on medical resources in early to mid-2020?
   a. The United States reduced its tariff on medical equipment imported from China.
   b. All countries removed export quotas on medical equipment.
   c. Many countries restricted their exports of medical equipment to keep those goods for emergency use at home.
   d. Demand for medical equipment rose around the world.

ANSWER: b

2. One of the impacts of the novel coronavirus in 2020 was that trade in medical equipment improved in the world economy to meet the need for medical products in
   a. Asia.
   b. Europe.
   c. North America.
   d. Asia, Europe, and North America, along with the developing countries with dense populations.

ANSWER: d

3. What is the term for a capital flow that is used to purchase or build a tangible asset like a factory?
   a. migration
   b. service exports
   c. service imports
   d. foreign direct investment

ANSWER: d

4. To maintain a steady domestic supply of medical equipment, some countries followed
   a. export promotion policies.
   b. export quota trade policy.
   c. import tariff trade policy.
   d. a reduction in trade-restrictive policies in general.

ANSWER: b

5. What is the name given to a tax on imported goods?
   a. income tax
   b. tariff
   c. sales tax
   d. excise tax

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ANSWER: b

6. When a foreign resident purchases a good or service from someone in the United States, the transaction is categorized as:
   a. a U.S. export.
   b. a U.S. import.
   c. bilateral exchange.
   d. a compensating differential.

ANSWER: a

7. Imports are:
   a. goods or services purchased from a foreign resident.
   b. goods or services sold to foreign residents.
   c. goods purchased from foreigners—you cannot purchase services from foreigners.
   d. services purchased from foreigners—imports do not include goods.

ANSWER: a

8. Exports are:
   a. goods or services purchased from a foreign resident.
   b. goods or services sold to foreign residents.
   c. goods sold to foreigners—you cannot sell services to foreigners.
   d. services sold to foreigners—exports do not include goods.

ANSWER: b

9. Which of the following is considered a service export?
   a. Japan buys soybeans from the United States.
   b. China sells iPhones to the United States.
   c. Mexican tourists visit the Grand Canyon.
   d. France sells wine to the United States.

ANSWER: c

10. The key difference between an immigrant and a refugee is that
   a. immigrants are driven by a desire to earn a higher income and refugees are prompted by the poverty and danger of the home country.
   b. immigration is a matter of personal choice and refugee status is a condition forced on individuals.
   c. approval of immigration status takes less time than confirmation of refugee status.
   d. it is easier to obtain immigrant status than to gain refugee status.

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ANSWER: a

11. A country's service exports include:
    a. a restaurant meal purchased by its resident in another country.
    b. equipment or automobiles with a warranty and a service contract sold to a foreign resident.
    c. a ticket on the country's airline sold to a foreign resident.
    d. a resident who migrates to work in another country.

ANSWER: c

12. An American tourist buys a ticket to an opera in Paris. The U.S. government classifies this transaction as:
    a. an import of a French opera, a good.
    b. a service export.
    c. a service import.
    d. an export of a good.

ANSWER: c

13. A Chinese student pays tuition at a U.S. university. The Chinese government classifies this transaction as:
    a. an import of a good.
    b. a service export.
    c. a service import.
    d. an export of a good.

ANSWER: c

14. The coronavirus has had a dramatic impact on international trade in services. One service sector involves airline travel, which is an example of a
    a. service export for the countries whose citizens are passengers.
    b. service import for the country whose company owns the airline.
    c. service export for the country whose company owns the airline.
    d. good export for the country whose company owns the airline.

ANSWER: b

15. What country was the world's largest exporter of goods in 2018?
    a. China
    b. Germany
    c. the United States
    d. Japan

ANSWER: a

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16. Currently, which of the following countries is the world's largest exporter of goods (in terms of dollar value)?

a. China
b. the United States
c. Japan
d. Germany

ANSWER: a

17. Currently, which of the following countries is the world's largest exporter of goods and services (in terms of dollar value)?

a. China
b. the United States
c. Japan
d. Germany

ANSWER: a

18. Which of the following transactions is NOT included in the trade balance?

a. domestic residents' purchases of foreign-made goods
b. domestic residents' purchases of foreign-provided services
c. domestic residents' purchases of foreign stocks and bonds
d. domestic residents' purchases of foreign-produced software

ANSWER: c

19. The difference between the total value of a country's exports and the total value of its imports is defined as the country's:

a. trade status.
b. trade balance.
c. trade deficit.
d. bilateral trade balance.

ANSWER: b

20. If the value of a nation's imports is more than the value of its exports, then the nation is experiencing:

a. a trade deficit.
b. a trade surplus.
c. balanced trade.
d. a trade balance.

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ANSWER: a

21. The bilateral trade balance is measured as
    a. the sum of two countries' trade balances.
    b. the difference between two countries' trade balances.
    c. the sum of exports and imports between two countries.
    d. the difference between exports and imports between two countries.

ANSWER: d

22. If country X has a GDP of $1 trillion, exports $200 billion to country Y, and imports $300 billion from country Y, then its bilateral trade balance with country Y is:
    a. –$100 billion.
    b. $100 billion.
    c. $500 billion.
    d. 50%.

