

Chapter 6

Student: _____

1. Which of the following refers to a situation where a government does not attempt to restrict what its citizens can buy from another country or what they can sell to another country?
 - A. Free trade
 - B. Unencumbered trade
 - C. Sovereign trade
 - D. Autonomous trade
 - E. Open trade
2. Which of the following is not an example of one of the main instruments in trade policy used by governments around the world?
 - A. Tariffs
 - B. Political mandate
 - C. Subsidies
 - D. Import quotas
 - E. Local content requirements
3. _____ are the oldest and simplest instrument of trade policy.
 - A. Subsidies
 - B. Administrative policies
 - C. Tariffs
 - D. Voluntary export restraints
 - E. Price discrimination
4. A _____ is a tax levied on imports.
 - A. tariff
 - B. special assessment
 - C. penalty
 - D. globalization assessment
 - E. GST
5. Components of _____ include tariffs, subsidies, import quotas, voluntary export restraints, local content requirements, administrative policies, and antidumping duties.
 - A. trade policy
 - B. ad valorem
 - C. tradereconciliation
 - D. sociocultural dimension
 - E. national economic development
6. _____ are levied as a fixed charge for each for each unit of a good imported.
 - A. Specific tariffs
 - B. General tariffs
 - C. Ad valorem tariffs
 - D. Global tariffs
 - E. Sales taxes
7. While _____ tariffs are levied as a fixed charge for each unit of a good imported, _____ tariffs are levied as a proportion of the value of the imported good.
 - A. general; special
 - B. ad valorem; special
 - C. global; special
 - D. specific; ad valorem
 - E. predatory; percentage

8. Tariffs fall into two categories--
- A. specific tariffs and ad valorem tariffs.
 - B. global tariffs and domestic tariffs.
 - C. general tariffs and specific tariffs.
 - D. flexible tariffs and ad valorem tariffs.
 - E. domestic tariffs and GATT
9. Tariffs cause the most damage to _____, According to the author of the textbook, because this group bears the economic brunt of tariffs.
- A. trade associations
 - B. governments
 - C. retailers
 - D. producers
 - E. consumers
10. According to the author of the textbook, tariffs benefit the following two groups:
- A. government and producers.
 - B. consumers and trade associations.
 - C. government and consumers.
 - D. producers and consumers.
 - E. retailers and wholesalers.
11. The 15 to 20 percent tariff the EU placed on imported bananas from Latin America is an example of what kind of tariff?
- A. General
 - B. Ad valorem
 - C. Special
 - D. Global
 - E. Anti-Dumping
12. American Consumers for Affordable Homes calculated that the 27 percent tariff that the U.S. imposed on Canadian softwood lumber adds approximately _____ to the cost of a new home.
- A. \$750
 - B. \$500
 - C. \$800
 - D. \$1100
 - E. \$1000
13. Tariffs
- A. reduce the price of foreign goods.
 - B. reduce efficiency because a protective tariff encourages domestic firms to produce products at home.
 - C. create efficient utilization of resources.
 - D. are unambiguously pro-consumer and anti-producer.
 - E. help domestic producers increase their efficiency and resist foreign competition
14. Tariffs on foodstuffs, cosmetics and chemicals into Japan cost the average Japanese consumer about _____ dollars per year.
- A. 890
 - B. 650
 - C. 900
 - D. 1100
 - E. 400
15. According to the author of the textbook, tariffs are _____ and _____.
- A. pro-producer and pro consumer
 - B. anti-consumer and pro-producer
 - C. anti-consumer and anti-producer
 - D. pro-producer and anti-consumer
 - E. pro-government and pro-consumer

16. According to your text in the opening case, the tariff on banana imports into the EU cost consumers about _____ per year.
- A. \$4 billion
 - B. \$2 billion
 - C. \$37 billion
 - D. \$45 billion
 - E. \$56 billion
17. In a 1999 study, Howard Wall found that while the United States imported more than \$499 billion in merchandise from countries outside NAFTA in 1996, it would have imported over \$_____ billion more if it had a policy of pure free trade.
- A. 51
 - B. 864
 - C. 111
 - D. 396
 - E. 211
18. In a 1999 study, Howard Wall found that while the United States exported more than \$723 billion in merchandise to countries outside NAFTA in 1996, it would have exported over \$_____ billion more if those countries practiced free trade.
- A. 51
 - B. 864
 - C. 111
 - D. 396
 - E. 130
19. Which of the following is a government payment to a domestic producer?
- A. Duty
 - B. Subsidy
 - C. Quota
 - D. Tariff
 - E. Grant
20. By lowering production costs, _____ help domestic producers compete against foreign imports.
- A. tariffs
 - B. duties
 - C. quotas
 - D. ad valorem
 - E. subsidies
21. Lowering production costs helps domestic producers
- A. gain export markets.
 - B. develop trade reconciliation.
 - C. create voluntary export subsidy.
 - D. determine specialized quotas.
 - E. increase their value
22. _____ tends to be one of the largest beneficiaries of subsidies in most countries.
- A. Technology
 - B. Agriculture
 - C. Commodities
 - D. Domestic product
 - E. Consumers

