

TestBanks Chapter 01: Trade in the Global Economy

1  What country was the world's largest exporter of goods in 2012?

- ☒ China
- ☐ Germany
- ☐ the United States
- ☐ Japan

2  Which of the following is a trade flow?

- ☐ Robert Feenstra purchases \$100 million of British treasury bonds.
- ☐ Robert Feenstra purchases a yogurt factory in France.
- ☒ Neither of Robert Feenstra's purchases is considered a trade flow.
- ☐ Both of Robert Feenstra's purchases are considered trade flows.

3  Currently, which of the following countries is the world's largest exporter of goods (in dollar volume)?

- ☒ China
- ☐ the United States
- ☐ Japan
- ☐ Germany

4  Currently, which of the following countries is the world's largest exporter of goods and services (in dollar volume)?

- ☐ China
- ☒ the United States
- ☐ Japan
- ☐ Germany

5  What is the term for a capital flow that is used to purchase or build a tangible asset like a factory?

- ☐ migration
- ☐ service exports
- ☐ service imports
- ☒ foreign direct investment

6  When a foreign resident purchases a good or service from someone in the United States, the transaction is:

- ☒ a U.S. export.
- ☐ a U.S. import.
- ☐ bilateral exchange.
- ☐ a compensating differential.

7  Imports are:

- ☒ goods or services purchased from a foreign resident.
- ☐ goods or services sold to foreign residents.
- ☐ goods only purchased from foreigners—you cannot purchase services from foreigners.
- ☐ services only—imports do not include goods.

8 ■■■ Exports are:

- ☐ goods or services purchased from a foreign resident.
- ☒ goods or services sold to foreign residents.
- ☐ goods only sold to foreigners—you cannot sell services to foreigners.
- ☐ services only—exports do not include goods.

9 ■■■ Which of the following entries is considered to be a service export?

- ☐ the Japanese buying soybeans from the United States
- ☐ the Chinese selling iPhones to the United States
- ☒ Mexican tourists visiting the Grand Canyon
- ☐ the French selling wine to the United States

10 ■■■ Which of the following transactions is NOT a trade flow?

- ☐ domestic residents' purchases of foreign-made goods
- ☐ domestic residents' purchases of foreign-provided services
- ☒ domestic residents' purchases of foreign stocks and bonds
- ☐ domestic residents' purchases of foreign-produced software

11 ■■■ A country's service exports include:

- ☐ a restaurant meal purchased by its resident in another country.
- ☐ equipment or automobiles with a warranty and a service contract sold to a foreign resident.
- ☒ a ticket on a country's airline sold to a foreign resident.
- ☐ a country's resident who migrates to work in another country.

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

- ☐ trade status.
- ☒ trade balance.
- ☐ trade deficit.
- ☐ bilateral trade balance.

- 13 ☐ ☐ ☐ ☐ An American tourist buys a ticket to an opera in Paris. The U.S. government classifies this transaction as:
- ☐ a goods' import of a French Opera.
 - ☐ a service export.
 - ☒ a service import.
 - ☐ a goods' export.

- 14 ☐ ☐ ☐ ☐ A Chinese student pays tuition at a U.S. university. The Chinese government classifies this transaction as:
- ☐ a goods' import.
 - ☐ a service export.
 - ☒ a service import.
 - ☐ a goods' export.

- 15 ☐ ☐ ☐ ☐ If the value of a nation's imports is more than the value of its exports, then the nation is experiencing:
- ☒ a trade deficit.
 - ☐ a trade surplus.
 - ☐ balanced trade.
 - ☐ a trade balance.

- 16 ☐ ☐ ☐ ☐ If country X has a GDP of \$1 trillion and exports \$200 billion to country Y and imports \$300 billion from country Y, then its bilateral trade balance with country Y is:
- ☒ -\$100 billion.
 - ☐ \$100 billion.
 - ☐ \$500 billion.
 - ☐ 50%.

- 17 ☐ ☐ ☐ ☐ Which of the following is classified as a United States service export?
- ☒ Rene LaFrancois, a French citizen, has her hair dyed in a New York hair salon.
 - ☐ Miguel Ramirez, a Mexican citizen, gets paid for working in a Kansas vegetable-canning factory.
 - ☐ Harvey Guelph, a U.S. citizen, gets his haircut in a British barber shop.
 - ☐ Marie Thompson, a U.S. citizen, purchases a bottle of champagne in a French grocery store.