ANSWER: a

23. If a country has consumption equal to $300 billion, investment equal to $100 billion, and government spending equal to $50 billion, and it imports $150 billion in goods and services and exports $200 billion in goods and services, what is that country's GDP?
    a. $500 billion
    b. $450 billion
    c. $400 billion
    d. $50 billion

ANSWER: a

24. The difference in value between a nation's total exports and imports is called:
    a. its trade deficit.
    b. its bilateral trade balance.
    c. balanced trade.
    d. its trade balance.

ANSWER: d

25. Whenever the value of a nation's exports is more than the value of its imports, the nation has:
    a. a trade deficit.
    b. a trade surplus.
    c. balanced trade.

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d. a trade balance.

ANSWER: b

26. Whenever the value of a nation's exports is less than the value of its imports, the nation has:
    a. a trade deficit.
    b. a trade surplus.
    c. balanced trade.
    d. a trade balance.

ANSWER: a

27. Whenever the value of a nation's exports equals the value of its imports, the nation is experiencing:
    a. a trade deficit.
    b. a trade surplus.
    c. balanced trade.
    d. a trade balance.

ANSWER: c

28. A bilateral trade balance is:
    a. half the trade deficit.
    b. the measure of imports only—not exports.
    c. the difference between the value of imports and exports between two trading nations.
    d. the sum of the value of imports and exports traded between two nations.

ANSWER: c

29. What entries are used to calculate a country's bilateral trade balance?
    a. its unemployment and inflation rates
    b. its exports to and imports from another country
    c. its per capita income and imports
    d. its exports and per capita income

ANSWER: b

30. Which of the following statements about the United States–China bilateral trade balance is correct?
    a. It is a good indicator of the inequality of imports and exports between the United States and China.
    b. It vastly understates the gap in imports and exports between the United States and China.
    c. It may overstate the gap in imports and exports between the United States and China because some material inputs used to produce Chinese exports do not originate in China.

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d. It shows that there is balanced trade between the United States and China.

ANSWER: c

31. The bilateral trade balance may not report the correct information because
    a. data are not available.
    b. the manufacturing required for a single final product is often spread across many countries.
    c. transportation cost has gone up over the years.
    d. the costs of parts and materials are not reported correctly.

ANSWER: b

32. The United States–China bilateral trade balance may overstate the trade gap if:
    a. some of the inputs used to produce Chinese exports are imported.
    b. none of the inputs used to produce Chinese exports are imported.
    c. Chinese exports are valued in the U.S. Dollars rather than Chinese currency.
    d. the United States imposes trade restrictions on Chinese imports.

ANSWER: a

33. "Value-added" in the context of international trade refers to:
    a. the difference between the value of exports and the value of imported inputs used in producing exports.
    b. the additional value a worker provides to a firm when she is hired.
    c. the value added by being able to purchase goods in a competitive market.
    d. the value added by import brokers when they mark up the price of the products.

ANSWER: a

34. A relatively new feature of world trade that involves spreading the production process across multiple countries is called:
    a. bilateral trade.
    b. offshoring.
    c. industrial landscaping.
    d. foreign direct investment.

ANSWER: b

35. How does one determine the "value-added" of a product produced and sold domestically?
    a. Subtract the total value of imported raw and semi-finished materials used in production from the product's total value.
    b. Add the cost of its transportation to the market to the product's total value.

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c. Subtract the total value of all raw and semi-finished materials used in its production from the product's total value.

d. Subtract the total value of a country's imports from the total value of its exports.

ANSWER: a

36. Jane Ferlengeti, a U.S. citizen, purchases a phone for $300 that Apple imported from China. Apple paid its Chinese subsidiary $150 for the phone. How did these transactions change the U.S.–China bilateral trade balance?

a. It improved (i.e., increased) by $300.

b. It worsened (i.e., fell) by $300.

c. It worsened (i.e., fell) by $150.

d. They did not change the U.S.-–China trade balance, since Apple's $150 margin ($300–$150) offset the $150 cost of importing the phone from China.

ANSWER: c

37. Table: Costs Associated with Phone Supply Chain

Component/Process	**Source Country**	**Cost in U.S. Dollars**
Hard drive	Japan	$75
Display module	Taiwan	25
Video chip	United States	20
Controller chip	United States	10
Assembly	China	20
Wholesale distribution	United States (Apple)	100
Wholesale distribution	United States (AT&T)	150
Retail price		300

Jane Smith, a U.S. citizen, purchased a phone from AT&T for $300. By how much did Jane's purchase change the U.S. trade balance with China?

a. $300

b. $150

c. $120

d. $30

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ANSWER: b

38. Table: Costs Associated with Phone Supply Chain

Component/Process	Source Country	Cost in U.S. Dollars
Hard drive	Japan	$75
Display module	Taiwan	25
Video chip	United States	20
Controller chip	United States	10
Assembly	China	20
Wholesale distribution	United States (Apple)	100
Wholesale distribution	United States (AT&T)	150
Retail price		300

Jane Smith, a U.S. citizen, purchased a phone from AT&T for $300. By how much did Jane's transaction affect the U.S.–Japan trade balance?

a. It did not affect it at all.
b. The U.S.–Japan trade balance fell by $750.
c. The U.S.–Japan trade balance rose by $130.
d. The U.S.–Japan trade balance fell by 25%.

