International Marketing, 18e **(Cateora)**
Chapter 2 The Dynamic Environment of International Trade

1) The Marshall Plan was developed by the United States as a method to assist Europe in rebuilding after World War II.

Answer: TRUE
Explanation: The United States wanted to infuse capitalism throughout the world to dampen the spread of communism. The Marshall Plan was a means to assist Europe in rebuilding after World War II.
Difficulty: 2 Medium
Topic: Western Europe's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: 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.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

3) The United States faced decreasing competition in export markets beginning in 1970 with the ending of the Vietnam War.

Answer: FALSE
Explanation: At the close of the 1960s, U.S. MNCs were facing resistance to direct investments and increasing competition in export markets.
Difficulty: 1 Easy
Topic: How Formal Institutions Affect Domestic and International Competition
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

4) By the year 1971, the United States was selling less to other countries than it bought from them; that is, the United States had a trade deficit.

Answer: TRUE
Explanation: Before 1971, the United States sold more to other countries than it bought from them, so 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.
Difficulty: 1 Easy
Topic: Overview of Trade
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: The Organization for Economic Cooperation and Development (OECD) estimates that the economies of developed countries will expand an average of 3 percent annually for the next 25 years, the same rate as in the past 25 years. Conversely, the economies of developing countries will expand an average of 6 percent annually for the next 25 years, higher than the 4 percent rate in the past 25 years.
Difficulty: 1 Easy
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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.

Answer: TRUE
Explanation: 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.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

7) In a balance-of-payments record, the current account is a record of direct investment, portfolio investment, and short-term capital movements to and from countries.

Answer: FALSE
Explanation: In a balance-of-payments statement, the current account is a record of all merchandise exports, imports, and service plus unilateral transfers of funds.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

8) When reviewing a balance-of-payments statement, you would check the reserves account to view exports and imports of gold.

Answer: TRUE
Explanation: 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.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) When foreign currencies can be traded for more dollars, U.S. products and companies are more expensive for the foreign customer and exports decrease.

Answer: FALSE
Explanation: When foreign currencies can be traded for more dollars, U.S. products (and companies) are less expensive for the foreign customer and exports increase, and foreign products are more expensive for the U.S. customer and the demand for imported goods is dampened.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

10) Establishing a tariff on fabrics imported from Uruguay so that U.S. manufacturers sell more fabrics is an example of a protectionist measure.

Answer: TRUE
Explanation: Protectionism occurs when nations utilize legal barriers, exchange barriers, and psychological barriers to restrain the entry of unwanted goods.
Difficulty: 2 Medium
Topic: Overview of Importing and Exporting
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) In general, economists do not recognize "protection of the home market" as a valid argument for protectionist measures.

Answer: TRUE
Explanation: In general, economists recognize arguments regarding protection of an infant industry, national defense, and the industrialization of underdeveloped countries as valid.
Difficulty: 1 Easy
Topic: The Changing Nature of the Global Economy
Learning Objective: 02-03 The effects of protectionism on world trade.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

12) Quotas, boycotts, monetary barriers, and market barriers are examples of tariff barriers.

Answer: FALSE
Explanation: A tariff is a tax imposed by a government on goods entering at its borders. It is used to encourage development of domestic industry and protect existing industry. Governments may establish such barriers to trade as tariffs and a variety of nontariff barriers including quotas, boycotts, monetary barriers, and market barriers.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

13) In general, a tariff will decrease inflationary pressures.

Answer: FALSE
Explanation: 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).
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: Tariffs can be arbitrary, discriminatory, and require constant administration and supervision. In addition, tariffs are often used as reprisals against protectionist moves of trading partners.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

15) The United States has placed a limit on the tons of sugar that can be imported into the country. This is an example of a tariff.

Answer: FALSE
Explanation: A quota is a specific unit or dollar limit applied to a particular type of good. The United States has specific guidelines restricting how many tons of sugar can be imported.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

16) An import license limits the quantities that can be imported on a case-by-case basis.

Answer: TRUE
Explanation: The fundamental difference between quotas and import licenses as a means of controlling imports is the greater flexibility of import licenses over quotas. Quotas permit importing until the quota is filled while import licenses limit quantities on a case-by-case basis.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

17) Voluntary export restraints are common in the agricultural industry when an agreement is made between the importing and exporting countries for a restriction on the volume of exports.

Answer: TRUE
Explanation: A voluntary export restraint (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. It is common in the textiles, clothing, steel, agriculture, and automobile industries.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

18) An embargo sets a limit on the quantity of goods one country can sell to another.

Answer: FALSE
Explanation: An embargo is a refusal to sell to a specific country.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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.

