

**IB Test Syllabus: Chapter 6 Trade Protectionism****Multiple choice, circle the one best alternative according to the textbook:**

- 1) Protectionism will most likely affect which aspect of a company's operations?
  - A) selecting employees
  - B) investing short-term capital
  - C) acquiring foreign supplies
  - D) relocating personnel overseas
  
- 2) The term *protectionism*, when applied to international trade, refers to \_\_\_\_\_.
  - A) governmental restrictions and competitive support actions to affect trade flows
  - B) payments to dock workers to prevent pilferage of imported shipments
  - C) border checks to prevent entry of illegal aliens
  - D) methods used to prevent intellectual property theft
  
- 3) Why should managers have an understanding of trade protectionism?
  - A) Trade protectionism targets factor endowments, thus affecting the best country to locate production.
  - B) Trade protectionism affects a company's ability to sell abroad and ability to compete at home.
  - C) Trade protectionism affects the number of people permitted to practice a specific profession.
  - D) Trade protectionism prevents companies' enactment of merger and acquisition agreements.
  
- 4) Managers should understand the effect of trade protectionism because \_\_\_\_\_.
  - A) trade protectionism may limit the number of people permitted to practice a specific profession
  - B) trade protectionism requires the payment of high insurance rates to transport goods internationally
  - C) trade protectionism may prevent companies' enactment of merger and acquisition agreements
  - D) trade protectionism may make it difficult for a company to buy what it needs from foreign suppliers
  
- 5) The government of Country X imposes import restrictions on steel to help the domestic steel industry in depressed areas. What is the most likely result of such restrictions?
  - A) damaging other industries in Country X
  - B) devaluing the currency of Country X
  - C) lowering steel prices in Country X
  - D) triggering boycotts in Country X
  
- 6) Assume a government places restrictions on a specific product from a specific foreign country. What would be the government's most likely concern about the foreign country's response?
  - A) the foreign producers raising the prices of their exports
  - B) the foreign country restricting its own imports
  - C) the foreign country restricting its exports in that industry
  - D) the foreign producers seeking other markets
  
- 7) Assume a government is considering import restrictions on sugar because sugar imports are hurting the domestic industry. Which of the following groups is LEAST likely to speak out on the subject?
  - A) politicians in areas that grow sugar
  - B) employees of sugar companies
  - C) sugar company owners
  - D) sugar consumers

8) What is the most likely reason that consumers rarely protest import restrictions that raise the prices they pay for a specific product?

A) They reason that if the import restrictions are removed, the foreign producers will raise their prices to those of the domestic producers anyway.

B) Many countries prohibit consumers to band together to influence political actions.

C) Typically, although the added costs to consumers for a given product are high in aggregate, they are fairly trivial for most individual consumers.

D) They reason that if they do something to hurt domestic employment for one product, the displaced workers will then do something that will hurt their own employment.

9) Unemployed workers are most apt to form a pressure group to support \_\_\_\_\_.

A) export restrictions

B) import restrictions

C) price limitations

D) import subsidies

10) Successful trade retaliation is most likely achieved \_\_\_\_\_.

A) on agricultural products

B) on manufactured products

C) by a large trading country

D) by a small trading country

11) Imports can stimulate exports by \_\_\_\_\_.

A) redistributing the work force

B) curtailing domestic competition

C) generating more tax revenue

D) increasing foreign income

12) All of the following are generally true about trade-displaced workers EXCEPT which one?

A) They move abroad to take new jobs.

B) They earn less in their new jobs than they earned in their old ones.

C) They spend their unemployment benefits on living rather than retraining.

D) They have difficulty finding new work because of educational deficiencies.

13) The rationale for the infant-industry argument for trade protection is that \_\_\_\_\_.

A) incubator centers in which business, government, and academia cooperate will develop entrepreneurial companies

B) a country should give one firm in an industry a monopoly status so that it will grow large enough to be competitive internationally

C) it takes time for an industry to become competitive in world markets, so protection is needed to help this industry pass through the critical period

D) lower restrictions should be placed on products coming from countries where a government has a large sphere of political influence

AACSB: Reflective thinking

14) Which of the following statements most likely is true about the infant-industry argument?