ANSWER: a

39. Intel, an American company, has manufacturing plants in China that assemble U.S.-made components. Suppose one of these plants produces and sells a computer chip to a Chinese computer manufacturer. How is this sale recorded in U.S. international trade statistics?

a. It is considered to be neither a U.S. import nor a U.S. export.
b. It is considered to be a U.S. export to China.
c. It is considered to be a U.S. import from China.
d. The value of U.S.-made chip components is considered to be a U.S. export.

ANSWER: a

40. Why should the recorded U.S.–China bilateral trade deficit in goods be interpreted with some caution?

a. U.S. imports of Chinese products may be produced by U.S. subsidiaries that generate profits for the U.S. parent firms (recorded as U.S. service export income).

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b. U.S. imports of Chinese products may utilize material inputs that China imports from the United States or other countries.

c. U.S. imports of Chinese products may be produced with capital goods (e.g., machinery) that China imports from the United States.

d. China does not record all of its imports from the United States in its trade statistics.

ANSWER: b

41. An example of "value-added" as an important concept in international trade was the case of imports of iPhones from China. The value-added by China was equal to:

a. the total value of imported raw and semi-finished materials into China plus the value of the export to the United States.

b. the total value of the export to the United States minus the total value of raw and semi-finished materials imported into China.

c. the total value of the export plus shipping costs.

d. the difference between the total value of exports to the United States and the total value of imports from the United States.

ANSWER: b

42. Over the past century, how have U.S. exports changed?

a. The United States has steadily increased its exports of raw agricultural materials.

b. The United States has always focused primarily on capital and consumer goods, and not much has changed in the last century.

c. The United States has steadily shifted away from agricultural and raw materials.

d. The United States still exports a larger share of agricultural and raw materials than consumer and capital goods.

ANSWER: c

43. Merchandise trade among European countries accounted for approximately what share of total world merchandise (goods) trade in 2018?

a. 3%

b. 21%

c. 26%

d. 49%

ANSWER: b

44. What nations have the world's highest volume of international trade with one another?

a. Canada, Mexico, and Japan

b. Japan, China, South Korea, and Thailand

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c. member nations of the European Union
d. Middle Eastern countries

ANSWER: c

45. Which of the following countries was a member of the European Union prior to 2004 but voted to leave the EU in 2016?
a. Poland
b. United Kingdom
c. Hungary
d. Italy

ANSWER: b

46. Which of the following economic groupings has the largest volume of trade among its member nations?
a. NAFTA
b. the European Union
c. the Trans-Pacific Partnership
d. the European Free-Trade Area

ANSWER: b

47. How many countries were members of the European Union as of May 2016 (prior to Brexit)?
a. 5
b. 12
c. 22
d. 28

ANSWER: d

48. What is the average tariff on intra–European Union trade?
a. 0%
b. 10%
c. 25%
d. 100%

ANSWER: a

49. Which of the following countries is NOT a member of the European Union?
a. Turkey
b. Slovakia

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c. Hungary
d. Poland

ANSWER: a

50. Which of the following countries is NOT a member of the European Union?
a. Denmark
b. Finland
c. Norway
d. Sweden

ANSWER: c

51. U.S. and European merchandise trade accounted for approximately what share of total world merchandise (goods) trade in 2014?
a. slightly more than one-fourth
b. slightly more than one-third
c. about one-half
d. slightly more than two-thirds

ANSWER: c

52. The combined trade within Europe and between Europe and the United States accounted for _____ of world exports in 2018.
a. 50%
b. 15%
c. 80%
d. 26%

ANSWER: d

53. Which of the following make up Latin America?
a. the United States, Mexico, and Canada
b. Mexico, Guam, and Puerto Rico
c. Mexico, Central and South America, and the Caribbean
d. Central and South America and Granada

ANSWER: c

54. NAFTA is:
a. a free-trade area among Mexico, Canada, and the United States.
b. a trade agreement to limit environmentally dangerous imports and exports.

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c. a law preventing undocumented immigrants.
d. another name for the European Union.

ANSWER: a

55. Which of the following statements about trade is true?
a. In 2018, Japan was the largest exporter to the United States.
b. Trade volume among China, Japan, Thailand, and Taiwan is the world's largest.
c. Trade volume among Chile, Brazil, Argentina, and Mexico is the world's largest.
d. The combined exports of Europe and the Americas account for nearly half of world exports.

ANSWER: d

56. One of the major reasons that Asia trades so much with the rest of the world is
a. its superior technology.
b. its high-quality land resources.
c. its productive capital equipment.
d. its low wages.

ANSWER: d

57. Which of the following statements explains why Asian countries such as China and Vietnam export goods to industrialized countries?
a. Workers in China and Vietnam receive low wages.
b. Workers are more productive in China and Vietnam than in industrialized countries.
c. China and Vietnam have an abundant supply of raw materials.
d. Chinese and Vietnamese factories are more technologically advanced than those in industrialized countries.

ANSWER: a

58. What was Africa's share of world exports in 2018?
a. 2%
b. 12%
c. 1.5%
d. 58%

ANSWER: a

59. Which of the following statements best explains the low level (about $35 billion in 2018) of trade between the United States and Russia?
a. Russia doesn't produce goods that Americans want to buy.

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b. The Russian market is smaller than the markets of most other countries.
c. Political tensions reduce the level of trade between the two countries.
d. The United States has banned food imports from Russia.

