

Chapter 8

Student: _____

1. The initial response by politicians to the actual and impending changes in the competitive environment of the European energy industry was
 - A. encouragment
 - B. opposition
 - C. to speed integration
 - D. to defeat the EU
 - E. concern over more competition
2. An agreement between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other is referred to as
 - A. regional economic integration
 - B. cross-cultural economic integration
 - C. geographic economic-political integration
 - D. cross-cultural economic-political integration.
 - E. transnational economic integration
3. The European Union effectively became a single market with 340 million consumers in
 - A. 1992
 - B. 1998
 - C. 1994
 - D. 1993
 - E. 2001
4. By 2008, nearly all of the WTO's _____ members had notified the organization of participation in one or more regional trade agreements.
 - A. 128
 - B. 144
 - C. 150
 - D. 166
 - E. 152
5. According to the textbook, by entering into _____, groups of countries aim to reduce trade barriers more rapidly than can be achieved under the WTO.
 - A. regional agreements
 - B. synergistic agreements
 - C. global agreements
 - D. transnational agreements
 - E. free trade zones
6. Nowhere has the movement toward regional economic integration been more successful than in _____.
 - A. Africa
 - B. South America
 - C. Asia
 - D. Europe
 - E. North America

7. On January 1, 1993, the _____ effectively became a single market with 340 million consumers.
- A. European Union
 - B. South American Union
 - C. North American Union
 - D. Southeast Asia Union
 - E. British Commonwealth
8. The following three countries recently implemented the North American Free Trade Agreement (NAFTA):
- A. Panama, Mexico, and the United States.
 - B. Canada, Brazil, and the United States.
 - C. United States, Argentina, and Mexico.
 - D. Canada, Mexico, and the United States.
 - E. United States, Canada and Costa Rica
9. NAFTA stands for:
- A. North Asian Free Trade Agreement.
 - B. North African Free Trade Association.
 - C. North Atlantic Free Trade Agreement.
 - D. North American Free Trade Association.
 - E. Northern Arctic Free Trade Association
10. As of 2010 there are _____ member countries of the EU:
- A. 4
 - B. 5
 - C. 20
 - D. 27
 - E. 34
11. The free trade area known as MERCOSUR consists of the following four countries:
- A. Chile, Mexico, Columbia, and Paraguay
 - B. Argentina, Brazil, Paraguay, and Uruguay
 - C. Chile, Brazil, Uruguay, and Columbia
 - D. Mexico, Columbia, Paraguay, and Uruguay
 - E. Argentina, Chile, Uruguay, and Brazil
12. Which of the following statement is not accurate in regard to the European Union?
- A. Members of the European Union have mostly established a single currency
 - B. Members of the European Union are moving toward a closer political union
 - C. Members of the European Union have enlarged the EU to the current 27 countries
 - D. Members of the European Union are discussing a common language
 - E. Members of the European Union are discussing enlarging the EU to include another 4 European states
13. As predicted by the theory of comparative advantage, there should be a _____ from regional trade agreements.
- A. substantial net gain
 - B. minor net gain
 - C. no economic impact
 - D. substantial net loss
 - E. substantial trade diversion
14. The spectre of the _____ turning into "economic fortress" that shut out foreign producers with high tariff barriers is worrisome to those who believe in unrestricted free trade.
- A. EU and NAFTA
 - B. EFTA and UN
 - C. UN and WTO
 - D. NAP and IMF
 - E. Mercosur and APEC

15. Which of the following selections accurately depicts the levels of economic integration from least integrated to most integrated?
- A. Common market, economic union, full political union, free trade area, and customs union
 - B. Free market, economic union, full political union, free trade area, and customs union
 - C. Free trade area, customs union, common market, economic union, and full political union
 - D. Full political union, free trade area, common market, customs union, and economic union
 - E. Free trade area, common market, customs union, economic union, and full political union
16. In a _____, theoretically, there are no discriminatory tariffs, quotas, subsidies, or administrative impediments distorting trade between members.
- A. free trade area
 - B. collective bargaining act
 - C. common exchange policy
 - D. customs exchange committee
 - E. free trade zone
17. In a free trade area
- A. barriers to the trade of goods and services among member nations are removed.
 - B. a common currency is adopted.
 - C. a single Parliament determines political and foreign policy.
 - D. a common external trade policy is adopted.
 - E. a common labour policy is followed
18. The most enduring free trade area in the world is the
- A. Asian Free Trade Association.
 - B. MERCOSUR.
 - C. European Free Trade Association.
 - D. North American Trade Association.
 - E. European Union
19. In a theoretically ideal _____, no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade between member nations. Each country, however, is allowed to determine its own trade policies with regard to non-members.
- A. common market
 - B. economic union
 - C. political union
 - D. free trade area
 - E. customs union
20. The European Free Trade Association (EFTA) is
- A. the largest free trade area in the world.
 - B. the most affluent free trade area in the world.
 - C. founded by Western European countries that were not initially part of the European Community.
 - D. newest free trade area in the world.
 - E. open to any European country
21. The European Free Trade Association currently includes the following four countries:
- A. Ireland, Iceland, Denmark, and Belgium
 - B. Norway, Iceland, Switzerland, and Liechtenstein
 - C. Finland, Great Britain, Belgium, and Denmark
 - D. Sweden, Norway, Austria, and Finland
 - E. Romania, Bulgaria, Turkey, Croatia
22. The European Free Trade Association's emphasis has been on free trade in
- A. services.
 - B. agricultural products.
 - C. industrial goods.
 - D. consumer goods.
 - E. capital

