TT TEXTBOOK TESTBANKS

Test Bank for Introduction to Global Business 3rd Gaspar

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Chapter 02 - The Evolution of International Business

1. The growth trends in China and India today illustrate the impact that international business has on blue-collar and white-collar workers in wealthy countries as relatively low-skill factory jobs as well as high-skill service profession jobs migrate overseas.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Introduction
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
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KEYWORDS:	Bloom's: Evaluate
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2. One way international trade benefits consumers is by providing lower living standards.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
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3. It is estimated that for every billion dollars' worth of exports from the United States, 100,000 domestic jobs are created.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Challenging

REFERENCES: Benefits of Trade and Foreign Direct Investment
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
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4. Foreign direct investment (FDI) in a country brings funds and business culture from abroad, creates new well-paying jobs, introduces innovative technologies, and enhances the skills of domestic workers.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Benefits of Trade and Foreign Direct Investment
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
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5. The decoupling of world economic order and the move to a multipolar world helps explain why China is now the world's largest recipient of FDI.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Benefits of Trade and Foreign Direct Investment
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
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6. Singapore, a regional center for global companies, continues to attract sizable amounts of foreign investment given its strategic location, world-class infrastructure, and productive workforce.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
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7. Mercantilists believed that for a nation to become wealthy, that nation must export as much as possible and, in turn, import as little as possible.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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8. Factor price equalization theory states that when factors are allowed to move freely among trading nations, efficiency increases, which leads to superior allocation of production of goods and services among countries.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate

REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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9. Porter exemplifies China as a powerhouse for consumer electronics because of the quality and quantity of its engineers, and the ability and willingness of Chinese consumers to try out new electronic products that are perfected and later exported.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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10. Porter stresses the importance of domestic demand for goods and services when determining a nation’s competitive advantage. When domestic demand remains high, the number of suppliers will also be high.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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11. Competitive industrial structures are unlikely to create innovative or dynamic firms willing to compete abroad. However, a monopolistic industry will foster innovative, cost efficient, aggressive firms that can adjust to changing economic conditions at home and will be well prepared to compete abroad.
    a. True
    b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: Major Theories of International Trade
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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12. Tariffs are oftentimes used as a proactive move to protect early-stage local producers from foreign competitors.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: The Practice of Trade Policy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
NATIONAL STANDARDS: United States - BUSPROG: Diversity
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13. Under a preferential duties system, goods imported from a country outside the preferred group are subject to a higher tariff.
    a. True
    b. False

ANSWER: True
POINTS: 1

DIFFICULTY:	Difficulty: Moderate
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Understand
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14. The infant industry argument is part of the socio-economic category of managed trade.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Understand
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15. Developed countries often resort to managed trade for reasons of unethical labor practices and violation of basic human rights.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Analyze
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16. The world's two largest economies in terms of national income in the early-19th century were
    a. China and India.
    b. the United States and Canada.
    c. Japan and China.
    d. India and Japan.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Cultural Perspective
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Diversity
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Remember
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17. As of 2019, what is the order of the world's largest economies starting with the greatest?
    a. India, the United States, and China
    b. China, the United States, and India
    c. Japan, China, and Mexico
    d. India, Japan, and Canada

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: Cultural Perspective
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Diversity
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KEYWORDS: Bloom's: Analyze
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18. In 3,000 B.C., Sumerian farmers realized that the grain surplus they produced could be used as barter for things they did not have. Therefore, the Sumerians obtained copper from Sinai Desert traders who were located several hundred miles to the west in order to make weapons and repel nomadic raiders. The Sumerians engaged in
    a. international business.

b. in-border business.
c. environmental business.
d. national business.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Introduction
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
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19. International trade enhances the lives of people living in the countries involved by
a. generating jobs in both the export and import sectors of an economy.
b. creating sustainable ethical manufacturing practices for both host and home countries.
c. guaranteeing a larger return on investment than strictly domestic production can earn.
d. eliminating barriers to trade in all developing nations.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Analyze
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20. Which of the following statements regarding trade is true?
a. Trade does not influence culture.
b. All countries benefit from open trade.
c. Open trade allows for quality among commerce.
d. The gains from open trade are always greater than the losses.

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Moderate

REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Analyze
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21. For every billion dollars' worth of exports from the United States, how many domestic jobs are estimated to have been created?

a. 5,000

b. 20,000

c. 100,000

d. 500,000

ANSWER:	b
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
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22. Which of the following nations was one of the top recipients of net inflows of FDI in 2019?

a. Russia

b. Germany

c. Singapore

d. The United Kingdom

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Diversity

STATE STANDARDS: United States - AK - DISC: Environmental Influence
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23. Harbow Electronics decided to move production of their ceiling fans to Bangladesh in an effort to reduce costs; this illustrates which type of trade initiative?
 a. Outsourcing
 b. Exporting
 c. Importing
 d. Foreign investment

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Benefits of Trade and Foreign Direct Investment
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Diversity
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KEYWORDS: Bloom's: Apply
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24. Which of the following statements about foreign direct investment is true?
 a. FDI brings its home country trade policies with it, eliminating bureaucratic tape.
 b. FDI limits the amount of choices for local consumers, creating monopolies.
 c. Foreign investors have little faith in high-income economies such as Canada's.
 d. FDI in a country brings funds and business culture from abroad.

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Benefits of Trade and Foreign Direct Investment
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-01 - LO: 02-01
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25. Which of the following would be considered a factor of production?

a. Supply
b. Trade
c. Wages
d. Capital

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
NATIONAL STANDARDS:	United States - BUSPROG: Analytic | Technology - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Creation of Value
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26. The oldest form of trade theory is called
a. mercantilism.
b. factor equalization.
c. Machiavellianism.
d. absolute advantage.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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27. Which of the following would a mercantilist value the MOST?
a. Labor
b. A trade surplus
c. Absolute advantage
d. A trade deficit

ANSWER:	b
POINTS:	1

DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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28. Which of the following statements about mercantilism is true?
   a. Mercantilism was practiced as North America emerged from the feudal systems of the Middle Ages and moved toward nationalism.
   b. Mercantilism benefited everyone; even those poor in natural resources.
   c. Mercantilists believed that for a nation to become wealthy, that nation must export as much as possible and, in turn, import as little as possible.
   d. Mercantilists were very focused on the big picture approach to wealth management.