ANSWER: c

60. A trade embargo leads to
a. a trade deficit.
b. a restriction on exports to foreign countries.
c. a halt in all kinds of trading activities.
d. sanctions or complete elimination of imports from a foreign country.

ANSWER: d

61. One way to gauge the impact of trade on a nation is to measure:
a. wage distortions and job loss.
b. the ratio of total imports and exports expressed as a percentage of a nation's GDP.
c. shipping costs.
d. increases in national income due to trade.

ANSWER: b

62. The ratio of a country’s trade to GDP is measured by:
a. the ratio of the trade balance to the country’s GDP.
b. the ratio of the trade surplus to the country’s GDP.
c. the ratio of the value of imports and exports (for goods and services) to the country’s GDP.
d. the ratio of the average value of imports and exports (for goods and services) to the country’s GDP.

ANSWER: d

63. Which of the following is NOT included in the calculation of a country's gross domestic product (GDP)?
a. the value of all its intermediate goods produced in a year
b. the value of all its exports produced in a year
c. the value of all its final consumption goods produced in a year
d. All of these are included in the calculation of a country's gross domestic product.

ANSWER: a

64. If a country's GDP is $10 trillion, its exports are $1 trillion, and its imports are $1.5 trillion, then its trade/GDP ratio is:
a. 10%.

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b. 12.5%.
c. 25%.
d. 400%.

ANSWER: b

65. Which of the following statements about the ratio of total trade to GDP is true?
a. Larger nations tend to have higher trade/GDP ratios.
b. Total trade is always larger than GDP.
c. GDP is always larger than total trade.
d. Countries with higher trade/GDP ratios tend to be smaller.

ANSWER: d

66. What does a country's gross domestic product (GDP) measure?
a. the value of all intermediate goods produced in a year
b. the value of all exports produced in a year
c. the value of all final goods produced in a year
d. the value of all production in a year

ANSWER: c

67. If a country's GDP is $10 trillion and its overall trade flows are $2 trillion (imports + exports/2), then:
a. its trade/GDP ratio is 20%.
b. it is not a successful country.
c. its GDP needs to increase.
d. its trade/GDP ratio is too high.

ANSWER: a

68. If a country's trade/GDP ratio is 38% and the GDP is $500 billion, then what is the overall value of its trade (imports + exports/2)?
a. $390 billion
b. $190 billion
c. $100 billion
d. Not enough information is provided to answer the question.

ANSWER: b

69. If the trade/GDP ratio is 25% and the overall value of trade (imports + exports/2) is $175 billion, then the GDP is:
a. $250 billion.

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b. $700 billion.
c. $1 trillion.
d. $0.5 trillion.

ANSWER: b

70. In 2018, the U.S. trade/GDP ratio was:
a. the highest in the industrialized world.
b. greater than China's and Japan's.
c. smaller than that of Germany.
d. too high.

ANSWER: c

71. If we measure the ratio of total trade to GDP, which of the following nations had the highest ratio in 2018?
a. Hong Kong (China)
b. Japan
c. Germany
d. the United States

ANSWER: a

72. Which of the following countries had the highest ratio of international trade to GDP in 2018?
a. the United States
b. Japan
c. China
d. Malaysia

ANSWER: d

73. Which of the following nations had the lowest ratio of international trade to GDP in 2018?
a. Hong Kong (China)
b. Japan
c. Germany
d. the United States

ANSWER: d

74. Why do larger countries tend to have lower ratios of international trade to GDP than smaller countries?
a. Larger countries tend to have more trade between states or provinces within their borders than smaller countries.

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b. Larger countries tend to have higher tariffs than smaller countries.
c. Larger countries tend to trade with other larger countries.
d. Larger countries tend to have larger trade deficits than smaller countries.

ANSWER: a

75. If a country's GDP is $3 trillion and its trade balance is $0.5 trillion, what is that country's trade/GDP ratio?
a. $3.5 trillion
b. 16.67%
c. 6%
d. Not enough information is provided to answer the question.

ANSWER: d

76. Suppose that a country has a low ratio of trade to GDP. Which of the following may be a possible explanation for this?
a. The country has low tariffs on imports.
b. The country is geographically distant from the rest of the world.
c. The country is very large and has a high volume of within-country trade.
d. The country produces only agricultural products.

ANSWER: c

77. Which of the following refers to all the factors that influence the amount of goods and services that are shipped across international borders?
a. tariffs
b. trade barriers
c. transportation costs
d. institutional failures and events such as wars and natural disasters

ANSWER: b

78. Between 1890 and 2018, the trade/GDP measure for the United States:
a. decreased almost every year.
b. increased through 1920, then decreased through 1930 and remained low until increasing again from 1960 onward.
c. decreased through 1920, then increased through 1930 and remained high until decreasing again from 1960 onward.
d. remained unchanged.

ANSWER: b

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79. What do economists call the factors that reduce the total dollar volume of goods and services sold across international borders?
    a. trade factor issues
    b. trade barriers
    c. trade conditions
    d. the ratio of total trade to GDP

ANSWER: b

80. The "first golden age" of trade was:
    a. the period from 1864 to 1887.
    b. the period from 1890 to 1913.
    c. the period between 1919 and 1935.
    d. the interwar period.

