

Chapter 1: Introduction

TRUE/FALSE

1. Many of the developing countries of the world experience traffic gridlock.
ANS: T DIF: Easy REF: Introduction
2. World trade has grown about 10 percent per year since 1950.
ANS: F DIF: Easy REF: 1-1
3. World trade in services represents a higher percentage of total world trade than does world trade in merchandise.
ANS: F DIF: Moderate REF: 1-1: Tables 1-1, 1-2, and 1-3
4. The Bretton Woods Conference triggered the creation of the World Trade Organization in 1944.
ANS: F DIF: Moderate REF: 1-2a
5. The Treaty of Rome in 1957 was the first step in the creation of the European Union.
ANS: T DIF: Easy REF: 1-2c
6. The North American Free Trade Association (NAFTA) includes only the United States and Canada.
ANS: F DIF: Moderate REF: 1-2c: Table 1-4
7. The euro has replaced the currencies of all of the countries of the European Union.
ANS: F DIF: Hard REF: Table 1-2d
8. In 2007, the United States exported more goods than any other country in the world.
ANS: F DIF: Moderate REF: 1-3: Figure 1-3
9. In 2007, the United States imported about 1.5 times more goods than it exported.
ANS: T DIF: Hard REF: 1-3: Figures 1-3 and 1-4
10. A company that has to make large capital outlays before starting production will want to export in order to spread its costs over a large number of units produced.
ANS: T DIF: Moderate REF: 1-4a

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

ANS: T DIF: Moderate REF: 1-4a

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

ANS: F DIF: Moderate REF: 1-4a

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

ANS: T DIF: Moderate REF: 1-4b

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

ANS: T DIF: Easy REF: 1-4c

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

ANS: T DIF: Hard REF: 1-4d

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

ANS: F DIF: Easy REF: 1-5a

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

ANS: T DIF: Easy REF: 1-5a

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

ANS: T DIF: Hard REF: 1-5b

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

ANS: T DIF: Moderate REF: 1-5b

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

ANS: T DIF: Easy REF: 1-5c

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

ANS: F DIF: Easy REF: 1-5c

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

ANS: T DIF: Easy REF: 1-5d

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

ANS: F DIF: Hard REF: 1-5d

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

ANS: T DIF: Easy REF: 1-5e

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

ANS: F DIF: Hard REF: 1-5e

MULTIPLE CHOICE

1. The total value of international trade (2008) in services and merchandise is about
- a. \$ 20 billion.
 - b. \$ 20 trillion.
 - c. \$ 20 million.
 - d. \$ 20 thousand.
 - e. None of the above

ANS: B

The total value of international trade was \$20 trillion in 2008.

DIF: Moderate REF: 1-1: Table 1-3

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2. International trade is still mostly concentrated among the developed countries of the Northern Hemisphere. Which country is the largest exporter of the world?
- a. United States
 - b. Germany
 - c. China
 - d. Japan
 - e. None of the above

ANS: B

Germany is the largest exporter in the world, and exports about 10 percent more than the United States and 20 percent more than China.

DIF: Hard REF: 1-3: Figure 1-3

3. International trade is still mostly concentrated among the developed countries of the Northern Hemisphere. Which country is the largest importer of the world?
- a. United States
 - b. Germany
 - c. China
 - d. Japan
 - e. None of the above

ANS: A

The United States is the largest importer in the world, and imports about twice what Germany imports and more than twice what China imports.

DIF: Hard REF: 1-3: Figure 1-4

4. The European Union is an economic community that comprises how many countries?
- a. 15
 - b. 25
 - c. 18
 - d. 27
 - e. None of the above

ANS: D

The European Union has had 27 members since 2009.

DIF: Moderate REF: 1-2c

5. The common currency of most of the countries of the European Union is called
- a. the euro-dollar.
 - b. the european currency unit (ECU).
 - c. the thaler.
 - d. the euro.
 - e. None of the above

ANS: D

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

DIF: Moderate REF: 1-2d

6. NAFTA is a free-trade agreement between the countries of
- a. North Africa.
 - b. North America.
 - c. North Atlantic.
 - d. North Asia.
 - e. None of the above

ANS: B

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

DIF: Easy REF: 1-2c: Table 1-4

7. Which of the following entities was created at the Bretton Woods Conference of 1944?
- a. International Monetary Fund
 - b. World Trade Conference
 - c. Marshall Plan
 - d. United Nations
 - e. None of the above

ANS: A

The IMF was created at the Bretton Woods Conference.

DIF: Moderate REF: 1-2a

8. A firm can respond to one of its competitors' introduction of a lower-priced product by starting to produce its own lower-cost product abroad and importing it. Such a strategy is called
- a. insourcing.
 - b. foreign investment.
 - c. just-in-time.
 - d. outsourcing.
 - e. None of the above

ANS: D

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

DIF: Easy REF: 1-4a

9. On occasion, a firm will respond to a competitor's move by retaliating. For example, Linde Gas (an American firm producing industrial gasses) entered the French market when Air Liquide (a French company in the same industry) decided to enter the U.S. market. Such a move is considered a
- a. cost driver.
 - b. competitive driver.
 - c. technology driver.
 - d. market driver.
 - e. None of the above

ANS: B

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

DIF: Hard REF: 1-4b

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10. Consumer mobility refers to the idea that consumers like to find the same products everywhere. An example of a company that sells products everywhere in the world because its customers are all over the world is
- a. McDonald's Restaurants.
 - b. Intercontinental Hotels.
 - c. Fuji Film.
 - d. All of the above
 - e. None of the above

ANS: D

These three companies operate in the industries that are specifically listed in Section 1-4c as having "followed" their consumers worldwide.

