# Chapter 21: Cross-Border Trade

**TRUE/FALSE**

1. In general, the greatest percentage of a country’s exports and imports comes from countries that are geographically close.

ANS: T DIF: Easy REF: page 754

2. Free-trade agreements are common between countries that are geographical neighbors.

ANS: T DIF: Easy REF: page 754

3. Historical developments between countries are frequently obstacles to cross-border trade.

ANS: F DIF: Moderate REF: page 754

4. Cross-border trade between European Union countries is often impeded by the fluctuations between countries’ currencies.

ANS: F DIF: Moderate REF: page 754

5. Canadian banks offer accounts denominated in US dollars, which helps Canadian companies trade with US companies.

ANS: T DIF: Easy REF: page 755

6. Commercial risks can be evaluated better if the commercial partner is located in a neighboring country.

ANS: T DIF: Moderate REF: page 755

7. In-person meetings between employees reduces the perception of risk in international transactions.

ANS: T DIF: Easy REF: page 755

8. Transportation of goods sold in cross-border trade is generally done by road.

ANS: T DIF: Easy REF: page 756

9. The United States has a free-trade agreement with the countries of Central America.

ANS: F DIF: Hard REF: page 757

10. Countries that have formed a customs union have implemented a common external trade policy.

ANS: T DIF: Moderate REF: page 758

11. Countries that have agreed to allow the free circulation of goods, people, and capital between themselves have created an economic union.

ANS: F DIF: Moderate REF: page 759

12. The European Union has had many problems implementing a common monetary policy, despite the creation of the euro and the European Central Bank.

ANS: F DIF: Moderate REF: page 759

13. The US-Mexico-Canada (USMCA) agreement is an example of a political union.

ANS: F DIF: Moderate REF: page 759

14. What differentiates a tourist from an excursionist is the purpose of their trip to the neighboring country.

ANS: F DIF: Hard REF: page 760

16. Taxation of wine is much lower in the United Kingdom than it is in France.

ANS: F DIF: Moderate REF: page 762

16. It is common for retail stores in a town near a border to accept the currency of the foreign country.

ANS: T DIF: Moderate REF: page 763

17. Chewing gum is prohibited in Singapore.

ANS: T DIF: Easy REF: page 767

18. More than half of the people who work in the country of Luxembourg actually live in France, Germany, or Belgium.

ANS: T DIF: Hard REF: page 768

19. Funds wired by guest workers to their families are called “remittances” by the World Bank.

ANS: T DIF: Easy REF: page 769

20. Remittances can represent more than 25 percent of an entire country’s GDP.

ANS: T DIF: Moderate REF: page 769

21. It is possible for a consumer to purchase goods internationally from a merchant or another consumer without having to file customs entries.

ANS: T DIF: Easy REF: page 772

22. Even though sports betting and gambling are prohibited in some countries, consumers can still engage in those activities through the internet, as they are legal in several other countries.

ANS: T DIF: Easy REF: page 776

**MULTIPLE CHOICE**

1. Which of the following activities would be considered cross-border trade?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a consumer crossing a border to purchase cigarettes or alcohol | d. | all of the activities in this answer set are part of cross-border trade |
| b. | a worker taking a job in another country, but keeping her residence in her country of origin | e. | a consumer placing a bet on a cricket game on the internet, even though this activity is not allowed in his country |
| c. | a Brazilian consumer making a purchase on the U.S. website of amazon.com |

ANS: D

All activities listed in this answer set are part of what is considered cross-border trade.

DIF: Moderate REF: page 750

2. The total value of cross-border trade

|  |  |  |  |
| --- | --- | --- | --- |
| a. | is unknown. | d. | is known accurately from balance-of-payment information. |
| b. | is calculated as a separate component of all international trade. | e. | is so small that countries do not bother to keep track of it. |
| c. | is estimated with a number of surrogate measures, but is not known accurately. |

ANS: C

Since cross-border trade does not require formal customs entries, it is not known with accuracy, but only estimated through surrogate means, such as tourism entries.

DIF: Hard REF: page 751

3. What percentage of all US exports do Canada and Mexico represent?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | roughly one quarter. | d. | almost half. |
| b. | roughly one fifth. | e. | more than half. |
| c. | roughly one third. |

ANS: C

Canada and Mexico represent 34 percent of total US exports.

DIF: Moderate REF: page 751

4. What percentage of all Mexican exports does the United States represent?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | roughly one quarter. | d. | almost half. |
| b. | roughly one fifth. | e. | more than two thirds. |
| c. | roughly one third. |

ANS: E

The United States represents 80 percent of all Mexican exports.

DIF: Moderate REF: page 751

5. Cross-border trade is alse called “informal” trade, because of which characteristic?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | some of it is illegal. | d. | the import duty paid is only an estimate |
| b. | it is not recorded in trade statistics because there is no import entry | e. | neither the exporter nor the importer is incorporated |
| c. | the relationship between buyer (importer) and seller (exporter) is short term |

ANS: B

Cross-border trade is called “informal” because it involves small transactions that are neither recorded by the exporting country nor by the importing country.