ANSWER: b

81. One factor mentioned in the text as a reason for the "first golden age" of trade was:
    a. the invention of the cotton gin.
    b. the invention of the wheel.
    c. improved methods of transporting goods.
    d. the invention of the computer.

ANSWER: c

82. Which decade of the twentieth century had the highest average tariffs worldwide?
    a. 1900–09
    b. 1930–39
    c. 1950–59
    d. 1970–79

ANSWER: b

83. The Smoot–Hawley Tariff Act:
    a. was passed in response to World War II.
    b. was passed as a reaction to the Great Depression in the United States.
    c. was enacted by Germany.
    d. greatly reduced the barriers to trade.

ANSWER: b

84. A trade war corresponds to a situation in which trading countries:

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a. compete in trading goods and services.
b. stop trading with each other completely.
c. retaliate by increasing import tariffs against each other.
d. ban import transactions between them.

ANSWER: c

85. What was the short-lived import tariff enacted in 1930 that raised rates to an average of 60% on many imports?
a. the Reaganomics principle
b. the Smoot–Hawley tariff
c. the Blair-Bush tariff
d. the International Equity tariff

ANSWER: b

86. Other nations responded to the Smoot–Hawley tariff by:
a. complaining to the United Nations.
b. raising tariffs on imports in retaliation.
c. lowering prices on exports in order to increase sales.
d. attacking military bases in nations that refused to lower tariffs.

ANSWER: b

87. What is an import quota?
a. a limit on the quantity of a certain import
b. a tax on the value of an import
c. a health or safety precaution affecting goods that may cause long-term harm to humans or animals
d. a bureaucratic rule that can be overridden by the secretary for international trade

ANSWER: a

88. What is the immediate effect of increasing tariffs on a country's economy?
a. It increases the volume of trade.
b. It reduces the volume of imports.
c. It increases the volume of exports.
d. It promotes better trade relations with other countries.

ANSWER: b

89. Import restrictions in the form of import tariffs and import quotas are supported by:

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a. the industrial sector of the tariff-imposing country.
b. the import sector of the foreign country.
c. the production sector in the tariff-imposing country that uses imported intermediate input.
d. the sector of the tariff-imposing country that produces the final good.

ANSWER: d

90. Between 2018 and 2019, average U.S. tariffs:
a. increased substantially.
b. decreased substantially.
c. remained unchanged.
d. could not be measured.

ANSWER: a

91. What ushered in the "second golden age" of trade?
a. the increase in trade among countries in the period after World War II
b. the introduction of the gold standard
c. the increase in trade restrictions as a reaction to the Smoot–Hawley Tariff Act
d. the decline in volume of trade among industrialized countries

ANSWER: a

92. Which of the following did not result in increased trade between 1945 and 1960?
a. the end of World War II
b. tariff reductions under the General Agreement on Tariffs and Trade
c. export subsidies
d. lower transportation costs

ANSWER: c

93. Most countries saw a significant drop in international trade between 2008 and 2009. What was the cause of that temporary reduction?
a. the Smoot–Hawley Tariff Act
b. September 11
c. the creation of the World Trade Organization
d. the Global Financial Crisis

ANSWER: d

94. After 1945, world trade:

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a. grew more slowly than in the decade before World War II.
b. grew more rapidly than in the decade before World War II.
c. grew in absolute dollar terms but not as a ratio of GDP.
d. fell in both absolute and relative terms.

ANSWER: b

95. What was the 1956 invention that increased the volume of world trade by lowering the cost of shipping?
a. the personal computer
b. the bar code
c. bubble wrap
d. the shipping container

ANSWER: d

96. During the 2008–09 financial crisis, what happened to the ratios of trade to GDP for most developed nations?
a. They rose.
b. They fell.
c. They did not change.
d. We do not have enough data yet to say what happened.

ANSWER: b

97. What caused the decline in trade during the 2008–09 financial crisis?
a. rising house prices, which took up more consumer income
b. recessions in many countries that reduced both exports and imports
c. greater productivity in the developing countries
d. pirate activity off the coast of Africa

ANSWER: b

98. The U.S.–China trade war has led to:
a. significantly decreased import tariffs in the United States and China.
b. lower import tariffs in China, but higher import tariffs in the United States.
c. lower import tariffs in the United States, but higher import tariffs in China.
d. significantly increased import tariffs in the United States and China.

ANSWER: d

99. Why did President Trump impose large tariffs on Chinese imports beginning in 2018?

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a. as a bargaining tactic to gain leverage in future trade negotiations
b. as a long-term strategy to maintain high import tariffs with all trading partners
c. to reduce the U.S. debt
d. to make Chinese imports less expensive for U.S. consumers

ANSWER: a

100. Between 2018 and 2020 (prior to the coronavirus pandemic), which of the following happened regarding U.S. trade barriers?
a. The United States significantly reduced trade barriers with its international trading partners.
b. The United States did not erect any new trade barriers with its trading partners, but it also did not remove existing barriers.
c. The United States erected new trade barriers with its international trading partners, especially China.
d. The United States erected new trade barriers with China, but with none of its other international trading partners.

ANSWER: c

101. According to the authors of this textbook, when the U.S.–China trade war ends, we should expect:
a. the negative effects to immediately disappear.
b. worldwide trade patterns to steadily return to exactly the way they were before.
c. long-lasting economic impacts with different worldwide trade patterns.
d. China to lose its standing as a world economic leader in trade.

