

International Business: Environments and Operations Chapter 7 Economic Integration and Cooperation

Multiple Choice: Circle the one best choice according to the textbook.

1) _____ integration is the political and economic agreements among countries that give preference to member countries to the agreement.

- A) Global
- B) Economic
- C) Bilateral
- D) Regional

2) Country A and Country B make an agreement to cooperate more closely and implement tariff reductions. Which of the following best describes this agreement?

- A) double commodity integration
- B) multilateral integration
- C) regional integration
- D) bilateral integration

3) The European Union is an example of _____ integration.

- A) regional
- B) relative
- C) global
- D) bilateral

4) Global integration occurs as countries from all over the world decide to cooperate through the _____.

- A) EU
- B) NAFTA agreement
- C) WTO
- D) CARICOM

5) Which of the following statements most accurately describes the relationship between trading groups and MNEs?

- A) Trading groups have no influence on the size of the regional market.
- B) Regional trading groups can define the rules under which companies must operate within that region.
- C) Companies never need to change their organizational structure to take advantage of regional trading groups.
- D) Regional trading groups have no influence on an MNE's strategy since they operate worldwide.

6) Anderson Enterprises is a U.S. firm that manufactures light fixtures for commercial and residential consumers. Anderson is looking to expand internationally, so the firm should most likely _____.

- A) focus on developing new recruitment strategies and selection tests
- B) change their organizational structure to fit the norms of the foreign country
- C) disregard changes in trading groups because they have little effect on a company
- D) look to expand beyond the triad regions currently controlled by the top 500 MNEs

7) Baldani Manufacturing, an Italian firm, plans to expand into Asia. In order to take advantage of regional trading groups, Baldani will most likely need to change its _____.

- A) operating strategies
- B) selection test methods
- C) bilateral trade agreements
- D) economic integration methods

8) Which of the following is NOT one of the regions included in the triad regions of the world?

- A) South America
- B) Europe
- C) North America
- D) Asia

9) The _____ clause embodied the fundamental principle of GATT—trade without discrimination.

- A) most-favored-nation
- B) nontariff barriers
- C) free rider
- D) normal trade relations

10) Which of the following accurately identifies a difference between GATT and the WTO?

- A) GATT could enforce member compliance with agreements, but the WTO cannot.
- B) At its inception, GATT had more member nations than the WTO currently has.
- C) GATT withdrew the most-favored-nation clause, but the WTO reinstated it.
- D) GATT rules did not cover trade in services, but the rules of the WTO do.

11) Under the WTO agreement, _____.

- A) a dispute resolution mechanism allows countries to bring grievances to the WTO against countries that levy inappropriate trade discrimination measures
- B) there is no dispute resolution mechanism except for trade involving environmental products
- C) countries are allowed to place trade barriers on member countries with no particular justification, because like GATT the WTO has no enforcement mechanism
- D) tariffs are permitted to be levied by developed countries against developing countries but not against each other

12) A major problem with the Doha Round is that _____.

- A) developing countries want developed countries to better protect their intellectual property
- B) developing countries want a reduction in agricultural subsidies maintained by the developed countries
- C) the WTO does not want the developing countries to liberalize their investment rules
- D) because of security issues, not all countries were able to attend the meetings, so it was impossible to get a consensus vote

13) Most trade groups contain countries in the same area of the world. Why is this so?

- A) The distances that goods need to travel between such countries are short.
- B) Distribution channels are not easily established in adjacent countries.
- C) Adjacent countries are reluctant to coordinate policies.
- D) Neighboring countries usually lack a common history and interests.

- 14) Which of the following groups of countries is most likely to form a regional trading group?
- A) India, Argentina, France
 - B) Canada, United States, Mexico
 - C) Brazil, Ukraine, Japan
 - D) Spain, South Africa, Mongolia
- 15) The 27 member EU negotiates trade agreements as one. The EU and Brazil have negotiated a strategic trade alliance which is an example of a _____.
- A) customs union
 - B) global free trade agreement
 - C) bilateral agreement
 - D) multilateral agreement
- 16) The goal of a _____ is to abolish all tariffs among member countries.
- A) customs union
 - B) common market
 - C) free trade agreement
 - D) common internal tariff
- 17) Of the following possibilities, the European Union is best described as a _____.
- A) customs union
 - B) domestic organization
 - C) global bargaining unit
 - D) common language agreement
- 18) A _____ results when free mobility of factors of production is added to a customs union.
- A) customs union
 - B) common market
 - C) free trade agreement
 - D) regional trade agreement
- 19) Members of the Andean Community (CAN) have a common external tariff. CAN is most likely a _____.
- A) free trade agreement
 - B) customs union
 - C) domestic trade zone
 - D) free trade sovereignty
- 20) _____ effects of trade agreements are the shifting of resources from inefficient to efficient companies as trade barriers fall.
- A) Dynamic
 - B) Static
 - C) Economic
 - D) Barrier

21) _____ effects of economic integration are the overall growth in the market and the impact on a company caused by expanding production and by the company's ability to achieve greater economies of scale.

