1) Internal economies of scaleimply that

A) a firm's average cost of production decreases the more output it produces.

B) a firm's average cost of production increases the more output it produces.

C) a firm's average cost of production stays the same as more output is produced.

D) a firm's average cost of production may increase or decrease the more output it produces.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

2) Internal economies of scale and product differentiation combine

A) to generate some new sources of gains of trade via economic integration.

B) to generate some new sources of losses of trade via economic integration.

C) to generate some new trade barriers among countries.

D) to generate some new obstacles for economic growth.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

3) A perfectly competitive market is a market in which

A) there are many buyers and sellers, none of whom represents a large part of the market, and firms are *price takers.*

B) there are only a few large buyers and sellers, who represent a large part of the market, and firms are *price takers.*

C) there are many buyers and sellers, none of whom represents a large part of the market, and firms are *price setters.*

D) there are only a few large firms, who represent a large part of the market, and firms are *price setters.*

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

4) In imperfect competition,

A) firms can influence the prices of their differentiated products and they are price setters.

B) firms can influence the prices of their differentiated products and they are price takers.

C) firms cannot influence the prices of their differentiated products and they are price takers.

D) firms cannot influence the prices of their differentiated products and they are price setters.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

5) A market in which a firm faces no competition is called

A) a pure monopoly.

B) an oligopoly.

C) a duopoly.

D) a monopolistic competitor.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

6) International trade based solely on internal scale economies in both countries is likely to be carried out by

A) a relatively small number of imperfect competitors.

B) a large number of oligopolists in each country.

C) monopolists in each country.

D) a relatively small number of price competing firms.

E) a relatively large number of price competing firms.

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

7) Marginal revenue is

A) the extra revenue the firm gains from selling an additional unit.

B) the extra utility the firm gains from selling an additional unit.

C) the extra cost the firm incurs from producing an additional unit.

D) the extra profit the firm gains from selling an additional unit.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

8) For a monopolist, the marginal revenue curve always lies below the demand curve or the marginal revenue is always less than the price because

A) to sell an additional unit, the firm must lower the price of all units.

B) to sell an additional unit, the firm must raise the price of all units.

C) to sell an additional unit, the firm can keep the price of all units the same.

D) to sell an additional unit, the firm can lower the price of just the marginal one.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

9) A monopolistic firm

A) can sell as much as it wants for any price it determines in the market.

B) cannot sell additional quantity unless it raises the price on each unit.

C) chooses an output at which marginal revenue equals marginal cost.

D) cannot determine the price, which is determined by consumer demand.

E) will always earn a profit in the long run.

Answer: C

Difficulty: Moderate

AACSB: Application of knowledge

10) A monopoly firm engaged in international trade will

A) equate marginal costs with the highest price the market will bear.

B) equate average to local costs.

C) equate marginal costs with foreign marginal revenues.

D) equate marginal costs with marginal revenues in both domestic and foreign markets.

E) equate marginal costs with the relative world prices.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

11) A monopoly firm will maximize profits by producing where

A) total revenue from domestic and foreign sales is maximized.

B) marginal revenue is the same in domestic and foreign markets.

C) prices are the same in domestic and foreign markets.

D) marginal revenue is higher in the domestic market.

E) marginal revenue is higher in foreign markets.

Answer: B

Difficulty: Moderate

AACSB: Application of knowledge

12) If a firm increases its output in the \_\_\_\_\_\_\_\_ and unit costs \_\_\_\_\_\_\_\_, then the firm is experiencing \_\_\_\_\_\_\_\_ of scale.

A) long run; decrease; economies

B) long run; increase; economies

C) short run; decrease; diseconomies

D) long run; decrease; diseconomies

E) short run; decrease; economies

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

13) If a firm increases its output in the \_\_\_\_\_\_\_\_ and unit costs \_\_\_\_\_\_\_\_, then the firm is experiencing \_\_\_\_\_\_\_\_ of scale.

A) short run; decrease; economies

B) long run; increase; diseconomies

C) short run; decrease; diseconomies

D) long run; increase; economies

E) long run; decrease; diseconomies

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

14) Modeling trade in imperfectly competitive industries is problematic because

A) collusion among imperfectly competitive firms makes usable data rare.

B) there is no single generally accepted model of behavior by imperfectly competitive firms.

C) it is difficult to find an imperfectly competitive firm in the real world.

D) there is only a single model of imperfect competition (monopoly) but imperfect competition can take many forms in the real world.