- 18 ☐ ☐ ☐ ☐ The difference in value between a nation's exports and imports is called:
- ☐ its trade deficit.
 - ☐ its bilateral trade balance.
 - ☐ balanced trade.
 - ☒ its trade balance.

- 19 ☐ ☐ ☐ ☐ Whenever the value of a nation's exports is more than the value of its imports, the nation has:
- ☐ a trade deficit.

- ☒ a trade surplus.
- ☐ balanced trade.
- ☐ a trade balance.

20 ■■■ Whenever the value of a nation's exports is less than the value of its imports, the nation has:

- ☒ a trade deficit.
- ☐ a trade surplus.
- ☐ balanced trade.
- ☐ a trade balance.

21 ■■■ Whenever the value of a nation's exports equals the value of its imports, the nation is experiencing:

- ☐ a trade deficit.
- ☐ a trade surplus.
- ☒ balanced trade.
- ☐ a trade balance.

22 ■■■ A bilateral trade balance is:

- ☐ half the trade deficit.
- ☐ the measure of imports only—not exports.
- ☒ the difference between the value of imports and exports between two trading nations.
- ☐ the sum of the value of imports and exports traded between two nations.

23 ■■■ What entries are used to calculate a country's bilateral trade balance?

- ☐ its unemployment and inflation rates
- ☒ its exports to and imports from another country.
- ☐ its per capita income and imports
- ☐ its exports and per capita income

24 ■■■ Which of the following statements about the United States-China bilateral trade balance is correct?

- ☐ It is a good indicator of the inequality of imports and exports between the United States and China.
- ☐ It vastly understates the gap in imports and exports between the United States and China.
- ☒ 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.
- ☐ It shows that there is balanced trade between the United States and China.

25 ■■■ The United States-China bilateral trade balance may overstate the trade gap if:

- ☒ some of the inputs used to produce Chinese exports are

imported.

- ☐ none of the inputs used to produce Chinese exports are imported.
- ☐ Chinese exports are valued in the United States versus Chinese currency.
- ☐ the United States imposes trade restrictions on Chinese imports.

26 ■■■ "Value added" in the context of international trade refers to:

- ☒ the difference between the value of exports and the value of imported inputs used in producing exports.
- ☐ the additional value a worker provides to a firm when she is hired.
- ☐ the value added by being able to purchase goods in a competitive market.
- ☐ the value added by import brokers when they mark up the price of the products.

27 ■■■ Recent bilateral trade figures alarm politicians who worry about China's growing trade imbalance with the United States. What do the authors of your textbook say?

- ☐ The real figures are even more shocking.
- ☒ It is not as bad as the numbers appear because China imports a large percentage of the value of its exports to the United States from its other trading partners.
- ☐ It depends on how you count imports and exports and on which currency is used.
- ☐ Irresponsible governments, corruption, and greedy corporations are responsible for the widening gap.

28 ■■■ How has China explained its growing bilateral imbalance with the United States?

- ☒ Current accounting practices make it very difficult to determine the value added and true national origin of goods.
- ☐ If the United States would only improve its efficiency, there would be no gap.
- ☐ Most Chinese imports are cheap consumer goods, and no firm in the United States wants to make those things anyway.
- ☐ China continues to struggle with corrupt officials at the customs bureau.

29 ■■■ How does one determine the "value added" of a product produced and sold domestically?

- ☐ Subtract the total value of imported raw and semi-finished materials used in production from the product's total value.
- ☐ Add the cost of its transportation to its market to the product's total value.
- ☒ Subtract the total value of all raw and semi-finished

materials used in its production from the product's total value.

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

- 30  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 United States-Chinese bilateral trade balance?
- ☐ It increased by \$300.
- ☐ It worsened by \$300.
- ☒ It worsened by \$150.
- ☐ It did not change the United States-Chinese trade balance, since Apple's \$150 margin (\$300-\$150) offset the \$150 cost of importing the phone from China.

- 31  **Table: Cost Associated with Phone Supply Chain**

Component/process	Source Country	Cost
Hard drive	Japan	\$75
Display module	Taiwan	\$25
Video chip	U.S.	\$20
Controller chip	U.S.	\$10
Assembly	China	\$20
Wholesale distribution	U.S. (Apple)	\$100
Retail distribution	U.S. (AT&T)	\$50
Retail price		\$300

Reference: Ref 1-1

(Table: Costs Associated with Phone Supply Chain) Jane Smith, a U.S. citizen, purchases a phone from AT&T for \$300. By how much did Jane's purchase change the U.S. trade balance with China?