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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29. Which mid-18th century British economist, who came to be known as the father of free market and open trade systems, recognized the absurdity of Mercantilism?
   a. Bertil Ohlin
   b. Eli Heckscher
   c. Adam Smith
   d. Henry Ford

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
QUESTION TYPE: Multiple Choice

HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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30. Assume that because of soil and climatic conditions, Brazil is more efficient in the production of coffee than the United States. At the same time, the United States is more efficient in the production of apples than Brazil. Each of these countries can be said to have a(n)

a. absolute advantage.
b. comparative advantage.
c. factor endowment destruction in land.
d. bartering disadvantage.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: Major Theories of International Trade
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
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31. The ability of one country that has an absolute advantage in the production of two or more goods (or services) to produce one of them relatively more efficiently than the other is called a(n)

a. opportunity cost.
b. comparative advantage.
c. factor price.
d. factor endowment.

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
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LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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32. The key assumptions for the H-O theory to work are: (1) perfect immobility of factors of production among countries; and (2)
    a. perfect competition in the workplace.
    b. superior allocation of production of goods and services.
    c. very small labor force.
    d. the existence of a trade surplus.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
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33. Which theory states that when factors are allowed to move freely among trading nations, efficiency increases, which leads to price of factors becoming equal among countries?
    a. Factor-price equalization theory
    b. Diamond theory
    c. Trade policy theory
    d. Managed trade theory

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Major Theories of International Trade
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HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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34. Which of the following serve(s) as a basis for both the theory of comparative advantage and the H-O theory

for international trade?

a. Factor endowments
b. Trade surplus theory
c. Foreign direct investment
d. Managed trade theory

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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35. How does Porter’s model of national competitive advantage differ from the Heckscher-Ohlin theory?

a. It looks more closely at the quality of factor endowments.
b. It examines only a country’s imports.
c. It examines only a country’s exports.
d. It does not encourage trade.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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36. According to Porter's "Diamond" model, the success or competitive advantage of a nation at the global stage depends upon the interaction between which of the following?

a. The global pricing index and world production
b. Financial stability with inflation and interest rates
c. Sustainability factors in the marketplace
d. Firm strategy, structure, and rivalry

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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37. Until January 1, 2012, the price for ethanol consumers in the United States was higher than world free-market price by $0.54 per gallon because of the $0.54 per gallon tariff imposed by the U.S. government on ethanol imports. This is an example of a(n)

a. customs tariff.

b. ad valorem tariff.

c. specific tariff.

d. preferential tariff.

ANSWER:	c
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
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38. Licensed brokers mitigate risk for importers and collect taxes on imported goods; another name for these taxes is

a. custom duties.

b. ad valorem tariffs.

c. specific tariffs.

d. preferential tariffs.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	The Practice of Trade Policy

QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
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39. Which of the following describes the trade initiative designed to spur economic development in poor countries through trade?

a. A custom duty
b. An ad valorem agreement
c. An export agreement
d. The generalized system of preferences

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: The Practice of Trade Policy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
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40. The U.S. government may require that apparel imported into the United States should use U.S. cotton or a certain amount of American labor. This is an example of a

a. quantitative restriction.
b. qualitative restriction.
c. domestic content provision.
d. voluntary export restriction.

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: The Practice of Trade Policy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
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41. Agreements, sometimes temporary, between countries (or a group of countries) that aim at achieving certain trade outcomes are known as

    a. quantitative agreements.

    b. qualitative agreements.

    c. managed trade agreements.

    d. voluntary export agreements.

ANSWER:	c
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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42. Suppose the United States exports automobiles to Saudi Arabia and agrees to import a corresponding value of oil from Saudi Arabia. This is an example of

    a. a trade deficit.

    b. the infant industry argument.

    c. countertrade.

    d. a domestic content provision.

ANSWER:	c
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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43. Someone who believes in the infant industry argument would be MOST likely to support which of the following choices for a new industry?
   a. High tariffs
   b. Illegal trade
   c. An export cartel
   d. An embargo

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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44. Which of the following is in the geo-political category of managed trade?
   a. Strategic industries
   b. Economic reform
   c. Land grants
   d. Cartels

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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45. Because of that country's annexation of Crimea and military action in east Ukraine, the United States, the European Union, and Australia imposed various trade sanctions on
   a. Poland.
   b. Bulgaria.
   c. Turkey.
   d. Russia.

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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46. If the United States limited the number of Chinese car imports to 3 million per year, it would be an example of a(n) _____.

ANSWER:	import quota
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
NATIONAL STANDARDS:	United States - BUSPROG: Diversity
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47. Mercantilism refers to a theory of international trade that supports the premise that a nation could only gain from trade if it had a trade ______.

ANSWER:	surplus
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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48. International trade tools which are overwhelmingly pro-producer and anti-consumer are _____.

ANSWER:	nontariff barriers
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
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49. The ability of one country that has an absolute advantage in the production of two or more goods (or services) to produce one of them relatively more efficiently than the other refers to ______.

ANSWER:	comparative advantage
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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50. When a country has a ______in the production of a good, they should produce that good because they can do so more efficiently.

ANSWER:	comparative advantage
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic

LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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51. Consumers of a product in an exporting country experience a decrease in their quality of life. This is called a(n) _____.
ANSWER: export subsidy
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: The Practice of Trade Policy
QUESTION TYPE: Completion
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
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52. The 2.5% tax imposed on passenger cars imported to the Unites States is an example of a(n) _____.
ANSWER: ad valorem tariff
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: The Practice of Trade Policy
QUESTION TYPE: Completion
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: MGMT.GASP.23.02-03 - LO: 02-03
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53. Regulations requiring that a certain percentage of the value of import be sourced domestically refers to _______.
ANSWER: domestic content provisions
POINTS: 1
DIFFICULTY: Difficulty: Moderate

REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
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54. An agreement in which an exporter of goods or services to another country commits to import goods or services of corresponding value from that country is called ______.

ANSWER:	countertrade
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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55. The _______ objective is to sacrifice some economic efficiency for the greater good of the country in terms of national security, protection of critical industries, and international commerce.

ANSWER:	geopolitical
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Completion
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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56. Defend the following statement: Trade and foreign investment are good for society.

ANSWER:	Student answers will vary.
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Analytic | Technology - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
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57. Explain why mercantilism fell out of favor as a theory of international trade.