DIF: Moderate REF: page 751

6. One of the reasons cross-border trade is substantial between the Netherlands and Germany (with roughly 15 percent of all German imports coming from the Netherlands) is that:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the economy of the Netherlands is much larger than that of Germany. | d. | the countries share a common government. |
| b. | the countries share a common language. | e. | the countries share a common currency. |
| c. | all of the choices in this answer set are reasons for Germany and the Netherlands to have a great amount of cross-border trade. |

ANS: E

The countries trade a lot with each other, in part because they share a common currency, the euro. All of the other answer choices are incorrect.

DIF: Moderate REF: page 754

7. The availability of information about the credit worthiness of a potential commercial partner, obtained through formal or informal means, reduces:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the commercial risk for an exporter. | d. | the currency-fluctuation risk for an exporter. |
| b. | the commercial risk for an importer. | e. | the currency-fluctuation risk for an importer. |
| c. | the commercial risk for a bank offering a letter of credit. |

AS: A

Cross-border trade is facilitated by the fact that there are more ways to find information on the credit worthiness of potential trade partners, which reduces the commercial risk (the risk of non payment) for an exporter.

DIF: Moderate REF: page 755

8. Transportation of goods between neighboring countries is simpler for a number of reasons. Which is NOT one of them?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | packaging does not need to be more substantial than the one used for domestic trade. | d. | documentation is simplified as the goods are essentially transported domestically. |
| b. | a single carrier can be used to transport the goods, so there is only one bill of lading. | e. | shipping costs are lower because goods can be transported on a single carrier. |
| c. | insurance policies frequently extend coverage to neighboring countries. |

ANS: D

Transportation is simplified, for all the reasons listed in the answer set, but the documentation is not the same as if the goods were transported domestically. They still need to clear customs in the importing country.

DIF: Moderate REF: page 756

9. What is the first step governments can take to facilitate cross-border trade?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | create a free-trade zone. | d. | create an economic union. |
| b. | form a common market. | e. | create a free-trade area. |
| c. | form a customs union. |

ANS: E

The first step in facilitating cross-border trade is for countries to create a free-trade area, then a customs union, a common market, an economic union, and finally a political union.

DIF: Easy REF: page 758

10. What is the name used to describe a resident of Spain who travels to Andorra to purchase clothing there, in order to take advantage of the lower VAT, and then returns home the same day?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a tourist. | d. | a gray-market buyer. |
| b. | a smuggler. | e. | a traveler. |
| c. | an excursionist. |

ANS: C

An excursionist is a resident of one country who travels to another one for a period that is less than a day. The do not spend a night abroad.

DIF: Moderate REF: page 760

11. In order to attract excursionists, what do the shops in Tijuana, Mexico (just south of the US border) do?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | they stay open for long hours, often 24/7. | d. | they accept US dollars for payment. |
| b. | they offer free coffee to weary travelers. | e. | they employ staff that speaks Spanish. |
| c. | they accept Mexican pesos for payment. |

ANS: D

Being able to pay in US dollars simplifies purchases for US excursionists, so many of the shops in Tijuana, Mexico accept them for payment.

DIF: Moderate REF: page 763

12. The “Newry Effect” refers to the fact that households in the Republic of Ireland went shopping in Northern Ireland (part of the United Kingdom) because:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | there were more choices available in shops. | d. | the households were more familiar with British brands than they were with European brands. |
| b. | the stores in Newry accepted payments in euros. | e. | the value of the euro had appreciated against the British pound. |
| c. | sales taxes (VAT) were lower in the UK than in Ireland. |

ANS: E

The “Newry Effect” describes the fact that Irish households went shopping in Northern Ireland because their euro had appreciated against the British pound, making purchases more affordable.

DIF: Difficult REF: page 764

13. Excursionists will travel to a neighboring country to purchase goods, even though these goods are readily available in their home country. Which of the following is NOT an explanation of their reason for shopping abroad?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the taxes are lower. | d. | there are fewer legal restrictions. |
| b. | there is greater choice. | e. | they can pay for them with credit cards. |
| c. | the prices are lower because of a favorable exchange rate. |

ANS: E

All of these are reasons to shop abroad, except “paying with credit cards,” which is an alternative available at home.

DIF: Difficult REF: page 764

14. One of the reasons for which people living in France, Belgium, or Germany, decide to work in Luxembourg is because:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the costs of living are higher in those countries than in Luxembourg. | d. | it is advantageous for them to be paid in France, Belgium, and Germany. |
| b. | there are no exchange risks, as these countries all use the euro. | e. | the commuting times are lower than if they stayed in Luxembourg. |
| c. | taxes are higher in Luxembourg. |

ANS: B

There is no exchange risk in being paid in euros in Luxembourg and having expenses in one of these countries. Costs of living are lower, taxes are lower, but commuting times are longer.

DIF: Moderate REF: page 768

15. Some people move to a country for a pre-determined period of time, and have a work visa for that period. They eventually return to their home country. What is the term used for these foreign workers?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | long-term commuters | d. | temporary immigrants |
| b. | guest workers | e. | host workers |
| c. | short-term immigrants |

ANS: B

Workers who have a short-term work visa in a foreign country are called “guest workers,” after the German “Gastarbeiter.”

