

## Chapter 17 review

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. Which of the following resulted in a retaliation by the United States of increased tariffs on cheeses and meats from Europe?
- a. Smoot-Hawley Tariff of 1930
  - b. Chicken Tariff of 1963
  - c. Beef War of 1999
  - d. Steel Tariff of 2002
- \_\_\_\_\_ 2. What was the result of the Bretton Woods Conference?
- a. the creation of a fixed exchange-rate system for the United States and much of western Europe
  - b. the creation of a flexible exchange-rate system for the United States and much of western Europe
  - c. the creation of the euro
  - d. the creation of NAFTA
- \_\_\_\_\_ 3. When a nation imports more than it exports, economists say it has which of the following?
- a. a trade surplus
  - b. a balance of trade
  - c. a trade deficit
  - d. a national difference
- \_\_\_\_\_ 4. What happens when a nation's currency depreciates?
- a. Its products become more expensive to other nations.
  - b. Its trade increases.
  - c. Its products become cheaper to other nations.
  - d. Its trade decreases.
- \_\_\_\_\_ 5. What is a currency system in which each country tries to keep the value of its currency constant against one another called?
- a. a fixed exchange-rate system
  - b. a flexible exchange-rate system
  - c. a floating currency exchange
  - d. a constant pricing system
- \_\_\_\_\_ 6. How do countries protect their domestic economy from excessive influence by multinational corporations?
- a. by raising the price of goods provided by the multinationals
  - b. by developing their internal economies
  - c. by limiting the supplies of the multinational corporation
  - d. by requiring the multinational to export a certain percentage of its product
- \_\_\_\_\_ 7. What does a "most-favored-nation (MFN)" status mean?
- a. A country pays the same tariffs as those paid by all MFN countries.
  - b. A country has a special exemption from all tariffs in the United States.
  - c. A country has special licensing agreements with U.S. corporations.
  - d. A country is exempt from product standards that make it expensive for goods to be imported.
- \_\_\_\_\_ 8. Suppose the exchange rate between the United States and Japan changes from \$1 = 100 yen to \$1 = 110 yen. What would happen to the prices of American goods in Japan?
- a. They could increase or decrease.
  - b. They will decrease.
  - c. They will remain the same.
  - d. They will increase.
- \_\_\_\_\_ 9. What is a major disadvantage in the use of import barriers to make domestic goods cheaper?
- a. Domestic manufacturers create more jobs for both citizens and immigrants.
  - b. Domestic manufacturers may lose the economic incentive to become more efficient.

- c. Import manufacturers stop trying to send their goods to the country that has import barriers.
  - d. The line between imported and domestic goods becomes harder and harder to draw.
- \_\_\_ 10. What country is the world's largest exporter of services?
- a. Japan
  - b. Germany
  - c. United States
  - d. Great Britain
- \_\_\_ 11. What does it mean when an economist says that an area specializes in producing certain products?
- a. They use their resources to produce a limited range of goods.
  - b. They produce only certain goods rather than everything they need.
  - c. They produce only goods for which they have an export market.
  - d. They use the money from their exports to buy food and fuel.
- \_\_\_ 12. When the exchange rates are allowed to be determined by supply and demand, they are called which of the following?
- a. flexible
  - b. fixed
  - c. direct
  - d. indirect
- \_\_\_ 13. U.S. industries like steel, computers, and energy need to be protected from foreign competition to ensure which of the following?
- a. the economic advantages caused by their production
  - b. the protection of these industries as they develop
  - c. the presence of these industries during a crisis
  - d. the incentive for these industries to become more efficient
- \_\_\_ 14. What is an infant industry?
- a. a young or developing industry
  - b. an industry making products for infants and children
  - c. an industry that has tariff protection
  - d. an inefficient but necessary industry
- \_\_\_ 15. What is the European Union?
- a. a union of the six countries of the Common Market
  - b. a pact between Europe and the United States regarding tariffs
  - c. a regional trade organization of European nations
  - d. a political amalgam of European and Asian countries
- \_\_\_ 16. What economic status can the United States grant to countries that allows them to pay the same tariffs as other countries with the same status?
- a. voluntary export status
  - b. free trade agreement status
  - c. fixed rate economic status
  - d. most-favored-nation status
- \_\_\_ 17. Which of the following is an advantage for the host country of a multinational corporation?
- a. greater protective tariffs
  - b. greater employment opportunities
  - c. greater political power
  - d. greater income from tariffs
- \_\_\_ 18. "Duty-free" shops in airports and on international boats sell merchandise that can be brought into the country without which of the following?
- a. political embargoes
  - b. import tariffs
  - c. restrictions on quantity
  - d. restrictions on resale
- \_\_\_ 19. Which are the main trading partners of the United States?
- a. Germany, Great Britain, China, and France
  - b. the Central American countries
  - c. the European Union, Canada, Mexico, and Japan
  - d. the Middle Eastern countries
- \_\_\_ 20. Which of the following is a treaty to eliminate all trade barriers between Canada, Mexico, and the United States?