ANSWER:	Student answers will vary.
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
NATIONAL STANDARDS:	United States - BUSPROG: Analytic | Technology - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
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58. Differentiate between H-O theory and factor price equalization theory.

ANSWER:	Student answers will vary.
POINTS:	1
DIFFICULTY:	Difficulty: Challenging
REFERENCES:	Major Theories of International Trade
QUESTION TYPE:	Essay
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-02 - LO: 02-02
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STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Analyze

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59. Explain Porter's "Diamond" model of national competitive advantage.
ANSWER: Student answers will vary.
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: Major Theories of International Trade
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: MGMT.GASP.23.02-02 - LO: 02-02
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60. Defend the infant industry argument, using specific examples.
ANSWER: Student answers will vary.
POINTS: 1
DIFFICULTY: Difficulty: Challenging
REFERENCES: Current Practice of "Managed" Trade
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: MGMT.GASP.23.02-04 - LO: 02-04
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Scenario – Power Trip Unlimited, LLC

Is it hurricane season? Is there a tsunami warning? Did an earthquake take place somewhere in the world? While these are not pleasant questions to ask, the Miami, Florida-based business Power Trip Unlimited needs to be ready to quickly respond to such events. This unique company offers a vast line of emergency generators and supplies to help individuals caught in the devastation these types of natural occurrences can create. Staffed by experts in the generator field, Power Trip Unlimited has assisted numerous people as they began the recovery process in the aftermath of calamity. In the past year alone, sales for this company have surpassed every set goal. This financial boom occurred while the company conducted sales only in the U.S. market.

Power Trip's management team now realizes that foreign markets such as India and China offer incredible opportunities for the company. Both foreign nations desire to engage in trade with the company in exchange for allowing its products to be introduced within their borders. India and China have agreed to supply Power Trip with several necessary components for its generators in exchange for allowing the company free operations inside their national boundaries. Power Trip realizes there are numerous challenges facing the company in the foreign market arena. But guided by the belief in the expertise of its staff and the quality of its products, it is ready to face any challenges foreign markets put in front of them. This company stands eagerly poised awaiting its first international sale.

61. The agreement between Power Trip Unlimited, China, and India to engage in foreign trade will ultimately provide greater opportunities for consumers of Power Trip's products. Which one of the following is least likely to be considered a benefit of this trade agreement?

a. Consumer choices may be limited by government restrictions on the operational capacity of the various products.
b. There will be a greater amount of choice for consumers.
c. Consumers may be offered a lower price on the goods.
d. Consumers will be afforded a higher living standard.

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Benefits of Trade and Foreign Direct Investment
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
PREFACE NAME:	Power Trip Unlimited, LLC
LEARNING OBJECTIVES:	MGMT.GASP.23.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUS PROG: Reflective Thinking
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
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62. Which one of the following would be the least restrictive way in which India and China could impede sales of Power Trip's products within their borders despite the agreement to allow free operations of the company within their nations' boundaries?

a. Place a tariff on the products
b. Establish an ad valorem tariff for the products
c. Establish a generalized system of preferences (GSP)
d. Establish a very high specific tariff

ANSWER:	c
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic

LEARNING OBJECTIVES:	MGMT.GASP.23.02-03 - LO: 02-03
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63. The agreement reached between Power Trip and the two foreign nations where they would sell components to Power Trip in exchange for allowing sales of its products within their borders most closely resembles which one of the following?
a. Engagement in countertrade
b. Establishing a generalized system of preferences
c. Development of a domestic content provision
d. Establishment of a quantitative restriction (QR)

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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Scenario – The Audrey Firm

The Audrey Firm is an international trade consulting firm currently providing its services in eight foreign nations. The primary goal of this company is to prevent trade missteps from taking place between foreign nations conducting business with each other. The participating nations prefer to seek counsel with this firm before any of their actions result in major international involvement or World Trade Organization intervention.

In the past, the Audrey Firm's team of experts has handled international situations having the potential to create serious unrest between neighboring countries. Their guidance and expertise have been successful in keeping trade operating freely in several areas of the globe. The Audrey Firm is receiving an award for their exemplary service later this year in Washington D.C.

64. As one of the Audrey Firm's more prestigious clients, OPEC, which exemplifies an export cartel, requires constant oversight to ensure that it complies with the agreement arranged for export cartels. Which one of the following items is least likely to appear on this type of agreement?
a. Substitutes for the goods being offered must not be available.
b. Demand for the product in question must be elastic.
c. There needs to be a strong demand for the product in question at basically any

price.
d. There must be no cheating on the stated agreement by the agreeing members.

ANSWER:	b
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
PREFACE NAME:	The Audrey Firm
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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65. Many of the clients engaging the services of the Audrey Firm practice managed trade. All of the following would most likely be a practice these nations engage in when conducting trade with other nations except which one?
a. Giving free rein to strategic industries in their trade practices
b. Adherence to stringent guidelines concerning the use of child labor
c. Paying close attention to the safety of products produced
d. Employing embargoes to punish nations engaging in offensive practices

ANSWER:	a
POINTS:	1
DIFFICULTY:	Difficulty: Moderate
REFERENCES:	Current Practice of "Managed" Trade
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
PREFACE NAME:	The Audrey Firm
LEARNING OBJECTIVES:	MGMT.GASP.23.02-04 - LO: 02-04
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66. The clients of the Audrey Firm use various techniques to restrict imports to their countries. Which one of the following assigns a fixed amount of tax for every physical unit imported?
a. Import quota

b. Voluntary export restraint
c. Ad valorem tariff
d. Specific tariff

ANSWER:	d
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	The Practice of Trade Policy
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
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Instructor Manual

Gaspar, Introduction to Global Business: Understanding the International Environment & Global Business Functions 2023, 9780357717011; Chapter 2: The Evolution of International Business

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Purpose and Perspective of the Chapter

Trade has influenced culture, shaped history, affected living standards, and opened society to new ways of thinking. Open trade and investment create "winners" and "losers," but the gains from open trade and investment are always greater than the losses. Trade enhances the quality of life of consumers, brings with it cultural and technological riches, and makes the world a more peaceful place because of national interdependence. Three major economic ideas comprise trade theory. Mercantilism, specialization in the production of goods and services include the theories of absolute and comparative advantage, H–O and factor price equalization theories and Porter's model of National Competitive Advantage. Trade policy refers to government actions that seek to alter the free flow of merchandise or services from and to a country. Managed trade aims to replace free global market forces with government actions to determine trade outcomes. Policy makers may use various socioeconomic or geopolitical rationales to protect specific companies, industries, or countries to achieve certain strategic objectives but at the expense of economic efficiency.

Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- ***Instructor's Manual.*** The Manual now delivers an in-depth connection to the MindTap. By bringing these connections to the surface, instructors will now be better prepared to offer support for these activities. An exhaustive list of every MindTap activity is included, along with seat time and associated Learning Objectives.
  Now included are additional activities to engage students with discussion questions, ice breakers, case studies, and social learning activities that may be conducted in an on-ground, hybrid, or online modality.

- ***Cengage Learning Testing Powered by Cognero.*** Questions have been updated to match updates in the text.

- ***PowerPoint Lecture Presentation.*** Presentations are now closely tied to the Instructor Manual, providing ample opportunities for generating classroom discussion and interaction. They offer ready-to-use, visual outlines of each chapter, which may be easily customized for your lectures. We've included new engagement slides including Icebreakers, Polling Activities, Discussion Activities, and Knowledge Checks.

Chapter Objectives

The following objectives are addressed in this chapter:

2.1 Explain briefly why trade and foreign investment are good for society as a whole.
2.2 Describe the major international trade theories and how they operate.

2.3 Evaluate trade policy, the main instruments of trade policy, and their impact on business, consumers, and governments.
2.4 Explain the rationale behind a country's choice of managing trade.

Complete List of Chapter Activities and Assessments

For additional guidance refer to the Teaching Online Guide.

Chapter Objective	PPT slide	Activity/Assessment
2.1	2	Icebreaker: Discussion
2.1	6	Discussion 1
2.1	9	Activity 1: Breakout Group Discussion
2.2	16	Discussion 2
2.2	17	Activity 2: Written Reflection
2.2	21	Discussion 3
2.3	23	Activity 4: Survey and Discussion
2.3	24	Activity 5: Think, Pair, and Share
2.4	25	Knowledge Check
2.4	26	Knowledge Check: Answer

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Key Terms

Absolute advantage: The ability of one country to produce a good or service more efficiently than another.

Ad valorem tariff: A tax on imports levied as a constant percentage of the monetary value of one unit of the imported good.

Comparative advantage: The ability of one country that has an absolute advantage in the production of two or more goods (or services) to produce one of them relatively more efficiently than the other.

Countertrade: Agreement in which an exporter of goods or services to another country commits to import goods or services of corresponding value from that country.

Custom duties: Taxes on imports that are collected by a designated government agency responsible for regulating imports.

Domestic content provisions: Regulations requiring that a certain percentage of the value of imports be sourced domestically.

Embargoes: Trade sanctions that are imposed upon a nation to restrict trade with that country.

Export cartels: A group of countries that could effectively control export volume to keep their export prices, revenues, and economic growth stable or high.

Export subsidy: A negative tariff or tax break aimed at boosting exports

Export taxes: Taxes meant to raise export cost and divert production for home consumption most favored nation (MFN) an agreement among WTO countries in which any tariff concession granted by one member to any other country will automatically be extended to all other countries of WTO.

Factor endowment: The quantity and quality of factors of production (land, labor, capital, and technology) that a country owns.

Factor price equalization: When the prices of identical factors of production (e.g., labor) are equalized across international borders.

Factor price equalization theory: The theory (attributed to Paul A. Samuelson) that when factors of production are allowed to move freely among nations as a result of international trade, the prices of identical factors of production will be equalized across said nations.

Factors of production: Endowments used to produce goods and services: land (quantity, quality, and mineral resources beneath it), labor (quantity and skills), capital (cost), and technology (quality).

Foreign direct investment: Inflows of capital from abroad for investing in domestic plant and equipment for the production of goods and/or services as well as for buying domestic companies.

Generalized system of preferences (GSP): An agreement where a large number of developed countries permit duty-free imports of a selected list of products that originate from specific countries.

Heckscher–Ohlin (H–O) theory: A theory that attributes the comparative advantage of a nation to its factor endowments. A capital-abundant country will, therefore, export capital-intensive goods, while a labor-abundant country will export labor-intensive goods.

Import quotas: Also known as Quantitative Restrictions (QRs); regulations that limit the amount or number of units of products that can be imported to a country.

Infant industry argument: Temporary provision of protection to nascent industries that have good prospects of becoming globally competitive in the medium term.

International business: All commercial transactions, both private and public, between nations of the world.

Managed trade: Agreements, sometimes temporary, between countries (or a group of countries) that aim at achieving certain trade outcomes.

Mercantilism: A theory of international trade that supports the premise that a nation could only gain from trade if it had a trade surplus.

Outsourcing: The corporate practice of acquiring or producing quality goods or services abroad at a lower cost, thereby eliminating domestic production.

Preferential duties: An especially advantageous or low import tariff established by a nation for all or some goods of certain countries and not applied to the same goods of other countries.

Specific tariff: An import tax that assigns a fixed dollar amount per physical unit.

Tariffs: Taxes on imports; also known as custom duties in some countries.

Trade: The two-way flow of exports and imports of goods (merchandise trade) and services (service trade).

Trade policy: All government actions that seek to alter the size of merchandise and/or service flows from and to a country.

Trade surplus: When the value of exports exceeds the value of imports; the opposite of a trade deficit.

Voluntary export restraint (VER): A nontariff barrier in which an efficient exporting nation agrees to limit exports of a product to another country for a temporary period.

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

Global Updates

- Introduced a thorough analysis of the impact of COVID-19 on all aspects of conducting business globally, i.e., from macro issues like inflation, international trade and capital flows including their effects on globalization, geopolitics, and culture on the one hand and micro or firm-level issues such as impact on global production, reduced manpower, supply chain breakdown and corporate and government financial support on the other
- Discussions on the magnitude of world-wide government support and private sector resilience, especially in the use of available information technology to offset the pandemic's impact at all levels of global business operations and economic growth
- Enhanced the understanding of the rise of China and their global business and geopolitical implications
- Introduced discussions of ESG (Environmental, Social and Governance) metrics and issues as they relate to companies conducting business globally in an ethical fashion
- Complete revision of all chapters with updated information and current data from most reliable and respected global sources
- Updated pictures in all chapters to reflect contemporary global developments and issues
- New/revised/updated end of chapter questions

New in Chapter 2

The Evolution of International Business

- Examined closely the National Security rationale used by the Trump administration to manage international trade and investment to protect domestic industries despite their distortion of global trade and investment flows

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Chapter Outline

In the outline below, each element includes references (in parentheses) to related content. "CH.##" refers to the chapter objective; "PPT Slide #" refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center); and, as applicable for each discipline, accreditation or s ("BL 1.3.3"). Introduce the chapter and use the Ice Breaker in the PPT if desired, and if one is provided for this chapter. Review learning objectives for Chapter 2. (PPT Slides 3).