23. VER stands for
- A. Very economic reversal
 - B. Voluntary economic report
 - C. Voluntary economic restraint
 - D. Voluntary export restraint
 - E. Voluntary economic reversal
24. According to _____, subsidies can help a firm achieve a first-mover advantage in an emerging industry.
- A. strategic trade policy
 - B. antidumping policies
 - C. consumers
 - D. importers
 - E. farmers
25. The main gains from subsidies accrue to _____, whose international competitiveness is increased as a result of them.
- A. traders
 - B. consumers
 - C. governments
 - D. importers
 - E. domestic producers
26. According to official national figures, during the late 1980s government subsidies to industry in most industrialized countries amounted to between
- A. 40% and 50% of the value of industrial output.
 - B. 15% and 20% of the value of industrial output.
 - C. 2% and 3.5% of the value of industrial output.
 - D. 10% and 15% of the value of industrial output.
 - E. 3.5% and 4% of the value of industrial output.
27. An import quota is a direct restriction on the quantity of some good that may be
- A. subsidized by a country.
 - B. imported into a country.
 - C. exported out of a country.
 - D. produced in a country.
 - E. qualified for tariff relief
28. A quota on trade imposed by the exporting country, typically at the request of the importing country's government is referred to as a(n)
- A. voluntary export restraint.
 - B. involuntary export restraint.
 - C. trade reconciliation.
 - D. refereed export restraint.
 - E. limited market access
29. One of the most famous examples of a(n) _____ is the limitation on auto exports to the United States enforced by Japanese automobile producers in 1981.
- A. involuntary import restraint
 - B. voluntary export restraint
 - C. trade reconciliation
 - D. referred export restraint
 - E. limited market access

30. Both import quotas and VERs benefit _____ by limiting import competition, but they result in higher prices, which hurts _____.
- A. domestic producers; consumers
 - B. governments; consumers
 - C. consumers; foreign producers
 - D. foreign producers; governments
 - E. balance of trade; consumers
31. Local content requirements benefit the _____ of component parts, but they raise prices of imported components, which hurts _____.
- A. consumers; producers
 - B. producers; governments
 - C. consumers; governments
 - D. producers; consumers
 - E. users; importers
32. What demands that some specific fraction of a good be produced domestically?
- A. International content requirement
 - B. Local content requirement
 - C. Specific content requirement
 - D. Ad valorem content requirement
 - E. WTO local content convention
33. If Westvaco decided to produce paper in Spain, and the Spanish government stipulated that 50% of the component parts that went into Westvaco's paper must be produced locally, that requirement would be an example of a(n)
- A. ad valorem content requirement.
 - B. international content requirement.
 - C. specific content requirement.
 - D. local content requirement.
 - E. barter content
34. If Apple won an order to sell 500 of its new minicomputers to Australia, but the Australian government stipulated that 20 percent of the component parts of the minicomputers that it purchased must be produced in Australia, that stipulation would be an example of a(n)
- A. ad valorem content requirement.
 - B. specific content requirement.
 - C. ad hoc content requirement.
 - D. local content requirement.
 - E. domestic producer content
35. Local content regulations have been widely used by _____ to shift their manufacturing base from the simple assembly of products whose parts are manufactured elsewhere into the local manufacture of component parts.
- A. United Nations
 - B. developed nations
 - C. developing nations
 - D. 1st world countries
 - E. Canadian governments
36. Some would argue that _____ are the masters of administrative trade policies.
- A. United States
 - B. Japan
 - C. France
 - D. Germany
 - E. Canada

