# Chapter 1: Introduction

TRUE/FALSE

1. Many of the developing countries of the world experience traffic gridlock.

ANS: T DIF: Easy REF: page 2

1. In constant U.S. dollars, world trade has grown about 10 percent per year between 1948 and 2015.

ANS: F DIF: Easy REF: page 4

1. Constant dollars are dollars whose value has been adjusted for inflation.

ANS: T DIF: Easy REF: page 4

1. The countries that represents the largest share of international trade are those of the European Union.

ANS: T DIF: Easy REF: page 2

1. World trade in services represents a higher percentage of total world trade than does world trade in merchandise.

ANS: F DIF: Moderate REF: page 5

1. The Bretton Woods Conference triggered the creation of the World Trade Organization in 1944.

ANS: F DIF: Moderate REF: page 9

1. The Treaty of Rome in 1957 was the first step in the creation of the European Union.

ANS: T DIF: Easy REF: page 9

1. The USMCA free-trade agreement includes only the United States and Mexico.

ANS: F DIF: Moderate REF: page 11

1. The euro dollar is the common currency of the European Union.

ANS: F DIF: Moderate REF: page 14

1. The euro has replaced the currencies of all of the countries of the European Union.

ANS: F DIF: Hard REF: page 14

1. In 2019, the United States exported more goods than any other country in the world.

ANS: F DIF: Moderate REF: page 16

1. In 2019, the United States imported about 1.5 times more goods than it exported.

ANS: T DIF: Hard REF: page 15

1. Mercosur is a trade bloc that includes countries located in South America.

ANS: T DIF: Moderate REF: page 11

1. The top fifteen largest exporters represent more than half of all exports in the world.

ANS: T DIF: Hard REF: page 16

1. A company that has to make large capital outlays before starting production will want to export in order to spread its costs over a large number of units produced.

ANS: T DIF: Moderate REF: page 18

1. The top three largest car manufacturers in the world are based in North America.

ANS: F DIF: Moderate REF: page 19

1. The “Walmart effect” pushes manufacturers to sell products at ever-lower prices, often obtained by manufacturing abroad.

ANS: T DIF: Moderate REF: page 20

1. The term “outsourcing” refers to a strategy whereby a company purchases production plants overseas.

ANS: F DIF: Moderate REF: page 20

1. The term “re-shoring” refers to a strategy whereby a company brings back to the United States production that had been outsourced abroad.

ANS: T DIF: Easy REF: page 21

1. In 2019 China produced almost 2.5 times as many automobiles as the United States.

ANS: T DIF: Moderate REF: page 20

1. A competitor offering a new product in a mature market can entice a company to start importing its own low-cost alternative.

ANS: T DIF: Moderate REF: page 21

1. Consumers are becoming increasingly worldly and willing to purchase foreign-made products.

ANS: T DIF: Easy REF: page 22

1. According to Thomas Friedman, individuals looking for jobs now compete with hundreds of other similarly trained applicants, coming from all corners of the world.

ANS: T DIF: Hard REF: page 22

1. According to Adam Smith, countries trade when they enjoy a comparative advantage over other countries in the production of a given product.

ANS: F DIF: Easy REF: page 23

1. A country enjoys an absolute advantage in the production of a particular good when it can produce it at a lower price than another country.

ANS: T DIF: Easy REF: page 23

1. David Ricardo’s Theory of Comparative Advantage explains why countries that enjoy an absolute advantage in making certain goods can still prefer to purchase these products from other countries.

ANS: T DIF: Hard REF: page 24

1. Most trade today is more likely to be explained by the Theory of Comparative Advantage than by the Theory of Absolute Advantage.

ANS: T DIF: Moderate REF: page 26

1. A country often enjoys a comparative advantage because of the abundance of a particular production factor (land, labor, capital, or entrepreneurship) within its borders.

ANS: T DIF: Easy REF:page 26

1. The Factor Endowment Theory was developed by Raymond Vernon.

ANS: F DIF: Easy REF: page 26

1. The International Product Life Cycle Theory explains why there are no televisions manufactured in Great Britain and the United States, although that technology was invented in those countries.

ANS: T DIF: Easy REF: page 28

1. A product is invented in Country X and is first manufactured there. The International Product Life Cycle Theory holds that the product will be manufactured in developing countries within a couple of years.