I. **Cultural Perspective***:* *Asia's Century: The Reemergence of China and India*
(LO1)

a. Foreign invaders and rule by various domestic feudal factions in China and India and exploitation (divide and rule policies) of foreign colonial powers, has affected these two countries to restrict free enterprise and open trade while increasing the government's role in commerce that resulted in slow growth.
b. Based on their colonial era experiences, China and India decided not to follow what they believed was the labor-exploiting capitalist system of the West and instead follow a variant of the Soviet model that was based on central planning and dignity of labor. As a result, China's and India's economic systems stifled domestic entrepreneurship as well as business growth, which left both countries relatively poor.
c. Changes in economic policies have led both China and India to grow rapidly.
d. China initially followed the traditional route by becoming a global center for manufacturing and exporting of consumer goods like apparel, small appliances, and consumer electronics including smartphones and laptop computers.
e. India, on the other hand, has focused more on using its large English-speaking labor force to provide business process outsourcing services, such as call centers, medical transcription, data and mortgage processing, software development, and IT (Information Technology) services of all kinds for companies worldwide.
f. **Icebreaker Activity Discussion: 5 minutes.** (PPT Slide 2) Students will discuss the following questions:
    - How does the history of economic development and exploitation affect a country or region?
    - What is the impact of the growth of international trade and investment on a country's economy?
    - How can economic success look different for different countries or regions?

II. **Benefits of Trade and Foreign Direct Investment.** (2.1, PPT Slide 5-10)
a. Trade is the earliest and simplest form of international business.
b. It benefits consumers by providing:
    - A greater choice in the availability of goods and services
    - Lower prices
    - Higher living standards
c. Policy makers in some countries continue to question the benefits of trade by asking whether to open national borders to freer trade and foreign direct investment (FDI), foreign inflow of capital, technology, and skills to enhance domestic investment and economic growth.

d. Trade also affects quality of life and living standards of people in the countries involved in trade and trade brings with it cultural and technological riches; it can also make the world a more inclusive and peaceful place because of national interdependence.
e. At the same time, it has a negative impact on economies due to disruptive changes such as:
    - Outsourcing of jobs
    - Stagnant wages
    - Lower or sluggish standard of living in globally uncompetitive industries
f. Foreign Direct Investment (FDI) brings funds and business culture from abroad, creates new jobs, introduces innovative technologies, and enhances the skills of domestic workers. Emerging countries tend to attract sizeable amounts of FDI.
g. *Exhibit 2.3 Foreign Direct Investment by Region and Industrialization (billions of U.S. dollars)*
h. **Discussion 1: 10 minutes.** (PPT Slide 6) Consider items you purchase consistently and pick out 10 items that you regularly use. If possible, look at the labels and find out how many of them come from abroad. Can you imagine what your life would be like if we did not have international trade?
i. **Activity 1 Breakout Groups: 15 minutes.** (PPT Slide 9) Students will divide into small groups and choose or be assigned a region to research from Exhibit 2.3 *Foreign Direct Investment by Region and Industrialization (billions of U.S. dollars)** on textbook page 42.
    - In their small group, students will consider how Foreign Direct Investment (FDI) has affected a country or region in a variety of areas.
    - Groups will discuss their findings with the class.

III. **Major Theories of International Trade** (2.2, PPT Slide 10-17)

a. No single nation in the world is capable of producing all the goods and services it needs. Neither does any nation have the required resources. Therefore, nations of the world need to trade. Theories of international trade provide an appreciation for the progress made in understanding how trade works. They also present a rationale for why restriction to trade should be minimized.
b. **Wealth Accumulation as a Basis for Trade Theory: Mercantilism.** Mercantilism is a theory of international trade that supports the premise that a nation could only gain from trade if it had a trade surplus.
    - It's the oldest trade theory. Mercantilists believed that for a nation to become wealthy, the nation had to export as much as possible, and

the value of exports should exceed those of imports, which are viewed as a trade surplus.
  - If every trading nation decided to increase its exports, the surplus of exported goods in the world market would depress prices and decrease earnings of exporting countries.

c. **Specialization as a Basis for Trade Theory: Absolute and Comparative Advantage.** Adam Smith argued and proved that free trade without restrictions would increase the wealth of nations.
  - Absolute advantage exists when one country can produce a good more efficiently than another.
  - Theory of comparative advantage is a refinement of Adam Smith's theory and is attributed to David Ricardo. It claims that a country should produce the commodity in which it has the greatest advantage. Resources in the countries are scarce, and countries must choose to produce goods/services that most efficiently use their scarce resources. When all countries follow this approach, resources can be used most efficiently, and the total output and standard of living of the world can be increased.

d. **Factor Endowments as a Basis for Trade Theory: Hecksher-Ohlin and Factor Price Equalization.**

  - Eli Heckscher and Bertil Ohlin showed that nations primarily export goods and services that intensely use their abundant factors of production.
  - The Heckscher-Ohlin (H-O) Theory attributes the comparative advantage of a nation to its factor endowments. The key assumptions for the H-O theory to work are:
    - Perfect competition
    - Perfect immobility of factors of production
  - Factor price equalization theory states that when factors are allowed to move freely among trading nations, efficiency increases, and leads to superior allocation of production of goods and services among countries.

e. **Porter's "Diamond" Model of National Competitive Advantage.** In 1990 American economist Michael Porter found that trade theories broadly explained the basis upon which countries exported certain goods. Porter looked more closely at the theory of firm and industry specifics to identify characteristics that made firms and industries in countries "winners" or "losers" in international trade.
  - Porter explains this hybrid model in terms of a "diamond" that consists of four groups of company-specific and country-specific characteristics.