23. A _____ eliminates trade barriers between member countries and adopts a common external trade policy.
- A. free trade area
 - B. global union
 - C. tariff union
 - D. common market
 - E. customs union
24. The Andean Pact is a(n) _____.
- A. political union
 - B. free trade area
 - C. customs union
 - D. economic union
 - E. common market
25. Like a customs union, the theoretically ideal _____ has no barriers to trade between member countries and a common external trade policy.
- A. free trade area
 - B. common market
 - C. tariff union
 - D. external market
 - E. regional market
26. A common market includes all of the following characteristics except
- A. factors of production are allowed to move freely between members.
 - B. there are no restrictions on immigration between members.
 - C. full economic integration.
 - D. there are no restrictions on the cross-border flow of capital between members.
 - E. a common external trade policy
27. Establishment of a _____ trade policy necessitates significant administrative machinery to oversee trade relations with non-members.
- A. political
 - B. free-customs
 - C. tariff
 - D. common external
 - E. common internal
28. Today, the European Union is currently an imperfect _____.
- A. common market
 - B. customs union
 - C. economic union
 - D. political union
 - E. currency union
29. Which of the following statements is true in regard to common markets?
- A. The EU is the only successful common market ever established
 - B. Common markets are prevalent in Africa and South America
 - C. The popularity of common markets has waned over the years, and there are less than five successful common markets in existence today
 - D. The popularity of common markets is on the increase worldwide, and there are now over 20 successful common markets in existence
 - E. Common markets are less successful economic engines than customs unions

30. Like the common market, a(n) _____ involves the free flow of products and factors of production between members and the adoption of a common external trade policy.
- A. free trade area
 - B. economic union
 - C. global union
 - D. customs union
 - E. currency union
31. Which of the following is not an attribute of an economic union?
- A. Political union
 - B. Common currency
 - C. Harmonization of members' tax rates
 - D. Free flow of products and factors of production between member countries
 - E. Common external trade policy
32. Which of the following statements is true in regard to economic unions?
- A. The NAFTA is the only successful economic union in the world today
 - B. The popularity of economic unions has increased over the years, and there are now more than 10 . Successful economic unions in existence
 - C. The EU is the only successful economic union in the world today
 - D. There are no true economic unions in the world today
 - E. The EU has decided to limit the strength of the economic union
33. The _____, which is playing an even more important role in the EU, has been directly elected by citizens of the EU countries since the late 1970s.
- A. North Atlantic Parliament
 - B. North Atlantic Trade Commission
 - C. European Parliament
 - D. European Trade Commission
 - E. European Union Commission
34. According to the textbook, most attempts to achieve regional economic integration have been
- A. extremely successful.
 - B. amicable and friendly.
 - C. contentious and halting.
 - D. uneventful.
 - E. failures
35. Economic theories suggest that free trade and investment is a positive-sum game, in which
- A. participating countries lose a little
 - B. more participating countries gain than lose.
 - C. at least one participating country gains.
 - D. most participating countries lose.
 - E. all participating countries stand to gain.
36. According to the textbook, in regard to international trade, the theoretical ideal is
- A. barriers to trade for developing nations, but not for industrial nations.
 - B. an absence of barriers to the free flow of goods, services, and factors of production among nations.
 - C. barriers to trade for industrial nations, but not for developing nations.
 - D. heavy barriers to the free flow of goods, services, and factors of production among nations.
 - E. an absence of barriers to the free flow of goods, services and factors of production among the member . nations of a free trade agreement

37. Because many governments have accepted part or all of the case for intervention, unrestricted free trade and FDI have proved to be
- A. only an ideal.
 - B. a reality.
 - C. a goal which should be realized soon.
 - D. a goal that there is no rationale for.
 - E. a goal for the WTO
38. The European Community was established in
- A. 1945.
 - B. 1957.
 - C. 1966.
 - D. 1979.
 - E. 1961
39. The two main reasons that have made _____ difficult to achieve are cost and concerns over national sovereignty.
- A. political integration
 - B. sociological integration
 - C. religious integration
 - D. cultural integration
 - E. economic integration
40. The political case for regional _____ has also loomed large in most attempts to establish free trade areas, customs unions, and the like.
- A. free trade areas
 - B. political organizations
 - C. customs unions
 - D. economic integration
 - E. economic spheres
41. The two main reasons that have made economic integration difficult to achieve are
- A. concerns over the safety of travel from one nation to another and concerns over dissimilar political ideologies.
 - B. concerns over costs and concerns over national sovereignty.
 - C. concerns over immigration and emigration and concerns over economic and political ideologies.
 - D. concerns over the safety of travel from one nation to another and concerns over national sovereignty.
 - E. concerns over revenue sharing and political interdependence
42. In the context of regional trade integration, concern about _____ arise because close economic integration demands that countries give up some degree of their control over such key policy issues as monetary policy, fiscal policy, and trade policy.
- A. cost
 - B. national sovereignty
 - C. financial stability
 - D. cultural uniformity
 - E. tax sharing
43. Mexico's concerns about maintaining control of its oil interests resulted in an agreement with Canada and the United States to exempt the Mexican oil industry from any liberalization of foreign investment regulations achieved under NAFTA. This is an example of
- A. a concern of national sovereignty.
 - B. concern over costs.
 - C. concern over safety.
 - D. concern over political ideologies.
 - E. concern over job losses