- ☐ \$300
- ☒ \$150
- ☐ \$120
- ☐ \$30

- 32  **Table: Cost Associated with Phone Supply Chain**

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Retail distribution	U.S. (AT&T)	\$50
Retail price		\$300

Reference: Ref 1-1

(Table: Costs Associated with Phone Supply Chain) Jane Smith, a U.S. citizen, purchases a phone from AT & T for \$300. By how much did Jane's transaction affect the U.S.-Japanese trade balance?

- ☒ It did not affect it at all.
- ☐ The U.S.-Japanese trade balance fell by \$750.
- ☐ The U.S.-Japanese trade balance rose by \$130.
- ☐ The U.S.-Japanese trade balance fell by 25%.

33  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?

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

34  Why should the recorded U.S.-Chinese bilateral trade deficit in goods be interpreted with some caution?

- ☒ 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).
- ☐ U.S. imports of Chinese products may utilize material inputs that China imports from the United States.
- ☐ U.S. imports of Chinese products may be produced with capital goods (e.g., machinery) that China imports from the United States.
- ☐ All of these are reasons for a cautious interpretation of the U.S.-Chinese bilateral trade balance.

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

- ☐ the total value of imported raw and semi-finished materials into China plus the value of the export to the United States.
- ☒ the total value of the export to the United States minus the total value of imported raw and semi-finished materials into China.
- ☐ the total value of the export plus shipping costs.

☐ the difference between the total values of exports to the United States minus the total value of imports from the United States.

- 36 ☐ ☐ ☐ Merchandise trade among European countries accounted for approximately what share of total world merchandise (goods) trade in 2010?
- ☐ 3%
 - ☒ 23%
 - ☐ 50%
 - ☐ 75%

- 37 ☐ ☐ ☐ What nations have the world's highest volume of internal trade with one another?
- ☐ Canada, Mexico, and Japan
 - ☐ Japan, China, South Korea, and Thailand
 - ☒ nations in the European Union
 - ☐ Middle Eastern countries

- 38 ☐ ☐ ☐ Which of the following countries was an original member of the European Union when it was established in 1952?
- ☐ Poland
 - ☐ Greece
 - ☐ the United Kingdom
 - ☒ Italy

- 39 ☐ ☐ ☐ Which of the following economic groupings has the largest volume of trade among its member nations?
- ☐ NAFTA
 - ☒ the European Union
 - ☐ the Trans-Pacific Partnership
 - ☐ the European Free-Trade Area

- 40 ☐ ☐ ☐ How many countries are members of the European Union?
- ☐ 5
 - ☐ 12
 - ☐ 22
 - ☒ 27

- 41 ☐ ☐ ☐ Which of the following countries is NOT a member of the European Union?
- ☒ Turkey
 - ☐ Slovakia
 - ☐ Hungary
 - ☐ Poland

- 42 ☐ ☐ ☐ Which of the following countries is NOT a member of the European Union?
- ☐ Denmark

- ☐ Finland
- ☒ Norway
- ☐ Sweden

43  U.S. and European merchandise trade accounted for approximately what share of total world merchandise (goods) trade in 2010?

- ☐ slightly more than one fourth
- ☒ slightly more than one third
- ☐ about one half
- ☐ slightly more than two thirds

44  Europe and the United States accounted for _____ of world exports in 2010.

- ☐ 20%
- ☐ 15%
- ☐ 80%
- ☒ 51%

45  NAFTA is:

- ☒ a free trade area among Mexico, Canada, and the United States.
- ☐ a trade agreement to limit environmentally dangerous imports and exports.
- ☐ a law preventing illegal immigration.
- ☐ another name for the European Union.

46  Which of the following statements about trade is TRUE?

- ☐ In 2010, Canada was the largest exporter to the United States.
- ☐ Trade volume among China, Japan, Thailand, and Taiwan is the world's largest.
- ☐ Trade volume among Chile, Brazil, Argentina, and Mexico is the world's largest.
- ☒ The combined trade volume of the United States and the European Union is the world's largest.

47  Which of the following statements explain(s) why Asian countries trade with industrialized countries?

I. Workers in Asian countries have low wages.
 II. Workers are very productive in some Asian countries.
 III. Asian countries have an abundant supply of raw materials.