37. Local content requirements provide protection in the same way an import quota does _____ for a domestic producer of component parts.
- A. by limiting foreign competition
 - B. by increasing tariffs
 - C. by eliminating foreign competition
 - D. by encouraging foreign competition
 - E. by increasing the price of imported products
38. Bureaucratic rules that are designed to make it difficult for imports to enter a country are referred to as
- A. situational trade policies.
 - B. ad valorem trade policies.
 - C. supplemental trade policies.
 - D. administrative trade policies.
 - E. public service intransigence
39. Consider the following scenario. The Netherlands exports tulip bulbs to almost every country in the world except Japan. The reason is that Japanese customs inspectors insist on checking every tulip bulb by cutting it down the middle (which destroys the bulb). The insistence on the part of the Japanese to inspect the bulbs in this manner (which makes it impractical for the Netherlands to export to Japan) is an example of a(n)
- A. administrative trade policy.
 - B. ad valorem trade policy.
 - C. contingent trade policy.
 - D. supplemental trade policy.
 - E. Plant protection Law
40. At one time, the French government required that all imported videocassette recorders arrive in France through a small customs entry point that was both remote and poorly staffed. This policy, which in effect made it impractical for a foreign company to import videocassette recorders to France, is an example of a(n)
- A. supplemental trade policy.
 - B. contingent trade policy.
 - C. administrative trade policy.
 - D. ad valorem trade policy.
 - E. administrative cost reduction strategy
41. An example of a(n) _____ that limits imports is if a country restricted the import of a particular good to a remote seaport that made it extremely difficult for any other country to import the good profitably.
- A. ad valorem trade policy
 - B. administrative trade policy
 - C. situational trade policy
 - D. directional trade policy
 - E. anti-dumping policy
42. An administrative policy is an informal instrument or bureaucratic rule that can be used to restrict imports and boost exports. Such policies benefit _____ but hurt _____.
- A. trade associations; producers
 - B. consumers; producers
 - C. consumers; trade associations
 - D. producers; consumers
 - E. consumer lobbyists; farmers

43. The Canadian company Clearwater Seafoods sees China as both a current competitor and a large potential future consumer because of _____.
A. the size of the population
B. environmental degradation of China's coastline
C. the inefficiencies of state-owned enterprises
D. the growing wealth of the population
E. the removal of import quotas on imported seafood
44. In the context of international trade, _____ is defined as selling goods in a foreign market at a price below their costs of production or as selling goods in a foreign market at below their "fair" market price.
A. slicing
B. dumping
C. slashing
D. subsidizing
E. skimming
45. If _____ exist, a charge of "dumping" can be levied against a foreign firm.
A. goods are being sold that do not meet local content requirements or goods are being sold that do not meet local quality standards
B. goods are being sold at predatory prices or goods are being sold that do not meet local product safety standards
C. goods are being sold without the consent of the host government or goods are being sold that do not meet local quality standards
D. goods are being sold at below their cost of production or goods are being sold at below their "fair" market value
E. goods are being sold at a price that domestic producers cannot match and workers are losing jobs
46. An alleged example of _____ occurred in 1997, when two Korean manufacturers of semiconductors, LG Semicon and Hyundai Electronics, were accused of selling dynamic random access memory chips in the U.S. market at below their costs of production.
A. dumping
B. forcing
C. slicing
D. subsidizing
E. skimming
47. _____ are designed to punish foreign firms that engage in dumping.
A. Antidumping policies
B. Counterdumping policies
C. Statutory dumping policies
D. Civil dumping policies
E. Punitive dumping tariffs
48. What is the ultimate objective of antidumping policies?
A. Protect consumers from predatory pricing
B. Protect host governments from the loss of legitimate tax revenue
C. Protect domestic producers from "unfair" foreign competition
D. Protect foreign producers from "unfair" local competition
E. Promote "fair" trade
49. In the United States, if a domestic producer believes that a foreign firm is dumping production in the U.S. market, it can file a petition with the following two government agencies
A. Treasury Department and the Senate Committee on Fair Trade.
B. Department of Agricultural and the Department of Labor.
C. Department of State and the Treasury Department.
D. Commerce Department and International Trade Commission.
E. U.S. office of the WTO

50. Antidumping duties are often called _____?
- A. Import duties
 - B. Export duties
 - C. Special duties
 - D. Government duties
 - E. Countervailing duties
51. In general, what are two types of arguments for government intervention into the free flow of trade?
- A. Patriotic and sociocultural
 - B. Sociocultural and legal
 - C. Political and economic
 - D. Legal and patriotic
 - E. Socioeconomic and legal
52. Perhaps the most common political argument for government intervention into the free flow of trade is that
- A. it protects national pride.
 - B. politicians and their constituents tend to think that domestically produced products are superior to products produced in another country.
 - C. it is necessary for protecting jobs and industries from foreign competition.
 - D. it is necessary to maintain domestic economic stability.
 - E. it is important for national security
53. An indirect effect of protecting consumers from "unsafe" products is to _____
- A. decrease the costs of the products.
 - B. decrease the prices of the products.
 - C. limit or ban the importation of the products
 - D. both A and C are correct.
 - E. A, B and C are correct
54. In _____, the Canadian Government decided to permanently ban imports into Canada of baby walkers.
- A. 1996
 - B. 1989
 - C. 1998
 - D. 2002
 - E. 2004
55. Legislation that allows Americans to sue Canadian firms that use property in Cuba confiscated from them after the 1959 revolution is the
- A. Frederick-Peterson Act.
 - B. D'Amato-Perkins Act.
 - C. Perkins-Dole Act.
 - D. Helms-Burton Act.
 - E. Martin-Duceppe Act
56. The _____ is legislation that is similar to the Helms-Burton Act, but is aimed at Libya and Iran.
- A. Perkin's Act
 - B. D'Amato Act
 - C. Williams Act
 - D. Cato Act
 - E. Harper Act