44. _____ occurs when high-cost domestic producers are replaced by low-cost producers within the free trade area.
- A. Trade alteration
 - B. Trade qualification
 - C. Trade diversion
 - D. Trade creation
 - E. Trade diversification
45. The phenomenon that occurs when high-cost domestic producers are replaced by low-cost producers within the free trade area is called
- A. trade alteration.
 - B. trade qualification.
 - C. trade diversification
 - D. trade diversion.
 - E. trade creation.
46. _____ occurs when lower-cost external suppliers are replaced by higher-cost suppliers within the free trade area.
- A. Trade diversion
 - B. Trade qualification
 - C. Trade synergy
 - D. Trade creation
 - E. Trade diversification
47. A _____ will benefit the world only if the amount of trade it creates exceeds the amount it diverts.
- A. regional free trade agreement
 - B. trade diversion
 - C. trade synergy
 - D. trade creation
 - E. trade development
48. _____ occurs when high-cost domestic producers are replaced by low-cost producers.
_____ occurs when lower-cost external suppliers are replaced by higher-cost suppliers within the free trade area.
- A. Trade synergy; Trade qualification
 - B. Trade qualification; Trade synergy
 - C. Trade creation; Trade diversion
 - D. Trade diversion; Trade creation
 - E. Trade growth; Trade manipulation
49. In theory, _____ rules should ensure that a free trade agreement does not result in trade diversion.
- A. International Monetary Fund
 - B. World Bank
 - C. United Nations
 - D. World Trade Organization
 - E. GATT
50. There are now two trade blocs in Europe. These are the
- A. European Union and the European Free Trade Association.
 - B. European Federation and the North Atlantic Trade Block.
 - C. North Atlantic Trade Block and the European Union.
 - D. European Federation and the European Trade Association.
 - E. European Union and the Commonwealth of Independent States

51. Maquilladoras are _____ and are commonly found at the _____.
A. trade related zones; Mexican Texas border
B. trade protected zones; Mexican-Honduras border
C. NAFTA related zones of cheap labour; Mexican California border
D. NAFTA prohibited zones of cheap labour; Mexican Texas border
E. NAFTA related zones of cheap labour; Mexican Texas border
52. On January 1, 2004 NAFTA celebrated _____.
A. the one billionth cargo between Canada and the US
B. reaching one trillion dollars in annual trade
C. the transfer of the textile industry to Mexico
D. the establishment of the second maquiladora region in Mexico
E. its tenth anniversary
53. Baulter Inc is an example of a Canadian company exporting to _____.
A. the United States
B. the EU
C. Mexico
D. India
E. China
54. The largest trading bloc in the world is _____.
A. The EU
B. The EFTA
C. APEC
D. The Andean Pact
E. NAFTA
55. Many now see the _____ as the emerging economic and political superpower of the same order as the United States and Japan.
A. European Federation
B. North Atlantic Trade Block
C. European Union
D. North Atlantic Federation
E. European Free Trade Area
56. The European Union is the product of two political factors. The devastation of two world wars on Western Europe and
A. the European nations' desire to hold their own on the world's political and economic stage.
B. the unawareness of potential economic benefits.
C. the removal of barriers to other countries.
D. the emergence of an economic superpower.
E. the threat of Soviet aggression
57. Of the two trade blocks in Europe, the _____ is by far the more significant, not just in terms of membership, but also in terms of economic and political influence in the world economy.
A. European Free Trade Association
B. North Atlantic Trade Block
C. European Union
D. European Federation
E. Mediterranean common market
58. The original forerunner of the EU, the _____ was formed in 1951 by Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands.
A. European Union
B. European Coal and Steel Community
C. European Agricultural and Energy Union
D. European Textiles and Agricultural Community
E. European Community

59. The objective of the _____ was to remove barriers to intragroup shipments of coal, iron, steel, and scrap metal.
- A. European Federation
 - B. European Coal and Steel Community
 - C. European Union
 - D. North Atlantic Trade Area
 - E. European Community
60. With the signing of the Treaty of Rome in 1957, the _____ was established.
- A. European Community
 - B. European Free Trade Association
 - C. European Coal and Steel Community
 - D. European Textiles and Coal Community
 - E. European Common Market
61. With the signing of the _____ in 1957, the European Community was established.
- A. Treaty of Paris
 - B. Treaty of Brussels
 - C. Treaty of Switzerland
 - D. Treaty of Rome
 - E. Treaty of Zurich
62. How many countries are members of the European Union?
- A. 4
 - B. 9
 - C. 15
 - D. 36
 - E. 27
63. The EU was initially composed of _____ member states.
- A. 4
 - B. 5
 - C. 7
 - D. 15
 - E. 27
64. Between 1990 and 2004, the European Commission's role in competition policy has reviewed some _____ merger cases.
- A. 900
 - B. 1,200
 - C. 1,500
 - D. 1,620
 - E. 2,500
65. The purpose of the _____ was to have a single market in place by December 31, 1992.
- A. North Atlantic Sovereignty Act
 - B. Single European Act
 - C. European Primacy Act
 - D. European Sovereignty Act
 - E. European Market Integration Act
66. The _____ is directly elected by the populations of the member states.
- A. European Committee
 - B. European Parliament
 - C. European Union
 - D. European Task Force
 - E. European Joint Commission