- ☐ I
- ☒ I, II
- ☐ 1I
- ☐ I, II, and III

48  Africa's share of world exports was _____ in 2010.

- ☒ 2%
- ☐ 12%
- ☐ 1.5%
- ☐ 58%

49  One way to gauge the impact of trade on a nation is to measure:

- ☐ wage distortions and job loss.
- ☒ the ratio of total imports and exports expressed as a percent of a nation's GDP.
- ☐ shipping costs.
- ☐ rises in national income due to trade.

50  Which of the following is NOT included in the calculation of a country's gross domestic product (GDP)?

- ☒ the value of all its intermediate goods produced in a year
- ☐ the value of all its exports produced in a year
- ☐ the value of all its final consumption goods produced in a year
- ☐ All of these are included in the calculation of a country's gross domestic product.

51  If a country's GDP is \$10 trillion, its exports are \$1 trillion, its imports are \$1.5 trillion, then:

- ☐ its trade-to-GDP ratio is 10%.
- ☐ its trade-to-GDP ratio is 15%.
- ☒ its trade-to-GDP is 25%.
- ☐ its trade-to-GDP is 400%.

52  Which of the following ratios is used to measure a country's openness to international trade?

- ☐ the ratio of its exports to its GDP
- ☐ the ratio of its imports to its GDP
- ☐ the ratio of its trade balance (exports minus imports) to its GDP
- ☒ the ratio of its exports plus imports to its GDP

53  What does a country's gross domestic product (GDP) measure?

- ☐ the value of all intermediate goods produced in a year
- ☐ the value of all exports produced in a year
- ☒ the value of all final goods produced in a year
- ☐ the value of all production in a year

54  If a country's GDP is \$10 trillion and its overall trade flows are \$2 trillion (exports and imports), then:

- ☒ its trade-to-GDP ratio is 20%.
- ☐ it is not a successful country.

- ☐ its GDP needs to increase.
- ☐ its trade-to-GDP ratio is too high.

55 ■■■ If the trade-to-GDP ratio is 38% and the GDP is \$500 billion, then what is the overall value of trade?

- ☐ \$390 billion
- ☒ 190 billion
- ☐ \$100 billion
- ☐ Not enough information is provided to answer the question.

56 ■■■ If the trade-to-GDP ratio is 25% and the overall value of trade is \$175 billion, then the GDP is:

- ☐ \$250 billion.
- ☒ \$700 billion.
- ☐ \$1 trillion.
- ☐ \$0.5 trillion.

57 ■■■ The U.S. trade-to-GDP ratio is:

- ☐ the highest in the industrialized world.
- ☐ greater than China's and Japan's.
- ☒ smaller than that of Germany.
- ☐ too high.

58 ■■■ If we measure the ratio of total trade to GDP, which of the following nations had the highest ratio in 2010?

- ☒ Hong Kong (China)
- ☐ Japan
- ☐ Germany
- ☐ the United States

59 ■■■ Which of the following countries has the highest ratio of international trade to GDP?

- ☐ the United States
- ☐ Japan
- ☐ China
- ☒ Malaysia

60 ■■■ If we measure the ratio of total trade to GDP, which of the following nations had the lowest ratio in 2008?

- ☐ Hong Kong (China)
- ☐ Japan
- ☐ Germany
- ☒ the United States

61 ■■■ Why do larger countries tend to have lower ratios of international trade to GDP than smaller countries?

- ☒ Larger countries tend to have more trade between

states or provinces within their borders than smaller countries.

- ☐ Larger countries tend to have higher tariffs than smaller countries.
- ☐ Larger countries tend to trade with other larger countries.
- ☐ Larger countries tend to have larger trade deficits than smaller countries.

62 ■■■ What is the best measure of a country's openness to international trade?

- ☐ the ratio of its exports to its GDP
- ☐ the ratio of its imports to its GDP
- ☐ the ratio of its trade balance (exports minus imports) to its GDP
- ☒ the ratio of its exports plus imports to its GDP

63 ■■■ Suppose that a country has a low ratio of trade to GDP. Which of the following may be a possible explanation for this?

- I. The country has high import tariffs on imports.
- II. The country is geographically distant from the rest of the world.
- III. The country is small.

- ☐ I
- ☐ II
- ☐ III
- ☒ I and III

64 ■■■ A tax on imported goods is called:

- ☐ a luxury tax.
- ☐ an excise tax.
- ☐ an income tax.
- ☒ a tariff.

65 ■■■ A tariff is:

- ☒ a tax on an import.
- ☐ a physical limitation on the quantity of imports of a certain good.
- ☐ a health or safety requirement on imports.
- ☐ a regulation affecting imports.