57. The EU decision to ban the importation of hormone treated beef into the European Union is an example of _____.
- A. consumer protection
 - B. anti-dumping actions
 - C. luddism
 - D. producer protection
 - E. Common Agricultural Policy
58. _____ arguments for government intervention into international trade are typically concerned with boosting the overall wealth of a nation.
- A. Economic
 - B. Political
 - C. Legal
 - D. Sociocultural
 - E. Constitutional
59. _____ arguments for government intervention into international trade are typically concerned with furthering the security of its citizens.
- A. Economic
 - B. Political
 - C. Legal
 - D. Sociocultural
 - E. Constitutional
60. _____ status allows countries to export goods to Canada under favorable terms.
- A. Most favored nation
 - B. Preferential partner
 - C. Fully qualified
 - D. Cleared nation
 - E. NAFTA nation
61. By far, the oldest economic argument for government intervention into the free flow of trade is the _____ argument.
- A. mature industry
 - B. infant industry
 - C. declining industry
 - D. proprietary industry
 - E. mercantilist
62. According to the _____ argument, many developing countries have a potential comparative advantage in manufacturing, but new manufacturing industries there cannot initially compete with well-established industries in developed countries. To allow manufacturing to get a toehold, the argument is that governments should temporarily support new industries (with tariffs, import quotas, and subsidies) until they have grown strong enough to meet international competition.
- A. proprietary industry
 - B. strategic trade policy
 - C. mature industry
 - D. infant industry
 - E. strategic industry
63. Primarily as a result of pressure from the developing world, it was recognized the _____ argument was a legitimate reason for protectionism.
- A. declining industry
 - B. infant industry
 - C. strategic trade policy
 - D. mature industry
 - E. strategic industry

64. The infant industry argument has been recognized as a legitimate reason for protectionism by the _____,
- A. GATT
 - B. North Atlantic Treaty Organization
 - C. United Nations
 - D. International Monetary Fund
 - E. World Bank
65. A government should use subsidies to support promising firms that are active in newly emerging industries, according to the _____ argument.
- A. strategic trade policy
 - B. infant industry
 - C. declining industry
 - D. mature industry
 - E. strategic industry
66. According to the strategic trade policy argument, a government should use subsidies to
- A. support promising firms in emerging industries.
 - B. support established firms in key industries.
 - C. support the import of goods that a country cannot produce domestically.
 - D. support the export of agricultural products.
 - E. support large employers
67. An important component of _____ is that it might pay governments to intervene in an industry if it helps domestic firms overcome the barriers to entry created by foreign firms that have already reaped first-mover advantages.
- A. tactical trade policy
 - B. strategic trade policy
 - C. administrative trade policy
 - D. comparative trade policy
 - E. infant industry policy
68. The strategic trade policy argument of the new trade theorists advances an _____ justification for government intervention in international trade.
- A. technological
 - B. sociocultural
 - C. economic
 - D. political
 - E. legal
69. _____ arguments challenges the rationale for unrestricted free trade found in the work of classic trade theorists such as Adam Smith and David Ricardo.
- A. Technological justification
 - B. Sociocultural justification
 - C. strategic trade policy
 - D. Political justification
 - E. National Security
70. According to the textbook, Paul Krugman, a professor at MIT, predicts that a country that attempts to use strategic trade policy to establish a domestic firm (or firms) in a dominant position in a global industry will probably
- A. succeed fairly smoothly.
 - B. be viewed favorable in the international community.
 - C. provoke retaliation.
 - D. be successful if the policy is in force for at least three years.
 - E. experience strong foreign opposition, but succeed in the long-run

71. When the British Parliament repealed the _____, free trade as a government policy was first officially embraced by Great Britain in 1846.
- A. Corn Laws
 - B. Steel Laws
 - C. Coal Laws
 - D. Apparel Laws
 - E. Child Labour Laws
72. The Corn Laws
- A. were repealed after record harvests in Britain.
 - B. placed a high tariff on corn imported into Britain.
 - C. were repealed after a stinging speech in parliament by David Ricardo where he outlined the theory of comparative advantage.
 - D. were enacted by Britain after the shortages of corn during the Crimean War.
 - E. were repealed to reduce the production of non-quota corn
73. Aimed at avoiding rising unemployment by protecting domestic industry and diverting consumer demand away from foreign products, the _____ tariff erected an enormous wall of tariff barriers.
- A. Smoot-Hawley Act
 - B. Porter-Ricardo Act
 - C. Heckscher-Ohlin
 - D. Smith-Krugman
 - E. Vernon-Weimar
74. In what year was the General Agreement on Tariffs and Trade (GATT) established?
- A. 1867
 - B. 1908
 - C. 1947
 - D. 1983
 - E. 1944
75. The _____ was a multilateral agreement whose objective was to liberalize trade by eliminating tariffs, subsidies, import quotas, and the like.
- A. General Agreement of Tariffs and Trade
 - B. World Trade Supervisory Authority
 - C. United Nations
 - D. International Trade Organization
 - E. International Labour Organization
76. The _____ was a multilateral agreement whose objective was to liberalize trade by eliminating tariffs, subsidies, import quotas, and the like.
- A. Multinational Agreement on Globalization
 - B. United Nations Charter on Free Trade
 - C. World Agreement on Trade and Free Commerce
 - D. International Market Fund
 - E. General Agreement on Trade and Tariffs
77. GATT was, by most measures, _____ in its early years.
- A. very unsuccessful
 - B. slightly unsuccessful
 - C. slightly successful
 - D. very successful
 - E. ineffective