E) there are no models of imperfectly competitive behavior.

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

15) Firms that produce \_\_\_\_\_\_\_\_ products must be \_\_\_\_\_\_\_\_ competitive.

A) differentiated; imperfectly

B) differentiated; perfectly

C) exported; imperfectly

D) standardized; imperfectly

E) standardized; perfectly

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

16) Imperfectly competitive firms have a demand curve that \_\_\_\_\_\_\_\_ and a marginal revenue curve that \_\_\_\_\_\_\_\_ and is \_\_\_\_\_\_\_\_ the demand curve.

A) is horizontal; is horizontal; the same as

B) is horizontal; slopes downward; below

C) slopes downward; slopes downward; below

D) slopes downward; is horizontal; above

E) slopes downward; slopes downward; the same as

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

17) Monopolistic competition is associated with

A) product differentiation.

B) price-taking behavior.

C) increasing returns to scale.

D) high profit margins in the long run.

E) explicit consideration at the firm level of the strategic impact of other firms' pricing decisions.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

18) If there are a large number of firms in a monopolistically competitive industry

A) the country in which the firms are located can be expected to export the goods they produce.

B) long-run profit will be equal to zero.

C) there will be a small number of firms that are very large and the rest will be very small.

D) the firms will converge production on a standardized product.

E) there will be barriers to entry that prevent additional firms from entering the industry.

Answer: B

Difficulty: Moderate

AACSB: Application of knowledge

19) A firm in long-run equilibrium under monopolistic competition will earn

A) positive oligopoly profits because each firm sells a differentiated product.

B) zero economic profits because of free entry.

C) negative economic profits because it has economies of scale.

D) positive economic profit if it engages in international trade.

E) positive monopoly profits because each sells a differentiated product.

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

20) A product is produced in a monopolistically competitive industry with scale economies. If this industry exists in two countries, and these two countries engage in trade with each other, then we would expect

A) the country with a relative abundance of the factor of production in which production of the product is intensive will export this product.

B) the countries will trade only with other nations they are not in competition with.

C) the country in which the price of the product is lower will export the product.

D) neither country will export this product since there is no comparative advantage.

E) each country will export different varieties of the product to the other.

Answer: E

Difficulty: Easy

AACSB: Application of knowledge

21) If the market for products produced by firms in a monopolistically competitive industry becomes \_\_\_\_\_\_\_\_, then there will be \_\_\_\_\_\_\_\_ firms and each firm will produce \_\_\_\_\_\_\_\_ output and charge a \_\_\_\_\_\_\_\_ price.

A) smaller; fewer; less; higher

B) smaller; fewer; less; lower

C) smaller; more; less; lower

D) smaller; more; less; higher

E) smaller; fewer; more; higher

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

22) Under oligopoly, firms' pricing policies are \_\_\_\_\_\_\_\_ and, under monopolistic competition, they are \_\_\_\_\_\_\_\_.

A) interdependent; independent

B) independent; interdependent

C) cooperative; uncooperative

D) uncooperative; cooperative

E) profit maximizing; revenue maximizing

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

23) If a firm that uses a production process that yields economies of scale charges a price less than \_\_\_\_\_\_\_\_, then profit will be \_\_\_\_\_\_\_\_.

A) marginal cost; positive

B) average cost; negative

C) marginal revenue; positive

D) marginal cost; maximized

E) marginal revenue; maximized

Answer: B

Difficulty: Moderate

AACSB: Application of knowledge

24) Under the model of monopolistic competition, a(an) \_\_\_\_\_\_\_\_ in the number of firms in the industry will cause \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_.

A) increase; average cost; increase

B) increase; average price; increase

C) increase; average cost; decrease

D) decrease; markup; decrease

E) increase; marginal cost; decrease

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

25) Under the model of monopolistic competition, a(an) \_\_\_\_\_\_\_\_ in the number of firms in the industry will cause \_\_\_\_\_\_\_\_ charged by each firm to \_\_\_\_\_\_\_\_.

A) increase; price; decrease

B) increase; price; increase

C) increase; average cost; decrease

D) decrease; markup; decrease

E) increase; marginal cost; decrease

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

26) Under the model of monopolistic competition, a(an) \_\_\_\_\_\_\_\_ in the number of firms in the industry will cause \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_.