- Factor Conditions. Porter's model looks more closely at the quality of the factor endowments described in the Hecksher-Ohlin theory.
- Demand Conditions. Porter stresses the importance of domestic demand for goods and services. When domestic demand is high, domestic competition will intensify and lead to lower prices and sophisticated new products.
- Related and supporting industries. The presence of supporting industries and companies in a country will always be important for its competitive advantage.
- The final set of characteristics relate to firm strategy, structure, and rivalry.
- According to Porter's model, the success or comparative advantage of a nation at the global stage would crucially depend upon the interaction of the four groups of characteristics. Porter also identified two other critical variables outside the diamond that play an important role in the competitiveness of nations: chance and government.

f. **Discussion 2. 10 minutes.** (PPT Slide 16) Have you witnessed any change sin international business activity in your hometown over the past five years? Which of the earlier discussed theories can you attribute to that business development?

g. **Activity 2 Written Reflection. 10-15 Minutes.** (PPT Slide 17)
   - Students will write a positive and negative aspect of the following trade theories: Wealth Accumulation as a Basis for Trade Theory: Mercantilism, Specialization as a Basis for Trade Theory: Absolute and Comparative Advantage, Factor Endowments as a Basis for Trade Theory: Heckscher–Ohlin and Factor Price Equalization, Porter's "Diamond" Model of National Competitive Advantage. Discuss students answers as a class.
   - Discuss answers as a class.

IV. **The Practice of Trade Policy.** (2.3, PPT Slide 18-25)

a. Despite the benefits of the free trade individuals, firms, and lobby groups pressure governments to impose barriers to imports or subsidize exports of goods and services. Their efforts are aimed at saving good-paying jobs and preventing increased competition in their industries at home**.** Trade policy refers to all government actions that seek to alter the free flow of merchandise or services between countries.

b. **Tariffs, Preferential Duties, and Most Favored Nation Status.** Tariffs are taxes on imports. They generate revenues for governments. Tariffs come in two forms:
   - Specific tariff – an import tax that assigns a fixed dollar amount per physical unit.

- Ad valorem tariff – an import levied as a constant percentage of the monetary value of one unit of the imported good.
- Preferential duties refer to low tariff rates applied to specific imports coming from certain countries. Under this system, the same good imported from a country outside of a preferred group will be subject to higher tariff.
- For example, in the Generalized System of Preferences, a large number of developed countries have agreed to permit duty-free imports of a selected list of products that originate from specific developing countries.
- Some countries interfere with the free flow of exports by enforcing export subsidies, or export taxes, meant to encourage or discourage exports.
- The General Agreement on Tariffs and Trade (GATT) was established in 1948 by 22 member countries, who committed to lower approximately 45,000 tariff rates within rules laid down by that organization.
- GATT was renamed the World Trade Organization (WTO) in 1995, which now sets rules of trade among nations on a near-global basis. The WTO's objective is to extend tariff reduction to agriculture and services, and to settle trade disputes among member countries. By June 26, 2014, 160 nations had become members of the WTO.
- Under the most favored nation (MFN) principle, any tariff concession granted by one member to any other country will automatically be extended to all other WTO member countries.

c. **Nontariff Barriers.** Since 1948 GATT and later the WTO managed to significantly lower tariffs. During that period countries have resorted to various forms of non-tariff barriers such as quality and environmental standards to restrict trade.
   - Import quotas or quantitative restrictions (QR) limit the amount of products that can be imported into a country. They are generally worse than import tariffs because when the quota is reached, that particular product can no longer be imported.
   - Voluntary export restraint (VER) occurs when an efficient exporting nation agrees to temporarily limit exports of a product to another country to allow competitors in the importing country to become more efficient within a set period of time.
   - Domestic content provisions are another form of non-tariff barrier. Countries may require that a certain percentage of the value of an import be domestically sourced.

d. **Discussion 3** (PPT Slide 21) **10 minutes.**

- Class will discuss the following questions:
- What are some of the impacts of predatory trade practices on national economies?
- What is the role of the government in resolving trade disputes between countries?

V. **Current Practice of "Managed" Trade.** (2.4, PPT Slide 22-25)

a. Global trade cannot be completely based upon the economics of free trade but encompasses a response to geopolitical and socioeconomic factors. Managed trade refers to agreements between countries that aim to achieve certain trade outcomes for the countries involved.

b. **Socioeconomic Rationale.** Socioeconomics explores the relative negative impact of free trade upon society's welfare, as well as government policy measures that are implemented to minimize the negative outcomes to society. Several forms of managed trade are part of this category:

- **Countertrade.** In countertrade an exporter of goods or services commits to import goods or services of corresponding value. The terms of export and import exchange are predetermined through negotiations. Countertrade can be inefficient. Countries participate in countertrade especially when they do not have adequate amounts of foreign currencies to pay for imports.
- **Export Cartels.** Several developing countries depend upon non-renewable natural resources for economic growth. Since business cycles cause fluctuations in export volume and prices, some of these countries form export cartels to control prices and export revenues. For export cartels to be successful, all cartel members must agree not to cheat on the agreement, substitutes for the good in question must not exist, and demand for a particular product must be relatively inelastic.
- **Infant Industry Argument.** At times when a country gets a "late start" in a particular industry where it has a potential to become a world class competitor, short-term protection is justified. The infant industry argument implies that economies of scale and the comparative advantage of an industry can only be exploited by providing temporary protection. During this period, the firm or industry will strive to become globally competitive.
- **Questionable Labor Practices and Environmental Considerations.** Developed countries often resort to managed trade for reasons of unethical labor practices and violation of basic human rights. Developed countries may restrict imports from developing countries that implement such policies.

- **Health and Safety.** Every country has the right to protect the health and physical safety of its citizens from contaminated imports.

c. **Geopolitical Rationale.** The geopolitical objective is to sacrifice some economic efficiency for the greater good of the country in terms of national security, protection of critical industries, and international commerce.

- **National Security.** For national security reasons, U.S. exports of certain types of high-technology defense equipment are generally restricted to allies and friendly countries. Because the need to receive government approval prevents the affected firms from openly competing and increasing sales, these firms receive special treatment and protection.
- **Strategic Industries.** Some countries provide protection to strategic industries that have a significant employment impact on certain sectors of an economy.
- **Embargoes.** When trade sanctions are imposed upon a country for political reasons, an embargo is in force, and trade will be restricted with that country. Embargoes, which may not be universally enforced, are meant to punish a country for perceived unacceptable international behavior.

d. **Activity 4 Survey/Discussion: 15 minutes.** (PPT Slide 23)

- For this activity, students will consider the reasons behind the different socioeconomic and geopolitical rationales and rate whether the rationale is effective in addressing the reason for managed trade policies. Use the rating 1 for least effective and 5 for most effective. For example, if you feel that national security is effectively addressed by managed trade, you will give it a 5, but if you feel that national security is unaffected by managed trade you would give it a 1.
- Students will share their decisions with the class, including the main reasons they chose each rating.

e. **Activity 5 Think, Pair, Share: 15 minutes.** (PPT Slide 24)

- Students will consider the following questions and discuss with a partner.
- What are some examples of illegal or unethical business practices that have been banned from a region's international trade?
- What are some of the socioeconomic impacts of the banning of traded goods?