78. _____ is not one of the main reasons that protectionist pressures arose around the world during the 1980s.
- A. Many countries found ways to get around GATT regulations
 - B. The opening of Japanese markets to imports
 - C. The economic successes of Japan
 - D. The persistent trade deficit in the United States
 - E. The growing resentment towards the U.S.
79. One of the best known examples of _____ is the agreement between the United States and Japan, under which Japanese producers promised to limit their auto imports to the United States as a way of defusing growing trade tensions.
- A. voluntary export restraint
 - B. import quotas
 - C. local content requirement
 - D. ad valorem tariffs
 - E. administrative trade initiatives
80. Although the trade deficit in the U.S. peaked in 1987 at more than \$170 billion, by the end of 1992, the annual deficit rate was still running about
- A. 125 billion.
 - B. 80 billion.
 - C. 40 billion.
 - D. 15 billion.
 - E. 25 billion
81. The _____, which is the latest completed round of the GATT agreement, was launched in 1986 and completed in December 1993.
- A. Uruguay Round
 - B. German Round
 - C. Japanese Round
 - D. Brazilian Round
 - E. Doha Round
82. In 1986 GATT members embarked on their eighth round of negotiations to reduce tariffs. The negotiations were referred to as the _____ Round (so named because they took place in this country).
- A. German
 - B. Australian
 - C. Brazilian
 - D. Uruguay
 - E. Quebec
83. _____ is the main effect of the Uruguay Round Agreement on Agricultural products.
- A. Consumers will face higher prices
 - B. Farm subsidies will be reduced
 - C. Inefficient producers will be better off
 - D. Nothing-the Uruguay Round failed to make progress on this issue
 - E. Farm markets will be liberalized
84. Which of the following is not a component of the Uruguay Round agreement?
- A. GATT rules will be much clearer and stronger.
 - B. GATT fair trade and market access rules will be extended to cover a wider range of services.
 - C. Agricultural subsidies will be substantially reduced.
 - D. Tariffs on industrial goods will be increased by more the one-half
 - E. GATT rules will provide more protection against piracy

85. The World Trade Organization was created by the _____ of the GATT negotiations.
- A. Cyprus Round
 - B. Canadian Round
 - C. Norway Round
 - D. Uruguay Round
 - E. Doha
86. The _____ was created to arbitrate trade disputes and monitor the trade policies of member countries as a result of the Uruguay Round agreement.
- A. United Trade Authority
 - B. World Trade Organization
 - C. Global Commerce Authority
 - D. International Trade Authority
 - E. International Market Fund
87. The acronym WTO stands for
- A. World Trade Organization.
 - B. World Technology Outlook.
 - C. Western Trade Alliance.
 - D. World Trade Outlook.
 - E. World Treaty Operation
88. The WTO's policing and enforcement mechanisms are having _____ on world trade, according to the textbook.
- A. a positive effect
 - B. a negative effect
 - C. no effect
 - D. a very slight effect
 - E. adverse effects
89. What economic sector did the WTO tackle first?
- A. financial services
 - B. agriculture
 - C. telecommunications
 - D. manufacturing
 - E. retail
90. Two of the first industries targeted for GATT reform were the global telecommunication and
- A. the financial services industry.
 - B. agricultural industry.
 - C. textile industry.
 - D. paper industry.
 - E. aerospace industry
91. On February 15, 1997, 68 countries accounting for _____ percent of world telecommunication revenues, pledged to start opening their markets to foreign competition.
- A. 45
 - B. 60
 - C. 75
 - D. 84
 - E. 90
92. In late 2001 the WTO launched a new round of talks at Doha. The goals of this round of talks were to
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- A. liberalize protection of intellectual property and reduce barriers to investment
 - B. enhance the enforcement of the Paris Convention and allow global banking
 - C. deregulation of transportation and the liberalizing of the textile market
 - D. further protect intellectual property and reduce agricultural subsidies
 - E. further liberalization of the global trade and investment framework

