

Chapter 11

1. Which member country of the European Union apparently came very close to defaulting on its debt?
 - a. United Kingdom
 - b. Ireland
 - c. Italy
 - d. Greece
2. Which of the following reasons does not explain Greece's difficulty in financing its debt?
 - a. Greece's abandoning of the euro in exchange for the drachma
 - b. The global recession
 - c. Higher interest rates
 - d. High levels of borrowing
3. Why did the Greek crisis threaten to spread to the rest of Europe?
 - a. Because there were not any other states struggling with debt
 - b. Because of arbitrage and capital mobility
 - c. Because of the International Monetary Fund
 - d. Because many banks that were owed monies by Greek businesses were headquartered in other European states
4. Which of the following components is part of what makes up globalization?
 - a. International investment has become dominated by a few international businesses.
 - b. International trade has increased relative to domestic trade.
 - c. International investment has decreased.
 - d. The world is defined by many separate markets.
5. Which of the following statements is true?
 - a. For most countries, foreign trade is growing much faster than the domestic economy.
 - b. The portion of each country's economy that is either sold as exports or bought as imports is decreasing.
 - c. Domestic economies in most of the world are growing faster than foreign trade.
 - d. Trade is the only form of globalization.
6. Why did governments have greater control over currency prices in the past?
 - a. Because governments were stronger and more centralized
 - b. Because governments controlled more currency than private actors
 - c. Because the cost of exchanging currency was higher in the past
 - d. Because governments had a monopolistic control over currency markets
7. What is comparative advantage based on under globalization?
 - a. Military strength
 - b. State control of international financial institutions
 - c. State accumulation of large amounts of capital
 - d. Factors such as technology, education, and network effects

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8. What do trends indicate about the relationship between states and globalization?
 - a. States have lost control over globalization.
 - b. Globalization is slowing down, so we see the resurgence of state significance.
 - c. States still control whether to decrease barriers to commerce, indicating that globalization is at the whim of state power.
 - d. Any state that retreats from globalization will find that it is difficult, but well worth it.
9. In economics, a recession is defined as which of the following?
 - a. A decline in output of less than 5 percent
 - b. A decline in output of less than 10 percent
 - c. A decline in output of less than 20 percent
 - d. A decline in output of less than 25 percent
10. What were the objectives of the Bretton Woods system?
 - a. To fight communism and enrich the United States
 - b. To promote free trade and increase global wealth
 - c. To rebuild Europe and democratize the developing world
 - d. To ensure continued U.S. presence in Asia and expand global capitalism
11. The General Agreement on Tariffs and Trade (GATT) replaced the earlier concept of reciprocity with which of the following?
 - a. Nondiscrimination
 - b. Mutuality
 - c. Coercive negotiation
 - d. Collective action
12. What term describes the agreement that one state's tariffs on goods would be the same as its trading partner's tariff?
 - a. Reciprocity
 - b. Globalization
 - c. Trade equality
 - d. Nondiscrimination
13. What does the most favored nation principle mean?
 - a. That one nation is selected to benefit the most from free trade
 - b. That if a state lowers a tariff toward one General Agreement on Tariffs and Trade (GATT) member, it is obliged to give all members the same low tariff
 - c. That regional trading partners are given favorable trading terms
 - d. That the GATT ensures that one country receives preferential trade treatment
14. Which concept is described as a compromise between economic liberalism and state intervention?
 - a. Fair trade
 - b. Economic structuralism

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- c. Embedded liberalism
- d. Mutuality

15. One major problem of the General Agreement on Tariffs and Trade (GATT) was the exclusion of certain classes of products. What was one of the most significant classes of product originally excluded from GATT?

- a. Agricultural
- b. Manufactured
- c. Automotive
- d. Pharmaceuticals

16. What is a quota?

- a. A qualitative limit on the kind of imported goods
- b. A quantitative limit on the number of imported goods
- c. A quantitative limit on the number of exported goods
- d. A qualitative limit on the kind of exported goods

17. What are voluntary export restraints (VERs)?

- a. Limits on the number of an item that can be imported
- b. Regulations adopted when one country threatens restrictions on trade and an exporting country agrees to limit exports to avoid the imposition of more stringent limits
- c. Restrictions that items to be sold as a domestic product must have a certain percentage of its final product components assembled domestically
- d. Quotas that are agreed upon and sanctioned by the WTO

18. Why were services, such as insurance, banking, and consulting, left out of the original General Agreement on Tariffs and Trade (GATT) agreement?