ANSWER: c

102. The movement of people across borders is known as:
a. resettlement.
b. guest workers.
c. migration.
d. fractionalization.

ANSWER: c

103. Which of the following countries is NOT a member of the Organisation for Economic Co-operation and Development?
a. China
b. the United States
c. Germany
d. the United Kingdom

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ANSWER: a

104. More than one-half of migration is:
   a. from Organisation for Economic Co-operation and Development (OECD) countries to other OECD countries.
   b. from OECD countries to non-OECD countries.
   c. from non-OECD countries to OECD countries.
   d. from non-OECD countries to other non-OECD countries.

ANSWER: c

105. The main reason for restricting the migration of workers to a high-wage industrial country is:
   a. the low probability of finding a job.
   b. the high skill requirement for a migrant worker.
   c. the fear that immigrants from low-wage countries will drive down wages for a country's own less skilled workers.
   d. the possible food shortage scenario that may evolve after immigration.

ANSWER: c

106. In general, migration is _____ than trade.
   a. more free
   b. more controlled and regulated
   c. less desirable
   d. more desirable

ANSWER: b

107. Immigration issues are usually more intense in:
   a. nations where wages are lower than world averages.
   b. nations with unsecured borders.
   c. nations with open-door policies.
   d. nations where wages are higher than world averages.

ANSWER: d

108. Despite hopes that migration between nations in the European Union would be free, several nations have agreements to restrict it. Why?
   a. They are afraid of disease.
   b. Labor policies are very different, and new workers will expect the same benefits.
   c. They are concerned that mass inflows of workers will lower wages and offer competition for their

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own domestic labor force.

d. Domestic workers are more productive.

ANSWER: c

109. Which country is the source of the largest number of immigrants from Latin America in the United States?

a. Brazil

b. Colombia

c. Mexico

d. Venezuela

ANSWER: c

110. What is a major concern of many Americans about the number of Mexican migrants in the United States?

a. Mexican migrants may petition the United States to adopt Spanish as its official language.

b. Mexican migrants may drive down the wages of American workers.

c. Many Mexican migrants never learn to speak English.

d. Mexican migrants are displacing American workers in high-tech jobs.

ANSWER: b

111. Which of the following is an example of a foreign direct investment (FDI) flow?

a. the purchase of a controlling interest in a foreign firm by a domestic firm

b. the purchase of stocks or bonds directly from an international dealer

c. the purchase of foreign government bonds by domestic investors

d. accounts denominated in foreign currency in foreign banks owned by domestic depositors

ANSWER: a

112. Most FDI flows are owned by:

a. low-income nations.

b. Australia.

c. OECD nations.

d. the African continent.

ANSWER: c

113. FDI is measured in "flow" terms when we take into account:

a. any form of FDI ownership occurring across the world.

b. foreign companies owning a company or property in another country.

c. the total ownership (adding up over all years) by firms from one country investing in other countries.

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d. the new ownership each year acquired by firms from one country investing in other countries.

ANSWER: d

114. Which of the following is NOT a reason for firms in an industrial nation to undertake vertical FDI in a low-income nation?

a. access to raw materials in the low-income nation
b. lower wages in the low-income nation
c. avoidance of export taxes in the low-income nation
d. avoidance of import taxes in the low-income nation

ANSWER: c

115. Most foreign direct investment among industrialized countries is:

a. vertical FDI.
b. horizontal FDI.
c. industrial FDI.
d. reverse-vertical FDI.

ANSWER: b

116. Which of the following is considered an outflow of foreign direct investment (FDI) from the United States?

a. General Motors sells Saab, its Swedish subsidiary, to a Chinese company.
b. General Motors uses the proceeds of its sale of Saab to purchase British treasury bonds.
c. General Motors earns interest on its British treasury bonds, which it then credits to its accounts in the United States.
d. General Motors invests $100 million to modernize its U.K. plant that produces Vauxhall automobiles.

ANSWER: d

117. Which of the following is NOT classified as horizontal FDI?

a. NUCOR, a U.S. steel manufacturer, purchases an iron ore mine in Australia.
b. BMW, a German auto manufacturer, constructs an auto assembly plant in South Carolina.
c. Burger King, an American fast-food chain, buys Canadian fast-food chain Tim Horton's.
d. General Motors, an American auto manufacturer, constructs an auto assembly plant in Toronto, Canada.

ANSWER: a

118. The key reason for horizontal FDI is:

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a. to avoid or to minimize taxes or tariffs.
b. to take advantage of low wages in the destination country.
c. to compete with local companies in the destination country.
d. to learn newer technology in the destination country.

ANSWER: a

119. What is the principal reason for Intel (a U.S. computer chip producer) to establish a computer chip manufacturing plant in a developing country (e.g., Malaysia)?
a. to take advantage of the low wages in Malaysia
b. to take advantage of Malaysia's climate
c. to take advantage of Malaysia's low tariffs on imported computer chips
d. to avoid Malaysia's low export taxes on computer chips

ANSWER: a

120. Which of the following is classified as reverse-vertical FDI?
a. Subaru, a Japanese automaker, builds a plant in Indiana to assemble Subaru Outbacks.
b. Coca-Cola, an American multinational corporation, constructs a bottling plant in Malaysia.
c. An Iranian steel producer purchases an iron ore mine in the western Great Lakes region of the United States.
d. Fiat, an Italian automaker, buys Ford Motor Company.

