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| 1. Specialization is an advantage of

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|   | a.  | large-scale production. |
|   | b.  | monopolies. |
|   | c.  | smaller production runs. |
|   | d.  | high wages for foreign workers. |

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| *ANSWER:* | a |

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| 2. The definition of an open economy is that it

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|   | a.  | allows private ownership of capital. |
|   | b.  | has flexible exchange rates. |
|   | c.  | has fixed exchange rates. |
|   | d.  | conducts trade with other countries. |

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| *ANSWER:* | d |

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| 3. A primary reason why nations conduct international trade is because

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|   | a.  | most goods and services are cheaper abroad. |
|   | b.  | they can acquire the resources needed for domestic production. |
|   | c.  | a global economy helps bring production and consumption together. |
|   | d.  | certain goods and services can be obtained more economically through trade. |

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| *ANSWER:* | d |

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| 4. Which statement about globalization is true?

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|   | a.  | It has led to more quotas on trade around the world. |
|   | b.  | It is a purely economic term used to describe interrelated global markets. |
|   | c.  | It has been fueled by trade, immigration, and foreign investment. |
|   | d.  | It is the process by which more countries are becoming economically self-sufficient around the globe. |

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| *ANSWER:* | c |

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| 5. Which statement is true about import restrictions?

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|   | a.  | They decrease the volume of exports. |
|   | b.  | They lead to more jobs for domestic workers. |
|   | c.  | They decrease imports and increase exports. |
|   | d.  | They are more conducive to prosperity than free trade. |

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| *ANSWER:* | a |

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| 6. Most of the world's population now lives in countries that are

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|   | a.  | integrated or becoming integrated into world markets. |
|   | b.  | trying to overcome economic isolation. |
|   | c.  | cutting back on foreign investment. |
|   | d.  | economically independent. |

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| *ANSWER:* | a |

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| 7. International trade generally

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|   | a.  | decreases jobs. |
|   | b.  | generates income. |
|   | c.  | decreases productivity. |
|   | d.  | reduces competition. |

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| *ANSWER:* | b |

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| 8. The largest amount of trade with the United States in recent years has been conducted with

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|   | a.  | China. |
|   | b.  | Germany. |
|   | c.  | Canada. |
|   | d.  | the United Kingdom. |

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| *ANSWER:* | a |

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| 9. What led to the sharp loss of market share in the example of the Eastman Kodak Company?

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|   | a.  | increased desire for higher quality product substitutes |
|   | b.  | consumer concern over Eastman Kodak’s near monopoly in the U.S. markets |
|   | c.  | lack of innovation in emerging digital technologies |
|   | d.  | increased profits of domestic import-competing industries |

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| *ANSWER:* | c |

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| 10. Which term describes the ability of a firm/industry, under free and fair market conditions, to design, produce, and market goods and services that are better and/or cheaper than those of other firms/industries?

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|   | a.  | competitiveness |
|   | b.  | protectionism |
|   | c.  | comparative advantage |
|   | d.  | absolute advantage |

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| *ANSWER:* | a |

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| 11. Which statement is true about international trade?

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|   | a.  | It is zero-sum game. |
|   | b.  | Imports always result in domestic unemployment. |
|   | c.  | Tariffs on imports always protect domestic jobs. |
|   | d.  | Imports and exports are connected; as one falls, the other generally rises. |

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| *ANSWER:* | d |

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| 12. North Carolina produces sweet potatoes in its rich soil, but does not have the climate to grow oranges well. It is correct to say that North Carolina has a \_\_\_\_\_\_\_\_\_sweet potato production relative to Florida.

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|   | a.  | free trade agreement with |
|   | b.  | monopoly on |
|   | c.  | comparative advantage in |
|   | d.  | trade imbalance with |

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| *ANSWER:* | c |

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| 13. According to human rights activists, which organization supports governments that permit sweatshops?

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|   | a.  | The International Organization for Standardization |
|   | b.  | The International Monetary Fund |
|   | c.  | The World Health Organization |
|   | d.  | The World Trade Organization |

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| *ANSWER:* | b |

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| 14. With globalization and import competition, U.S. prices generally

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|   | a.  | increase. |
|   | b.  | decrease. |
|   | c.  | remain stable. |
|   | d.  | fluctuate wildly. |

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| *ANSWER:* | b |

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| 15. The United States was less open to international trade between

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|   | a.  | 1890 and 1910. |
|   | b.  | 1930 and 1950. |
|   | c.  | 1890 and 1950. |
|   | d.  | 1950 and 2013. |