66 ■■■ One form of trade barrier is the import tariff. What is it?

- ☐ a limit on the imported quantity of a certain good
- ☒ a tax on the value of an import or the imported quantity of a good
- ☐ a health or safety precaution that affects goods that may cause long-term harm to humans or animals

☐ a bureaucratic rule that can be overridden by the Secretary for International Trade

- 67  What do economists call factors that influence (reduce) the total dollar volume of goods and services sold across international borders?
- ☐ trade factor issues
 - ☒ trade barriers
 - ☐ trade conditions
 - ☐ the ratio of total trade to GDP

- 68  The “first golden age” of trade was:
- ☐ the period from 1890 to 1913, when tariffs were increased between countries.
 - ☒ the period from 1890 to 1913, when steamships and railroads increased trade.
 - ☐ the period between 1919 and 1935.
 - ☐ the inter-war period.

- 69  One factor mentioned as a reason for the first “golden age” of trade was:
- ☐ the invention of the cotton gin.
 - ☐ the invention of the wheel.
 - ☒ improved methods of transporting goods.
 - ☐ the invention of the computer.

- 70  Which decade of the twentieth century had the highest average tariffs worldwide?
- ☐ 1900–1909
 - ☒ 1930–1939
 - ☐ 1950–1959
 - ☐ 1970–1979

- 71  The Smoot-Hawley Tariff act:
- ☐ was passed in response to World War II.
 - ☒ was passed as a reaction to the Great Depression in the United States.
 - ☐ was enacted by Germany.
 - ☐ greatly reduced the barriers to trade.

- 72  What was the short-lived import tariff enacted in 1930 that raised rates to an average of 60% on many imports?
- ☐ Reaganomics principle
 - ☒ Smoot-Hawley tariff
 - ☐ Blair-Bush tariff
 - ☐ International equity tariff

- 73  Other nations responded to the Smoot-Hawley tariff by:

- ☐ complaining to the United Nations.
- ☒ raising tariffs on imports from other nations in retaliation.
- ☐ lowering prices on exports in order to increase sales.
- ☐ attacking military bases in nations that refused to lower tariffs.

74 ■■■ One form of import barrier is an import quota. What is it?

- ☒ a limit on the quantity of a certain import
- ☐ a tax on the value of an import or the imported quantity of a good
- ☐ a health or safety precaution affecting goods that may cause long-term harm to humans or animals
- ☐ a bureaucratic rule that can be overridden by the Secretary for International Trade

75 ■■■ What is the immediate effect of increasing tariffs in a country on its economy?

- ☐ It increases the volume of trade.
- ☒ It reduces the volume of imports.
- ☐ It increases the volume of imports.
- ☐ It promotes better trade relations with other countries.

76 ■■■ By 2010, the average worldwide tariff had fallen to about:

- ☐ 35%.
- ☐ 25%.
- ☐ 15%.
- ☒ 5%.

77 ■■■ What ushered in the "second golden age" of trade?

- ☒ the increase in trade among countries in the period after World War II
- ☐ the introduction of the gold standard
- ☐ the increase in trade restrictions as a reaction to the Smoot-Hawley tariff act
- ☐ the decline in volume of trade among the industrialized countries

78 ■■■ What was an outcome of the Smoot-Hawley tariff enacted by the United States?

- ☒ a renewed effort to reestablish international trade and the flow of payments via new international organizations
- ☐ a focus on environmental and labor problems caused by trade
- ☐ a renewed emphasis on gold as a means of payment
- ☐ flows of foreign aid to low-income nations

- 79 ■ ■ ■ — What lesson was learned from the imposition of the Smoot-Hawley tariff?
- ☐ Nations can usually work out their differences without any structure or international organization.
 - ☐ Tariffs are often necessary to keep trade fair.
 - ☐ Retaliation and tariff escalation are not as harmful as many suppose.
 - ☒ A reduction of trade as a result of a tariff imposes large costs on the countries involved.

- 80 ■ ■ ■ — After 1945, world trade:
- ☐ grew more slowly than in the decade before World War II.
 - ☒ grew more rapidly than in the decade before World War II.
 - ☐ grew in absolute dollar terms but not as a ratio of GDP.
 - ☐ fell both in absolute and relative terms.