93. Trade barriers _____ the cost of exporting products to a country.
A. have no effect on
B. raise
C. lower
D. eliminate
E. marginalize
94. Which of the following may limit a firm's ability to serve a country from locations outside of that country?
A. Statutory export restraints
B. Voluntary export restraints
C. Involuntary export restraints
D. Legal export restraints
E. Domestic transportation regulations
95. Which of the following is not a disadvantage of government intervention in trade policy?
A Intervention can be self-defeating, since it tends to protect the inefficient rather than help firms become . efficient global competitors
B Intervention in the form of tariffs, quotas, and subsidies can help firms and industries establish a . competitive advantage in the world economy
C. Intervention is unlikely to be well executed, since it may invite retaliation and trigger a trade war
D. Intervention is dangerous, since it may invite retaliation and trigger a trade war
E. none of these answers is correct
96. Due to _____, according to our textbook, government intervention in trade policy is unlikely to be well executed.
A. inexperience
B. the costs associated with intervention
C. the impact of special interest groups
D. because of the high turnover of officials in government industries
E. opposition from other countries
97. Two of the leading U.K.—based banana growers are Chiquita Brands and Dole Food Co.
True False
98. Free trade refers to a situation where a government does not attempt to restrict what its citizens can buy from another country or what they can sell to another country.
True False
99. Tariffs are relatively new instruments of trade policy.
True False
100. A tax levied on imports is referred to as non-tariff barriers.
True False
101. Specific tariffs are leveled as a proportion of the value of the imported good (for example, 5% of the value of a new car).
True False
102. A tariff reduces the cost of imported products relative to domestic products.
True False
103. Ad valorem tariffs are levied as a proportion of the value of the imported good.
True False
104. Tariffs increase the overall efficiency of the world economy because a protective tariff encourages domestic firms to produce products at home, in theory, which could be produced more efficiently abroad.
True False

105. The main gains from subsidies accrue to importers, whose international competitiveness is increased as a result of them.
True False
106. A direct restriction on the quantity of some good that may be imported into a country is an import quota.
True False
107. A voluntary export restraint is a quota on trade imposed by the exporting country.
True False
108. Typically at the request of the importing country, a quota on trade imposed by the exporting country is referred to as a voluntary export restraint.
True False
109. Consumers are benefited by quotas.
True False
110. A local content requirement demands that some specific fraction of a good be produced domestically.
True False
111. Administrative trade policies are bureaucratic rules that are designed to make it easy for imports to enter a country.
True False
112. Selling goods in a foreign market at above their costs of production is called dumping.
True False
113. One common political argument for government intervention is that it is necessary for protecting jobs and industries from "unfair" foreign competition.
True False
114. Countries sometimes argue that it is important to protect certain industries for reasons of national security.
True False
115. Protecting consumers from "dangerous" products and furthering the goals of foreign policy are types of economical arguments for intervention.
True False
116. The D'Amato Act is legislation that allows Americans to sue foreign firms that use property in Cuba confiscated from them after the 1959 revolution.
True False
117. The infant industry argument is the oldest economic argument for government intervention.
True False
118. GATT has not yet recognized the infant industry argument as a legitimate reason for protectionism.
True False
119. The intellectual case for free trade goes back to the late 18th century and the work of Adam Smith and David Ricardo.
True False
120. In its early years GATT was by most measures unsuccessful.
True False
121. Against the background of rising pressures for protectionism, in 1986 the members of the GATT embarked on their eighth round of negotiations to reduce tariffs, the Brussels Round.
True False

122. GATT rules had applied only to manufactured goods and commodities until the Uruguay Round.
True False

123. What is a tariff? Describe the difference between specific tariffs and ad valorem tariffs.

124. Who gains and who loses from the imposition of a tariff on an imported goods? How can it be determined whether the net gain from the tariff exceeds the net loss?

125. What is a subsidy? Provide some examples of the forms that subsidies take. How do subsidies help domestic producers?

126. What is a voluntary export restraint? Can countries use voluntary export restraints to avoid trade retaliation? Explain your answer.