DIF: Moderate REF: page 769

16. Some immigrants send money “home” while they work abroad. The country with the highest amount earned in remittances is:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Nigeria | d. | Indonesia |
| b. | Mexico | e. | India |
| c. | China |

ANS: E

India is the country that earns the greatest amount in remittances from nationals working abroad, with approximately $85 billion added to the Indian GDP.

DIF: Moderate REF: page 769

17. The 2020-2021 Covid pandemic caused several businesses to be negatively affected, but cross-border workers were hurt because:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | countries completely closed their borders. | d. | countries required visitors to remain in quarantine for one to two weeks. |
| b. | countries required tests before entry, even when tests were difficult to obtain. | e. | countries closed their borders to non-essential traffic. |
| c. | all answers in this answer set were reasons cross-border workers were negatively affected by the pandemic. |

ANS: C

All of the answers are reasons cross-border workers were negatively affected by the pandemic.

DIF: Moderate REF: page 770

18. Many of the illustrations in the textbook were purchased by the author/publisher from photographers located in foreign countries with the help of a C2C website such as:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | shutterstock.com | d. | etsy.com |
| b. | ebay.com | e. | abebooks.com |
| c. | alibaba.com |

ANS: A

Shutterstock is the website specifically identified in the textbook (along with 123rf, dreamstime, istockphoto, and Getty images) that sells photographs from the work of photographers around the world.

DIF: Moderate REF: page 775

19. Which is NOT a reason for international e-commerce to have expanded greatly in the twenty-first century?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the existence of many B2C websites, which makes it easy for companies to sell to consumers located abroad. | d. | the existence of small-packet shipping companies that operate internationally. |
| b. | the creation of simplified customs-clearance procedures for small purchases. | e. | the creation of many C2C websites, which makes it easy for consumers to sell to other consumers. |
| c. | the existence of credit cards and the creation of Paypal, which have simplified international payments. |

ANS: B

There were no simplified customs-clearance procedures created to address small purchases.

DIF: Moderate REF: page 773-774

20. Companies located in countries where betting and gambling is legal offer their services to customers in countries in which:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Betting and gambling are not outright prohibited, but not specifically legal. | d. | Both betting and gambling are legal. |
| b. | Betting is illegal. Gambling is legal. | e. | Both betting and gambling are illegal. |
| c. | Betting is legal. Gambling is illegal. |

ANS: A

Companies that offer betting and gambling on the internet offer their services to customers in countries where betting and gambling are not outright prohibited (so their business is not prosecuted) and not specifically legal, otherwise they would face local competition.

DIF: Moderate REF: page 776

COMPLETION

1. Trade between neighboring countries is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ trade.

ANS: cross-border, cross border

DIF: Easy REF: page 750

2. Because cross-border trade is frequently not recorded by the importing or exporting countries, it is also called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ trade.

ANS: informal

DIF: Moderate REF: page 751

3. A large percentage of a country’s trade is with countries with which it shares a \_\_\_\_\_\_\_\_\_\_\_\_\_ .

ANS: border

DIF: Moderate REF: page 751

4. More than 75 percent of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_’s exports are with the United States.

ANS: Canada, Mexico

DIF: Moderate REF: page 752

5. To facilitate cross-border trade with European-Union countries, many banks offer bank accounts denominated in \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: euro, euros

DIF: Moderate REF: page 755

6. Cross-border shipments are generally transported by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

ANS: truck, trucks, road.

DIF: Easy REF: page 756

7. When countries form a customs union, it means that they apply the same \_\_\_\_\_\_\_\_\_\_\_\_ to the same goods, regardless of the country in which they are imported.

ANS: duty, duties, tariff, tariffs

DIF: Moderate REF: page 758

8. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is formed when a group of countries allow the free movement of goods, people and capital among member countries.

ANS: common market

DIF: Moderate REF: 759

9. The group of countries which is closest to having form an economic union is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: European Union, EU, Europe

DIF: Moderate REF: page 759

10. An individual who makes a day trip to a foreign country to make a few purchases is an \_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

ANS: excursionist

DIF: Moderate REF: page 760

11. The most significant reason for an excursionist to travel abroad to purchase alcohol or cigarettes is because of the differences in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ between her home country and the country she visited.

ANS: price, prices, taxes, tax, taxation

DIF: Moderate REF: page 761

12. Italy certainly has some very inexpensive \_\_\_\_\_\_\_\_\_\_\_\_\_\_, as demonstrated by the illustration in the book.

ANS: wines

DIF: Moderate REF: page 765

13. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are people who live in one country but work in another.

ANS: commuters, Commuters

DIF: Moderate REF: page 767

14. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ move abroad for a long period of time, and frequently send a portion of their earning “back home.”

ANS: guest workers, gastarbeiter

DIF: Moderate REF: page 768

15. Cross-border trade between consumers is facilitated by a number of \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (websites) that allow sellers to interact directly with foreign buyers.

ANS: platforms

DIF: Moderate REF: page 772