- 81 ■ ■ ■ — In 1956 an invention increased the volume of world trade by lowering the cost of shipping. What was the invention?
- ☐ the personal computer
 - ☐ the bar code
 - ☐ bubble wrap
 - ☒ the shipping container

- 82 ■ ■ ■ — The article "A Sea Change in Shipping 50 Years Ago" states that the amount of cargo carried in a ship and the speed of the ship _____ from 1950 to 1976.
- ☒ increased
 - ☐ decreased
 - ☐ stayed the same
 - ☐ were not related

- 83 ■ ■ ■ — According to the article "A Sea Change in Shipping 50 Years Ago," what impact did container shipping have on global trade?
- ☐ It increased the time taken to ship commodities.
 - ☐ It produced a decrease in the volume of trade.
 - ☒ It caused a reduction in the time at the port for ships delivering goods.
 - ☐ It increased tariffs between countries.

- 84 ■ ■ ■ — During the 2008–2009 financial crisis, what happened to the ratios of trade to GDP for most developed nations?
- ☐ They rose.
 - ☒ They fell.
 - ☐ They did not change.
 - ☐ We do not have enough data yet to say what

happened.

85 ■ ■ ■ — What caused the decline in trade during the 2008–2009 financial crisis?

- ☐ rising house prices, which took up more consumer income
- ☒ decreased demand during the recession
- ☐ greater productivity in the developing countries
- ☐ pirate activity off the coast of Africa

86 ■ ■ ■ — The movement of people across borders is known as:

- ☐ resettlement.
- ☐ guest workers.
- ☒ migration.
- ☐ fractionalization.

87 ■ ■ ■ — Which of the following countries is NOT a member of the Organization for Economic Cooperation and Development?

- ☒ China
- ☐ the United States
- ☐ Germany
- ☐ the United Kingdom

88 ■ ■ ■ — Most immigration occurs:

- ☐ from Organization for Economic Cooperation and Development (OECD) countries to other OECD countries.
- ☐ from OECD countries to non-OECD countries.
- ☐ from non-OECD countries to OECD countries.
- ☒ from non-OECD countries to other non-OECD countries.

89 ■ ■ ■ — In general, migration is _____ than trade.

- ☐ more free
- ☒ more controlled and regulated
- ☐ less desirable
- ☐ more desirable

90 ■ ■ ■ — Immigration issues are usually more intense in:

- ☐ low-wage nations.
- ☐ nations whose borders are not secured.
- ☐ nations with open-door policies.
- ☒ nations whose wages are higher than world averages.

91 ■ ■ ■ — Despite hopes that migration between nations in the European Union would be free, several nations have agreements to restrict it. Why?

- ☐ They are afraid of disease.
- ☐ Labor policies are very different, and new workers will expect the same benefits.
- ☒ They are concerned that mass inflows of workers will lower wages and offer competition for their own domestic labor force.
- ☐ Domestic workers are more productive.

92  In the United States, one third of the foreign-born workers come from:

- ☐ China.
- ☐ Philippines.
- ☒ Mexico.
- ☐ the Dominican Republic.

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

- ☒ the purchase of a controlling interest in a foreign firm by a domestic firm
- ☐ the purchase of stocks or bonds directly from an international dealer
- ☐ the purchase of foreign government bonds by domestic investors
- ☐ accounts denominated in foreign currency in foreign banks owned by domestic depositors

94  Most FDI flows are owned by:

- ☒ low-income nations.
- ☐ Australia.
- ☐ OECD nations.
- ☐ the African continent.

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

- ☐ access to raw materials
- ☐ lower wages
- ☒ avoidance of export taxes
- ☐ access to raw materials, lower wages, avoidance of export taxes

96  Most foreign direct investment among industrialized countries is:

- ☐ vertical FDI.
- ☒ horizontal FDI.
- ☐ industrial FDI.
- ☐ reverse-vertical FDI.

97  Which of the following is considered to be an outflow of foreign direct investment (FDI) from the United States?

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

98  Which of the following is classified as horizontal FDI?

- ☐ A U.S. steel-producing firm purchases an iron ore mine in Australia.
- ☒ A German auto manufacturer constructs an auto assembly plant in Alabama.
- ☐ Apple establishes a plant in Taiwan to manufacture components for iPhones that are then shipped to China for assembly at its phone assembly plant.
- ☐ McDonald's buys a Russian meat packing plant that produces ground beef for Big Macs sold at its restaurants in Moscow.

99  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)?

- ☒ to take advantage of low wages in Malaysia
- ☐ to take advantage of Malaysia's climate
- ☐ to take advantage of Malaysia's low tariffs on imported computer chips
- ☐ All of these are reasons for Intel to establish a computer chip manufacturing plant in Malaysia.