- a. Because they are an ever-smaller part of international trade and do not matter
- b. Because they cannot be included in free trade arrangements, as each country has different standards
- c. Because leading service firms put pressure on government to reduce discrimination in services and these interests are extremely powerful politically
- d. Because there was too much disagreement and debate among the members of the organization in regard to services

19. Which of the following are considered tariffs?

- a. Voluntary export restraints
- b. Health and environmental regulations
- c. Quotas
- d. Taxes on imports

20. What is one reason why the General Agreement on Tariffs and Trade (GATT) dispute resolution mechanism was criticized by weaker and poorer countries?

- a. Because the United States enacted high tariffs on goods from poor nations
- b. Because the dispute resolution process was so fast that it did not give enough time for an accused country to

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mount a case

- c. Because the dispute mechanism had very strong enforcement measures
- d. Because weaker countries were forced by the United States to accept certain decisions

21. What was the primary change from the General Agreement on Tariffs and Trade (GATT) to the World Trade Organization (WTO) focused on?

- a. The ability of the WTO to penalize the United States for any trade violation
- b. The ability of the WTO to prohibit certain countries from seeking penalties against other countries
- c. The ability of the WTO to allow states to challenge each other's laws at the WTO
- d. The ability of the WTO to create an international trade police that was permitted to examine imported goods

22. What is the goal of the World Trade Organization (WTO) dispute settlement process?

- a. To punish the offending member
- b. To determine right and wrong
- c. To mediate conflict
- d. To enforce American economic values and enhance the economic position of the United States in the world

23. What is the first step in the World Trade Organization (WTO) dispute settlement process?

- a. Debate
- b. Discussion
- c. Consultation
- d. Preparation

24. To explain the growth in free trade after World War II, some say that barriers to increased free trade can only be overcome when a single state is powerful enough to persuade other states to go along. What is this theory called?

- a. Reciprocity theory
- b. Regionalization theory
- c. Power transition theory
- d. Hegemonic stability theory

25. As of 2019, the WTO had approximately how many members?

- a. 192
- b. 164
- c. 115
- d. 77

26. What is the reason that poorer countries are now playing a more prominent role in negotiations over world trade arrangements?

- a. Due to the diffusion of economic power
- b. Due to the increase of agricultural subsidies within wealthy states
- c. Due to the concentration of economic power
- d. Due to a reduction of agricultural subsidies within wealthy states

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27. When examining global economic power, what is clear?
- That such power now is more evenly distributed than in the past
 - That such power now is increasingly concentrated in the hands of the United States
 - That such power now is controlled by a coalition of rich countries including the European Union, Japan, and the United States
 - That such power now is increasingly controlled by the major developing countries, including Brazil, Russia, China, and India
28. What is the main difference for members of the World Trade Organization (WTO) who also are members of a free trade area (FTA)?
- WTO members are provided lower tariffs than members of the FTA
 - There are no nontariff barriers for WTO members, but there may be some for FTA members
 - Within a free trade area, there are no tariffs at all, but there are some tariffs for WTO members
 - Barriers may be low for FTA members, but they are even lower for WTO members
29. Which of the following can be said of farmers in areas where land is scarce, such as Japan?
- Farmers generally oppose free trade.
 - Farmers generally support free trade.
 - Farmers generally support a limited reduction in tariffs.
 - Farmers generally align themselves with the interests of other workers.
30. Which global group does not play a significant role in trade politics?
- Manufacturers
 - Consumers
 - Workers
 - Environmentalists
31. What is the result of protection for U.S. sugar farmers?
- It saves an estimated 3,600 jobs at about \$600,000 per job year.
 - It triples the price of U.S. sugar.
 - It gives the U.S. a comparative advantage in sugar.
 - It saves an estimated 120,000 jobs at a cost of only about \$20,000 per job year.
32. Which of the following can be said of labor and industries that rely on abundant labor in areas of the Third World where labor is plentiful?
- They support free trade.
 - They oppose free trade.
 - They do not have an opinion regarding free trade.
 - They support free trade with limited protectionist measures.
33. The process known as the “two-level game” highlights the interaction between which of the following?