ANS: F DIF: Hard REF: page 28

1. Michael Porter views Silicon Valley is an example of a “cluster” of innovation and manufacturing.

ANS: T DIF: Easy REF: page 30

1. Until the 1950s, most of the area rugs in the world were manufactured in Persia (Iran) and Pakistan. Artisans in these countries had developed techniques (dyes and knots) that were unique and that other production areas were not capable of reproducing. These areas enjoyed what Michael Porter would call an “absolute advantage.”

ANS: F DIF: Hard REF: page 30

1. According to Yossi Sheffi, countries with few natural resources can still develop into economic hubs by becoming manufacturing centers.

ANS: F DIF: Easy REF: page 31

MULTIPLE CHOICE

1. The total value of international trade (2019) in services and merchandise is about

|  |  |  |  |
| --- | --- | --- | --- |
| a. | $ 19 billion. | d. | $ 19 thousand. |
| b. | $ 19 trillion. | e. | $ 19 milliard. |
| c. | $ 19 million. |

ANS: B DIF: Moderate REF: page 4

The total value of international trade was $19.3 trillion in 2019.

1. Until the end of the twentieth century, international trade was mostly concentrated among the developed countries of the Northern Hemisphere. Which country was the largest exporter of the world in 2019?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | United States | d. | Japan |
| b. | Germany | e. | Saudi Arabia |
| c. | China |

ANS: C DIF: Moderate REF: page 16

China is the largest exporter in the world, and exports about 30 percent more than the United States or Germany. Germany was the largest world exporter prior to 2008.

1. International trade is still mostly concentrated among the developed countries of the Northern Hemisphere. Which country is the largest importer of the world?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | United States | d. | Japan |
| b. | Germany | e. | Canada |
| c. | China |

ANS: A DIF: Moderate REF: page 17

The United States is the largest importer in the world. It imports about 37 percent more than China and about 2.3 times as much as Germany.

1. The European Union is an economic community that comprises how many countries?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | 15 | d. | 27 |
| b. | 25 | e. | 30 |
| c. | 18 |

ANS: D DIF: Moderate REF: pages 10 and 14

The European Union had 28 members until 2020. In 2016, the United Kingdom voters decided to “Brexit,” and it was implemented in 2021.

1. The common currency of most of the countries of the European Union is called

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the euro-dollar. | d. | the euro. |
| b. | the European currency unit (ECU). | e. | the eural. |
| c. | the thaler. |

ANS: D DIF: Easy REF: page 14

The euro is the currency created in 1999 and placed in circulation in 2002. The term “euro-dollar” refers to U.S. dollars kept in accounts in [foreign] banks not subject to the authority of the Federal Reserve Banks, and the ECU is the original name proposed for the euro and eventually abandoned. Thaler refers to an old European currency.

1. USMCA is a free-trade agreement between the countries of

|  |  |  |  |
| --- | --- | --- | --- |
| a. | North Africa. | d. | North Asia. |
| b. | North America. | e. | Pacific Rim. |
| c. | North Atlantic. |

ANS: B DIF: Easy REF: page 10

USMCA is the free trade agreement between the United States, Canada, and Mexico.

1. Which of the following entities was created at the Bretton Woods Conference of 1944?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | International Monetary Fund. | d. | United Nations. |
| b. | World Trade Conference. | e. | European Union. |
| c. | Marshall Plan. |

ANS: A DIF: Moderate REF: page 8

The IMF was created at the Bretton Woods Conference.

1. A firm can respond to one of its competitors’ introduction of a lower-priced product by starting to produce its own lower-cost product abroad and importing it. Such a strategy is called

|  |  |  |  |
| --- | --- | --- | --- |
| a. | insourcing. | d. | outsourcing. |
| b. | foreign investment. | e. | resourcing. |
| c. | just-in-time. |

ANS: D DIF: Easy REF: page 20

Outsourcing is the process of manufacturing abroad in order to lower production costs.

1. On occasion, a firm will respond to a competitor’s move by retaliating. For example, Linde Gas (an American firm producing industrial gasses) entered the French market when Air Liquide (a French company in the same industry) decided to enter the U.S. market under the name Liquid Air. Such a move is considered a

|  |  |  |  |
| --- | --- | --- | --- |
| a. | cost driver. | d. | market driver. |
| b. | competition driver. | e. | strategy driver. |
| c. | technology driver. |

ANS: B DIF: Hard REF: page 21

Linde Gas and Air Liquide are not mentioned in the text; however, this is a typical retaliatory action that drives a company to enter a foreign market which it had no intention to enter in the first place.