VI. **Summary**

a. Trade has influenced culture, shaped history, affected living standards, and opened society to new ways of thinking.

b. Three major economic ideas comprise trade theory. Mercantilism, specialization in the production of goods and services include the theories of absolute and comparative advantage, H–O and factor price equalization theories and Porter's model of National Competitive Advantage.
c. Trade policy refers to government actions that seek to alter the free flow of merchandise or services from and to a country.
d. Managed trade aims to replace free global market forces with government actions to determine trade outcomes. Policy makers may use various socioeconomic or geopolitical rationales to protect specific companies, industries, or countries to achieve certain strategic objectives but at the expense of economic efficiency.

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Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Discussion: Knowledge Check 2.1 (Page 43, PPT Slide 6) 5 Minutes.
   a. Consider items you purchase consistently and pick out 10 items that you regularly use. If possible, look at the labels and find out how many of them come from abroad. Can you imagine what your life would be like if we did not have international trade?
   b. Answers will vary depending on items. Let students discuss as a class the different countries and regions and what would happen if there was no international trade.
2. Discussion: Knowledge Check 2.2 (Page 50, PPT Slide 17) 5 Minutes.
   a. Have you witnessed any changes in international business activity in your hometown over the past five years? Which of the earlier discussed theories can you attribute to that business development?
   b. Answers will vary according to student's experience, but they should be able to attribute changes to one of the following theories: Wealth Accumulation as a Basis for Trade Theory: Mercantilism, Specialization as a Basis for Trade Theory: Absolute and Comparative Advantage, Factor Endowments as a Basis for Trade Theory: Heckscher-Ohlin and Factor Price Equalization or Porter's "Diamond" Model of National Competitive Advantage.
3. Discussion: Knowledge Check 2.3 (Page 54, PPT Slide 22) 5 Minutes.
   a. What are some of the impacts of predatory trade practices on national economies? What is the role of the government in resolving trade disputes between countries?
   b. Answers will vary but should include specific information about the trade practices and disputes.

4. End-of-Chapter Discussion Questions (Page 59, 2.4)
    1. How would you make a convincing case that open trade in goods and services as well as free flow of foreign direct investment will enhance the well-being of (a) consumers, (b) producers, and (c) the government of countries? Give specific examples to prove your position. Answer: *Free trade and investment results in more competition in the market and leads to greater choice in the availability of goods and services, lower prices, higher living standards for consumers, higher tax revenues for governments, and technological and skill transfer to producers.*
    2. What trade theories support the recent rise of China and India on the global stage? Explain your views in detail. Answer: *The theory of comparative advantage and H-O theory suggest that China and India possess an abundant supply of skilled human resources. They have a comparative advantage in labor-intensive industries. The difference between China and India lies in the English language, historically predominant in India. Knowledge of English allowed Indian workers to specialize in providing services to English-speaking countries, while the Chinese had to focus on manufacturing.*
    3. Some believe there is a disconnect between trade theory and trade policy. What rationale could the United States use to support its trade policies? Give specific examples. Answer: *Employment and environmental law and employee health and safety legislation are very stringent in the U.S. To compete with the countries that have lower standards in these areas, the U.S. has to manage international trade in a way that levels the playing field and allows American companies that follow the ethical and legal standards of the ILO to compete with their counterparts from the developing countries, where such regulations are not enforced or are missing.*
    4. When would a country such as France use socioeconomic rather than geopolitical reasons to support its trade policy? Can you provide some examples? Answer: *Socioeconomics focuses on the impact free trade has on society's welfare, while a geopolitical rationale argues in favor of sacrificing economic efficiency for the purpose of achieving a country's political goals. Therefore, a developed country such as France will be more likely to use socioeconomic reasons to support its trade policy when the issue concerns the well-being of French consumers and workers.*

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Additional Activities and Assignments

I. **Mini Case: Economic Nationalism:** The ideology of economic nationalism seeks to implement trade policies that help to keep jobs and investment at home. Such protectionism may violate international trade rules, and retaliation from other countries may follow.

Questions:

1. *Is economic nationalism justified?* No. Although in the short run economic nationalism can help keep jobs at home, in the long run it leads to loss of international competitiveness, curtails international business activity, and makes the country inefficient.
2. *Is the Smoot-Hawley plan better or worse than "Buy American"? "Buy Spanish"? Or "British jobs for British workers"? Explain fully.* The recent attempts at protectionism differ from the Smoot-Hawley act in form, but not is substance. The Smoot-Hawley bill raised import tariffs, while this time the focus is on inserting nontariff barriers. The "Buy American" provision in the American Recovery and Reinvestment Act of 2009 was matched by similar policies in other countries, which has resulted in a downward trend in international trade, hurting all exporters and economies.

II. **Point/Counterpoint: Should "Carbon Tariffs" Be Imposed upon Greenhouse Gas-Producing Traded Goods?** In the aggregate, China is the world's largest emitter of greenhouse gases, primarily carbon dioxide, while the United States is the largest emitter of carbon dioxide on a per capita basis. The countries of the European Union fall somewhere in between. To control global warming and climate change, there has been a worldwide movement to regulate greenhouse gases caused by energy intensive industries, such as in the manufacture of aluminum and other metals, paper, chemicals, and cement. The question is: Will the imposition of "carbon tariffs" (i.e., dollars per ton of carbon dioxide emitted by, for instance, aluminum production) in a particular country lead to unfair competition? What Do You Think? Use the Internet or other sources to research this issue. Which argument would you support? Provide your own reasoning.

1. Which viewpoint do you support, and why? Use the Internet to learn more about this issue and come up with your own argument.

III. **Interpreting Global Business News:** Business newspapers and magazines, such as the Financial Times, The Wall Street Journal, Bloomberg Businessweek, and The Economist, include various statements made by economic analysts and business gurus.

