

Chapter 10: The Globalization of Trade and Finance

MULTIPLE CHOICE

1. The vicious cycle common to financial panics in Thailand was a result of
 - a. investors deciding to hold off from selling and waiting until market rises
 - b. government intervention in the economy resulting in a lack of confidence in the private sector
 - c. the collective desire to sell investments driving prices down thereby increasing the desire to sell
 - d. investors willing to take a risk by investing more based on the hope that the market will recover

2. Globalization, according to the author, contains all but one of the following components.
 - a. International investment has become dominated by a few international businesses
 - b. International trade increases relative to domestic trade
 - c. Cost and time for goods to flow across borders decreases
 - d. The world is defined by single markets

3. In the past, governments had greater control over currency prices because
 - a. governments were stronger and more centralized
 - b. governments controlled more currency than private actors
 - c. the cost of exchanging currency was higher in the past
 - d. governments had a monopolistic control over currency markets

4. According to the author, under globalization comparative advantage is based not in natural resource endowments, but in
 - a. the strength of the military
 - b. the combined abilities of states working within international financial institutions
 - c. the accumulation of large amounts of capital
 - d. factors of technology, education, and network effects

5. An important conclusion in this chapter focuses on the changes in power and control by the state. This conclusion can be summed up as
 - a. the state's loss of control over globalization
 - b. the regaining of control by the state over globalization
 - c. the ability of the state to assert itself through market barriers
 - d. an uneasy truce between the forces of globalization and the state

6. Tariffs, which are government taxes on imports, act in a way to
 - a. motivate consumers to spend more carefully
 - b. ensure governments to work more cooperatively with each other
 - c. encourage consumers to purchase domestically produced goods rather than imports
 - d. strengthen the state's negotiating position in the global economy

7. An important consequence of all countries imposing heavy tariffs is
 - a. the enactment of more cooperative efforts over international trade
 - b. a gain in domestic consumption is outweighed by the loss in export sales
 - c. the rise of government revenue for all countries
 - d. a slow but steady increase in global trade

8. The objectives of the Bretton Woods system were to
 - a. fight communism and enrich the US
 - b. promote free trade and increase global wealth
 - c. rebuild Europe and democratize the developing world
 - d. ensure continued US presence in Asia and expand global capitalism

9. The General Agreement on Tariffs and Trade, which was established in 1946 but ended in 1995, was replaced by the
 - a. International Monetary Fund
 - b. Economic Union
 - c. World Trade Organization
 - d. United National Conference on Trade and Development

10. The GATT replaced the earlier concept of reciprocity with
 - a. non-discrimination
 - b. mutual agreement
 - c. coercive negotiation
 - d. collective action

11. This principle describes the agreement that one state's tariffs on goods would be the same as its trading partner's tariff.
 - a. reciprocity
 - b. embedded liberalism
 - c. trade equality
 - d. non-discrimination

12. The most favored nation principle means that
 - a. one nation is selected to benefit the most from free trade
 - b. if a state lowers a tariff toward one GATT member, it is obliged to give all members the same low tariff
 - c. regional trading partners are given favorable trading terms
 - d. the GATT ensures that one country receives preferential trade treatment

13. Over time, GATT resulted in all of the following except
 - a. more equal playing field between foreign and domestic producers
 - b. greater competition and economic efficiency
 - c. a lower level of tariffs
 - d. equal level of tariffs by all GATT partners

14. GATT did not eliminate tariffs completely because
 - a. this would increase economic inefficiency
 - b. the comparative advantage of the US would have increased its wealth at the expense of the European market
 - c. unlimited competition would be too disruptive for some domestic economies

- d. the Soviet block countries were unwilling to lower their tariffs
15. Which concept is described as a compromise between economic liberalism and state intervention?
- a. Fair trade
 - b. Outsourcing
 - c. Embedded liberalism
 - d. Welfare economics
16. One major problem of GATT was the exclusion of certain classes of products. One of the most significant classes product excluded from GATT was
- a. Agriculture
 - b. Manufacture
 - c. Labor
 - d. Capital
17. As the GATT focused on lowering of tariffs, what happened to non-tariff barriers?
- a. They had little impact and were reduced along with tariffs.
 - b. They were excluded from the negotiations but had a minimal impact on trade.
 - c. These barriers became much more powerful as tariff levels dropped
 - d. The level of non-tariff barriers increased temporarily, but has dropped off more recently
18. The main sticking point in the negotiations that led to the World Trade Organization was the reduction of tariffs associated with
- a. Services
 - b. Manufacturing
 - c. Agriculture
 - d. Industry
19. The primary change from the GATT to the WTO focused on the ability of the WTO to
- a. penalize the US for any trade violation
 - b. prohibit certain countries from seeking penalties against other countries
 - c. allow states to challenge each other's laws at the WTO
 - d. create an international trade police that was permitted to examine imported goods
20. According to some scholars, the most important trade policy that will affect third world development is the
- a. rise of non-tariff barriers
 - b. expansion of the service industry in the developing world
 - c. reduction of the level of tariffs
 - d. reduction of agricultural subsidies by wealthy states
21. In examining global economic power, it is clear that such power now is
- a. more evenly distributed than in the past
 - b. increasingly concentrated in the hands of the US
 - c. controlled by a coalition of rich countries including the European Union, Japan, and the US
 - d. increasingly controlled by the major developing countries, including Brazil, Russia, China, and India