- A) Total unit costs decrease through economies of scale.
- B) High tariffs to prevent foreign competition increase government revenues in the protected country.
- C) Domestic entrepreneurs need assistance to compete in industries with high entry barriers.
- D) Experience of operating over time triggers higher productivity and global competitiveness.

15) A problem that can arise in using trade protectionism to develop international competitiveness for a domestic industry is that \_\_\_\_\_.

- A) it is difficult to identify industries that have a high probability of reaching competitiveness
- B) assistance should be given only if entry barriers to new firms are very low
- C) the protecting countries lose too much revenue from import duties
- D) a short product life cycle makes the industry quickly noncompetitive

16) Which of the following is a problem with the infant-industry argument for protection?

- A) Most developed countries increasingly have a larger portion of retirees than youth.
- B) Consumer groups become very active in protesting the higher prices that result during infancy.
- C) Other countries retaliate by limiting exports of technology needed by the infant industry producers.
- D) If the industry does not lower costs sufficiently to be competitive, it becomes a formidable pressure group for continued protection.

17) The industrialization argument for trade protection in developing countries is based on the assumption that \_\_\_\_\_.

- A) the protected industry will become competitive over time with economies of scale
- B) unemployment and underemployment exist in rural areas, so little agricultural output is lost as people move into industrial jobs
- C) subsidizing production is a better means of protection than limiting imports
- D) it is better to depend on buying agricultural surpluses from developed countries than to produce these agricultural goods

18) Unlike the infant-industry argument, the industrialization argument for trade protection \_\_\_\_\_.

- A) requires independence from other countries
- B) stresses labor-intensive production methods despite high costs
- C) emphasizes use of locally available raw materials for manufacturing inputs
- D) presumes that economic growth will occur even if domestic manufactured prices are not globally

19) Developing countries have sometimes adopted policies to shift people out of agriculture and into industry by protecting manufactured production. One of the problems they have encountered is that \_\_\_\_\_.

- A) people have been too reluctant to leave rural areas to go to the cities
- B) food shortages have increased in rural areas because of worker shortages
- C) demand for social and political services has increased excessively in the cities
- D) developed countries have retaliated with protection of products from the developing countries

- 20) *Terms of trade* refers to \_\_\_\_\_.
- A) the quantity of imports that a given quantity of a country's exports can buy
  - B) specific requirements placed on imports and exports at the port of entry or exit
  - C) requirements agreed upon by two countries to regulate bilateral trade
  - D) an account statement showing a country's annual imports and exports
- 21) Which term refers to restricting imports in order to boost domestic production and consumption of goods that would otherwise be imported?
- A) import substitution
  - B) terms-of-trade
  - C) most-favored nation
  - D) in-sourcing
- 22) *Export-led development* refers to \_\_\_\_\_.
- A) a country's efforts to promote its exports in order to reduce its trade deficits
  - B) a policy to promote domestic production of goods that would otherwise be imported
  - C) a program to promote industries with export potential
  - D) decreases in infrastructure development due to the loss of revenue from export tariffs
- 23) Which of the following best explains why the experience of countries such as Taiwan and South Korea are used to support export-led development policies?
- A) their low inflation
  - B) their increased FDI
  - C) their industry diversity
  - D) their rapid economic growth
- 24) The relationship between import substitution policies and export-led development policies is best characterized by which of the following?
- A) Import-substitution policies are more likely to lead to production of mature products, whereas export-led development policies result in production of growth products.
  - B) The two are hard to distinguish because production under import substitution may eventually be exported.
  - C) Production under import substitution policies, as opposed to export-led development policies, is more likely to be located in urban areas.
  - D) Production under import substitution policies, as opposed to export-led development policies, is likely to be more labor-intensive.
- 25) Advocates of the comparable access argument for trade protection primarily assert that domestic industries \_\_\_\_\_.
- A) will deteriorate in countries that have lower import restrictions than their trading partners
  - B) should be required to implement export-led development policies on foreign competitors
  - C) are entitled to the same access to foreign markets as foreign industries have to their markets
  - D) are forced to lower prices for domestic consumers because of foreign import restrictions

26) It is sometimes contended that by imposing import controls a country might be able to increase its exports. This contention is premised on \_\_\_\_\_.