100  Which of the following is classified as reverse-vertical FDI?

- ☐ Subaru, a Japanese automaker, builds a plant in Indiana to assemble Subaru Outbacks.
- ☐ Coca-Cola, an American multinational corporation, constructs a bottling plant in Saudi Arabia.
- ☒ A Chinese steel producer purchases an iron ore mine in Minnesota.
- ☐ Fiat, an Italian automaker, buys Chrysler Motors.

101  Which of the following is a reason why a Chinese pork-producing firm recently acquired Smithfield Foods (an American pork-processing firm)?

- ☐ The Chinese firm wanted to learn Smithfield's pork-processing techniques in order to improve its own pork-processing techniques.
- ☐ The acquisition would help the Chinese firm to satisfy a growing demand for pork in China.
- ☐ The Chinese firm wanted to take advantage of lower

wages in the United States.

● The Chinese firm wanted to learn Smithfield's pork-processing techniques in order to improve its own pork-processing techniques, and also the acquisition would help it satisfy a growing demand for pork in China.

102 ■ ■ ■ Which of the following is a reason why a foreign truck manufacturer might want to acquire or construct a plant in the United States?

I. By having a plant in the United States, the manufacturer will avoid the U.S. 25% tariff on imported pickup trucks.

II. The manufacturer wants to take advantage of lower wages in the United States.

III. U.S. consumers will buy only U.S.-made pickup trucks.

- ☒ I
- ☐ II
- ☐ III
- ☐ II and III

103 ■ ■ ■ Whenever foreign direct investment occurs between industrial countries, it is referred to as:

- ☐ egalitarian FDI.
- ☐ balanced FDI.
- ☒ horizontal FDI.
- ☐ vertical FDI.

104 ■ ■ ■ Which of the following is an example of horizontal FDI?

- ☐ China invests \$10 billion in Somalia.
- ☒ German investors buy the Chicago Cubs baseball team.
- ☐ Sri Lanka invests \$10 billion in Bangladesh.
- ☐ Bulgaria buys a golf course in Nigeria.

105 ■ ■ ■ Which of the following is a reason for horizontal FDI?

- ☐ to increase access to foreign market
- ☐ to avoid tariffs of the host country
- ☐ to decrease access to foreign market
- ☒ to increase access to foreign market and avoid tariffs of the host country

106 ■ ■ ■ Which of the following is NOT a reason for horizontal FDI?

- ☐ to avoid tariffs or other trade barriers
- ☐ to have improved facilities and information for marketing products
- ☒ to take advantage of inexpensive labor
- ☐ to share expertise and avoid possible duplication of

products

- 107  Reasons that firms in an industrial nation acquire firms in another industrial nation include:
- ☐ avoidance of import tariffs and quotas.
 - ☐ the ability to share technology and resources.
 - ☐ market access in the foreign nation.
 - ☒ avoidance of import tariffs and quotas, the ability to share technology and resources, and market access in the foreign nation.

- 108  Foreign direct investment between two industrialized countries is called:
- ☐ vertical FDI.
 - ☒ horizontal FDI.
 - ☐ industrial FDI.
 - ☐ reverse-vertical FDI.

- 109  Which of the following is an example of horizontal FDI?
- ☒ Ford Motor Company acquires the British firm Jaguar.
 - ☐ Lenovo, a Chinese company, acquires IBM's personal computing business.
 - ☐ The Venezuelan government acquires the Venezuelan operations of BP, a British petroleum firm.
 - ☐ General Motors Corporation builds a plant in China to supply Buicks to the Chinese market.

- 110  Which of the following statements refer to a vertical FDI?
- ☐ An American company purchases a British soccer team.
 - ☐ Ford Motor company establishes a plant in Canada.
 - ☒ GM opens a plant in India.
 - ☐ BMW opens a plant in Bilbao, Spain.

- 111  _____ foreign direct investment occurs when a firm from an industrial country owns a plant in a developing country.
- ☒ Vertical
 - ☐ Horizontal
 - ☐ Industrial
 - ☐ Reverse-vertical

- 112  When a firm in an industrial nation purchases a firm in a lower-income nation, economists call it:
- ☐ egalitarian FDI.
 - ☐ balanced FDI.
 - ☐ horizontal FDI.
 - ☒ vertical FDI.

113 ■■■ Which of the following is a reason why firms engage in vertical FDI?