A) increase; markup; decrease

B) increase; average price; increase

C) increase; average cost; decrease

D) decrease; markup; decrease

E) increase; marginal cost; decrease

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

27) When a country both exports and imports a type of commodity, the country is engaged in

A) inter-industry trade.

B) an attempt to monopolize the relevant industry.

C) increasing returns to scale.

D) intra-industry trade.

E) imperfect competition.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

69) When a country both exports and imports a type of commodity, the country is engaged in

A) inter-industry trade.

B) an attempt to monopolize the relevant industry.

C) increasing returns to scale.

D) intra-industry trade.

E) imperfect competition.

Answer: Egaal

1) The monopolistic competition model can be used to show the following EXCEPT

A) how trade limits the size of the national market and the variety of goods available to domestic consumers.

B) how trade improves the trade-off between scale and variety that individual nation face.

C) how trade creates a world market larger than any of the national markets that comprise it.

D) how a larger market leads to both a lower average price and the availability of a greater variety of goods.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

2) In larger markets there will be both more firms and more sales per firm,

A) consumers in a large market will be offered both lower prices and a greater variety of products than consumers in small markets.

B) consumers in a small market will be offered both lower prices and a greater variety of products than consumers in large markets.

C) consumers in a large market will be offered both higher prices and a very limited variety of products than consumers in small markets.

D) consumers in a small market will be offered the same prices and same variety of products as consumers in small markets.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

3) If the market for products produced by firms in a monopolistically competitive industry becomes \_\_\_\_\_\_\_\_, then there will be \_\_\_\_\_\_\_\_ firms and each firm will produce \_\_\_\_\_\_\_\_ output and charge a \_\_\_\_\_\_\_\_ price.

A) larger; fewer; more; higher

B) larger; more; less; higher

C) larger; fewer; more; lower

D) larger; more; more; lower

E) larger; more; more; higher

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

4) International trade based on external scale economies in both countries is likely to be carried out by

A) a large number of oligopolists in each country.

B) a relatively large number of price competing firms.

C) a relatively small number of price competing firms.

D) a relatively small number of imperfect competitors.

E) monopolists in each country.

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

5) Product differentiation and internal economies of scale lead to

A) trade between similar countries with no comparative advantage differences between them.

B) no trade between similar countries with no comparative advantage differences between them.

C) a smaller variety of goods available to consumers.

D) higher price that consumers have to pay.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

6) The integrated market supports \_\_\_\_\_\_\_\_ firms, each producing at a \_\_\_\_\_\_\_\_ scale and selling at a \_\_\_\_\_\_\_\_ price than either national market does on its own.

A) more; larger; lower

B) more; smaller; higher

C) fewer; smaller; higher

D) fewer; larger; higher

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

7) An industry is characterized by scale economies, and exists in two countries. Should these two countries engage in trade such that the combined market is supplied by one country's industry, then

A) consumers in both countries would have more varieties and lower prices.

B) consumers in both countries would have higher prices and fewer varieties.

C) consumers in the exporting country only would have higher prices and fewer varieties.

D) consumers in both countries would have fewer varieties at lower prices.

E) consumers in the importing country only would have higher prices and fewer varieties.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

8) In the integrated market after trade, both Home and Foreign consumers

A) benefit from a greater variety of goods at a lower price.

B) suffer from fewer variety of goods at a higher price.

C) suffer from fewer quality of goods at a higher price.

D) benefit from higher quality of goods at a higher price.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

9) An industry is characterized by scale economies and exists in two countries. In order for consumers of its products to enjoy both lower prices and more variety of choice

A) the two countries must engage in international trade with each other.

B) each country's marginal cost must equal that of the other country.

C) the monopoly must lower prices in order to sell more.

D) they must combine to become a multinational corporation.

E) the marginal cost of this industry must equal marginal revenue in the other.

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

10) In an industry where firms experience internal scale economies, the long-run cost of production will depend on

A) individual firms' fixed costs.

B) the size of the labor force.

C) whether the country engages in intra-industry trade.

D) the size of the market.

E) whether the country engages in inter-industry trade.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

11) The simultaneous export and import of widgets by the United States is an example of

A) inter-industry trade.

B) imperfect competition.

C) the effect of a monopoly on international trade.

D) intra-industry trade.

E) increasing returns to scale.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

12) Intra-industry trade is a very important component of trade for the United States in many different industries EXCEPT

A) footwear and apparel.

B) chemicals.

C) pharmaceuticals.