127. What is a local content requirement? How are local content requirements typically expressed?

128. What are administrative trade policies? Are these trade policies deliberately designed to restrict the flow of imports into a country, or do they simply reflect the complexity of the bureaucracies in many foreign countries? Provide at least one example of an "administrative trade policy."
129. What are the principle political and economic arguments for government intervention into international trade? Please describe these arguments. In your opinion, which set of arguments are the most compelling?
130. The World Trade Organization (WTO) was created by the recently completed Uruguay Round of the GATT negotiations. According to the textbook, has the WTO gotten off to a good start or a poor start? Do you believe that the WTO will be effective in the long run? Why or why not?
131. As a Canadian manufacturer of medium and high-end barbeques located in Nova Scotia, you have been under severe price pressure from a Chinese low cost manufacturer. In fact the Chinese manufacturer has been successfully convincing various large retail organizations to order low-end barbeque lines that are specially designed and branded with the retail organizations name. You have been lobbying the federal government to institute anti-dumping measures against the Chinese manufacturer, but retailers have been strongly opposing your efforts, arguing that the manufacturer is charging a fair price for the barbeques. You have convinced your MP, who is also a cabinet minister that the Chinese firm is going to do great damage to your company and therefore weaken an already weak job market in Nova Scotia. Is charging the Chinese company with dumping their products the best approach to protecting the Canadian manufacturer's domestic market? What other choices are available to the company? Explain your answer.

Chapter 6 Key

1. (p. 196) A
2. (p. 198-205) B
3. (p. 198) C
4. (p. 198) A
5. (p. 198) A
6. (p. 198) A
7. (p. 198) D
8. (p. 198) A
9. (p. 198, 199) E
10. (p. 198, 199) A
11. (p. 199) B
12. (p. 199) E
13. (p. 199) B
14. (p. 199) A
15. (p. 199) D
16. (p. 199) B
17. (p. 200) C
18. (p. 200) E
19. (p. 199) B
20. (p. 201) E
21. (p. 201) A
22. (p. 201) B
23. (p. 196) D
24. (p. 201) A
25. (p. 201) E
26. (p. 201) C
27. (p. 201) B
28. (p. 201) A
29. (p. 201) B
30. (p. 202) A
31. (p. 202) D
32. (p. 202) B
33. (p. 202) D
34. (p. 202) D
35. (p. 202) C
36. (p. 203) B

37. (p. 202, 203) A

38. (p. 203) D

39. (p. 203) A

40. (p. 203) C

41. (p. 203) B

42. (p. 203) D

43. (p. 204) D

44. (p. 203) B

45. (p. 203) D

46. (p. 203) A

47. (p. 203) A

48. (p. 205) C

49. (p. 205) D

50. (p. 200) E

51. (p. 205) C

52. (p. 205) C

53. (p. 207) C

54. (p. 207) E

55. (p. 208) D

56. (p. 208) B

57. (p. 207) A

58. (p. 209) A

59. (p. 206) B

60. (p. 209) A

61. (p. 210) B

62. (p. 210) D

63. (p. 210) B

64. (p. 210) A

65. (p. 210) A

66. (p. 210, 211) A

67. (p. 210, 211) B

68. (p. 211) C

69. (p. 211) C

70. (p. 211) C

71. (p. 213) A

72. (p. 213) B

73. (p. 213) A

74. (p. 213) C

75. (p. 213) A
76. (p. 213) E
77. (p. 214) D
78. (p. 214) B
79. (p. 214, 215) A
80. (p. 214) B
81. (p. 215) A
82. (p. 215) D
83. (p. 215) B
84. (p. 215) D
85. (p. 215) D
86. (p. 215) B
87. (p. 215) A
88. (p. 215) A
89. (p. 216) C
90. (p. 216) A
91. (p. 216) D
92. (p. 219) E
93. (p. 221) B
94. (p. 221) B
95. (p. 222) B
96. (p. 221, 222) C
97. (p. 194) FALSE
98. (p. 196) TRUE
99. (p. 198) FALSE
100. (p. 198) FALSE
101. (p. 198) TRUE
102. (p. 198) FALSE
103. (p. 198) TRUE
104. (p. 199) FALSE
105. (p. 201) FALSE
106. (p. 201) TRUE
107. (p. 201) TRUE
108. (p. 201) TRUE
109. (p. 202) FALSE
110. (p. 202) TRUE
111. (p. 203) FALSE
112. (p. 203) FALSE

113. (p. 205) TRUE

114. (p. 206) TRUE

115. (p. 207) FALSE

116. (p. 208) FALSE

117. (p. 210) TRUE

118. (p. 210) FALSE

119. (p. 211) TRUE

120. (p. 213, 214) FALSE

121. (p. 214) FALSE

122. (p. 215) TRUE

123. (p. 198) A tariff is a tax levied on imports. Specific tariffs are levied as a fixed charge for each unit of a good imported (for example, \$500 for each automobile). Ad valorem tariffs are levied as a proportion of the value of the imported good. An example of an ad valorem tariff is the 25 percent tariff that the U.S. government placed on imported light trucks (including pickup trucks, four-wheel-drive vehicles, and minivans) in the late 1980s.

124. (p. 199) The government gains, because the tariff increases government revenues. Domestic producers gain, because the tariff gives them some protection against foreign competitors by increasing the cost of imported foreign goods. Consumers lose because they must pay more for certain imports. Whether the gains to the government and domestic producers exceeds the loss to consumers depends on various factors such as the amount of the tariff, the importance of the imported good to domestic consumers, the number of jobs saved in the protected industry, and so on.