- A) the country's simultaneous currency depreciation, which decreases the price of its exports
- B) using the import taxes to institute efficiency measures in potential export industries
- C) raising domestic prices in one industry so that the excess domestic profits in that industry can compensate for the cost of dumping products from another industry into foreign markets
- D) getting other countries to maintain or relax their current import restrictions instead of escalating restrictions in a trade war

27) Country X wants to eliminate its balance of trade deficit while simultaneously keeping prices low for imported essentials. Which of the following methods would most likely achieve these dual objectives?

- A) devaluing its currency
- B) enacting selective import restrictions
- C) using tight monetary policies to deflate price levels
- D) spurring productivity increases through general tax breaks for industry

28) All of the following are reasons a country might institute import restrictions to improve its balance of trade position with other countries EXCEPT to \_\_\_\_\_.

- A) maintain essential industries
- B) reduce imports and encourage exports
- C) get comparable access for its companies
- D) bargain away restrictions by other countries

29) Country X is withholding goods from international markets in an attempt to raise prices abroad. Such actions will be most effective for Country X if the nation \_\_\_\_\_.

- A) supports the development of substitutions
- B) provides domestic industries with tax breaks
- C) receives low-interest loans from foreign banks
- D) holds a monopoly on the product or resource

30) Countries most likely establish export restrictions to \_\_\_\_\_.

- A) ensure their population obtain the goods first
- B) raise prices in foreign markets
- C) encourage substitute products
- D) reduce domestic production

31) Export restrictions have a tendency to \_\_\_\_\_.

- A) favor domestic consumers
- B) protect employment in the export-restricted industries
- C) lower prices in foreign markets
- D) encourage the development of substitutes in the restricting country

32) All of the following are potential problems of using export controls EXCEPT which one?

- A) There is an incentive for other countries to develop production of their own.
- B) Domestic producers may have less incentive to increase output.
- C) Prices go up in the country imposing the controls.
- D) There is more incentive for smuggling.

- 33) Exporting below cost or below the home country price is called \_\_\_\_\_.
- A) countertrade
  - B) an export-led development policy
  - C) a strategic trade policy
  - D) dumping
- 34) There are several reasons for a company to sell products abroad at either below cost or below the price in the home country. Which of the following is one of these reasons?
- A) encouraging foreign consumers to try new products
  - B) improving the exporting country's terms of trade
  - C) gaining imports that are sold below cost
  - D) following import substitution objectives
- 35) Countries sometimes fear that foreign producers are pricing their exports artificially low. This fear is most likely based on the assumption that \_\_\_\_\_.
- A) foreign companies will lack the earnings to repay their foreign debt
  - B) insufficient earnings will be available to improve product technology
  - C) foreign producers will charge exorbitant prices after putting competitors out of business
  - D) developing countries will be unable to maintain critical industries needed in times of war
- 36) According to the optimum tariff theory, a foreign producer will most likely \_\_\_\_\_.
- A) ship highly taxed goods internationally on a per-unit basis
  - B) lower its export prices if the importing country imposes an import tax on its products
  - C) assess a tax on goods shipped internationally based on a percentage of the goods' value
  - D) seek import tariffs by using the comparable access argument
- 37) An argument against limiting exports to unfriendly countries is that \_\_\_\_\_.
- A) the costs of the sanctions are borne by innocent people rather than by leaders
  - B) markets cannot be regained after the countries become friendly
  - C) one country's essential product is superfluous to another
  - D) the exporting nation's cultural identity is harmed
- 38) A possible drawback to the essential industry argument for import protectionism is \_\_\_\_\_.
- A) that such protection hurts the protecting country's balance of payments
  - B) in times of military emergency, almost any product could be considered essential
  - C) other countries find supplies elsewhere
  - D) unemployment increases in the protecting country
- 39) Defense arguments are sometimes used to prevent exports to unfriendly countries. This runs the risk of the targeted country \_\_\_\_\_.
- A) becoming politically destabilized
  - B) removing import restrictions
  - C) finding alternative sources of supply
  - D) banding with other countries to form a cartel