67. The _____ was born of a frustration among EC members that the community was not living up to its promises.
- A. European Unification Act
 - B. Single European Act
 - C. European Free Trade Act
 - D. European Common Commerce Act
 - E. European Market Integration Act
68. To signify the importance of the _____, the European Community decided to change its name to the European Union once the act took effect.
- A. European Unification Act
 - B. European Common Commerce Act
 - C. Single European Act
 - D. European Free Trade Act
 - E. European Market Integration Act
69. Which of the following was created to end the EC's economic divisions?
- A. The Delors Commission
 - B. The North Atlantic Trade Federation
 - C. North Atlantic Community
 - D. European Commission
 - E. Blair-Prodi Commission
70. Which of the following was not one of the purposes of the Single European Act?
- A. Remove all frontier controls between EU countries
 - B. Remove the principle of "mutual recognition" as it pertains to product standards
 - C. Open public procurement to non-national suppliers
 - D. Lift barriers to competition in the EC's retail banking and insurance businesses
 - E. Remove all restrictions on foreign exchange transactions between members
71. The implications of the Single European Act are
- A. unknown.
 - B. enormous.
 - C. negligible.
 - D. moderately important.
 - E. positive and negative
72. In 1999, the move toward a _____ in the EU was given a further push by the adoption of a common currency, _____, among a majority of the EU's member states.
- A. single market; the Euro
 - B. regional economic market; Pound Sterling
 - C. cross-cultural market; Franc
 - D. global market; the Rupee
 - E. transparent border; the Ecu
73. AS of 2010, what EU countries have not adopted the Euro?
- A. Spain
 - B. Germany
 - C. Britain
 - D. United States
 - E. China
74. According to our textbook, the move to a single currency in Europe should
- A. have no effect on the cost of doing business in Europe.
 - B. significantly increase the cost of doing business in Europe.
 - C. significantly decrease the cost of doing business in Europe.
 - D. moderately increase the cost of doing business in Europe for North American nations, and significantly . increase the cost of doing business in the EU for the rest of the world.
 - E. increase the cost of doing business with Europe

75. For participating countries, a drawback of a single currency in Europe is that
- A. costs for doing business will increase.
 - B. it will be more difficult to attract imports.
 - C. national authorities will lose control over monetary policy.
 - D. it will be more difficult to compare prices across Europe.
 - E. foreign currency exchanges will have to be made through the European Central Bank in Frankfurt
76. No other attempt at regional integration comes close to(the) _____ in its boldness or its potential implications for the world economy.
- A. EU
 - B. NAFTA
 - C. Andean Pact
 - D. MERCOSUR
 - E. APEC
77. One explanation for the continuing decline in the value of the Euro in 2001 was _____.
- A. the world was entering a recession and investors preferred the Swiss Franc
 - B. the terrorist attacks of September 11, increased the vulnerability of Europe
 - C. the Euro was seen as a temporary unit because the British refused to use it.
 - D. The Euro zone was economically weaker than the U.S.
 - E. The U.S. dollar was seen as a safe haven in times of trouble
78. In 1988 the governments of the United States and Canada agreed to enter in a _____, which went into effect on January 1, 1989.
- A. economic union
 - B. common market
 - C. political union
 - D. free trade agreement
 - E. customs union
79. The agreement that is designed to abolish within 10 years tariffs on 99 percent of the goods traded between Mexico, Canada, and the United states is called the:
- A. North American Free Trade Agreement
 - B. American Federation
 - C. American Community
 - D. North Atlantic Trade Federation
 - E. North American Trade Federation
80. According to the textbook, one likely short-term effect of NAFTA will be that many U.S. and Canadian firms will move some production to Mexico to take advantage of
- A. cheaper transportation costs.
 - B. lower interest rates.
 - C. lower labour costs.
 - D. a higher skilled labour force.
 - E. the Mexican market
81. According to our textbook, the first year that NAFTA became a reality turned out to be
- A. a largely positive experience for all three countries.
 - B. a largely negative experience for all three countries.
 - C. a largely positive experience for Mexico, and largely negative experience for the U.S. and Canada.
 - D. a largely positive experience for the U.S. and Canada, and a largely negative experience for Mexico.
 - E. a largely positive one for Mexico and Canada and a somewhat negative one for the U.S.