1. Consumer mobility refers to the idea that consumers like to find the same products everywhere. An example of a company that sells products everywhere in the world because its customers are all over the world is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | McDonald’s Restaurants. | d. | HSBC Bank. |
| b. | Intercontinental Hotels. | e. | All of the brands in the answers follow their customers worldwide. |
| c. | Fuji Film. |

ANS: E DIF: Easy REF: page 22

These four companies operate in the industries that are specifically listed as having “followed” their consumers worldwide.

1. Argentina can produce 1 ton of meat (beef) using 0.1 years of labor. It can also produce 1 automobile using 2 years of labor. In order to produce 1 ton of beef, the United States uses 0.2 years of labor. It can produce an automobile using 1.5 years of labor. Argentina has

|  |  |  |  |
| --- | --- | --- | --- |
| a. | an absolute advantage in the production of automobiles. | d. | a comparative advantage in the production of beef. |
| b. | an absolute advantage in the production of beef. | e. | Argentina has no advantage over the United States, either in beef or automobile production. |
| c. | a comparative advantage in the production of automobiles. |

ANS: B DIF: Easy REF: page 23

Argentina uses less labor for the production of 1 ton of beef than the United States does.

1. Russia can produce 25 tons of steel or 5 automobiles using the same amount of resources. Using the exact same amount of resources, India can produce 18 tons of steel and 3 automobiles. According to the theory of comparative advantage, the countries will trade with each other. What will Russia produce?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | steel | d. | Impossible to determine with the information given |
| b. | automobiles |  |  |
| c. | some steel and some chairs |

ANS: B DIF: Moderate REF: page 25

Russia has a comparative advantage in making automobiles; it costs Russia 5 tons of steel to make an automobile, and it costs India 6 tons of steel to make an automobile. Russia makes automobiles more efficiently than it makes steel, and the countries will trade as long as the price of automobiles is higher than 5 tons of steel (otherwise Russia will not sell) and lower than 6 tons of steel (otherwise India will not buy).

1. Russia can produce 25 tons of steel or 5 automobiles using the same amount of resources. Using the exact same amount of resources, India can produce 18 tons of steel and 3 automobiles. According to the theory of comparative advantage, at what price will Russia and India trade chairs?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | India will buy automobiles as long as the price is lower than 6 tons of steel | d. | Impossible to determine with the information given |
| b. | India will sell automobiles as long as the price is higher than 5 tons of steel |  |  |
| c. | Russia will buy automobiles as long as the price is lower than 6 tons of steel |

ANS: A DIF: Hard REF: page 25

Russia has a comparative advantage in making automobiles; it costs Russia 5 tons of steel to make an automobile, and it costs India 6 tons of steel to make an automobile. Russia makes automobiles more efficiently than it makes steel, and the countries will trade as long as the price of automobiles is higher than 5 tons of steel (otherwise Russia will not sell) and lower than 6 tons of steel (otherwise India will not buy).

1. The Heckscher-Ohlin Theory holds that countries that have an abundance of certain resources enjoy an absolute or comparative advantage over other countries. Which of the following is NOT one of the factors that Heckscher and Ohlin considers scarce?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | land | d. | education |
| b. | labor | e. | entrepreneurship |
| c. | capital |

ANS: D DIF: Variable REF: page 26

The four resources that economists consider scarce are “land, labor, capital, and entrepreneurship.” Depending on the background of the students in economics, this can be an easy question or a difficult one.

1. According to the International Product Life Cycle Theory, the country(ies) most likely to manufacture a product that has been recently developed (one that is the result of a brand-new design and uses patented technology) and is in its first commercialization year, is (are)

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the country of innovation only. | d. | other developed countries. |
| b. | developing countries. | e. | any country can manufacture a newly introduced product. |
| c. | any country with the manufacturing technology necessary to manufacture it. |

ANS: A DIF: Moderate REF: page 28

According to Vernon, the only country in which products that are newly developed are manufactured is the country of innovation. The manufacturing eventually shifts to other developed countries and then to developing countries.

