

International Economics, 4e (Gerber)

Chapter 1 The United States in a Global Economy

1.1 Multiple Choice Questions

- 1) Countries such as the United States that have large populations tend to have
- A) higher openness indicators.
 - B) lower openness indicators.
 - C) relatively greater capital outflows.
 - D) relatively smaller capital outflows.
 - E) None of the above.

Answer: B

Question Status: Previous Edition

- 2) The index of openness for a nation that had \$600 million in exports, \$400 million in imports, and GDP of \$2,000 million would be
- A) 0.1.
 - B) 0.2.
 - C) 0.5.
 - D) -0.1.

Answer: C

Question Status: Previous Edition

- 3) The openness indicator is measured as
- A) exports divided by GDP.
 - B) imports divided by GDP.
 - C) exports plus imports divided by GDP.
 - D) exports minus imports divided by GDP.
 - E) exports divided by imports.

Answer: C

Question Status: Previous Edition

- 4) A relative measure of the importance of trade is
- A) the dollar value of trade.
 - B) trade as a percentage of GDP.
 - C) the dollar value of trade adjusted for inflation.
 - D) trade as a percentage of investment.
 - E) None of the above.

Answer: B

Question Status: Previous Edition

- 5) An important factor that increased international capital flows in the second half of the nineteenth century was
- A) the creation of the International Monetary Fund.
 - B) the creation of numerous regional trade agreements.
 - C) the rapid rate of East Asian economic growth.
 - D) technological innovations.
 - E) the creation of the World Bank.

Answer: D

Question Status: Previous Edition

- 6) Labor mobility was
- A) less in 1900 than in 1999.
 - B) unimportant to global integration until the 1960s.
 - C) greater in 1900 than in 1999.
 - D) never controversial.
 - E) a brand new feature of the global economy in the twenty-first century.

Answer: C

Question Status: Previous Edition

- 7) A major impact of the transatlantic telegraph was
- A) a reduction in interest rate differences between New York and London.
 - B) an increase in labor flows across the Atlantic.
 - C) a decrease in trade barriers between the United States and Europe.
 - D) an increase in trade conflicts between the United States and Europe.
 - E) None of the above.

Answer: A

Question Status: Previous Edition

- 8) The openness indicator for the United States reached its lowest point of the last 100 years
- A) around 1900.
 - B) around 1970.
 - C) around World War II.
 - D) around World War I.
 - E) around 1990.

Answer: C

Question Status: Previous Edition

- 9) Recent technological changes have had profound effects on the movement of capital across international boundaries. One of the main effects has been
- A) an increase in the transaction costs of moving capital.
 - B) a decrease in the transaction costs of moving capital.
 - C) a long-run decline in real interest rates.
 - D) a long-run increase in real interest rates.
 - E) None of the above.

Answer: B

Question Status: Previous Edition

- 10) Transaction costs include the costs of
- A) wages paid to labor.
 - B) buying materials to be used as inputs.
 - C) electricity and other utilities used in production.
 - D) hiring a lawyer to go over all the contracts.
 - E) All of the above.

Answer: D

Question Status: Previous Edition

- 11) In today's world economy, the main determinant of the amount of investment in most countries is the amount of
- A) international capital flows into the country.
 - B) international capital flows out of the country.
 - C) savings in the country.
 - D) Both A and B.
 - E) All of the above.

Answer: C

Question Status: Previous Edition

- 12) Over the last fifty years, trade has grown
- A) slower than during the first 50 years of the twentieth century.
 - B) faster than during the first 50 years of the twentieth century.
 - C) slower than GDP.
 - D) faster than GDP.
 - E) Both B and D.

Answer: E

Question Status: Previous Edition

- 13) One of the reasons we know that international labor mobility has been higher at other times is because
- A) the percent of our population that was foreign born was higher.
 - B) the percent of our population that was foreign born was lower.
 - C) wages were lower.
 - D) labor was important in agriculture.
 - E) the population was younger.

Answer: A

Question Status: Previous Edition

- 14) One important difference between the international economy of today and the economy of 100 years ago is
- A) that labor is so much more mobile.
 - B) that recent technological innovations have reduced the barrier of distance.
 - C) that capital is mobile.
 - D) that price differences in different markets have narrowed.
 - E) the presence of international bodies such as the IMF and World Bank.

Answer: E

Question Status: Previous Edition

- 15) One of the distinguishing characteristics of capital mobility today is that
- A) there are far more kinds of financial instruments than there were 100 years ago.
 - B) nations are no longer dependent on their own national savings for their investment funds.
 - C) the bulk of foreign capital flows are tied to labor flows.
 - D) foreign capital flows are better managed and rarely cause financial problems.
 - E) None of the above.

Answer: A

Question Status: Previous Edition

- 16) The main reason why economists overwhelmingly support more open markets is because trade
- A) creates jobs.
 - B) directly benefits everyone in the country.
 - C) increases the profit margins of firms.
 - D) leads to a better allocation of resources inside countries.
 - E) All of the above.

Answer: D

Question Status: Previous Edition

- 17) Which of the following kinds of agreements between two or more countries would be an example of a shallow integration measure?
- A) An agreement to accept another nation's certification of architects
 - B) An agreement to unify customs forms in order to speed up cross-border traffic
 - C) An agreement to use the same environmental standards
 - D) An agreement to impose the same limits on cartels and monopolies
 - E) An agreement to limit subsidies offered to domestic businesses

Answer: B

Question Status: Previous Edition

- 18) Which of the following kinds of agreements between two or more countries would be an example of a deep integration measure?
- A) An agreement to reduce tariffs and quotas
 - B) An agreement to unify customs forms in order to speed up cross-border traffic
 - C) An agreement to impose the same limits on cartels and monopolies
 - D) An agreement to reduce exports
 - E) An agreement to limit imports

Answer: C

Question Status: Previous Edition

- 19) One of the most important ways in which local instabilities are quickly spread to the international economy is through
- A) goods.
 - B) services.
 - C) labor.
 - D) capital.
 - E) firms.