- 40) What is the main motive for countries' protection of their film/cinema industries?
- A) to keep prices low for their citizens
  - B) to improve their balance of payments
  - C) to diversify their economies
  - D) to maintain their cultural sovereignty
- 41) The most common type of tariff is the \_\_\_\_\_ tariff.
- A) export
  - B) import
  - C) transit
  - D) ad valorem
- 42) An import tariff may be protective \_\_\_\_\_.
- A) only if it is on imports the country produces domestically
  - B) if it serves primarily to restrict entry of hazardous materials
  - C) if it does not generate significant tax revenue for essential industries
  - D) even though the importing country does not produce the product
- 43) In addition to protection, tariffs serve to \_\_\_\_\_.
- A) generate revenue
  - B) subsidize exports
  - C) subsidize imports
  - D) increase consumption
- 44) Which term refers to a tariff or duty assessed as a percentage of an item's value?
- A) specific duty
  - B) effective tariff
  - C) ad valorem duty
  - D) compound tariff
- 45) What is the primary difficulty associated with dismantling developed countries' agricultural subsidies?
- A) Rural areas in the United States, the European Union, and Japan are disproportionately represented in their governments.
  - B) Developing countries put pressure on developed countries to maintain the subsidies so that they receive food products at a lower price.
  - C) The subsidies are used to counter the commodity agreements set up mainly by developing countries.
  - D) The subsidies are at the consumer, rather than producer, level, and everyone benefits from the lower prices.
- 46) In most cases, which type of government protection assistance is most controversial?
- A) business development services
  - B) foreign business contacts
  - C) trade expositions
  - D) tariffs

- 47) Tied aid requires a recipient to \_\_\_\_\_.
- A) donate a portion of the funds to the donor country's infrastructure needs
  - B) use the capital in any way as long as donor country approval is granted
  - C) employ local workers in management positions
  - D) spend the funds in the donor country
- 48) Most countries have agreed on how to assess values when their customs agents levy tariffs. Which of the following best expresses this agreement?
- A) They should use the value of similar goods arriving at about the same time.
  - B) They should use the declared invoice price unless they doubt its authenticity.
  - C) They should assess a value based on local costs to produce a similar product.
  - D) They should assess a value based on the expected final consumer sales price.
- 49) In international trade, what is a quota?
- A) a guarantee by one country to buy some minimum amount from another
  - B) a quantitative limit on the amount of a product that can be imported or exported
  - C) a countertrade arrangement that establishes the value of imports and exports
  - D) a bilateral agreement calling for mutual access to markets
- 50) A voluntary export restriction (VER) refers to \_\_\_\_\_.
- A) an agreement between two countries to reciprocally restrict exports to one another
  - B) requests by governments for companies to limit exports of militarily useful technology
  - C) limiting companies' exports to increase domestic supplies
  - D) limits placed on exports by a government of an exporting country at the request of the government of an importing country
- 51) An import license is \_\_\_\_\_.
- A) an agreement whereby one country gives another country permission to use a patent that a company has registered there
  - B) a requirement that exporters take merchandise in lieu of money as payment for their sales
  - C) a requirement that permission be secured from governmental authorities before importation can be undertaken
  - D) a government prohibition of imports from a specific country
- 52) Why are offsets considered protectionist measures?
- A) Exporters must often find markets for goods outside their lines of expertise.
  - B) Exports must be sold at a certain percentage price below the price of domestic producers.
  - C) Companies must submit samples to government authorities before receiving export permission.
  - D) Trading companies must incur additional inventory carrying charges and pay significantly higher tariffs.
- 53) Which of the following hypothetical examples would be a restriction on the import of services?
- A) The U.S. restricts foreign companies from carrying cargo between two U.S. cities.
  - B) Japan restricts North Koreans from visiting Tokyo Disneyland.
  - C) China does not allow the importation of rice from Thailand.
  - D) Canada does not allow Air Canada to buy Brazilian aircraft.