Answer: TRUE
Explanation: Blockage is accomplished by refusing to allow an importer to exchange its national currency for the currency of the seller.
Difficulty: 1 Easy
Topic: Currency Management and Business Strategy in the Global Monetary System
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) An exchange permit issued by a government can stipulate an unfavorable rate of exchange depending on the desires of the government.

Answer: TRUE
Explanation: An exchange permit issued by a government can stipulate an unfavorable rate of exchange depending on the desires of the government.
Difficulty: 1 Easy
Topic: The Main Instruments and Institutions of the Foreign Exchange Market
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: 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 their domestic industry.
Difficulty: 1 Easy
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) Antidumping laws encourage foreign producers to sell their products at a higher cost than the cost of production and create more opportunities for free trade.

Answer: FALSE
Explanation: 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.
Difficulty: 2 Medium
Topic: Basic Decisions for Entering Foreign Markets
Learning Objective: 02-04 The several types of trade barriers.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

24) The Omnibus Trade and Competitiveness Act of 1988 focuses on assisting businesses to be more competitive in world markets, but does not get involved in trade practices.

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

25) Under the Omnibus Trade and Competitiveness Act, the U.S. president has the authority to restrict sales of a country's products in the U.S. market if that country imposes unfair restrictions on U.S. products.

Answer: TRUE
Explanation: 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.
Difficulty: 2 Medium
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

26) One advantage of the Omnibus Trade and Competitiveness Act is a more flexible process to obtain export licenses.

Answer: TRUE
Explanation: The act has resulted in a much more flexible process for obtaining export licenses, in fewer products on the export control list and in greater access to information.
Difficulty: 1 Easy
Topic: Government Policies Affecting Trade
Learning Objective: 02-05 The provisions of the Omnibus Trade and Competitiveness Act.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: The World Trade Organization sets many rules governing trade among its 160 members, provides a panel of experts to hear and rule on trade disputes among members, and, unlike GATT, issues binding decisions.
Difficulty: 1 Easy
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-06 The importance of GATT and the World Trade Organization.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

29) The International Monetary Fund was created before World War II to help individual states regain economic profitability.

Answer: FALSE
Explanation: The International Monetary Fund (IMF) was formed to overcome international market barriers such as inadequate monetary reserves and unstable currencies which are particularly vexing problems in global trade.
Difficulty: 2 Medium
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

30) As both special drawing rights (SDRs) and the U.S. dollar have lost their utility as the basic medium of financial exchange, most monetary statistics relate to gold and silver rather than dollars.

Answer: FALSE
Explanation: As 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.
Difficulty: 1 Easy
Topic: The Role of the World Bank and the International Monetary Fund in the International Monetary System
Learning Objective: 02-07 The emergence of the International Monetary Fund and the World Bank Group.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

31) After World War II, the United States led efforts to provide financial and industrial development assistance to rebuild Japan and channeled funds 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) dampening the spread of capitalism.
D) building a stronger defense force.
E) creating a worldwide trade bloc to counter the OPEC countries' clout.

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

32) After World War II, the United States set out to infuse the ideal of capitalism throughout as much of the world as possible. As a result, most of the noncommunist economies in the world
A) stagnated.
B) grew significantly.
C) failed.
D) quickly matched the U.S. economy.
E) faced high inflation rates.

Answer: B
Explanation: As these countries worked to gain economic independence, the financial assistance provided by the United States allowed the economies of most of the noncommunist world to grow and new markets were created.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

33) What was the most apparent reciprocal impact of the foreign economic assistance given by the United States following World War II?
A) European countries formed an alliance to counter the OPEC countries' clout.
B) Outflow of labor to the recipient countries increased dramatically.
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.

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

34) What factor was primarily responsible for the excess in production capacity in the United States after World War II?
A) The United States government raised the tariffs on most imports by 60%.
B) Many firms from other nations shifted their production facilities to the United States.
C) Domestic demand was at a historic low and resulted in excess capacity.
D) The returning military after World War II increased the labor supply in the United States.
E) The implementation of the Marshall Plan dampened the overseas demand.

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

35) How did GATT prevent the repeat of the economic disaster that occurred after World War I?
A) It provided short-term loans to struggling nations.
B) It promoted dumping policies to allow stronger ties between member nations.
C) It fostered isolationism for nations that were market leaders.
D) It provided for a third party, the United Nations, to negotiate peace treaties.
E) It provided a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.

Answer: E
Explanation: Determined not to repeat the economic disaster that followed World War I, world leaders created the General Agreement on Tariffs and Trade (GATT), a forum for member countries to negotiate a reduction of tariffs and other barriers to trade.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

36) Why did the Smoot-Hawley Act play a role in sending the world's economies into the Great Depression?
A) It encouraged the majority of world economies to lower tariffs to imported goods.
B) It raised U.S. tariffs on thousands of imported goods by more than 60 percent.
C) It created an embargo on all agricultural products.
D) It divided the United States into factions based on race.
E) It forced independent countries to band together to stay economically viable.