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- a. The individual level and the state level
 - b. International partners and domestic constituents
 - c. The state level and the international level
 - d. The trade level and the finance level
34. What percentage of American university students studied abroad during 2009–2010?
- a. 35 percent
 - b. 20 percent
 - c. 10 percent
 - d. 1 percent
35. About how many foreign students study in the United States annually?
- a. 100,000 foreign students
 - b. 400,000 foreign students
 - c. 700,000 foreign students
 - d. 1,000,000 foreign students
36. Investment by purchasing stocks rather than physical assets is known as which of the following?
- a. Direct foreign investment
 - b. Global capital mobility
 - c. International market acquisition
 - d. Cross-border portfolio investment
37. States traditionally seek to achieve three goals concerning international monetary policy. Which of the following is not one of those goals?
- a. Predictability of exchange rates
 - b. Free flow of capital
 - c. Regulation of monetary policy through international organizations
 - d. Autonomous domestic monetary policy
38. What is a financial burden that is imposed on a country as a result of changes in the international economic system called?
- a. The austerity adjustment
 - b. The autonomous debt principle
 - c. The cost of adjustment
 - d. The international currency principle
39. The current international monetary system consists of which of the following?
- a. Capital mobility, domestic monetary autonomy, and floating exchange rates
 - b. Capital mobility, fixed exchange rates, and restricted trade
 - c. Domestic monetary autonomy, fixed exchange rates, and restricted currency flows

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- d. Domestic monetary autonomy, floating exchange rates, and limited capital flows
40. What was the primary benefit derived from the gold standard?
- a. Domestic monetary autonomy
 - b. Capital mobility
 - c. Stability
 - d. A rise in global income
41. The monetary system wherein little capital mobility occurred, stable exchange rates existed in order to facilitate trade, and the U.S. dollar was the primary currency to which all other currencies adjusted was known as the which of the following?
- a. The classical gold standard system
 - b. The intervening, interwar era
 - c. The Bretton Woods system
 - d. The post-Bretton Woods system
42. Which goal was sacrificed during the Bretton Woods system?
- a. Capital mobility
 - b. Exchange rate stability
 - c. Domestic autonomy
 - d. Exchange rate flexibility
43. What factor undermined the gold standard immediately following World War I?
- a. Significant number of countries had to print more currency in order to finance the war effort
 - b. President Wilson took the United States off the gold standard because of unsustainable deficits
 - c. The war severely strengthened Britain's financial position
 - d. The continuous discovery of vast amounts of new gold that helped the economy grow
44. Why was the International Monetary Fund created during the Bretton Woods system?
- a. In order to oversee the fixed exchange rate policy
 - b. In order to lend money for long-term development projects
 - c. In order to regulate global financial flows
 - d. In order to lend money for a country's short-term imbalances
45. What does the dollar overhang concept refer to?
- a. The situation when the number of dollars held in foreign hands grew much faster than the supply of gold backing them
 - b. The situation when the U.S. government controlled most of the dollars in circulation
 - c. The situation when a large amount of dollars was being held by the International Monetary Fund
 - d. The situation when countries were redeeming the dollar for gold at the set price of \$35 per ounce
46. By the 1960s, those countries holding dollars were subsidizing the U.S. economy. What was unique about this

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situation?

- a. U.S. budget deficits were decreasing at the time.
 - b. As the “dollar overhang” grew, foreign investors and governments were willing to purchase dollars at a discount.
 - c. The U.S. was able to pay \$35 per ounce for gold despite its large “dollar overhang”.
 - d. The costs of adjustment were not being forced onto the deficit country.
47. Which U.S. President took the United States off the gold standard?
- a. Nixon
 - b. Ford
 - c. Carter
 - d. Eisenhower
48. Which goal was sacrificed by the international monetary system that followed the collapse of the Bretton Woods agreement?
- a. Domestic autonomy
 - b. Exchange rate stability
 - c. Capital mobility
 - d. It pursued all of the goals simultaneously, meaning that none was fully achieved.
49. In the 1980s and 1990s, an increasing number of states removed the restrictions on capital flows, one by one, that had been part of every state’s policies since World War II. Which is not a reason that states removed these controls?
- a. Actors who controlled a lot of capital put pressure on governments to allow freer movement.
 - b. States removed these controls because allowing capital mobility provided access to massive amounts of international capital.
 - c. The ideology of liberalization emerged.
 - d. The WTO required free capital flow for membership.
50. In recent years, which currency has emerged as a highly stable alternative to the U.S. dollar, to which many governments have already shifted in regard to reserve currency?
- a. The Chinese yuan
 - b. The Australian dollar
 - c. The euro
 - d. The Japanese yen
51. Which of the following factors caused the dollar to be undermined as the main currency in international commerce?
- a. China allowing its currency, the yuan, to become freely convertible
 - b. Concerns over U.S. government debts
 - c. Concerns of U.S. government budget surpluses
 - d. The "Race to the Bottom"
52. When a country is no longer willing or able to make the scheduled payments on its borrowed capital, this often develops into what is known as which of the following?