- 54) The fact that there are few reciprocal agreements among countries on the licensing of professionals most likely means that \_\_\_\_\_.
- A) universities' study abroad programs do not enable students to obtain dual degrees and licenses from more than one country
  - B) more service functions are being handled as not-for-profit
  - C) people immigrate to those countries with the highest standards so as to more easily become licensed anywhere else
  - D) there is an effective limitation on trade in services
- 55) A physician, who is a citizen of and licensed in Country A, meets the professional licensing requirements of Country B. The physician will most likely \_\_\_\_\_.
- A) have to pass a language proficiency exam before being allowed to work in Country B
  - B) not be allowed to work in the not-for-profit sector in Country A or Country B for a set period
  - C) have to get a work permit from Country B's immigration authorities to work in Country B
  - D) have to work in the not-for-profit sector in Country B for a period of time before being permitted to work for a profit-seeking organization
- 56) The U.S. automobile industry has attempted to counter import competition in all the following ways EXCEPT \_\_\_\_\_.
- A) concentrating on market niches that initially had less import competition
  - B) lobbying for customs deposits so that importers' costs would be raised
  - C) moving some production to lower-cost countries and exporting to the United States
  - D) effecting internal adjustments, such as cost efficiencies and improved quality
- 57) Companies with \_\_\_\_\_ would most likely oppose global protectionist measures.
- A) internationally integrated supply chains
  - B) domestically focused supply chains
  - C) multidomestic production facilities
  - D) product differentiation
- 58) In nearly half the cases in which U.S. firms have requested protection from imports, one or more U.S. companies in the industry opposed the protection. What was the reason for opposing protection?
- A) They did not want consumers to have to pay higher prices that would result from protection.
  - B) These were foreign-owned companies that saw the opportunity to serve the U.S. market.
  - C) They feared that they would lose foreign export markets because of retaliation.
  - D) They believed that they could compete against global and domestic rivals.
- 59) Which of the following is NOT causing greater complexity in the regulation of trade?
- A) growth in export tariffs
  - B) services available over the Internet
  - C) heightened concern about product safety
  - D) development of new products that must be classified

60) The U.S. catfish industry petitioned the U.S. government for increased taxes on imported Vietnamese fish, claiming that the fish were being sold below the cost of production. The U.S. catfish industry was accusing the Vietnamese fish industry of \_\_\_\_\_.

- A) dumping
- B) using an embargo
- C) subsidizing
- D) using offsets

61) The U.S. catfish industry successfully petitioned the U.S. government to require that catfish varieties imported from Vietnam be labeled as tra, basa, or pangasius. This is an example of which of the following?

- A) an embargo
- B) a tariff
- C) a nontariff barrier
- D) a direct price influence

62) People who argue for lifting the U.S. trade embargo with Cuba claim all of the following EXCEPT which one?

- A) The embargo has not achieved its purpose of changing Cuba's economic and political system.
- B) U.S. companies lose Cuban sales to competitors from other countries.
- C) Increased exposure to the United States would be a more effective force of change.
- D) Cuba has largely become a market economy already.

63) People who argue for keeping the U.S. trade embargo with Cuba claim all of the following EXCEPT which one?

- A) There is not much economic potential from trade given Cuba's small population and low per capita income.
- B) Removal of the embargo will cause much more Cuban immigration to the United States.
- C) If the Cuban economy is weakened just a bit more, the Cuban political-economic system cannot be sustained.
- D) There will be a backlash among countries supplying such commodities as sugar to the United States if the U.S. buys them from Cuba instead.

**Short answer:**

64) What are the disadvantages of import restrictions in regards to creating domestic employment opportunities?

65) Explain the rationale for and problems with making the infant-industry argument work as intended.

98) Why do developing countries sometimes impose import restrictions to increase their levels of industrialization?

99) What is the difference between import substitution policies and export-led development policies? What are the potential effects of each?

100) Many companies and industries argue that they should have the same access to foreign markets as foreign industries and companies have to their markets. In a short essay, discuss this issue of "comparable access," or "fairness."

101) What are common reasons that governments enact export restrictions? What are the possible negative consequences of such restrictions?

102) What is dumping? What are the possible effects of dumping on a country's economy?

103) Briefly discuss the four noneconomic rationales for governmental intervention in the free movement of trade: maintaining essential industries, preventing shipments to unfriendly countries, maintaining or extending spheres of influence, and preserving national identity.

104) Describe and compare the different types of tariffs (duties).

105) In a short essay, list and discuss the nontariff barriers that relate to direct price influences: subsidies, aid and loans, customs valuations, and other direct price influences.

106) List and define the types of nontariff barriers that limit the quantity of goods traded: quotas, embargoes, buy local legislation, standards and labels, specific permission requirements, administrative delays, and reciprocal requirements.

107) What are the main arguments for limiting trade in services? What is your opinion on limiting trade in services?