82. The principle argument of those that opposed NAFTA centered around the fear that ratification would result in:
- A. higher interest rates in the U.S.
 - B. many Canadian and U.S. jobs transferred to Mexico
 - C. the move towards a common currency for NAFTA member nations
 - D. retaliation from the European Union
 - E. devalued currencies
83. Economic theory predicted that Canadian and U.S. producers would soon benefit from _____.
- A. increased B2B demand in the expanding Mexican industries that were geared toward export
 - B. increased demand for transportation products due to increased exports and imports
 - C. there would be no benefit because economic benefits would only be realized in the long-run
 - D. from lower labour costs once they moved to Mexico
 - E. increased consumer demand in Mexico, because of better wages
84. The early euphoria over NAFTA was snuffed out in December 1994 when the _____ was shaken by a financial crisis.
- A. U.S. economy
 - B. Mexican economy
 - C. Brazilian economy
 - D. Canadian economy
 - E. global economy
85. The _____ was formed in 1969 when Bolivia, Chile, Ecuador, Columbia, and Peru signed the Cartagena Agreement.
- A. Andean Pact
 - B. Bolivian Pact
 - C. NW South America Group
 - D. South American Federation of Independent States
 - E. Cartagena Pact
86. The Andean Pact was formed in 1969 when _____ signed the Cartagena Agreement.
- A. Bolivia, Chile, Argentina, French Guiana, and Venezuela
 - B. Brazil, Venezuela, Argentina, and Peru
 - C. Bolivia, Chile, Ecuador, Colombia, and Peru
 - D. Argentina, Chile, Ecuador, Columbia, and Guyana
 - E. Brazil, Columbia, Venezuela, Ecuador and Chile
87. The initial principles of The Andean Group included all of the following except
- A. internal tariff reduction program.
 - B. common external tariff.
 - C. transportation policy.
 - D. common currency among member nations.
 - E. common industrial policy
88. MERCOSUR originated in 1988 as a free trade pact between _____.
- A. Mexico and Brazil
 - B. Peru and Brazil
 - C. Brazil and Argentina
 - D. Venezuela and Peru
 - E. Paraguay and Uruguay

89. The _____ pact reportedly helped bring about an 80 percent increase in trade between Brazil and Argentina in the 1980's.
- A. Andean
 - B. NW Group
 - C. MERCOSUR
 - D. CARICOM
 - E. FTAA
90. In 1990, the MERCOSUR pact was expanded to include
- A. Mexico and Brazil.
 - B. Peru and Brazil.
 - C. Paraguay and Uruguay.
 - D. Venezuela and Peru.
 - E. Chile and Peru
91. Currently, the four member states of MERCOSUR include
- A. Peru, Chile, Brazil, and Mexico.
 - B. Columbia, Chile, Brazil, and Paraguay.
 - C. Argentina, Mexico, Chile, and Brazil.
 - D. Brazil, Argentina, Paraguay, and Uruguay.
 - E. Brazil, Argentina, Chile and Peru
92. Mercosur ran into difficulties in 1998 when _____.
- A. Its members refused to give up any more sovereignty.
 - B. Argentina and Chile almost went to war over a border dispute.
 - C. A socialist was elected president of Brazil and refuted the pact.
 - D. Brazil became more interested in joining NAFTA.
 - E. Its members slipped into recession.
93. Formed in 1967, ASEAN currently includes
- A. Indonesia, Hong Kong, Singapore, Taiwan, Thailand, Malaysia, and Japan.
 - B. Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
 - C. Japan, Taiwan, Hong Kong, Singapore, China, Thailand, and Malaysia.
 - D. Brunei, Indonesia, Hong Kong, Thailand, Cambodia, Malaysia, and Japan.
 - E. Japan, Indonesia, Malaysia, Hong Kong, Taiwan and Philippines
94. The most recent countries to become a members of ASEAN are:
- A. China, Vietnam, and Cambodia
 - B. Vietnam, Laos, and Malaysia
 - C. Brunei, China, and Thailand
 - D. Japan, South Korea, and Thailand
 - E. Vietnam, Laos and Myanmar
95. The United States, Japan, and China are among 18 members of a trade organization referred to as
- A. AAFTC (American Asian Free Trade Congress).
 - B. APEC (Asia Pacific Economic Cooperation).
 - C. USAEU (United States Asian Economic Union).
 - D. ANAEP (Asian-North American Economic and Political Coop).
 - E. SEATO (South East Asia Treaty Organization)
96. APEC currently has _____ members including such economic powerhouses as the United States, Japan, and China.
- A. 6
 - B. 21
 - C. 25
 - D. 44
 - E. 32

97. According to the textbook, Countries in _____ have been, mostly unsuccessfully, experimenting with regional trade blocks for 50 years
- A. Europe
 - B. Asia
 - C. Africa
 - D. South America
 - E. North America
98. The term "Fortress Europe" refers to:
- A. the military prowess of European nations
 - B. the perception that the European Union is designed to protect the European continent from the import of foreign produced goods
 - C. the unwillingness of European nations to consider forming trade relationships
 - D. the economic stability of the European continent
 - E. the economic strength and mercantilist attitude of European governments
99. The lowering of _____ between countries is likely to lead in increased price competition throughout the EU and NAFTA.
- A. barriers to trade
 - B. military stability
 - C. perception of EU stability
 - D. single market solutions
 - E. administrative barriers
100. The acronym BRIC stands for Britain, Russia, India and China.
Answer: False
True False
101. As the opening case on the European energy situation shows, political opposition and the realities of the editing industry structure can make this difficult to attain.
True False
102. By 2008 few of the WTO's members were participating in regional trade agreements.
True False
103. The last few years has witnessed an unprecedented proliferation of regional trade agreements.
True False
104. All regional trade agreements reached in the past half century are still in force.
True False
105. Europe has been the most successful example of regional integration
True False
106. Several levels of economic integration are possible in theory. From most integrated to the least integrated they are area free trade area, a customs union, a common market, an economic union, and finally, a full political union.
True False
107. In a free trade area all barriers to the trade of goods and services among member countries are removed.
True False
108. The most enduring free trade area in the world is the European Free Trade Association.
True False
109. A customs union eliminates trade barriers between member countries and adopts a common external trade policy.
True False