- a. APEC  
b. MERCOSUR
- c. CARICOM  
d. NAFTA
- \_\_\_ 21. In which customs union did the 12 member nations replace their individual currencies with the euro in 2002?  
a. Southern Common Market (MERCOSUR)  
b. European Union (EU)  
c. Caribbean Community and Common Market (CARICOM)  
d. North Atlantic Free Trade Agreement (NAFTA)
- \_\_\_ 22. The currency in Great Britain is the pound (£), and the price of a particular British car is £12,000. Suppose the exchange rate is £0.67 per dollar. What is the price of the British car in the United States?  
a. \$52,174  
b. \$17,910  
c. \$14,662  
d. \$8,040
- \_\_\_ 23. Suppose that there is a balance of trade in both the United States and Canada. Then, the U.S. dollar appreciates against the Canadian dollar. What would the likely outcome be?  
a. a trade surplus in the United States  
b. a trade deficit in Canada  
c. a trade deficit in both countries  
d. a trade surplus in Canada
- \_\_\_ 24. Specialization in a nation leads to  
a. absolute advantage.  
b. self-sufficiency.  
c. international trade.  
d. comparative advantage.
- \_\_\_ 25. Ed and Wendy decide to make extra money working at a local fair by painting names on coffee mugs and making sketches. Ed can paint 6 mugs or draw 2 sketches per hour. Wendy can paint 8 mugs or make 3 sketches per hour. Wendy has  
a. an absolute advantage over Ed.  
b. more specialized production than Ed.  
c. greater natural resources than Ed.  
d. a comparative advantage over Ed.
- \_\_\_ 26. Ecuador has a comparative advantage in the production of bananas over the United States. Which of the following statements is true?  
a. Ecuador also has an absolute advantage in the production of bananas.  
b. The United States has an absolute advantage in the production of bananas.  
c. Ecuador can produce bananas at a lower opportunity cost than the United States.  
d. The United States cannot produce bananas.
- \_\_\_ 27. According to the law of comparative advantage, a country should  
a. specialize and export goods with the highest opportunity cost.  
b. specialize and export goods with the lowest production cost.  
c. specialize and export goods with the lowest opportunity cost.  
d. specialize and export goods with the lowest average cost.
- \_\_\_ 28. The United States placed a limit on the number of cars that can be brought into the country for sale. This is an example of  
a. an import quota.  
b. a tariff.  
c. a customs duty.  
d. a voluntary export restraint.
- \_\_\_ 29. Suppose the United States decreases the tariff on imported tuna steaks. What would the consequences be?  
a. There would be a decrease in the number of imported tuna steaks and the number of tuna steaks produced in the United States.  
b. There would be an increase in the number of imported tuna steaks and the number of tuna steaks produced in the United States.  
c. There would be a decrease in the number of imported tuna steaks and an increase in the number of tuna steaks produced in the United States.  
d. There would be an increase in the number of imported tuna steaks and a decrease in the number of tuna steaks produced in the United States.
- \_\_\_ 30. Which of the following is NOT an argument in favor of protectionism?  
a. Protectionism safeguards workers' jobs.