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| *ANSWER:* | c |

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| 16. A sudden shift from import tariffs to free trade may induce short-term unemployment in

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|   | a.  | import-competing industries. |
|   | b.  | industries that are only exporters. |
|   | c.  | industries that sell domestically as well as export. |
|   | d.  | industries that neither import nor export. |

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| *ANSWER:* | a |

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| 17. Economic interdependence occurs through

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|   | a.  | trade. |
|   | b.  | protectionism. |
|   | c.  | war. |
|   | d.  | tariffs. |

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| *ANSWER:* | a |

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| 18. Small countries tend to have higher measures of openness than larger countries because

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|   | a.  | their productivity is higher. |
|   | b.  | they are more reliant on international trade. |
|   | c.  | they are less reliant on international trade. |
|   | d.  | they are more economically diverse. |

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| *ANSWER:* | b |

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| 19. Following World War II, the U.S.

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|   | a.  | became less open. |
|   | b.  | focused on technological advancements in industry. |
|   | c.  | negotiated increases in trade barriers. |
|   | d.  | went through a period of economic isolationism. |

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| *ANSWER:* | b |

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| 20. A closed economy is one in which

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|   | a.  | imports exactly equal exports, so that trade is balanced. |
|   | b.  | domestic firms invest in industries overseas. |
|   | c.  | the home economy is isolated from foreign trade. |
|   | d.  | technological innovations and improvements in the efficiency of international transport are highly valued. |

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| *ANSWER:* | c |

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| 21. Which of the following is a fallacy of international trade?

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|   | a.  | Trade is a zero-sum activity. |
|   | b.  | Exports increase employment in exporting industries. |
|   | c.  | Import restrictions increase employment in import-competing industries. |
|   | d.  | Tariffs and quotas reduce trade. |

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| *ANSWER:* | a |

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| 22. The first wave of globalization was brought to an end by

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|   | a.  | the Great Depression. |
|   | b.  | the Second World War. |
|   | c.  | the First World War. |
|   | d.  | the Smoot-Hawley Act. |

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| *ANSWER:* | c |

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| 23. Multilateral trade negotiations have led to

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|   | a.  | continued liberalization of trade and investment. |
|   | b.  | increased protectionism. |
|   | c.  | higher tariffs. |
|   | d.  | more expensive financing. |

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| *ANSWER:* | a |

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| 24. The phrase “When the United States sneezes, the economies of other nations catch a cold” was first used to describe the impact of the economy of the United States on the rest of the world at the end of World War II. This phrase is now

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|   | a.  | more true due to the impact of growing economic interdependence. |
|   | b.  | less true due to the impact of growing economic interdependence. |
|   | c.  | only true when followed by impacts in the European Union. |
|   | d.  | all of these are only true in the case of an economic recession. |

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| *ANSWER:* | b |

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| 25. Why has the economy of the United States realized waves of globalization?

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|   | a.  | The United States consistently increases tariffs. |
|   | b.  | The United States economy has been consistently opening up since the 1920s. |
|   | c.  | Technology, supported by American investors, drives productivity. |
|   | d.  | The trade policy of the United States has been uneven, resulting in periods of more/less openness to international trade. |

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| *ANSWER:* | d |

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| 26. The decline of Kodak Inc. in the camera and film business is NOT explained by

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|   | a.  | the rise of Japanese rivals such as Fuji Photo Film Co. |
|   | b.  | the development of digital cameras and smart phones that operate as cameras. |
|   | c.  | antimonopoly laws that broke Kodak up into small, competing companies. |
|   | d.  | constant innovation and attention to changing trends in recreational photography. |

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| *ANSWER:* | c |

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| 27. Today, most Schwinn bicycles are manufactured in

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|   | a.  | China. |
|   | b.  | Canada. |
|   | c.  | Mexico. |
|   | d.  | Germany. |

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| *ANSWER:* | a |

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| 28. The natural gas turbine is considered a driver of globalization because the turbine

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|   | a.  | increases efficiency, moving goods from place to place. |
|   | b.  | was developed in the United States. |
|   | c.  | is associated with increased transportation costs. |
|   | d.  | increases the labor input and decreases unemployment. |

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| *ANSWER:* | a |

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| 29. Open economies are subject to greater firm turnover because open economies

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|   | a.  | trade less than closed economies. |
|   | b.  | are more likely to be associated with tariffs than closed economies. |
|   | c.  | are associated with increased competition as compared to closed economies. |
|   | d.  | draw a less skilled labor force than closed economies. |