ANSWER: c

121. Which of the following is a reason that a Chinese pork-producing firm recently acquired Smithfield Foods (an American pork-processing firm)?
a. The Chinese firm wanted to use its pork-processing techniques to improve Smithfield's pork-processing techniques.
b. The Chinese firm's acquisition would help it satisfy a growing demand for pork in China.
c. The Chinese firm wanted to take advantage of lower wages in the United States.
d. The Chinese firm wanted to monopolize the U.S. pork-producing industry.

ANSWER: b

122. Which of the following is a reason that the Japanese truck manufacturer Toyota might want to acquire or construct a plant in the United States?
a. By having a plant in the United States, Toyota avoids the U.S. 25% tariff on imported pickup trucks.
b. Toyota wants to take advantage of lower wages in the United States.
c. U.S. consumers will buy only U.S.-made pickup trucks.
d. Toyota wants to learn U.S. truck manufacturing technology.

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ANSWER: a

123. A Chinese company, Fuyao Glass Industry Group, redesigned a shuttered General Motors plant in Dayton, Ohio, as a production facility. Despite having to pay higher wages in America, this business was able to become profitable for all of the following reasons EXCEPT:

a. it achieved higher levels of productivity.
b. the worker union reduced worker protections for additional health benefits.
c. robots were introduced to perform certain manual tasks.
d. entry-level wages were reduced in the American automobile industry.

ANSWER: b

124. Which of the following is NOT a reason for a firm to engage in horizontal FDI?

a. It may want to expand its business across international borders.
b. It may want to avoid tariffs in its foreign markets.
c. It may want to avoid tariffs in its home market.
d. It may want to reduce its corporate taxes.

ANSWER: c

125. Reasons that firms in an industrial nation acquire firms in another industrial nation do NOT include:

a. avoidance of import tariffs and quotas in the other nation.
b. the ability to acquire technology and resources from the other nation.
c. access to the other nation's market.
d. avoidance of export taxes in the other nation.

ANSWER: d

126. Which of the following is an example of reverse-vertical FDI?

a. Geely—a Chinese automaker—buys Volvo from Ford Motor Company.
b. Toyota—a Japanese automaker—constructs a truck manufacturing plant in Texas.
c. Chevron—an American petroleum firm—acquires a British petroleum firm.
d. General Motors—an American auto manufacturer—builds a plant in China to supply Buicks to the Chinese market.

ANSWER: a

127. Which of the following statements is an example of vertical FDI?

a. An American company purchases a British soccer team.
b. Ford Motor Company establishes a plant in Canada.
c. GM opens a plant in India.

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d. BMW opens a plant in Bilbao, Spain.

ANSWER: c

128. _____ foreign direct investment occurs when a firm from an industrial country owns a plant in a developing country.

a. Vertical
b. Horizontal
c. Industrial
d. Reverse-vertical

ANSWER: a

129. In 2018, which of the following regions received the most FDI?

a. Europe
b. Canada
c. Latin America
d. China

ANSWER: a

130. With which country or region does most U.S. foreign direct investment occur?

a. China
b. Japan
c. Europe
d. Latin America

ANSWER: c

131. FDI flows into the United States and Europe are:

a. the largest in the world.
b. smaller than FDI to China.
c. smaller than their share of trade flows.
d. called horizontal FDI.

ANSWER: a

132. Which of the following is an example of horizontal FDI?

a. Ford Motor Company acquires the British firm Jaguar.
b. Lenovo, a Chinese company, acquires IBM's personal computing business.
c. Fiat, an Italian company, merges with Agrale, a Brazilian automotive manufacturer.

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d. General Motors Corporation builds a plant in China to supply Buicks to the Chinese market.

ANSWER: a

133. China has received a great deal of FDI. Why?

a. Firms such as automakers can take advantage of low wages and also avoid Chinese tariffs if their production is finished in China.
b. The U.S. government has encouraged domestic firms to buy foreign firms.
c. Loans to purchase manufacturing facilities in other nations are subsidized by the U.S. government.
d. China has a system of business that is free from corruption and interference by the Chinese government.

ANSWER: a

134. Which of the following statements is true?

a. FDI is largely restricted between high-income countries but rarely faces restrictions in developing countries.
b. FDI is largely unrestricted between high-income countries but sometimes faces restrictions in developing countries.
c. FDI is never restricted among high-income or developing countries.
d. FDI is always heavily restricted among high-income and developing countries.

ANSWER: b

135. One of the main reasons for China to actively invest in foreign companies is to

a. enhance the competitiveness of Chinese firms globally.
b. take advantage of low wages in foreign countries.
c. make best use of its technological expertise in the world market.
d. meet the growing demand of the high population in China.

ANSWER: d

136. How did the novel coronavirus and the World Health Organization's declaration of a global pandemic affect trade in China over the first few months of 2020?

a. It increased China's international trade in goods but left services unaffected.
b. It decreased China's international trade in goods but increased China's international trade in services.
c. It increased China's international trade in goods but decreased China's international trade in services.
d. It decreased China's international trade in goods and services.