- b. Protectionism shields infant industries from competition.
  - c. Protectionism fosters competition and keeps prices regulated.
  - d. Protectionism promotes industries that are essential to national security.
- \_\_\_ 31. If a nation has normal trade relations (NTR) status, then exports from that country
- a. will be priced higher than products exported from nations without NTR status.
  - b. are exempt from U.S. safety regulations.
  - c. are banned for a period of no less than 10 years.
  - d. are taxed at the same rate as all other nations with NTR status.
- \_\_\_ 32. In recent years, many countries have formed customs unions that abolished tariffs and trade restrictions among its members, as well as adopted uniform tariffs for nonmember countries. A successful example of such a customs union is
- a. the European Union (EU).
  - b. the North Atlantic Free Trade Agreement (NAFTA).
  - c. the Asia-Pacific Economic Cooperation (APEC).
  - d. the World Trade Organization (WTO).
- \_\_\_ 33. You are returning from a European vacation and decide to buy some chocolates in the duty-free shop at London Heathrow airport. What does “duty free” mean?
- a. There are no restrictions in the quantity of chocolates that you can buy.
  - b. You may resell the chocolates in the United States.
  - c. You pay no customs duty on the chocolates.
  - d. There are no age restrictions for purchasing any of the items in the shop.
- \_\_\_ 34. The currency in Great Britain is the pound (£), and the price of a particular British car is £12,000. On Monday, the exchange rate is £0.67 per dollar. On Friday, the exchange is £0.58 per dollar. What will happen to the price of the British car in the United States on Friday?
- a. The price will fall.
  - b. The price will not change.
  - c. The price will rise.
  - d. The cars will be temporarily withheld from export until exchange rates improve.

## Matching

### *Identifying Key Terms*

*Match each term with the correct statement below.*

- |                                   |                          |
|-----------------------------------|--------------------------|
| a. World Trade Organization (WTO) | f. import quota          |
| b. NAFTA                          | g. comparative advantage |
| c. European Union (EU)            | h. absolute advantage    |
| d. appreciation                   | i. protectionism         |
| e. trade war                      | j. export                |
- \_\_\_ 35. the ability of one person or nation to produce a good at an opportunity cost that is lower than that of another person or nation
- \_\_\_ 36. the use of trade barriers to protect a nation’s industries from foreign competition
- \_\_\_ 37. a worldwide organization whose goal is freer trade and lower tariffs
- \_\_\_ 38. a regional trade organization made up of European nations
- \_\_\_ 39. agreement that will eliminate all tariffs and other trade barriers between Canada, Mexico, and the United States
- \_\_\_ 40. a limit on the amount of a good that can be imported
- \_\_\_ 41. a good that is sent to another country for sale
- \_\_\_ 42. an increase in the value of a currency

### Identifying Key Terms

Match each term with the correct statement below.

- |                       |                                     |
|-----------------------|-------------------------------------|
| a. exchange rate      | f. protectionism                    |
| b. balance of trade   | g. trade surplus                    |
| c. trade deficit      | h. free-trade zone                  |
| d. import quota       | i. voluntary export restraint (VER) |
| e. absolute advantage | j. import                           |

- \_\_\_ 43. a self-imposed limitation on the number of products shipped to a particular country
- \_\_\_ 44. the relationship between a nation's imports and its exports
- \_\_\_ 45. the use of trade barriers to protect a nation's industries from foreign countries
- \_\_\_ 46. a region where a group of countries agrees to reduce or eliminate trade barriers
- \_\_\_ 47. a person or nation's ability to produce a good at a lower cost than another person or nation
- \_\_\_ 48. the result of a nation's importing more than it exports
- \_\_\_ 49. the value of a foreign nation's currency in terms of the home nation's currency
- \_\_\_ 50. the result of a nation's exporting more than it imports

### Short Answer

#### Reading an Exchange Rate Table

	2001	2002	2003
<b>U.S.</b>	<b>\$1.00</b>	<b>\$1.00</b>	<b>\$1.00</b>
<b>Canada</b>	<b>\$1.55</b>	<b>\$1.60</b>	<b>\$1.35</b>
<b>Mexico</b>	<b>9 pesos</b>	<b>10 pesos</b>	<b>11 pesos</b>
<b>Great Britain</b>	<b>£0.70</b>	<b>£0.65</b>	<b>£0.60</b>

Figure 17.1

- 51. According to Figure 17.1, which of the currencies shown has become stronger each year against the U.S. dollar?
- 52. According to Figure 17.1, which currency has the U.S. dollar become stronger against each year since 2001?
- 53. According to Figure 17.1, how many pesos was 1 Canadian dollar worth in 2002?
- 54. According to Figure 17.1, what is the currency against which the others are calculated in the chart?
- 55. According to Figure 17.1, how many pounds were \$5 (U.S.) worth in 2001?
- 56. The U.S. dollar was worth increasingly less against which of the currencies shown in Figure 17.1?