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| *ANSWER:* | c |

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| 30. Economists who suggest that the United States is losing its competitive edge cite that

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|   | a.  | manufacturing drives innovation and that more American firms are choosing to manufacture overseas. |
|   | b.  | the quality of education in western countries is declining. |
|   | c.  | the United States is ambivalent about technology. |
|   | d.  | the Asian continent contains more raw materials than the United States. |

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| *ANSWER:* | a |

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| 31. Exporting firms in the United States typically

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|   | a.  | have less overall productivity. |
|   | b.  | offer higher wages to workers. |
|   | c.  | rely on an unskilled labor force. |
|   | d.  | do not rely on capital. |

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| *ANSWER:* | b |

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| 32. The slogans "Buy American" and "American goods create American jobs" reflect

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|   | a.  | concern over the number of exports leaving the country. |
|   | b.  | concern about the threat of foreign competition. |
|   | c.  | a desire for fewer import restrictions. |
|   | d.  | a lack of job security within exporting firms. |

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| *ANSWER:* | b |

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| 33. As an economy opens up to international trade, domestic prices

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|   | a.  | decrease. |
|   | b.  | increase. |
|   | c.  | become stable over time. |
|   | d.  | align more with international prices. |

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| *ANSWER:* | d |

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| 34. The openness ratio is measured by a country's

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|   | a.  | exports as a percent of GDP. |
|   | b.  | imports as a percent of GDP. |
|   | c.  | exports minus imports as a percent of GDP. |
|   | d.  | exports plus imports as a percent of GDP. |

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| *ANSWER:* | d |

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| 35. Economists have generally found that economic growth rates have a close relation to all of the following EXCEPT

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|   | a.  | openness to trade. |
|   | b.  | education. |
|   | c.  | communications infrastructure. |
|   | d.  | import restrictions. |

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| *ANSWER:* | d |

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| 36. How has technology impacted the globalization of economic activity?

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|   | a.  | Technological innovation has led to decreased mechanization of economic activities. |
|   | b.  | Technological innovation and invention have increased productivity. |
|   | c.  | The rise of the Internet has increased communication costs in the service industry. |
|   | d.  | Technology has led to a greater separation between people and enterprises. |

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| *ANSWER:* | b |

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| 37. In recent decades, the United States has become tied to other nations through a rise in

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|   | a.  | capital flows. |
|   | b.  | labor mobility. |
|   | c.  | domestic ownership of financial assets. |
|   | d.  | production as compared to consumption. |

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| *ANSWER:* | a |

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| 38. Open economies have

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|   | a.  | less competition. |
|   | b.  | less firm turnover. |
|   | c.  | a more stable labor market. |
|   | d.  | more firms entering the market. |

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| *ANSWER:* | d |

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| 39. During the 1950s, General Motors (GM) was responsible for about 60 percent of all passenger cars produced in the United States. Some criticized GM for

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| --- | --- | --- |
|   | a.  | encouraging too much market competition. |
|   | b.  | failing to use economies of scale in individual plants. |
|   | c.  | acquiring monopoly power over the auto market. |
|   | d.  | failing to sufficiently dominate the auto market. |

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| *ANSWER:* | c |

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| 40. The Invacare Corporation, an Ohio-based manufacturer of wheelchairs and other health care equipment, purchases parts and components worldwide and sells its products in 80 nations. Which effect has Invacare experienced as a result of international trade?

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| --- | --- | --- |
|   | a.  | The company's Ohio workforce is less stable. |
|   | b.  | Design, the purchasing of parts, and final assembly all occur abroad. |
|   | c.  | Prices for aluminum, steel, rubber, and other materials have increased. |
|   | d.  | The company is better able to withstand decreased sales in the U.S. |

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| *ANSWER:* | d |

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| 41. All of the following have been criticisms of globalization and trade policies EXCEPT

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|   | a.  | environmental concerns. |
|   | b.  | disadvantages for corporations. |
|   | c.  | unfair competition from countries that lack labor standards. |
|   | d.  | support of countries with human rights violations like sweatshops. |

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| *ANSWER:* | b |

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| 42. In response to the Great Recession of 2007–2009, the Federal Reserve (Fed) attempted to grow the U.S. economy with a policy called quantitative easing, which would pump more dollars into the economy and cause interest rates to fall. Which of the following was NOT a criticism of the policy?

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|   | a.  | The policy could lead to a depreciation in the dollar's exchange value. |
|   | b.  | The policy could improve American competitiveness at other nations' expense. |
|   | c.  | The rest of the world's producers could see their exports begin to fall. |
|   | d.  | Americans goods would become more expensive for foreign consumers. |

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| *ANSWER:* | d |

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| 43. Element Electronics decided to locate TV production in America instead of abroad. What influenced this decision?

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|   | a.  | Element Electronics wanted to capitalize off the successful television manufacturing industry in the U.S. |
|   | b.  | Element Electronics wanted to create quality manufacturing jobs in the U.S. |
|   | c.  | Element Electronics wanted to cut back on labor costs by locating their factory in Detroit. |
|   | d.  | Element Electronics wanted to reduce the number of television parts they imported. |

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| *ANSWER:* | b |

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| 44. Which factor contributed to the bankruptcy of the Schwinn bicycle company?

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|   | a.  | Schwinn was unable to successfully promote their brand or appeal to consumers in the United States. |
|   | b.  | Schwinn was not innovative and did not add new features to their bicycles over time. |
|   | c.  | Tariffs were rising on imported bicycles. |
|   | d.  | Foreign competitors were able to manufacture competitive bicycles at a lower cost. |

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| *ANSWER:* | d |

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| 45. The most profound influence driving globalization is an increased awareness of global human rights.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 46. Open economies have less firm turnover due to more stable markets.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 47. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products, and a greater range of consumption choices.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |

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| 48. In an open trading system, a country will import those commodities that it produces at relatively low cost while exporting commodities that can be produced at relatively high cost.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 49. Although free trade provides benefits for consumers, it is often argued that import protection should be provided to domestic producers of strategic goods and materials vital to the nation's security.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 50. In the long run, competitiveness depends on an industry's natural resources, its stock of machinery and equipment, and the skill of its workers in creating goods that people want to buy.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 51. If a nation has an open economy, it means that the nation allows private ownership of capital.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 52. Increased foreign competition tends to increase profits of domestic import-competing companies.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 53. A firm needs to reduce its production costs. One alternative to moving the production overseas where labor costs are generally lower is to move production to the southern United States where nonunionized workers are more plentiful.

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| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 54. The term "economic interdependence" implies that the wealth and success of one country impacts the wealth and success of another country.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 55. Higher costs of transportation and communication, and higher trade barriers, have contributed to increased globalization in recent decades.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 56. Compared to the 1800s, the "openness ratio" of the U.S. economy had declined by the 2000s.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 57. As measured by the value of trade, Canada, Mexico, and China are the three top trading partners of the United States.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 58. The "openness ratio" of the U.S. economy in 2015 was approximately 15 percent, the same as in 1890.

|  |  |  |
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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 59. The development of diesel engines and gas turbines helped reduce transportation costs and thus increase international trade among nations.

|  |  |  |
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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 60. In the late 1990s, Schwinn Inc. closed all of its bicycle manufacturing plants in China and moved them to the United States.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |

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| 61. The advent of foreign competition forced Kodak Inc. to go into bankruptcy and to cease operating as a producer of cameras and film.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 62. In the United States, tariffs and quotas are commonly used as tools designed to restrict trade among the fifty states.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | False |

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| 63. Critics maintain that U.S. trade policies have mainly benefitted large corporations rather than the average American citizen.

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|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 64. The “Made in America” emblem printed on televisions sold by Element Electronics is intended to inform consumers of its commitment to create quality manufacturing jobs in the United States.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 65. Workers sometimes face demands for wage reductions from their employers, which threaten to export jobs abroad if wage reductions are not accepted.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| *ANSWER:* | True |

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| 66. How has international trade forced domestic firms to become more competitive?

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| --- | --- |
| *ANSWER:* | International trade has forced domestic firms to become more competitive in terms of the introduction of new products, product design and quality, and product price. |

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| 67. What are the challenges of the international trading system?

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| *ANSWER:* | The international trading system faces dealing with fair labor standards and concerns about the environment, among other challenges. |

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| 68. How does competition impact product quality?

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| *ANSWER:* | International competition provides domestic producers with a strong incentive to improve the quality of their products. Also, international trade usually weakens monopolies. As countries open their markets, their monopoly producers face competition from foreign firms, which generally increases product quality. |

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| 69. What are the essential arguments in favor of free trade?

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| *ANSWER:* | Proponents of an open trading system contend that international trade results in higher levels of consumption and investment, lower prices of commodities, and a wider range of product choices for consumers. Trade also enables workers to become more productive, and wages of workers whose skills are more scarce internationally tend to rise. |

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| 70. What is the most important factor that contributes to competitiveness?

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| *ANSWER:* | Key to the concept of competitiveness is productivity, or output per worker hour. |

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