DIF: Easy REF: 1-4c

11. Argentina can produce 1 ton of meat (beef) using 0.1 years of labor. It can also produce 1 automobile using 2 years of labor. In order to produce 1 ton of beef, the United States uses 0.2 years of labor. It can produce an automobile using 1.5 years of labor. Argentina has
- a. an absolute advantage in the production of automobiles.
 - b. an absolute advantage in the production of beef.
 - c. a comparative advantage in the production of automobiles.
 - d. a comparative advantage in the production of beef.
 - e. None of the above

ANS: B

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

DIF: Easy REF: 1-5a

12. Russia can produce 25 tons of steel or 5 automobiles using the same amount of resources. Using the exact same amount of resources, India can produce 18 tons of steel and 3 automobiles. According to the theory of comparative advantage, the countries will trade with each other. What will Russia produce?
- a. steel
 - b. automobiles
 - c. some steel and some chairs
 - d. Impossible to determine with the information given
 - e. None of the above

ANS: B

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

DIF: Moderate REF: 1-5b

13. Russia can produce 25 tons of steel or 5 automobiles using the same amount of resources. Using the exact same amount of resources, India can produce 18 tons of steel and 3 automobiles. According to the theory of comparative advantage, at what price will Russia and India trade chairs?
- India will buy automobiles as long as the price is lower than 6 tons of steel
 - India will sell automobiles as long as the price is higher than 5 tons of steel
 - Russia will buy automobiles as long as the price is lower than 6 tons of steel
 - Impossible to determine with the information given
 - None of the above

ANS: A

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

DIF: Hard REF: 1-5b

14. The Heckscher-Ohlin Theory holds that countries that have an abundance of certain resources enjoy an absolute or comparative advantage over other countries. Which of the following is NOT one of the factors that Heckscher and Ohlin considers scarce?
- land
 - labor
 - capital
 - education
 - None of the above

ANS: D

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

DIF: Depends REF: 1-5c

15. According to the International Product Life Cycle Theory, the country(ies) most likely to manufacture a product that has been recently developed (one that is the result of a brand-new design and uses patented technology) and is in its first commercialization year, is (are)
- the country of innovation only.
 - developing countries.
 - any country with the manufacturing technology necessary to manufacture it.
 - other developed countries.
 - None of the above

ANS: A

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

DIF: Moderate REF: 1-5d

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16. Porter's Cluster Theory holds that geographical areas with a large concentration of a certain type of companies allow that area to obtain an absolute or comparative advantage. How do those companies benefit from the presence of other companies like them in the same area?
- a. they can attract talented employees
 - b. such concentration fosters creativity as employees' know-how travels from employer to employer
 - c. the concentration of talent fosters innovation
 - d. All of the above
 - e. None of the above

ANS: D

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

DIF: Moderate REF: 1-5e

17. The international environment presents challenges for the international logistician. Which aspect of the international business environment is most likely to create frustrations?
- a. cultural differences
 - b. economic issues
 - c. currency differences
 - d. infrastructure constraints
 - e. None of the above

ANS: A

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

DIF: Moderate REF: 1-6

18. Brigham Young University publishes a series of pamphlets that describe the cultural traits of a country particularly clearly and accurately. Such pamphlets are called
- a. *Culturama*.
 - b. *CultureGrams*.
 - c. *Country Cultural Guides*.
 - d. *World Culture Books*.
 - e. None of the above

ANS: B

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

DIF: Moderate REF: 1-6

19. Information on foreign countries, including their economic environment, their political environment, and their geography, can easily be found in several publications. Which is NOT one of the organizations that publishes background information on countries?
- a. *The Economist's* Intelligence Unit
 - b. The Central Intelligence Agency
 - c. The U.S. Department of Commerce
 - d. The United Nations' UNICEF
 - e. None of the above

ANS: D

All of these options are explicitly listed in Section 1-6, except the UNICEF, which is the United Nations' Children's Fund (changed from the United Nations' International Children's Emergency Fund in the 1950s).

DIF: Moderate REF: 1-6

20. An international logistician cannot possibly learn all of the cultural subtleties of a particular country; however, in order to avoid frustrations and difficulties, it would be advisable that s/he study
- a. sociology.
 - b. anthropology.
 - c. intercultural communication.
 - d. psychology.
 - e. None of the above

ANS: C

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

DIF: Moderate REF: 1-6

COMPLETION

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

ANS: Treaty of Rome

DIF: Moderate REF: 1-2c

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

ANS: World Trade Organization

DIF: Easy REF: 1-2b

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

ANS: General Agreement on Tariffs and Trade (GATT)

DIF: Moderate REF: 1-2b

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

ANS: rounds

DIF: Moderate REF: 1-2a

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

ANS: Sixteen (as of May 2010)

DIF: Hard REF: 1-2d

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

ANS: Wal-Mart effect

DIF: Hard REF: 1-4

7. The Theory of Absolute Advantage was first coined by _____.

ANS: Adam Smith

DIF: Easy REF: 1-5a

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

ANS: David Ricardo

DIF: Moderate REF: 1-5b

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

ANS: Factor-Endowment Theory

DIF: Moderate REF: 1-5c

10. The International Product Life Cycle Theory was developed by _____.

ANS: Raymond Vernon

DIF: Moderate REF: 1-5d

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

ANS: ceramic tile

DIF: Hard REF: 1-5e

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

ANS: culture

DIF: Easy REF: 1-6