110. A full common market requires a common currency, harmonization of the member countries' tax rates, and a common monetary and fiscal policy.
True False
111. In a theoretically ideal common market, labour and capital are free to move, as there are no restrictions on immigration, emigration, or cross-border flows of capital between markets.
True False
112. Although the European Union is the best known, a number of successful common markets exist throughout the world.
True False
113. An economic union entails even closer economic integration and cooperation than a common market.
True False
114. An economic union involves the free flow of products and factors of production between members and the adoption of a common external trade policy.
True False
115. The EU is on the road towards at least partial political union.
True False
116. The European Committee has been directly elected by citizens of the EU countries since the late 1970s.
True False
117. Trade creation occurs when high-cost domestic producers are replaced by low-cost producers within the free trade area.
True False
118. Most attempts to achieve regional economic integration have been very amicable.
True False
119. Trade diversion occurs when higher-cost external suppliers replace lower-cost suppliers within the free trade area.
True False
120. Europe now has two trade blocs: the European Union and the European Free Trade Association.
True False
121. Throughout the more recent years, the European Commission's role in competition policy has become less important.
True False
122. The Single European Act was born out of frustration among EC member countries that the community was not living up to its promise.
True False
123. To signify the importance of the Single European Act, the European Union decided to change its name to the European Community once the act took effect.
True False
124. The first year after NAFTA turned out to be a largely negative experience for all three countries.
True False
125. The Andean Pact was formed in 1969 when Bolivia, Chile, Ecuador, Colombia, and Peru signed the Cartagena Agreement.
True False

126. Describe the concept of regional economic integration. Do you believe that regional economic integration is a good thing? Explain your answer.
127. Please briefly explain the following forms of economic integration: free trade area, customs union, common market, economic union, and full political union. Provide an example of each form of economic integration.
128. Describe the difference between a free trade area and a common market?
129. What are the primary impediments to integration? Are these impediments difficult to overcome? Explain your answer.
130. Define trade creation and trade diversion with respect to regional economic integration. Given that integration can both create and divert trade, under what circumstances will regional integration be in the best interest of the world economy?

131. From the standpoint of business and international trade, what are the advantages of a single currency within a trade block (like the EU)?
132. What is meant by the term "Fortress Europe?" Is this term fair, or is it an exaggeration?
133. Describe the arguments for and against the North American Free Trade Agreement (NAFTA). In your opinion, is the recent ratification of NAFTA a positive development or a negative development for the citizens of the countries involved?
134. According to reports from the Canadian Embassy in Mexico, one of the major reasons for the growth of plastics and plastic products in Mexico is the increase in per capita consumption of plastic products and the substitution of parts in products such as household appliances, electronics products, vehicles and machinery. If local production grows at a rate of five percent in the next three years, Mexico will still have to import injection moulded, extruded and blow moulded parts and packaging, as well as melds, to accommodate the substitution of metal, glass and other materials. How does this 2004 report by the Canadian embassy in Mexico relate to the arguments in favour of lowering trade barriers within a regional trade agreement. Explain.
135. A fairly accurate description of the trade relationship between the U.S. and Canada is that the U.S. buys about 85 percent of Canada's exports, and Canada buys about 20 percent of U.S. exports. Some critics of NAFTA have stated that the agreement makes Canada even more economically dependent on the U.S. Comment on this statement.

136. The Conference Board of Canada, after the enlargement of the EU from 15 to 25 members, in a report stated that, "In 2003, two-way merchandise trade between Canada and the EU totalled nearly \$58 billion CAD. Canadian exports of goods to the EU were \$18.8 billion, and imports were \$38.8 billion. Canada's stock of foreign direct investment in the EU reached \$99.8 billion in 2002. That same year, the EU's stock of FDI in Canada was \$94 billion, representing 26.9 per cent of all foreign direct investment in Canada and 75 per cent of FDI in Canada originating from outside the United States. Canada's prospects are good for increased trade and investment with the EU's 25 member states." In addition to the economic benefits, would there be any political benefits to Canadian increasing its trade with the EU.

137. One of the more traditional arguments in favour of regional trade agreements can be summarized in the following sentences. "If WTO agreements extend more widely, regional trade agreements go deeper, their proponents argue. As well as cutting border tariffs, countries can agree reforms among themselves, such as harmonizing product standards, streamlining customs procedures and cross-border investment, that go further than anything the family of nations as a whole is ready to handle." Comment on this statement and give some examples.

Chapter 8 Key

1. (p. 261) B
2. (p. 262) A
3. (p. 263) D
4. (p. 262) E
5. (p. 262) A
6. (p. 263) D
7. (p. 263) A
8. (p. 263) D
9. (p. 263) D
10. (p. 263) D
11. (p. 263) B
12. (p. 263) D
13. (p. 263,264) A
14. (p. 264) A
15. (p. 264-266) C
16. (p. 264) A
17. (p. 264) A
18. (p. 264) C
19. (p. 264) D
20. (p. 264, 265) C
21. (p. 264) B
22. (p. 265) C
23. (p. 265) E
24. (p. 263) C
25. (p. 265) B
26. (p. 265) C
27. (p. 265) D
28. (p. 266) C
29. (p. 265) A
30. (p. 265, 266) B
31. (p. 265, 266) A
32. (p. 265, 266) D
33. (p. 266) C
34. (p. 266) C
35. (p. 266, 267) A
36. (p. 266) B