### Essay

#### Critical Thinking

- 57. Why is international trade better for all countries than an attempt for each country to produce everything it needs?

58. How can a country such as the United States be both a major exporter and importer of the same types of goods?
59. Twelve countries of the European Union have established a single currency called the euro. How does this benefit those countries?
60. How does comparative advantage differ from absolute advantage?
61. Has NAFTA succeeded as a way to increase U.S. trade?
62. What does it mean when an economist says that many goods are produced globally?

## Chapter 17 review

### Answer Section

#### MULTIPLE CHOICE

1. ANS: C                    DIF: Medium            REF: 451                OBJ: 7.17.2.2  
TOP: tariff
2. ANS: A                    DIF: Medium            REF: 461                OBJ: 7.17.3.2  
TOP: fixed exchange-rate system
3. ANS: C                    DIF: Medium            REF: 463                OBJ: 7.17.3.3  
TOP: trade deficit
4. ANS: C                    DIF: Medium            REF: 459                OBJ: 7.17.3.1  
TOP: depreciation
5. ANS: A                    DIF: Medium            REF: 461                OBJ: 7.17.3.2  
TOP: fixed exchange-rate system
6. ANS: D                    DIF: Medium            REF: 456                OBJ: 7.17.2.5  
TOP: protectionism
7. ANS: A                    DIF: Medium            REF: 453                OBJ: 7.17.2.4  
TOP: trade barriers
8. ANS: D                    DIF: Medium            REF: 454                OBJ: 7.17.2.4  
TOP: european union (eu)
9. ANS: B                    DIF: Medium            REF: 449                OBJ: 7.17.2.2  
TOP: trade barriers
10. ANS: C                    DIF: Medium            REF: 463                OBJ: 7.17.1.3  
TOP: export
11. ANS: B                    DIF: Medium            REF: 442-445            OBJ: 7.17.1.1  
TOP: law of comparative advantage
12. ANS: A                    DIF: Medium            REF: 461                OBJ: 7.17.3.2  
TOP: flexible exchange-rate system
13. ANS: C                    DIF: Medium            REF: 452                OBJ: 7.17.2.3  
TOP: protectionism
14. ANS: A                    DIF: Medium            REF: 452                OBJ: 7.17.2.3  
TOP: infant industry
15. ANS: C                    DIF: Medium            REF: 454                OBJ: 7.17.2.4  
TOP: european union (eu)
16. ANS: D                    DIF: Medium            REF: 453                OBJ: 7.17.2.4  
TOP: trade barriers
17. ANS: B                    DIF: Medium            REF: 456                OBJ: 7.17.2.5  
TOP: trade barriers
18. ANS: B                    DIF: Medium            REF: 450                OBJ: 7.17.2.1  
TOP: tariff
19. ANS: C                    DIF: Medium            REF: 453-455            OBJ: 7.17.1.3  
TOP: european union (eu), nafta
20. ANS: D                    DIF: Medium            REF: 454                OBJ: 7.17.2.4  
TOP: nafta
21. ANS: B                    DIF: Easy                REF: 462                OBJ: 7.17.3.3  
TOP: european union (eu), fixed exchange rate
22. ANS: B                    DIF: Medium            REF: 458                OBJ: 7.17.3.1

	TOP: exchange rate				
23.	ANS: D	DIF: Medium	REF: 462	OBJ: 7.17.3.3	
	TOP: balance of trade				
24.	ANS: C	DIF: Easy	REF: 442	OBJ: 7.17.1.1	
	TOP: international trade				
25.	ANS: A	DIF: Hard	REF: 443	OBJ: 7.17.1.2	
	TOP: absolute advantage				
26.	ANS: C	DIF: Medium	REF: 444	OBJ: 7.17.1.2	
	TOP: comparative advantage				
27.	ANS: C	DIF: Medium	REF: 444	OBJ: 7.17.1.2	
	TOP: comparative advantage				
28.	ANS: A	DIF: Easy	REF: 449	OBJ: 7.17.2.1	
	TOP: trade barriers, imports				
29.	ANS: D	DIF: Hard	REF: 451	OBJ: 7.17.2.2	
	TOP: trade barriers, tariff				
30.	ANS: A	DIF: Medium	REF: 452	OBJ: 7.17.2.3	
	TOP: protectionism				
31.	ANS: D	DIF: Medium	REF: 453	OBJ: 7.17.2.4	
	TOP: international trade				
32.	ANS: A	DIF: Medium	REF: 454	OBJ: 7.17.2.4	
	TOP: customs union, european union (eu)				
33.	ANS: C	DIF: Medium	REF: 450	OBJ: 7.17.2.1	
	TOP: trade barriers, customs duty				
34.	ANS: C	DIF: Hard	REF: 459	OBJ: 7.17.3.1	
	TOP: exchange rate				