- ☐ Firms want to engage in automated production techniques.
- ☐ Firms anticipate higher technology and access to capital.
- ☐ Legal structure, education, highways, and communications technology are usually better in lower-income nations.
- ☒ None of these explains why firms engage in vertical FDI.

114 ■■■ The greatest amount of FDI is:

- ☐ vertical FDI.
- ☒ horizontal FDI.
- ☐ third-party FDI.
- ☐ between the United States and Mexico.

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

- ☐ China
- ☐ Japan
- ☒ Europe
- ☐ Latin America

116 ■■■ FDI flows into the United States and Europe are:

- ☒ the largest in the world
- ☐ smaller than FDI to China.
- ☐ smaller than their share of trade flows.
- ☐ called horizontal FDI.

117 ■■■ Which of the following is an example of reverse-vertical FDI?

- ☐ Ford Motor Company acquires the British firm Jaguar.
- ☒ Lenovo, a Chinese company, acquires IBM's personal computing business.
- ☐ Daimler-Benz, a German company, merges with Chrysler Corporation, an American company, to form the Daimler-Benz Corporation.
- ☐ General Motors Corporation builds a plant in China to supply Buicks to the Chinese market.

118 ■■■ China has received a great deal of FDI. Why?

- ☒ Firms such as automakers can take advantage of low wages and also avoid tariffs if their production is finished in China.
- ☐ The U.S. government has encouraged domestic firms

to buy foreign firms.

- Loans to purchase manufacturing facilities in other nations are subsidized by the U.S. government.
- China has a system of business that is free from corruption and interference by the Chinese government.

119  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.

120  Why isn't the US-Chinese bilateral trade balance a good indicator of the inequality of imports and exports between the United States and China?

Answer:

The value of Chinese exports to the United States includes the value of imported material inputs used in producing these exports rather than the value added in their production in China.

121  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 third countries. Bilateral trade balances do not represent much GDP produced in either country if value added is small. Bilateral trade balances do not account for inputs produced by and profits earned by home country subsidiaries operating in the other country.

122  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.

123  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.-Chinese and Chinese-U.S. bilateral trade balances?

Answer:

U.S. imports increased by \$5 and Chinese exports increased by \$5, the U.S.- Chinese bilateral trade balance declined by \$5, and the Chinese-U.S. bilateral trade balance increased by \$5.

- 124  Why do European Union nations have the world's highest volume of internal trade among themselves?

Answer:

Because of their size, many smaller European Union nations depend on imports from nearby EU countries to satisfy their domestic demands; these countries also have zero trade barriers, low transportation costs, and many of them use the same currency.

- 125  Describe the historical evolution of the European Union.

Answer:

Belgium, France, Germany, Italy, Luxembourg, and the Netherlands were the founding members of the EU in 1952. Denmark, Ireland, and the United Kingdom were added in 1973; Greece was added in 1981; Portugal and Spain were added in 1986; and Austria, Finland, and Sweden were added in 1995. Ten countries joined in 2004—Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia, and Slovenia—and two—Bulgaria and Romania—joined in 2007. In addition to zero tariffs, countries within the European Union have many common economic regulations and some of them share a currency (the Euro).

- 126  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 one. How is it possible for trade to exceed the value of GDP?

Answer:

Countries for which trade exceeds GDP tend to be small in economic size, 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.

- 127  Why do some countries (such as the United States) have low ratios of international trade (exports + imports) to GDP?

Answer:

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

- 128  What was the General Agreement on Tariffs and Trade (GATT)?

Answer:

GATT was an international agreement established after World War II that reduced tariffs on trade among its signatories. It later became the World Trade Organization.

- 129  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.

- 130  Until recently, labor could freely move from one country to another within the EU. However, most 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 will cause wages to fall in the receiving countries.

- 131  Is most immigration from low-income to high-income countries?

Answer:

No, less than one-half of migration occurs between low- and high-income countries. High-income countries usually have more restrictions on migrant labor than low-income countries, thus limiting the number of legal migrants entering these countries.

- 132  What are the differences between vertical and horizontal FDI?

Answer:

Horizontal FDI occurs between industrial countries and often involves acquisitions 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.

133  Is most FDI from high-income to low-income countries?

Answer:

No, in 2010, 85% of the world FDI stock was located in OECD countries or owned by these countries.

134  What is reverse-vertical FDI?

Answer:

Reverse-vertical FDI occurs when a firm in a developing country acquires a firm in an industrialized country. An example would be Lenovo (a Chinese company) purchasing the computer division of IBM.