37. (p. 266) A
38. (p. 267) B
39. (p. 267) E
40. (p. 267) D
41. (p. 267) B
42. (p. 267, 268) B
43. (p. 267) A
44. (p. 269) D
45. (p. 269) E
46. (p. 270) A
47. (p. 270) A
48. (p. 270) C
49. (p. 270) D
50. (p. 270) A
51. (p. 272) E
52. (p. 272) E
53. (p. 272) C
54. (p. 272) E
55. (p. 270) C
56. (p. 270) A
57. (p. 270) C
58. (p. 270) B
59. (p. 270) B
60. (p. 270) A
61. (p. 270) D
62. (p. 270) E
63. (p. 271) D
64. (p. 273) E
65. (p. 274) B
66. (p. 274) B
67. (p. 274) B
68. (p. 274, 275) C
69. (p. 274) A
70. (p. 275) B
71. (p. 275) B
72. (p. 275, 276) A
73. (p. 276) C
74. (p. 276, 277) C

75. (p. 277, 278) C
76. (p. 280) A
77. (p. 278, 279) E
78. (p. 280) D
79. (p. 280) A
80. (p. 282) C
81. (p. 283) A
82. (p. 282) B
83. (p. 282) E
84. (p. 283) B
85. (p. 284) A
86. (p. 284) C
87. (p. 284) D
88. (p. 285) C
89. (p. 285) C
90. (p. 285, 286) C
91. (p. 285) D
92. (p. 286) E
93. (p. 287) B
94. (p. 288) E
95. (p. 288-290) B
96. (p. 288) B
97. (p. 290) C
98. (p. 293) B
99. (p. 292) A
100. (p. 262) TRUE
101. (p. 262) TRUE
102. (p. 262) FALSE
103. (p. 262) TRUE
104. (p. 262) FALSE
105. (p. 263) TRUE
106. (p. 265) FALSE
107. (p. 264) TRUE
108. (p. 264) TRUE
109. (p. 265) TRUE
110. (p. 265) FALSE
111. (p. 265) TRUE
112. (p. 265) FALSE

- 113. (p. 265) TRUE
- 114. (p. 266) TRUE
- 115. (p. 266) TRUE
- 116. (p. 266) FALSE
- 117. (p. 269) TRUE
- 118. (p. 267) FALSE
- 119. (p. 270) FALSE
- 120. (p. 270) TRUE
- 121. (p. 273) FALSE
- 122. (p. 274) TRUE
- 123. (p. 274, 275) FALSE
- 124. (p. 283) FALSE
- 125. (p. 284) TRUE

Ask your students to comment on whether regional economic integration is a good thing. In general, the observers of international trade believe that regional economic integration is a positive development. Countries that have participated in regional trade agreements have typically experienced non-trivial gains in trade from other member countries. In addition, as predicted by the theory of comparative advantage (explained in Chapter 4), there should be a substantial net gain from regional trade agreements.

126. (p. 262-264) Regional economic integration refers to agreements made by groups of countries in geographic regions to reduce, and ultimately remove, tariff and nontariff barriers to the free flow of goods, services, and factors of production between each other. The North American Free Trade Agreement, which is an agreement between the United States, Mexico, and Canada to reduce and eliminate tariffs between the three countries, is an example of regional economic integration.

Political Union: A political union is the bringing together of two or more previously separate countries into essentially one country. As a result, all of the components of an economic union would apply, in addition to the political coupling of the countries involved. Canada is an example of a political union, in which previously separate "colonies" combined into one country. When Nunavut becomes the 11th province, the political coupling of present Canada with Nunavut would be an example of a political union.

Economic Union: An economic union eliminates trade barriers between member nations, adopts a common external policy, and permits factors of production to move freely between member countries. In addition, a full economic union requires a common currency, harmonization of the member countries' tax rates, and a common monetary and fiscal policy. There are no true economic unions in the world today.

Common Market: A common market eliminates trade barriers between member countries and adopts a common external policy. In addition, factors of production are also allowed to move freely between member countries. Thus, labour and capital are free to move, as there are no restrictions on immigration, emigration, or cross-border flows of capital between members. Hence, a much closer union is envisaged in a common market than a customs union. The European Union is currently a common market, although its goal is full economic union.

Customs Union: A customs union eliminates trade barriers between member countries and adopts a common external policy. The Andean Pack, which involves Bolivia, Columbia, Ecuador, and Peru, is an example of a customs union.

127. (p. 264-266) *Free Trade Area:* In a free trade area, all barriers to the trade of goods and services among member countries are removed. In a theoretically ideal free trade area, no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade between member nations. Each country, however, is allowed to determine its own trade policies with regard to non-members. The European Free Trade Association, involving Norway, Iceland, and Switzerland, is an example of a free trade area.

128. (p. 264, 265) In a free trade area all barriers to the trade of goods and services among member countries are removed. In a common market, the factors of production are also allowed to move freely between member countries and a common external trade policy is adopted. In addition, in a common market, labour and capital are free to move because there are no restrictions on immigration, emigration, or cross-border flows of capital between member nations.

In many cases, these impediments to integration are very difficult to overcome. For instance, it is very easy to sympathize with someone who might lose their job as the result of a trade agreement. Similarly, many people become very intransigent on issues involving national sovereignty, which make some forms of regional integration almost impossible to achieve.