Answer: D

Question Status: Previous Edition

- 20) Which region of the world experienced a decade-long crisis and stagnant or even negative growth rates during the 1980s?
- A) Latin America
 - B) East Asia
 - C) The United States and Canada
 - D) Europe
 - E) The European Union

Answer: A

Question Status: Previous Edition

- 21) According to the text, which of the following would NOT be a reason to convince economists that the benefits of trade outweigh the costs?
- A) The casual empirical evidence of historical experience
 - B) The evidence of statistical comparisons of countries
 - C) Trade benefits consumers in terms of lower prices and increased variety of goods.
 - D) Trade makes possible increased innovation, access to new technology, and economies of scale.
 - E) The associated costs are minor and negligible.

Answer: E

Question Status: Previous Edition

- 22) In most high-income countries, the most highly protected goods from international trade include
- A) those goods produced using highly sensitive technology.
 - B) cars and aircraft.
 - C) processed foods, textiles, and apparel.
 - D) software.
 - E) military ammunitions.

Answer: C

Question Status: Previous Edition

- 23) Which of the following is FALSE?
- A) The openness index helps to give a sense of how important trade is to an economy.
 - B) It is possible for an openness index to be greater than 100 percent.
 - C) A country that exported \$20 billion, imported \$30 billion, and had GDP of \$100 billion would have an index of openness of 0.5 or 50 percent.
 - D) Smaller countries tend to have lower openness measures than large countries.

Answer: D

Question Status: Previous Edition

- 24) Which of the following is a TRUE statement regarding the index of openness?
- A) The United States, as the largest participant in international trade, has an unusually high index of openness.
 - B) The U.S. openness index has shown a steady rise over the last 110 years.
 - C) Smaller countries tend to have higher openness measures than larger countries.
 - D) If a country has a relatively high openness index compared to its neighbors, it must have lower barriers to trade.

Answer: C

Question Status: Previous Edition

- 25) Which of the following is a false statement about the changes that have occurred in China's economy since the 1970s?
- A) China has made a long, slow shift away from isolation.
 - B) China allowed for growing foreign investment.
 - C) China exports more but imports less.
 - D) China is a member of the World Trade Organization.

Answer: C

Question Status: New

1.2 True/False Questions

- 1) While the world was fairly integrated at the turn of the last century, most trade was in agricultural and raw materials, whereas today capital goods play a much greater role in determining exports and imports.

Answer: TRUE

Question Status: Previous Edition

- 2) U.S. commodity prices only recently have become sensitive to commodity price changes in the rest of the world.

Answer: FALSE

Question Status: Previous Edition

- 3) Capital and labor only very recently have been free to move across international borders.

Answer: FALSE

Question Status: Previous Edition

4) Direct foreign investment has declined over the last decade as financial problems in specific countries, such as Argentina, have spooked investors generally.

Answer: FALSE

Question Status: Previous Edition

5) To a large extent, globalization and the integration of economies internationally are a new development based largely on the rapid communication advances of the last twenty years.

Answer: FALSE

Question Status: Previous Edition

6) Since the end of World War II, world trade has grown much faster than world output.

Answer: TRUE

Question Status: Previous Edition

7) India's shift from isolation to engagement with the global economy started before China's and proceeded rapidly.

Answer: FALSE

Question Status: New

8) Daily foreign exchange transactions have grown from about \$15 billion in 1973 to more than \$1.8 trillion today, according to the Bank for International Settlements.

Answer: TRUE

Question Status: New

1.3 Essay Questions

1) Compare and contrast globalization as it existed in the late nineteenth century with globalization at the turn of the twenty-first century (i.e., today).

Answer: I would expect my students to address the following:

- That in percentage terms, a significant portion of world economic activity was engaged in trade in both periods.
- That in the prior period, trade was mostly in agricultural products and commodities, whereas today capital goods play an increasingly important role.
- That labor may have been more mobile in the past than it is today due to changes in immigration policies.
- That capital was mobile in both periods, but might be more so today, especially given new instruments.
- That changes in transportation and communication were significant in both periods in terms of reducing transaction costs and encouraging product and factor mobility.

Question Status: Previous Edition

2) What are some of the main advantages and disadvantages of the extensive financial and commercial networks linking nations today?

Answer: Some of the advantages are that buyers receive lower prices, more choice, and more access to innovative technology. The major disadvantage is that a crisis is more likely to spread from one part of the world to another.

Question Status: New

3) How has the composition of trade flows changed from the early twentieth century to today? Compared to the past, is anything about trade today new?

Answer: Prior to World War I, most trade consisted of agricultural commodities and raw materials, while today trade is primarily manufactured consumer goods and capital goods. Given recent advances in telecommunications, services now can be outsourced and service industries face growing international competition.

Question Status: New

1.4 Short Answer Questions

1) What is the most important predictor of the level of investment in a nation?

Answer: Domestic savings

Question Status: New

2) Advances in which industry have led to more outsourcing and the growth of trade in services?

Answer: Telecommunications

Question Status: New

3) Which type of capital flow is most desired by nations?

Answer: Foreign direct investment

Question Status: New

4) What are the positive impacts of migration on migrants and the firms that hire them?

Answer: Higher incomes for migrants and lower labor costs for firms

Question Status: New

5) What are the negative impacts of migration for the nation receiving migrants?

Answer: More competition for other workers and greater social tensions

Question Status: New