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- a. A lender of last resort condition
 - b. A debt crisis
 - c. A fluctuating loss economy
 - d. A decline in interest rate scenario
53. What can exacerbate a debt crisis if the debtor country borrows in dollars?
- a. A loss in the value of the debtor's currency relative to the dollar
 - b. A collapse of the floating exchange rate
 - c. Austerity conditions imposed by the International Monetary Fund
 - d. The nature of the two-level game in which domestic politics trumps repayment of loans
54. When called in to help with a monetary crisis, the IMF puts the responsibility usually on which of the following?
- a. The lender country
 - b. The borrowing country
 - c. Multinational corporations
 - d. The U.S. government
55. The fundamental linkage between debt crises and monetary crises that can shift a manageable downturn into an unmanageable panic is referred to as which of the following?
- a. A lender of last resort scenario
 - b. A crisis of confidence
 - c. Monetary stagnation
 - d. Currency devaluation
56. In 2010, who acted as the lender of last resort for Greece?
- a. The European Union, but primarily Germany
 - b. The United Kingdom
 - c. The United States
 - d. The World Bank
57. Supporters of globalization tend to fall into which theoretical camp?
- a. Economic structuralism
 - b. Realism
 - c. Liberalism
 - d. Constructivism
58. What is one of the main criticisms of globalization?
- a. That it makes the powerful more powerful and wealthy
 - b. That it actually makes everyone less well off
 - c. That it outsources jobs from developing to developed countries
 - d. That it prevents poorer countries from expanding their economies

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59. Since its economy began to take off in the early 1980s, China has lifted approximately how many people out of poverty, largely through participation in the global economy?
- 60 million
 - 140 million
 - 350 million
 - 600 million
60. Many fear that globalization has forced countries to make all kinds of concessions to corporations in order to attract investment. What is this process called?
- Protectionism
 - The race to the bottom
 - The race to the top
 - “Offshoring”
61. Discuss the key aspects of globalization. How important is each as a means to explain globalization? In what practical ways has globalization impacted your daily life?
62. How did the General Agreement on Tariffs and Trade (GATT) function and in what way was it successful? Why was it replaced by the World Trade Organization?
63. Which domestic interest groups would benefit from preserving trade barriers and which groups would be hurt by those same barriers? How important are domestic interest groups in affecting international trade policy?
64. One of the important challenges in pursuing a state’s international monetary policy concerns the “trilemma” involving exchange rates, capital mobility, and domestic monetary policy. Explain this “trilemma” in terms of what makes it a dilemma. What can states do to try to reconcile these three objectives?
65. Economic liberalization became a powerful ideology and sets of policies were enacted by many governments beginning in the late 1980s. What were these policies and what were their objectives? What have the implications of such policies been?
66. What are the competing costs and benefits of globalization?
67. Should a country face a debt crisis, what is likely to happen? Give the example of one country that faced such a crisis and discuss how it was handled. What can happen if a debt crisis is not adequately addressed?
68. Discuss the origins, components, and goals of the WTO. What is the WTO process for dispute resolution? Who does it most benefit? Whose concerns are not addressed?
69. Discuss the origins, components, and purposes of the Bretton Woods system, particularly as it relates to trade and monetary policies. Why did the Bretton Woods monetary regime give way to a system of floating exchange rates in the 1970s and 1980s?
70. Does globalization mainly aid the poor or the rich in the world? Examine the merits of various perspectives on this question and indicate your own views on the existing evidence.