- A) Dynamic
- B) Static
- C) Economic
- D) Barrier

22) Trade shifting to countries within a regional trade agreement at the expense of trade with countries not in the agreement is called _____.

- A) a dynamic effect
- B) trade creation
- C) trade diversion
- D) economy of scale

23) When the European Union was formed, the size of the market increased for European companies. This is most likely an example of a _____.

- A) dynamic effect
- B) static effect
- C) trade diversion
- D) trade reflection

24) Since production has shifted to more efficient producers due to comparative advantage, consumers in Country X have had access to more goods at lower prices. Which of the following most likely exists?

- A) trade specialization
- B) trade diversion
- C) trade creation
- D) trade internalization

25) A free trade agreement is likely to increase efficiency because of _____.

- A) decreased competition
- B) increased competition
- C) decreased trade diversion
- D) decreased trade creation

26) Assume that U.S. companies are importing the same product from Mexico and Taiwan. The United States enters into an FTA with Mexico but not with Taiwan. Consequently, the United States begins to import more goods from Mexico (due to lower tariffs) than from Taiwan, even though the Mexican products are not any better or cheaper. This is most likely an example of _____.

- A) trade specialization
- B) trade internalization
- C) trade creation
- D) trade diversion

- 27) Because the size of the market increases when trade barriers fall, companies can increase their production, which will result in lower costs per unit. This phenomenon is known as _____.
- A) trade creation
 - B) economies of scale
 - C) diseconomies of scale
 - D) increased competition
- 28) The _____ is the European Union's ultimate decision-making body and is composed of the different ministers of the member countries.
- A) European Commission
 - B) Council of the European Union
 - C) European Parliament
 - D) European Court of Justice
- 29) The three major responsibilities of the _____ are legislative power, control over the budget, and supervision of executive decisions.
- A) European Commission
 - B) European Council
 - C) European Parliament
 - D) European Court of Justice
- 30) The EU organization that provides political leadership, drafts laws, and runs the daily programs of the EU is the _____.
- A) European Commission
 - B) Council of Ministers
 - C) European Parliament
 - D) European Central Bureaucracy
- 31) The EU organization that ensures consistent interpretation and application of EU treaties is the _____.
- A) European Commission
 - B) Council of Ministers
 - C) Court of Justice
 - D) Council of Treaties and Laws
- 32) Which of the following was primarily responsible for establishing the euro?
- A) Lisbon Treaty
 - B) Treaty of Maastricht
 - C) European Finance Act
 - D) Single European Act
- 33) Critics of the Lisbon Treaty primarily argue that the legislation will _____.
- A) reduce national sovereignty
 - B) implement trade restrictions
 - C) develop a monetary union
 - D) weaken decision making

- 34) The _____ is the common currency of the European Union.
- A) franc
 - B) pound
 - C) euro
 - D) mark
- 35) Which of the following statements about the euro is true?
- A) It was adopted by all existing EU members when it was first initiated.
 - B) It must be adopted by countries as a precondition to joining the EU.
 - C) It cannot be used by countries that are not members of the EU.
 - D) It was designed to eliminate currency as a barrier to trade in the EU.
- 36) Which of the following members of the European Union has NOT adopted the euro?
- A) United Kingdom
 - B) Estonia
 - C) Germany
 - D) Greece
- 37) Hudson Manufacturing is an MNE based in the U.S. with operations in Asia. The firm is considering expansion into the European Union. Which of the following questions is most relevant to the decision?
- A) What is the primary language of most workers?
 - B) Which country has the best production location?
 - C) Which currency has the most favorable value of the euro?
 - D) Which country has the lowest tariffs for manufactured products?
- 38) Hudson Manufacturing is an MNE based in the U.S. with operations in Asia. The firm is considering expansion into the European Union. Executives at the firm are debating whether central Europe or Eastern Europe would be best for the firm. Which of the following best supports a decision to establish operations in Eastern Europe?
- A) Hudson wants to implement a high-performance work system.
 - B) Hudson plans to staff the foreign facility with local managers.
 - C) Hudson wants to minimize costs by keeping wages low.
 - D) Hudson recently lost money in a joint venture.
- 39) Korman Industries is a foreign multinational that recently established operations in the European Union. What is the most likely advantage for Korman as a result?
- A) Governance processes are streamlined because local governments have been eliminated.
 - B) Market size is larger because of the elimination of internal tariff barriers.
 - C) Differential external tariff barriers exist for product shipments.
 - D) The EU uses English as its official language.
- 40) Which of the following recently threatened the future of the EU's common currency?
- A) refusal of the UK to use the euro
 - B) failed mergers and acquisitions
 - C) debt crisis in Greece
 - D) human rights issues