125. (p. 199-201) A subsidy is a government payment to a domestic producer. Subsidies take many forms including cash grants, low-interest loans, tax breaks, and government equity participation in domestic firms. By lowering costs, subsidies help domestic producers in two ways: they help them compete against low-cost foreign imports and they help them gain export markets.

Clearly, voluntary export restraints can be used to "head off" higher tariffs, more restrictive formal quotas, and other forms of trade retaliation.

126. (p. 201-202) A voluntary export restraint is a "voluntary" quota on trade imposed by the exporting company (on itself) typically at the request of the importing country's government. One of the most famous examples is the limitation on auto exports to the United States enforced by the Japanese automobile producers in 1981. In response to direct pressure from the U.S. government, this voluntary export restraint limited Japanese automobile imports to no more than 1.68 million vehicles per year.

127. (p. 202-203) A local content requirement calls for a specific fraction of a good (produced by a multinational firm in a foreign country) to be produced locally. This requirement can be expressed in physical terms (e.g., 75 percent of component parts must be produced locally) or in value terms (e.g., 75 percent of the value of this product must be produced locally).

Obviously, these types of administrative trade policies are informal tariffs and are designed to block specific imports from entering a country.

128. (p. 203) Administrative trade policies are bureaucratic rules that are almost always deliberately designed to restrict the flow of a particular import into a country. For instance, a country may design some administrative rule that makes it totally impractical for a foreign company to import a particular product into its country. An example that is provided in the textbook is tulip bulbs. The Netherlands exports tulip bulbs to almost every country of the world except Japan. The reason is that Japanese customs inspectors insist on checking every tulip bulb by cutting it vertically down the middle, which in effect ruins the bulb. Other examples are equally as compelling. For example, a country might insist that every VCR that is imported into the country be thoroughly tested to make sure that it will not subject the user to an "electric shock." If it took several weeks for these tests to be completed, it would be very difficult to make money importing VCRs into this country.

The author of the textbook clearly believes that the economic arguments for government intervention into international trade are the most compelling. This question presents an interesting and engaging topic for classroom discussion.

Economic arguments: The economic arguments in favor of government intervention include the infant industry argument and strategic trade policy. The infant industry argument is most often used by developing countries. According to this argument, many developing countries have a potential comparative advantage in manufacturing, but new manufacturing industries there can not initially compete with well-established industries in developed countries. To allow manufacturing to get a toehold, the argument is that governments should temporarily support new industries (with tariffs, import quotas, and subsidies) until they have grown strong enough to meet international standards. The strategy trade policy argument is more complex, but basically argues that governments should use their trade policies to help certain domestic firms dominate their global industries and gain first-mover advantages, and that it might pay government to intervene in an industry if it helps domestic firms overcome the barriers to entry created by foreign firms that have already reaped first-mover advantages.

129. (p. 205-211) *Political Arguments:* The political arguments cover a range of issues, including protecting jobs, protecting industries deemed important for national security, and retaliating against unfair foreign competition. In regard to protecting jobs, this is the most common political argument for government intervention. For example, the Japanese quotas on rice imports are aimed at protecting jobs in that country's agricultural sector. In terms of protecting industries deemed important for national security, countries sometimes argue that it is necessary to protect certain industries (like aerospace, steel, advanced electronics, etc.) because they are important for national security. Finally, in regard to retaliating against foreign competition, some people argue that governments should use the threat to intervene in trade policy as a bargaining tool to help open foreign markets and force trading partners to "play by the rules of the game."

The second part of this question-do you believe that the WTO will be effective in the long run-is designed to provide a forum for classroom discussion and/or ask your students to "think" about the role of an organization like the WTO in settling international commerce disputes.

130. (p. 215) According to the textbook, the early life of the WTO suggests that its policing and enforcement mechanisms are having a positive effect. Countries are using the WTO to settle trade disputes, which represents an important vote of confidence in the organization's dispute resolution procedures. So far, the users of the system have included both developed and developing countries, which is also a promising development. In addition, some powerful developed countries, including the United States, have been willing to accept WTO ruling that have gone against them, which attests to the organization's legitimacy.

131. (p. 203-205) The student could argue either that charging the Chinese company with anti-dumping is the best approach to protect the company and the jobs. On the other hand the student could argue that the anti-dumping charge is only a temporary victory and the company should look at initiatives such as improving quality and innovative approaches to meet the needs of the consumer. In essence shifting the consumer buying decision from one of price to quality. Another strategy is to outsource some of the parts and simply assemble or package the BBQs in Canada.

Chapter 6 Summary

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	22
Difficulty: Hard	31
Difficulty: Medium	78
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