1. Health care costs, especially in the United States, have been skyrocketing for a long time. This has led to a new trend, "internationalization of health care services." Countries as diverse as India, China, Thailand, and Cuba have developed strategies to supply health care services to patients in wealthy countries. What are the implications of this development to both the developing

and developed economies of the world? Describe who will benefit and who will lose from this growing trend.

2. Because of the rising price of food grains in the global market, the Argentine government introduced a new sliding scale of export tariffs in early 2008—up to 44 percent on grains and cereals—which they say protects local prices from following record rises on international markets. Argentine farmers staged a 21-day strike in March 2008 in protest. Why? Who are the beneficiaries and the disenchanted?

3. In pursuit of ethical international business practices, western retailers are trying to ensure that suppliers in the developing world meet international labor and environmental standards. Yet, critics argue that this approach risks marginalizing those most in need of jobs. Explain what each side of this argument means.

4. As the global recession continues, China's exporters are diversifying and looking homeward and threatening multinational enterprises operating in the country. Why? What do you think is the likely outcome?

IV. **Portfolio Projects:** In each chapter of this text, students will be exposed to many examples of real-world companies to help illustrate how the concepts that you are learning in each chapter can be applied to real business situations. The Portfolio Projects at the end of every chapter consist of (1) Explore Your Own Case in Point: enhancing your understanding of your company of choice, and (2) Develop an International Business Strategy for Your Own Small Business.

- *Explore Your Own Case in Point: Understanding the Global Environment of Your Company*: After reading this chapter, you should be prepared to find the answers to some basic questions about your favorite company. 1. Determine whether your company is a producer of goods or services. What are the major products and/or services provided by your company? Are those outputs sold only domestically or are they also exported? 2. If some of the company's output is exported, how much (in percentage) of it is exported? What are the three major export markets (in percentage of total exports), and why? 3. Do these products and services face tariff or nontariff barriers in the three largest target export markets? What are the tariff rates or nontariff barriers imposed on these items? 4. Does your chosen company fall within the framework of "managed trade" in the export market? If so, on what basis? How is the company trying to overcome this challenge?
- *Develop an International Strategy for Your Own Small Business: Your Target Country's Institutions and Policies*: Using the data sources listed earlier, as well as other sources you may find on your own, develop a strategy and make a convincing case for why you would like to produce a particular product or service and export it to a target country. It is important that you identify in

detail the comparative advantage of sourcing the product or service in your home country. You should look into supply as well as demand for your product or service. You should focus sales to one target country and its currency. The following questions will help you define your objectives:

1. What product or service do you plan to produce at home and sell abroad? What is your rationale, and what are the competitive advantages that you have over others at home and abroad?
2. What foreign country do you plan to target, and why? What is the estimated demand for your product or service in the target country?
3. Identify factors such as tariffs and quotas that can affect trade in goods or services between your home and the target country. Explain how they could affect the demand for your product or service and how you could overcome those challenges.
4. Is the product or service that your company plans to export likely to ever fall in the category of "Managed Trade" in target countries for "Socioeconomic" or "Geopolitical" reasons? Why? Do you have an exit strategy if managed trade does take place in a target country?

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Additional Resources

MindTap Changes

Intention	**If you used this in 5th edition MindTap**	**We suggest this in 6th edition MindTap**
Orientation to MindTap	Getting Started video	Getting Started video
Learning/Instructional material	Chapter Reading	Read: Chapter Reading
Comprehension/Retention material	Chapter graded quiz	Learn It Folder: Concept Check Quiz A short, graded quiz to check your knowledge and understanding of chapter concepts.
Application material	• Video Exercises • In the News	• Assignment Quizzes - This graded assignment is to assess readers'

		understanding of key concepts covered in the chapter. • Case Activities - Check readers' understanding of the key concepts from the chapter and apply them to the scenario presented to you in the video.
Study Tools	Flashcards	Flashcards

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Appendix

Generic Rubrics

Providing students with rubrics helps them understand expectations and components of assignments. Rubrics help students become more aware of their learning process and progress, and they improve students' work through timely and detailed feedback.

Customize these rubric templates as you wish. The writing rubric indicates 40 points and the discussion rubric indicates 30 points.

Standard Writing Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Content	The assignment clearly and comprehensively addresses all questions in the assignment. 15 points	The assignment partially addresses some or all questions in the assignment. 8 points	The assignment does not address the questions in the assignment. 0 points
Organization and Clarity	The assignment presents ideas in a clear manner and with strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts,	The assignment presents ideas in a mostly clear manner and with a mostly strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion.	The assignment does not present ideas in a clear manner and with strong organizational structure. The assignment includes an introduction, content, and conclusion, but coverage of facts, arguments, and

	arguments, and conclusions are logically related and consistent. 10 points	Coverage of facts, arguments, and conclusions are mostly logically related and consistent. 7 points	conclusions are not logically related and consistent. 0 points
Research	The assignment is based upon appropriate and adequate academic literature, including peer reviewed journals and other scholarly work. 5 points	The assignment is based upon adequate academic literature but does not include peer reviewed journals and other scholarly work. 3 points	The assignment is not based upon appropriate and adequate academic literature and does not include peer reviewed journals and other scholarly work. 0 points
Research	The assignment follows the required citation guidelines. 5 points	The assignment follows some of the required citation guidelines. 3 points	The assignment does not follow the required citation guidelines. 0 points
Grammar and Spelling	The assignment has two or fewer grammatical and spelling errors. 5 points	The assignment has three to five grammatical and spelling errors. 3 points	The assignment is incomplete or unintelligible. 0 points

Standard Discussion Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Participation	Submits or participates in discussion by the posted deadlines. Follows all assignment. instructions for initial post and responses. 5 points	Does not participate or submit discussion by the posted deadlines. Does not follow instructions for initial post and responses. 3 points	Does not participate in discussion. 0 points
Contribution Quality	Comments stay on task. Comments add value to discussion topic. Comments motivate other students to respond. 20 points	Comments may not stay on task. Comments may not add value to discussion topic. Comments may not motivate other students to respond. 10 points	Does not participate in discussion. 0 points
Etiquette	Maintains appropriate language. Offers criticism in a constructive manner. Provides both positive and negative feedback. 5 points	Does not always maintain appropriate language. Offers criticism in an offensive manner. Provides only negative feedback. 3 points	Does not participate in discussion. 0 points

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