- 41) Which of the following are members of NAFTA?
A) the United States, Canada, and Mexico
B) North America and Latin America
C) the United Kingdom, the United States, and Canada
D) the United States, Canada, and Brazil
- 42) NAFTA was primarily formed because the member nations have _____.
A) static and dynamic liberalization policies
B) similarly sized economies and resources
C) geographic proximity to each other
D) competing interests with the EU
- 43) NAFTA is a good example of _____.
A) trade divestment
B) trade diversion
C) the theory of trade disruption
D) the theory of trade implementation
- 44) Compared to the European Union, the North American Free Trade Agreement _____.
A) has a stronger currency linkage due to the U.S. dollar
B) has more trade problems since it is a customs union
C) is significantly larger in population and total GNI
D) is slightly smaller in population and GDP
- 45) Under NAFTA, rules of origin ensure that _____.
A) only goods produced mostly within the region are eligible for liberal tariff conditions
B) only American products are shipped to Canada and Mexico duty-free
C) all members import products only from member nations
D) all members have the same external and internal tariffs
- 46) According to regional content rules, at least _____ of the net cost of most products must come from the NAFTA region in order to get access to the tariff reductions of NAFTA.
A) 62.5%
B) 50%
C) 45%
D) 40.5%
- 47) Which of the following is a unique provision of NAFTA?
A) tariff elimination
B) common currency
C) environmental standards
D) immigration oversights and policies
- 48) The major trade group in South America involving Brazil, Paraguay, Uruguay, and Argentina is _____.
A) MERCOSUR
B) UNASUR
C) APEC
D) CACM

49) The _____ is a preferential trade agreement that was organized in 1967 and comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

- A) APEC
- B) OAU
- C) ASEAN
- D) CAFTA

50) Which of the following is the primary focus of the African Union (AU)?

- A) FDI influx
- B) democracy
- C) economic integration
- D) intrazonal trade relations

51) An NGO is _____.

- A) an agency of the United Nations
- B) a private institution independent of a government
- C) any organization working on environmental issues
- D) an organization that is concerned only with workers' rights

52) Which of the following is most likely a true statement about the relationship between the United Nations and NGOs?

- A) The UN must license an NGO for it to be involved in any international relief efforts.
- B) A UN committee discusses issues of importance to NGOs but does not regulate their activities.
- C) The UN determines which NGOs can work on international humanitarian issues and relief efforts.
- D) NGOs typically operate in only one country, whereas UN agencies can operate anywhere in the world.

53) Many NGOs, including Africa Now, Quaker Peace and Social Witness, and Save the Children, are members of the _____.

- A) Ethical Trading Initiative
- B) International Red Cross Council
- C) United Nations Global Compact
- D) United Nations Economic and Social Council

54) Commodity agreements _____.

- A) were initially established to attempt to stabilize commodity prices
- B) are effective in regulating the price of grains but not minerals
- C) are effective in regulating the prices of both grains and minerals
- D) were disbanded by the United Nations for being non-competitive

55) The role of most commodity agreements now is to _____.

- A) discuss issues and disseminate information about commodities
- B) keep consumer countries from controlling commodity prices
- C) allow producer countries to control inflation by keeping commodity prices low
- D) stabilize prices through regional alliances between producer and consumer countries

- 56) An example of an effective commodity agreement is _____.
- A) the Organization of Petroleum Exporting Countries
 - B) the Organization of Petroleum Importing Countries
 - C) the International Tin Alliance
 - D) the International Cotton Alliance
- 57) The Organization of Petroleum Exporting Countries _____.
- A) uses import tariffs to control oil prices
 - B) stabilizes prices based on demand
 - C) uses quotas to control oil prices
 - D) produces all of the world's oil
- 58) Which of the following primarily triggered Toyota's investment in the European Union?
- A) Europeans demanded affordable, high quality cars from Japan.
 - B) A common currency gave Europeans more buying power.
 - C) The EU lowered trade barriers on foreign auto imports.
 - D) Japan and the EU formed a free trade agreement.
- 59) Which of the following is Walmart's competitive advantage in Mexico?
- A) Walmart purchased all Mexican retail chains and eliminated competitors.
 - B) Walmart is able to transfer its "everyday low prices" concept to Mexico.
 - C) Walmart offers affordable, unique products for niche markets in Mexico.
 - D) Customers prefer to buy from American companies instead of Mexican companies.
- 60) What was the primary purpose of the formation of Sinergia?
- A) charge tariffs on Walmart imports
 - B) purchase Walmart's major suppliers
 - C) better compete with Walmart on price
 - D) include Walmart in the regional supply chain

Short Answer:

- 61) Describe the different types of regional economic integration and give an example of each type.
- 62) Explain the static effects and dynamic effects of economic integration. What is the difference between trade creation and trade diversion resulting from economic integration?
- 63) What are the functions of the European Commission, the European Parliament, the Council, and
- 64) What are the rules of origin and regional content provisions of NAFTA?
- 65) What has been the impact of NAFTA on trade and employment in NAFTA nations?
- 66) Identify and briefly compare the major regional trading groups in Latin America, Asia, and Africa.
- 67) Are commodity agreements effective? Why or why not?
- 68) Why is geography important to most regional trade agreements? Provide examples of RTAs to illustrate your answer.

69) In a brief essay, explain the roles of the World Trade Organization and the United Nations in international trade.

70) What is the difference between a free trade agreement and a customs union? Provide examples of each in your answer.