ANSWER: d

137. Which of the following is a reason that firms engage in vertical FDI?

a. Firms want to engage in automated production techniques.

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b. Firms anticipate higher technology and access to capital.
c. Legal structure, education, highways, and communications technology are usually better in lower-income nations.
d. Firms want to take advantage of lower wages in developing countries.

ANSWER: d

Objective Short Answer

138. How does trade in the modern world economy differ from trade in the past—say, 1925?

ANSWER: In the past, trade occurred in more standardized goods (such as raw materials) that were shipped long distances but were not shipped back and forth between countries during the manufacturing process. The type of trade has also changed. U.S. trade has shifted away from agriculture and raw materials toward manufactured goods. Most trade now occurs among wealthy, industrialized nations.

139. Why isn't the U.S.–China bilateral trade balance a good indicator of the inequality of imports and exports between the United States and China?

ANSWER: In the official trade statistics, the value of Chinese exports to the United States includes the value of the imported material inputs used in producing these exports instead of reporting only the value added by China. This inflates China's export figures because it does not net out their input costs.

140. Why should bilateral trade balances be viewed with some caution?

ANSWER: Bilateral trade balances do not account for inputs that exporting and importing countries may import from each other or from third countries. If value-added is small, bilateral trade balances do not represent the GDP produced in either country. Bilateral trade balances do not account for inputs produced by, and profits earned by, home country subsidiaries operating in the other country.

141. A Chinese student pays tuition to a U.S. university. How is this transaction entered in Chinese and U.S. trade data?

ANSWER: It is entered as a service import in China trade data, while it is a service export in U.S. trade data.

142. Irene Jones, a U.S. citizen, purchases a shirt from Walmart for $10 that Walmart imported from China for $5. How did these transactions change the values of U.S. and Chinese imports and exports and the U.S.–China and China–U.S. bilateral trade balances?

ANSWER: U.S. imports increased by $5 and Chinese exports increased by $5, the U.S.–China bilateral trade balance declined by $5, and the China–U.S. bilateral trade balance increased by $5.

143. Some countries have low ratios of international trade (exports + imports) to GDP (such as the United States), while, in other countries, the ratio of international trade to GDP exceeds 100%. How is it possible for trade to exceed the value of GDP?

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ANSWER: Countries for which trade exceeds GDP tend to have small economies, are often important centers for shipping goods, and/or import material inputs and do not create much value-added in processing these material inputs into export products. Additionally, the calculation for GDP includes net exports (exports minus imports), while the ratio of trade to GDP includes *all* trade (exports plus imports). A country with a high level of imports and exports would have a very small trade balance as part of GDP but a very large volume of trade.

144. Why do some countries (such as the United States) have low ratios of international trade (exports + imports)/2 to GDP?

ANSWER: Large countries often have low ratios of international trade/trade flows to GDP because there is significant domestic trade among regions, states, or provinces within these countries.

145. What were the effects of the Smoot–Hawley tariffs?

ANSWER: In the short run, they raised tariffs to an average of 20% on all imported goods (and as high as 60% on some categories of imported goods). Affected nations retaliated by enacting import tariffs of their own on U.S. products, which in turn led to higher tariffs across the world. This was an example of a global trade war.

146. Suppose that in retaliation to British limits on Balkan migrants, Bulgaria carries out its threat to take "reciprocal measures" against British migrants to Bulgaria. Will this work? Why or why not?

ANSWER: No, it will not work. British wages are above the world average, while Balkan wages are below the world average. Thus, few British citizens will seek to migrate to Bulgaria.

147. Until recently, labor could freely move from one country to another within the EU. However, some EU countries now place restrictions on migrants from new EU members. Why have these countries done so?

ANSWER: The major reason is fear that migrants from lower-wage EU countries will cause wages to fall in the higher-wage EU countries.

148. Is most immigration from low-income to high-income countries?

ANSWER: Yes, more than one-half (60%) of migration occurs from non-OECD (mainly low-income) to high-income OECD countries.

149. Explain the differences between vertical and horizontal FDI and provide an example of each.

ANSWER: Horizontal FDI occurs between industrial countries and often involves the acquisition or establishment of firms producing within the same industrial sector (e.g., Fiat's purchase of Chrysler in 2009). Vertical FDI occurs when a firm in an industrial nation acquires or establishes a firm in a developing country that may or may not be within the same industrial sector.

150. Is most FDI from high-income to low-income countries?

ANSWER: No, in 2013, 80% of the world FDI stock was located in OECD countries or owned by these

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countries.

151. What is reverse-vertical FDI? Provide an example.

ANSWER: Reverse-vertical FDI occurs when a firm in a developing country acquires a firm in an industrialized country. Examples include Lenovo (a Chinese company) purchasing the computer division of IBM, Geely (a Chinese auto manufacturer) acquiring Volvo Motors from Ford Motor Company, and Shuanghui International (a Chinese company) acquiring the American firm Smithfield Foods. The motive is usually to acquire technology and highly skilled labor.

152. What is the most important reason for reverse-vertical FDI to occur?

ANSWER: Reverse-vertical FDI occurs when a firm in a developing country acquires a firm in an industrialized country. The main incentive is to acquire the technical expertise of the firm in the industrialized economy, which the developing country can combine with low wages.

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