22. Some domestic groups support free trade while others do not. Economic actors who live in countries where economic factors are scarce tend to
- support free trade
 - encourage greater integration into the global economy
 - favor non-tariff barriers over tariffs
 - oppose free trade
23. In the US where capital is in abundance and cheap labor is scarce, which groups tend to support free trade?
- Labor unions
 - Farmers
 - Financial interests
 - Service providers
24. In Japan where land is scarce, farmers generally
- oppose free trade
 - support free trade
 - support the limited reduction in tariffs
 - align themselves with the interests of other workers
25. The one global group that does not play a significant role in trade politics is
- manufacturers
 - consumers
 - workers
 - environmentalists
26. The process known as the “two-level game” highlights the interaction between
- the individual level and the state level
 - international partners and domestic constituents
 - the state level and the international level
 - the level of perceptions and the level of the system
27. The investment by purchasing stocks rather than physical assets is known as
- direct foreign investment
 - global capital mobility
 - international currency market
 - cross border portfolio investment
28. States traditionally seek to achieve three goals concerning international monetary policy. All but one of the following is correct.
- Predictability of exchange rates
 - Free flow of capital
 - Regulation of monetary policy through international organizations
 - Autonomous domestic monetary policy
29. The system in existence prior to WWI and characterized by fixed exchange rates maintained by altering domestic monetary policy was known as
- capital migration
 - gold standard
 - most favored nation status
 - voluntary export restraints
30. The primary benefit derived from the gold standard was

- a. Domestic monetary autonomy
 - b. Capital mobility
 - c. Stability
 - d. Rise in global income
31. During the gold standard era, when Britain offered capital to countries experiencing short-term payments imbalances, Britain was referred to as the
- a. global banker
 - b. lender of last resort
 - c. the founder of the International Monetary Fund
 - d. global hegemon
32. The International Monetary Fund was created during the Bretton Woods system in order to
- a. oversee the fixed exchange rate policy
 - b. lend money for long-term development projects
 - c. regulate global financial flows
 - d. lend money for a country's short-term imbalances
33. During the Bretton Woods system, global capital mobility essentially was
- a. expanded
 - b. limited
 - c. non-existent
 - d. unstable
34. The dollar overhang concept refers to the situation when the
- a. the number of dollars held in foreign hands grew much faster than the supply of gold backing them
 - b. US government controlled most of the dollars in circulation
 - c. large amount of dollars were being held by the International Monetary Fund
 - d. countries were redeeming the dollar for gold at the set price of \$35 per ounce
35. Essentially, the fixed exchange rate system collapsed when the
- a. the price of gold plummeted to all time lows
 - b. the European Union determined the system no longer served its purpose
 - c. US no longer demonstrated its commitment to the price of dollar in terms of gold
 - d. the Soviet Union felt it was necessary to create an alternative exchange rate system
36. The international monetary system that followed the collapse of the Bretton Woods agreement consisted of all but one of the following features.
- a. Coordinated government intervention
 - b. Unilateral government policies
 - c. Market forces
 - d. Unrestricted capital movement
37. Those countries which favored unfettered capital mobility were motivated by two important factors.
- a. power and purpose
 - b. technology and economic interest
 - c. ideology and economic interest
 - d. domestic monetary policy and floating exchange rate

38. When a country no longer is willing or able to make the scheduled payments on its borrowed capital, this often develops into what is known as a
 - a. lender of last resort condition
 - b. debt crisis
 - c. fluctuating condition in the national currency
 - d. a decline in global capital mobility

39. What can exacerbate a debt crisis if the debtor country borrows in dollars?
 - a. The loss in the value of the debtor's currency relative to the dollar
 - b. Collapse of the floating exchange rate
 - c. The conditionalities imposed by the International Monetary Fund
 - d. The nature of the two-level game in which domestic politics trumps repayment of loans

40. When investors anticipate that the value of a particular currency is likely to fall, this is called a
 - a. debt crisis
 - b. foreign exchange instability
 - c. failure of capital mobility
 - d. monetary crisis

41. The fundamental linkage between debt crises and monetary crises which can shift a manageable downturn into an unmanageable panic is referred to as a
 - a. lender of last resort
 - b. crisis of confidence
 - c. monetary stagnation
 - d. currency devaluation

42. During the Bretton Woods system, who played the role of lender of last resort?
 - a. Bank of England
 - b. World Bank
 - c. European Union
 - d. United States

43. Supporters of globalization tend to fall into which theoretical camp?
 - a. Economic structuralism
 - b. Realism
 - c. Liberalism
 - d. Constructivism

44. What concept is referred to when governments are forced to continually lower all kinds of protections in order to attract investment?
 - a. International competition
 - b. Race to the bottom
 - c. Monetary crisis
 - d. Investment instability

ESSAY

1. Discuss the key aspects of globalization. How important is each as a means to explain globalization? In what practical ways have globalization impacted on your daily life?

2. 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?

3. Which domestic interest groups would benefit from preserving trade barriers and which groups would be hurt from those same barriers? How important are domestic interest groups in affecting international trade policy?
4. 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?
5. Economic liberalization became a powerful ideology and set of policies enacted by many governments beginning in the late 1980s. What are these policies and what are their objectives?
6. What are the competing costs and benefits of globalization?