The second impediment to integration arises from concerns over national sovereignty. For example, for a full economic union to become a reality, the countries involved have to establish a common currency. The citizens of many countries view their currencies as symbols of national sovereignty and pride. As a result, the desire to maintain a sovereign currency may prohibit a country from joining an economic union. Similar examples prevent countries from entering into all of the forms of regional integration.

129. (p. 267-269) Even though there may be a clear rationale for economic integration, there are two impediments that make integration difficult in many cases. First, although economic integration typically benefits the majority of the people in a country, certain groups may lose. For example, according to the author of the textbook, as a result of the 1994 establishment of NAFTA some Canadian and U.S. workers in such industries as textiles, which employ low-cost, low-skilled labour, will lose their jobs as Canadian and U.S. firms move their production to Mexico. As a result, even though the population as a whole may gain as a result of an agreement like NAFTA, these individuals may lose. If these individuals have enough political clout, they may be able to stop a NAFTA type agreement.

130. (p. 269, 270) Trade creation occurs when high-cost domestic producers are replaced by low-cost producers within the free trade area. It may also occur when higher-cost external producers are replaced by lower-cost external producers with the free trade area. Trade diversion occurs when lower-cost external suppliers are replaced by higher-cost suppliers within the free trade area. A regional free trade agreement will benefit the world only if the amount of trade it creates exceeds the amount it diverts.

131. (p. 275-277) The gains to business from a single currency arise from decreased exchange costs and reduced risk of disruption from unexpected variations in the value of different currencies. A single currency would also help firms reduce administrative costs, as fewer resources would be required for accounting, treasury management, and the like. Finally, a single currency would make it difficult for companies to charge different prices in different countries in the trade block.

It is too early to tell whether this characterization is fair or not. What is particularly worrisome to Asia and the West, is that the EU, in particular, might increase external protection as weaker members attempt to offset their loss of protection against other EU countries by arguing for limitations on outside competition.

132. (p. 279) There are presently two trade blocks in Europe: the European Union (EU) and the European Free Trade Association (EFTA). The EFTA has three members, including Norway, Iceland, and Switzerland. The European Union has 15 members, with more countries trying to get in. The fear on the part of non-European nations is that as regional integration in Europe continues to spread and deepen, the European countries will become more dependent upon one another and more protectionist in terms of their trade practices with other parts of the world. Thus the term "Fortress Europe."

Those that oppose NAFTA claim that U.S. and Canadian citizens will lose their jobs in alarming numbers as low-income positions are moved to Mexico to take advantage of lower wage rates. To date, the movement of jobs from the U.S. and Canada has not reached the numbers that NAFTA's critics envisioned. Environmentalists have also voiced concerns about NAFTA. Because Mexico has more lenient environmental protection laws than either the U.S. or Canada, there is a concern that U.S. and Canadian firms will relocate to Mexico to avoid the cost of protecting the environment. Finally, there is continued opposition in Mexico to NAFTA from those who fear a loss of national sovereignty. Mexican critics fear that NAFTA will allow their country to be dominated by U.S. and Canadian multinationals, and use Mexico as a low-cost assembly site, while keeping their higher-paying jobs in their own countries.

133. (p. 280-284) This question is designed to provide a forum for classroom discussion and/or to ask students' to think about the pluses and minuses of the NAFTA. In general, the proponents of NAFTA have argued that NAFTA should be seen as an opportunity to create an enlarged and more efficient productive based for the entire North American region. The proponents concede that some lower-income jobs will move from the United States and Canada to Mexico. However, they argue that in the end, this will benefit all three countries involved because the movement of jobs to Mexico will create employment and economic growth, and as Mexico's economy grows the demand for U.S. and Canadian products in Mexico will increase. In addition, the international competitiveness of U.S. and Canadian firms that move production to Mexico to take advantage of lower labour costs will be enhanced, enabling them to better compete against Asian and European rivals.

134. (p. 283, 284) The opportunity to create an enlarged and more efficient base for the entire region will result in more investment and employment in Mexico, which in turn will create more demand-the plastic industry-and create sales for Canadian and U.S. manufacturers of high value added products such as injection molds.

135. (p. 282, 284) The student may respond in a number of different ways. First they may argue that the agreement only reflects the natural direction that our businesses choose to take. Business is simply easier with the Americans, because we share a common language a common border and many of the same attitudes and culture. Another response is that the agreement increased our orientation towards the U.S. and we would have been better off if the Canadian government had focused on increasing trade with another part of the world.

136. (p. 270-272) The answer the students should give is a reduction in economic dependence on the U.S. Canada will always be neighbours with the U.S. and that geographic closeness will mean that our relationship with the Americans is our most important geo-political fact. However, increasing our trade with other parts of the world can only help and fits into our traditional approach to international issues-multilateralism.

137. (p. 266-270) It has always been difficult to achieve consensus among the large group of WTO members and one of the continuing arguments in favour of regional economic integration is that they are easier to achieve. Regional economic integration agreements are also easier to reach more far-reaching and extend to areas that would be impossible to agree to in the WTO framework. As an example a student could point to the Euro or in the framework of NAFTA the dispute resolution mechanism.

Chapter 8 Summary

<u>Category</u>	<u># of Questions</u>
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