1. Porter’s Cluster Theory holds that geographical areas with a large concentration of a certain type of companies allow that area to obtain an absolute or comparative advantage. How do those companies benefit from the presence of other companies like them in the same area?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | they can attract talented employees | d. | All of the answers listed here have an impact on the development of an area's economic advantage. |
| b. | such concentration fosters creativity as employees’ know-how travels from employer to employer | e. | None of the answers listed here have an impact on the development of an area's economic advantage. |
| c. | the concentration of talent fosters innovation |

ANS: D DIF: Moderate REF: page 30

All of these options are explicitly listed in the “cluster theory” section.

1. The international environment presents challenges for the international logistician. Which aspect of the international business environment is most likely to create frustrations?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | cultural differences | d. | infrastructure constraints |
| b. | economic issues | e. | socio-economic constraints |
| c. | currency differences |

ANS: A DIF: Moderate REF: page 31

Among all of the issues listed, culture is the one clearly emphasized and explicitly indicated as the one that is most frustrating.

1. Brigham Young University publishes a series of pamphlets that describe the cultural traits of a country particularly clearly and accurately. Such pamphlets are called

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *Culturama*. | d. | *World Culture Books*. |
| b. | *CultureGrams*. | e. | *Culture Snapshots.* |
| c. | *Country Cultural Guides*. |

ANS: B DIF: Moderate REF: page 31

Brigham Young University publishes *CultureGrams*, which are excellent synopses of a given country’s culture.

1. Information on foreign countries, including their economic environment, their political environment, and their geography, can easily be found in several publications. Which is NOT one of the organizations that publishes background information on countries?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *The Economist*’s Intelligence Unit | d. | The United Nations’ UNICEF |
| b. | The Central Intelligence Agency | e. | Wikipedia |
| c. | The U.S. Department of Commerce |

ANS: D DIF: Moderate REF: page 32

All of these options provide background information on countries, except the UNICEF, which is the United Nations’ Children’s Fund (changed from the United Nations’ International Children’s Emergency Fund in the 1950s).

1. An international logistician cannot possibly learn all of the cultural subtleties of a particular country; however, in order to avoid frustrations and difficulties, it would be advisable that s/he study

|  |  |  |  |
| --- | --- | --- | --- |
| a. | sociology. | d. | psychology. |
| b. | anthropology. | e. | marketing. |
| c. | intercultural communication. |

ANS: C DIF: Moderate REF: page 31

Learning about Intercultural Communication is the single best strategy to learn how to handle cultural differences, often ahead of learning a foreign language and learning the traditional social sciences.

COMPLETION

 1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, signed in 1957, led to the creation of the European Union.

ANS: Treaty of Rome

DIF: Moderate REF: page 9

 2. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ succeeded the General Agreement on Tariffs and Trade created by the Bretton Woods Conference.

ANS: World Trade Organization

DIF: Easy REF: page 9

 3. In 1995, the World Trade Organization succeeded the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that had been created at the Bretton Woods Conference in 1944.

ANS: General Agreement on Tariffs and Trade (GATT)

DIF: Moderate REF: page 9

 4. The General Agreement on Tariffs and Trade was an effort at reducing tariffs and non-tariff trade barriers. These reductions took place through year-long discussions that were called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: rounds

DIF: Moderate REF: page 9

 5. The euro is the currency of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the twenty-seven countries of the European Union.

ANS: Nineteen (as of July 2021)

DIF: Hard REF: page 14

 6. When a large retailer asks a company to manufacture a product so that it can be sold at a low(er) price point, the company is often constrained to outsource its production overseas. Such a phenomenon is called the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: Walmart effect

DIF: Hard REF: page 20

 7. The Theory of Absolute Advantage was first coined by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

 ANS: Adam Smith

DIF: Easy REF: page 23

 8. The Theory of Comparative Advantage was first coined by Robert Torrens, but popularized by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: David Ricardo

DIF: Moderate REF: page 24

 9. The Heckscher-Ohlin Theory can also be called the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: Factor-Endowment Theory

DIF: Moderate REF: page 26

 10. The International Product Life Cycle Theory was developed by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: Raymond Vernon

DIF: Moderate REF: page 28

 11. The Cluster Theory, developed by Michael Porter, argues that geographic areas benefit from having a high concentration of companies in a particular industry. The area of Sassuolo, in Italy, has a high concentration of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ companies.

ANS: ceramic tile

DIF: Hard REF: page 30

 12. The concept that encompasses the heritage of a country’s population, including their language, their customs, their traditions, their morals, and their beliefs is that country’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: culture

DIF: Easy REF: page 31