## MATCHING

35.	ANS: G	DIF: Easy	REF: 443	OBJ: 7.17.1.2	
	TOP: comparative advantage				
36.	ANS: I	DIF: Easy	REF: 452	OBJ: 7.17.2.3	
	TOP: protectionism				
37.	ANS: A	DIF: Easy	REF: 453	OBJ: 7.17.2.4	
	TOP: world trade organization (wto)				
38.	ANS: C	DIF: Easy	REF: 454	OBJ: 7.17.2.4	
	TOP: european union (eu)				
39.	ANS: B	DIF: Easy	REF: 454	OBJ: 7.17.2.4	
	TOP: nafta				
40.	ANS: F	DIF: Easy	REF: 449	OBJ: 7.17.2.1	
	TOP: import quota				
41.	ANS: J	DIF: Easy	REF: 445	OBJ: 7.17.1.3	
	TOP: export				
42.	ANS: D	DIF: Easy	REF: 459	OBJ: 7.17.3.1	
	TOP: appreciation				
43.	ANS: I	DIF: Easy	REF: 449	OBJ: 7.17.2.1	
	TOP: voluntary export restraint (ver)				
44.	ANS: B	DIF: Easy	REF: 463	OBJ: 7.17.3.3	

- TOP: balance of trade
45. ANS: F                    DIF: Easy                    REF: 452                    OBJ: 7.17.2.3  
TOP: protectionism
46. ANS: H                    DIF: Easy                    REF: 454                    OBJ: 7.17.1.4  
TOP: free-trade zone
47. ANS: E                    DIF: Easy                    REF: 443                    OBJ: 7.17.1.2  
TOP: absolute advantage
48. ANS: C                    DIF: Easy                    REF: 463                    OBJ: 7.17.3.3  
TOP: trade deficit
49. ANS: A                    DIF: Easy                    REF: 458                    OBJ: 7.17.3.1  
TOP: exchange rate
50. ANS: G                    DIF: Easy                    REF: 463                    OBJ: 7.17.3.3  
TOP: trade surplus

### SHORT ANSWER

51. ANS:  
the British pound
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system
52. ANS:  
the Mexican peso
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system
53. ANS:  
6.25 pesos
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system
54. ANS:  
the U.S. dollar
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system
55. ANS:  
£3.50
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system
56. ANS:  
the British pound
- DIF: Hard                    REF: 458-459                    OBJ: 7.17.3.1                    TOP: flexible exchange-rate system

### ESSAY

57. ANS:  
Nations are better off when they produce those goods they have a comparative advantage producing and use the money from those goods they export to buy goods and services they cannot produce efficiently.
- DIF: Hard                    REF: 442-445                    OBJ: 7.17.1.2                    TOP: law of comparative advantage

58. ANS:  
This is usually caused by the country exporting one type of good and importing another type, or by exporting goods at one stage of their production and importing them at another stage.

DIF: Hard            REF: 445-446            OBJ: 7.17.1.3            TOP: import, export

59. ANS:  
The euro requires the participating countries to coordinate their economic policies and simplifies trade.

DIF: Hard            REF: 454            OBJ: 7.17.3.2            TOP: european union (eu), euro

60. ANS:  
Comparative advantage means that a country can produce a good with a lower opportunity cost than another country; absolute advantage means that they can produce the good cheaper than anyone else can produce it.

DIF: Hard            REF: 443            OBJ: 7.17.1.2  
TOP: comparative advantage, absolute advantage

61. ANS:  
Yes, NAFTA, or the North American Free Trade Agreement, has substantially increased U.S. trade with Canada and Mexico.

DIF: Hard            REF: 454            OBJ: 7.17.1.4            TOP: nafta

62. ANS:  
An economist who says that goods are produced globally means that the goods are produced by multinational companies or that each stage of production occurs in different nations.

DIF: Hard            REF: 445            OBJ: 7.17.2.5            TOP: law of comparative advantage