Answer: B
Explanation: The Smoot-Hawley Act raised average U.S. tariffs on more than 20,000 imported goods to levels in excess of 60 percent and in retaliation 60 countries erected high tariff walls, and international trade stalled. A major worldwide recession catapulted the world's economies into the Great Depression.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

37) What was the outcome for GATT after the ratification of the Uruguay Round agreements?
A) GATT allowed the United States to increase its import tax.
B) GATT became part of the World Trade Organization.
C) GATT directly 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.

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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 decrease in demand for American goods worldwide.
C) the dissolution of GATT.
D) the spread of communism by the United States.
E) the sharp reduction in the production capacity of the United States.

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Challenges and Opportunities Created by Globalization
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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) the decreased demand for U.S. goods in the global market and the growing influence of consumer rights advocacy in the home market

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: The World Trading System, GATT, and the WTO
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

40) Post-World War II, worldwide economic growth was in strong evidence and countries that were once classified as less developed were reclassified as
A) communist countries.
B) free trade economies.
C) tier-II countries.
D) developed countries.
E) newly industrialized countries.

Answer: E
Explanation: 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.
Difficulty: 1 Easy
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: D
Explanation: As a result of the expansionary trade measures led by the United States, economic power and potential has become more evenly distributed among countries than was the case when Servan-Schreiber warned Europe about U.S. multinational domination.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

42) What 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 for U.S. businesses from all over the world
B) The elimination of import taxes in the European countries
C) The restructuring of U.S industries
D) The decadence of communism
E) The dissolution of colonial powers

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

43) What strategy was employed by the United States to regain its lost market share for capital goods by the late 1990s?
A) funding the competitive developing nations
B) restructuring its industries to be more "lean and mean"
C) decreasing its exports and increasing its imports
D) raising average U.S. tariffs on more than 20,000 imported goods by 60 percent
E) provoking increased protectionism from other countries

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Economic Development
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

44) Following World War II, it is noted that the West created the trade patterns. This was especially true in which one of the following?
A) North America
B) Europe
C) South America
D) Asia
E) Central America

Answer: D
Explanation: By the last decade of the 20th century, Asia was controlled and managed by Asians for the first time in 400 years. During the decades since World War II, the West set the patterns for trade, but increasingly, Asia will be a major force.
Difficulty: 2 Medium
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

45) In the last few years, most of the countries of the world saw a dramatic slowdown in the growth of their economies with the exception of
A) the United States.
B) Spain.
C) China.
D) Greece.
E) France.

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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. Which of these countries is included on this list?
A) Canada
B) Nigeria
C) Netherlands
D) Indonesia
E) Zimbabwe

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Asia's Marketplace in the World Economy
Learning Objective: 02-01 The basis for the reestablishment of world trade following World War II.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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.

Answer: D
Explanation: The system of accounts that records a nation's international financial transactions is called its balance of payments. 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.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

48) What is used to ensure that balance-of-payments records are always in balance?
A) sum of squares recording system
B) bank reconciliation system
C) double-entry bookkeeping system
D) archival records system
E) multifactor recording system

Answer: C
Explanation: As the balance-of-payments record of a nation is maintained on a double-entry bookkeeping system, it must always be in balance.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

49) A balance-of-payments statement for a country reveals
A) how rich or poor a country is financially.
B) a record of the country's financial condition.
C) a comparison of one country's finances to another country's debt.
D) a balanced budget for the country.
E) the spending power available to the country for specific goods.

Answer: B
Explanation: 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. A balance of payments is a record of condition, not a determinant of condition.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

50) What is a defining characteristic of a balance-of-payments statement?
A) It is a record of the domestic transactions between the government of a country and the private companies in that country.
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 financial statement in which the credits must exceed the debits.

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: E
Explanation: On the minus side of the U.S. balance of payments 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.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

53) What occurs in the balance of payments account when international payments are greater than receipts?
A) a tariff
B) inflation
C) recession
D) a credit
E) a deficit

Answer: E
Explanation: A deficit results when international payments are greater than receipts.
Difficulty: 2 Medium
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

54) The ________ account of the balance-of-payments statement is used to record all merchandise exports, imports, and services plus unilateral transfers of funds.
A) current
B) capital
C) credit
D) receivables
E) reserves

Answer: A
Explanation: The current account shows a record of all merchandise exports, imports, and services plus unilateral transfers of funds.
Difficulty: 1 Easy
Topic: Balance of Payments
Learning Objective: 02-02 The importance of balance-of-payment figures to a country's economy.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation