

## Chapter 2: International Trade Frameworks and Policy

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### TRUE/FALSE

1. Common coinage was developed in ancient Rome to ensure that business transactions could easily be carried out throughout the empire.

ANS: T                      PTS: 1                      DIF: Easy                      REF: p. 33  
OBJ: LO: 2-1                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

2. The feudal system encouraged the development of an open-state economy.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 35  
OBJ: LO: 2-1                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

3. The Smoot-Hawley Act reduced duties to increase the volume of imports into the United States.

ANS: F                      PTS: 1                      DIF: Moderate                      REF: p. 35  
OBJ: LO: 2-1                      NAT: BUSPROG: Ethics  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

4. The belief that international trade was a key to worldwide prosperity led the United States to create a "Pax Americana."

ANS: T                      PTS: 1                      DIF: Easy                      REF: p. 36  
OBJ: LO: 2-1                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

5. The MFN is the equal opportunity clause of international trade.

ANS: T                      PTS: 1                      DIF: Easy                      REF: p. 36  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

6. In the sugar and confectionery industries, tariffs tend to decrease with the degree of processing.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 37  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

7. The WTO has ceased to exist as a separate institution and has become part of the GATT.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 37  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

8. The original goal of the International Monetary Fund (IMF) was to provide for variable exchange rates between member countries.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 39

OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

9. The World Bank was initially formed in 1944 to aid countries suffering from the destruction of war.

ANS: T              PTS: 1              DIF: Easy              REF: p. 40  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

10. The Transatlantic Business Dialogue (TBD) is a nongovernmental organization composed of business leaders from Europe and the United States.

ANS: T              PTS: 1              DIF: Easy              REF: p. 41  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

11. Over the long term, the export activities of a nation are the key to the inflow of imports and therefore to the provision of choice, competition, and new insights.

ANS: T              PTS: 1              DIF: Easy              REF: p. 42  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

12. The availability of a large U.S. domestic market and the relative distance to foreign markets resulted in U.S. manufacturers simply not feeling a compelling need to seek business beyond national borders.

ANS: T              PTS: 1              DIF: Easy              REF: p. 44  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

13. One key way to reduce trade deficits is to decrease exports.

ANS: F              PTS: 1              DIF: Easy              REF: p. 45  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

14. The competitive pressures exerted by imports work to keep quality high and prices low.

ANS: T              PTS: 1              DIF: Easy              REF: p. 45  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

15. Foreign direct investments tend to be equally distributed across all industries.

ANS: F              PTS: 1              DIF: Easy              REF: p. 45  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

16. A restriction of foreign direct investments will result in less domestic control over industries.

ANS: F              PTS: 1              DIF: Easy              REF: p. 46  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

17. The United States often attempts to transfer its own trade laws abroad, resulting in bilateral conflicts.

ANS: T                      PTS: 1                      DIF: Moderate                      REF: p. 47  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

18. Government support in the form of export promotion assistance is appropriate if it increases market transparency.

ANS: T                      PTS: 1                      DIF: Easy                      REF: p. 51  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

19. The U.S. need is for reactive, ad hoc trade responses to specific situations.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 52  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

20. In order to be successful in international trade, policymakers must be willing to trade off long-term goals to achieve short-term objectives.

ANS: F                      PTS: 1                      DIF: Easy                      REF: p. 54  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

## **MULTIPLE CHOICE**

1. Which of the following measures by the Roman Empire contributed to the functioning of the international marketplace and to the reduction of business uncertainty?
- The marching of its legions and warfare
  - An excellent communication system
  - Provision of mixed aid credits by the empire
  - Development of a closed-state economy in the empire

ANS: B                      PTS: 1                      DIF: Moderate                      REF: p. 33  
OBJ: LO: 2-1                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

2. The evolution of European feudalism was due to a function of \_\_\_\_\_.
- finance and banking
  - trade and marketing
  - environmental and cultural differences
  - public administration and governance

ANS: B                      PTS: 1                      DIF: Easy                      REF: p. 35  
OBJ: LO: 2-1                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

3. Which act raised duties to reduce the volume of imports into the United States, in the hopes that this would restore domestic employment?
- The Export Trading Company Act
  - The Gramm-Leach-Bliley Act
  - The Sarbanes-Oxley Act

d. The Smoot-Hawley Act

ANS: D                      PTS: 1                      DIF: Easy                      REF: p. 35  
OBJ: LO: 2-1              NAT: BUSPROG: Ethics  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

4. The Soviet Union, as the leader of the Eastern bloc, developed the \_\_\_\_\_, which focused on developing strong linkages among the members of the Soviet bloc and discouraged relations with the West.
- Gulf Cooperation Council
  - Transatlantic Business Dialogue
  - MERCOSUR
  - Council for Mutual Economic Assistance

ANS: D                      PTS: 1                      DIF: Moderate              REF: p. 36  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

5. The \_\_\_\_\_ has its origins in the GATT, to which it became the successor organization in January of 1995.
- IMF
  - WTO
  - World Bank
  - MERCOSUR

ANS: B                      PTS: 1                      DIF: Easy                      REF: p. 36  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

6. Which of the following began in 1947 as a set of rules for nondiscrimination, transparent procedures, and settlement of disputes in international trade?
- The Free Trade Area of the Americas
  - The General Agreement on Tariffs and Trade
  - The North American Free Trade Agreement
  - The General Agreement on Trade in Services

ANS: B                      PTS: 1                      DIF: Easy                      REF: p. 36  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

7. Which of the following statements about the GATT is true?
- Services and agriculture were the main areas covered by GATT.
  - It began as a set of rules for settlement of disputes in domestic trade.
  - It was designed to operate by consensus.
  - Over time, it evolved into an institution that focused on increasing the prevailing low tariffs.

ANS: C                      PTS: 1                      DIF: Moderate              REF: p. 37  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

8. The WTO is responsible for all of the following except \_\_\_\_\_.
- GATS
  - TRIPS
  - TRIMS

d. IMF

ANS: D                      PTS: 1                      DIF: Easy                      REF: p. 37  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

9. Which of the following statements about the WTO is true?
- Provisions are made at the WTO for decisions to be made by majority vote if a consensus cannot be achieved.
  - A successful WTO may well endorse the sovereignty of nations.
  - The original goal of the WTO was to provide for fixed exchange rates between countries.
  - Outside groups such as nongovernmental organizations believe the WTO will assist their causes.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: p. 37  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

10. What is the core mission of the WTO?
- To provide for general difficulties in the market entry of foreign products
  - To provide preferential treatment to domestic bidders over foreign bidders
  - To facilitate international trade and investment
  - To deal with social causes and issues such as labor laws and competition

ANS: C                      PTS: 1                      DIF: Moderate                      REF: p. 39  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

11. Which of the following statements about the IMF is true?
- The IMF contributed toward providing international liquidity and toward facilitating international trade.
  - In light of the worldwide slowdown of economies and the financial crisis, the IMF focused on its traditional customers of the developed markets and economies.
  - In order to ensure that a local stimulus would not be suffocated by global restrictions, the IMF minimized simultaneous expansions in economies.
  - The original goal of the IMF ensured variable exchange rates between countries.

ANS: A                      PTS: 1                      DIF: Challenging                      REF: p. 39  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

12. How much funding was required from members during the creation of the International Monetary Fund?
- Twenty-five percent in gold or dollars, the rest in the members' local currency
  - Twenty-five percent in commodities, the rest in American dollars
  - Twenty-five percent in dollars, the rest in members' local currency or gold
  - Twenty-five percent in gold, the rest in American dollars or the members' local currency

ANS: A                      PTS: 1                      DIF: Challenging                      REF: p. 39  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

13. The International Bank for Reconstruction and Development is also known as the \_\_\_\_.
- Export-Import Bank
  - UNDP

- c. World Bank
- d. IMF

ANS: C                      PTS: 1                      DIF: Moderate                      REF: p. 40  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

14. The European Union is an example of a(n) \_\_\_\_\_.  
a. economic bloc  
b. export consortium  
c. multilateral negotiation  
d. nontariff barrier zone

ANS: A                      PTS: 1                      DIF: Moderate                      REF: p. 41  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Application

15. Which of the following integrates the economic and political activities of nations?  
a. Political reforms  
b. Export consortia  
c. Economic blocs  
d. Born globals

ANS: C                      PTS: 1                      DIF: Easy                      REF: p. 41  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

16. Which currency is most accepted worldwide?  
a. The euro  
b. The U.S. dollar  
c. The Japanese yen  
d. The British Pound

ANS: B                      PTS: 1                      DIF: Easy                      REF: p. 42  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

17. What is the term used for a firm founded with a global scope in mind from the very beginning?  
a. Global  
b. Economic bloc  
c. Multinational  
d. Born global

ANS: D                      PTS: 1                      DIF: Easy                      REF: p. 44  
OBJ: LO: 2-2                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

18. \_\_\_\_\_ are special because they can affect currency values and the fiscal and monetary policies of governments, shape public perception of competitiveness, and determine the level of imports a country can afford.  
a. Protectionistic laws  
b. Mixed aid credits  
c. Exports  
d. Nontariffs

ANS: C                      PTS: 1                      DIF: Easy                      REF: p. 45

OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

19. Which of the following statements is true about foreign direct investment?
- Foreign investments may result in growing concern among policymakers about dependency on foreign owners.
  - The United States is the sole foreign direct investor in the world.
  - Foreign affiliates are not participants of trade.
  - Foreign direct investment tends to be distributed equally across all industries.

ANS: A      PTS: 1      DIF: Moderate      REF: p. 46  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

20. When a company expands its market by offering its products to international customers, it can produce more of its products efficiently, thus reducing the overall cost of each individual unit. This is known as \_\_\_\_\_.
- product diversification
  - product differentiation
  - economies of scale
  - monopolistic competition

ANS: C      PTS: 1      DIF: Moderate      REF: p. 45  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

21. Which of the following statements is true about exports?
- Exports are important in a microeconomic sense, in terms of balancing the trade account.
  - Exporting ultimately leads to a firm achieving diseconomies of scale.
  - Exporting results in a firm being overly dependent on a particular market.
  - Exporting makes a firm sensitive to different demand structures and cultural dimensions.

ANS: D      PTS: 1      DIF: Challenging      REF: p. 45  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

22. Which of the following is the result of a country's decision to impose restrictions on its foreign direct investments?
- Free access to foreign capital
  - Lower interest rates
  - Tightened credit markets
  - Decreased domestic market share

ANS: C      PTS: 1      DIF: Moderate      REF: p. 46  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective      KEY: Bloom's: Knowledge

23. How has the U.S. Congress responded in light of persistent trade deficits, growing foreign direct investment, and the tendency of some firms and industries to seek legislative redress for failures in marketplace?
- It left all trade decisions to be made by the WTO.
  - It organized a ban of imported products which compete with longstanding companies.
  - It provided more powers to the president to restrict trade.
  - It declared "war" on countries that restricted foreign direct investments.

ANS: C                   PTS: 1                   DIF: Moderate       REF: p. 46  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Knowledge

24. "Voluntary" import restraints have been used mainly in areas such as textiles, automobiles, and steel, and are intended to \_\_\_\_\_.  
a. help domestic companies regain their trade prominence of years past  
b. show good political citizenship by members  
c. penalize exporters of raw materials  
d. situate the imports as a political component as opposed to a trade embargo

ANS: A                   PTS: 1                   DIF: Moderate       REF: p. 47  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Comprehension

25. Meat-eats, a business entity located in Miami has recently started promoting "Buying U.S.A.," a campaign that focuses on the purchase of meat products that are manufactured exclusively in the United States. This campaign would be projected as \_\_\_\_\_.  
a. a nontariff barrier to trade  
b. poor public relations  
c. significantly helping the international global market  
d. increasing the levels of global competition

ANS: A                   PTS: 1                   DIF: Challenging   REF: p. 50  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Application

26. Providing preferential treatment to domestic bidders over foreign bidders, using national standards that are not comparable to international standards, placing emphasis on design rather than performance, and providing for general difficulties in the market entry of foreign products are all examples of \_\_\_\_\_.  
a. import/export quotas  
b. protectionistic legislation  
c. mixed aid credits  
d. nontariff barriers

ANS: D                   PTS: 1                   DIF: Moderate       REF: p. 50  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Application

27. The Export-Import Bank of the United States gives loans known as \_\_\_\_\_ that are composed partially of commercial interest rates and partially of highly subsidized developmental aid interest rates.  
a. untied aid credits  
b. mixed aid credits  
c. payday loans  
d. title loans

ANS: B                   PTS: 1                   DIF: Easy           REF: p. 51  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Knowledge

28. When U.S. firms work together to establish export promotion development, as allowed by the Export Trading Company Act of 1982, the companies are in effect forming a(n) \_\_\_\_\_.  
a. trading treaty  
b. trade promotion authority



- c. export consortia
- d. export diversification

ANS: C                      PTS: 1                      DIF: Easy                      REF: p. 52  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

29. The disappointment with past trade negotiations is mainly the result of \_\_\_\_\_.  
a. lack of funds  
b. low global competitiveness  
c. excessive competitiveness  
d. overblown expectations

ANS: D                      PTS: 1                      DIF: Easy                      REF: p. 53  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

30. The authority to negotiate international agreements with a reasonable certainty that the negotiation outcome will not be subject to minute amendments must be given by Congress to the \_\_\_\_\_.  
a. judiciary  
b. business leaders  
c. functional intermediaries  
d. executive branch

ANS: D                      PTS: 1                      DIF: Moderate                      REF: p. 53  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

31. Trade negotiations that are conducted between two nations are known as \_\_\_\_\_.  
a. coalition pacts  
b. multilateral treaties  
c. bilateral negotiations  
d. negotiation frameworks

ANS: C                      PTS: 1                      DIF: Easy                      REF: p. 53  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

32. Which of the following gave Congress the right to accept or reject trade treaties and agreements, but reduced the amendment procedures?  
a. Protectionistic legislation  
b. Trade promotion authority  
c. Judicial immunity  
d. Export consortia

ANS: B                      PTS: 1                      DIF: Moderate                      REF: p. 53  
OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
STA: DISC: International Perspective                      KEY: Bloom's: Knowledge

33. What must policymakers do for trade and investment negotiations between countries to be long-lasting?  
a. Appoint taxing authority from an outside third nonexclusive country.  
b. Total cost of policy measures affecting trade and investment should be ignored.  
c. Trade off short-term achievements for long-term goals.  
d. Implement profit booking in the short term.

ANS: C                   PTS: 1                   DIF: Moderate           REF: p. 54  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Knowledge

34. When economic coordination between trading partners continues, leading trading nations will \_\_\_\_\_.  
a. propagate increased competitiveness  
b. exploit the dollar and devalue it in relation to the euro  
c. compromise the WTO charter  
d. lose their national sovereignty to some degree

ANS: D                   PTS: 1                   DIF: Moderate           REF: p. 55  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Comprehension

35. Policymakers will be sufficiently responsive in setting international trade policy objectives that increase opportunities for firms and choices for consumers when \_\_\_\_\_.  
a. the voices of retailers, consumers, wholesalers, and manufacturers are heard  
b. all nations adopt the IMF treaty  
c. the WTO imposes sanctions on nonresponsive countries  
d. a performance plan is developed to adhere to customer feedback

ANS: A                   PTS: 1                   DIF: Moderate           REF: p. 55  
OBJ: LO: 2-3           NAT: BUSPROG: Analytic  
STA: DISC: International Perspective   KEY: Bloom's: Comprehension

## ESSAY

1. How did international trade affect the rise and fall of the Roman Empire?

ANS:

One of the major world powers in ancient history was the Roman Empire. Its impact on thought, knowledge, and development can still be felt today. Even while expanding their territories through armed conflicts, the Romans placed primary emphasis on encouraging international business activities. The principal approaches used to implement this emphasis were the Pax Romana, or the Roman Peace, and common coinage. The Pax Romana ensured that merchants were able to travel safely on roads. The common coinage ensured that business transactions could be carried out easily throughout the empire. The immense growth of the Roman Empire occurred through the linkages of business rather than through the marching of its legions and warfare. When the outside tribes attacked the empire, the Roman empire was already substantially weakened, because former allies no longer saw any advantage in being associated with the Romans and willingly cooperated with the invaders. This indicates that international trade played a major role in world history, especially with the Roman Empire.

PTS: 1                   DIF: Moderate           REF: p. 33 | p. 35   OBJ: LO: 2-1  
NAT: BUSPROG: Analytic           STA: DISC: International Perspective  
KEY: Bloom's: Knowledge

2. Explain the significance of the World Bank.

ANS:

The World Bank's official name is the International Bank for Reconstruction and Development. It was formed in 1944 to aid countries suffering from the destruction of war. After completing this process most successfully, it has since taken on the task of aiding world development. With new nations emerging from the colonial fold of the world powers of the early twentieth century, the bank has made major efforts to assist fledgling economies to participate in a modern economic trade framework. More recently, the bank has begun to participate actively with the IMF to resolve the debt problems of the developing world and to bring a market economy to the former members of the Eastern bloc. Major debates surround the effectiveness of the bank's expenditures.

The World Bank tries now to reorient its outlook, focusing more on capacity building and the development of human capital through investments into education and health. Key performance criteria are now the sustainability of growth and development, addressing higher commodity prices, agricultural assistance in times of higher food prices, opening world trade to all countries, and greater participation of rising economic powers and developing nations in the bank's governance. As it approaches its major challenge of reducing global poverty, the World Bank "delivers technical, financial, and other assistance to those most in need and where it can have the greatest impact and promote growth: to the poorest countries, fragile states, and the Arab World; to middle-income countries; to solving global public goods issues; and to delivering knowledge and learning services."

PTS: 1                      DIF: Moderate              REF: p. 40-41              OBJ: LO: 2-2  
NAT: BUSPROG: Analytic              STA: DISC: International Perspective  
KEY: Bloom's: Comprehension

3. Describe the significance of export promotion efforts.

ANS:

Many countries provide export promotion assistance to their firms. Key reasons for such assistance are the national need to earn foreign currency, the encouragement of domestic employment, and the increase in domestic economic activity. Many forms of export promotion can be seen as government distortion of trade because government support simply results in a subsidization of profitability or reduction of risk. Yet there are instances where such intervention may be justified. Government support can be appropriate if it annuls unfair foreign practices, increases market transparency and therefore contributes to the better functioning of markets, or helps overcome, in the interest of long-term national competitiveness, the short-term orientation of firms.

The U.S. Department of Commerce provides companies with an array of data on foreign trade and marketing developments. Its Commercial Service provides a link with U.S. businesses in terms of information flow and market assistance. Efforts are made to coordinate the activities of diverse federal agencies. An official interagency advocacy network was created that helps U.S. companies win overseas contracts for large government purchases abroad. A variety of agencies now collaborate in order to continue to improve services to U.S. exporters. Many countries also provide substantial levels of private-sector support. A new focus has come about in the area of export financing. Policymakers have increasingly recognized that U.S. business may be placed at a disadvantage if it cannot meet the subsidized financing rates of foreign suppliers. The Export-Import Bank of the United States, charged with the mission of aggressively meeting foreign export-financing conditions, has in recent years even resorted to offering mixed aid credits. The bank has also launched a major effort to reach out to smaller-sized businesses and assist in their export success. Tax legislation that inhibited the employment of Americans by U.S. firms abroad has also been altered to be more favorable to U.S. firms. One other export-promotion development was the passage of the Export Trading Company Act of 1982. Intended to be the U.S. response to Japanese *sogoshoshas*, or international trading firms, this legislation permits firms to work together to form export consortia. The basic idea was to provide the foreign buyer with a one-stop shopping center in which a group of U.S. firms could offer a variety of complementary and competitive products. By exempting U.S. firms from current antitrust statutes, and by permitting banks to cooperate in the formation of these ventures through direct capital participation and the financing of trading activities, the government hoped that more firms could participate in the international marketplace.

PTS: 1                    DIF: Challenging    REF: p. 51-52            OBJ: LO: 2-3  
NAT: BUSPROG: Analytic                    STA: DISC: International Perspective  
KEY: Bloom's: Comprehension