D) specialized machinery.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

13) Intra-industry trade plays an even more prominent role in the trade of

A) manufactured goods among advanced industrial nations.

B) labor-intensive goods among less advanced industrial nations.

C) intermediate goods among advanced industrial nations.

D) agricultural goods among less advanced industrial nations.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

14) The gains from integration generated by economies of scale were most pronounced for

A) smaller economies.

B) raw material producers.

C) the developing countries of Asia and Africa.

D) labor-intensive products.

E) China and not the rest of the world.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

15) Intra-industry trade is most common in the trade patterns of

A) raw material producers.

B) the developing countries of Asia and Africa.

C) labor-intensive products.

D) the industrial countries of Western Europe.

E) China with the rest of the world.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

16) Before 1965, tariff protection by Canada and the United States produced a Canadian auto industry

A) that was largely self-sufficient, neither importing nor exporting much.

B) where imports exceeded exports.

C) where exports exceeded imports.

D) that was completely dependent on the U.S. auto industry.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

17) After the free trade agreement in 1964,

A) Canada's auto imports and exports both increased sharply.

B) Canada's auto imports increased and exports decreased.

C) Canada's auto exports increased and imports decreased.

D) Canada's auto imports and exports both decreased sharply.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

18) With the implementation of NAFTA, the transformation of the auto industry with substantial productivity gain expanded to

A) Mexico.

B) Canada.

C) South America.

D) Japan.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

19) The dismantling of NAFTA

A) hit Mexico and Canada's automotive production the hardest.

B) led to higher car production in the United States.

C) decrease in car production outside North America.

D) decreased in price of cars produced outside North America.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

1) Trade (or economic integration)

A) led to an increase in competition between firms.

B) led to a decrease in competition between firms.

C) did not affect competition between firms.

D) may or may not affect competition between firms.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

2) Increased competition from trade (or economic integration) tends to

A) force the worst-performing firms to exit the market.

B) force the best performing firms to exit the market.

C) provide fewer sales opportunities in new markets for surviving firms.

D) provide more incentives for new firms to join the market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

3) Which of the following statements is NOT true?

Compared to a firm with a higher marginal cost, a firm with a lower marginal cost will

A) produce less output.

B) set a lower price but at a higher markup over marginal cost.

C) produce more output.

D) earn higher profit.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

4) In the model of monopolistic competition, if firms have \_\_\_\_\_\_\_\_ average cost curves, then opening trade will \_\_\_\_\_\_\_\_ the total number of firms and \_\_\_\_\_\_\_\_ the average price.

A) downward sloping; decrease; decrease

B) downward sloping; decrease; increase

C) upward sloping; decrease; increase

D) downward sloping; increase; decrease

E) upward sloping; increase; decrease

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

5) In the model of monopolistic competition, if firms have \_\_\_\_\_\_\_\_ average cost curves, then opening trade will cause \_\_\_\_\_\_\_\_ firms to \_\_\_\_\_\_\_\_ the industry.

A) different; more efficient; enter

B) symmetric; less efficient; enter

C) different; less efficient; exit

D) symmetric; less efficient; exit

E) symmetric; more efficient; enter

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

6) In the model of monopolistic competition, compared to a firm with a higher marginal cost, a firm with a lower marginal cost will set a \_\_\_\_\_\_\_\_ price, produce \_\_\_\_\_\_\_\_ output, and earn \_\_\_\_\_\_\_\_ profits.

A) lower; less; less

B) higher; less; more

C) lower; more; more

D) higher; more; more

E) higher; less; less

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

7) In the model of monopolistic competition, compared to a firm with a lower marginal cost, a firm with a higher marginal cost will set a \_\_\_\_\_\_\_\_ price, produce \_\_\_\_\_\_\_\_ output, and earn \_\_\_\_\_\_\_\_ profits.

A) higher; less; more

B) higher; less; less

C) lower; less; less

D) lower; more; more

E) higher; more; more

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

8) In the model of monopolistic competition, an increase in industry output will cause individual firms' demand curves to become \_\_\_\_\_\_\_\_, which will \_\_\_\_\_\_\_\_ demand for higher-priced goods and \_\_\_\_\_\_\_\_ demand for lower-priced goods.

A) steeper; reduce; increase

B) steeper; increase; reduce

C) horizontal; reduce; reduce

D) flatter; increase; reduce

E) flatter; reduce; increase

Answer: E

Difficulty: Easy

AACSB: Application of knowledge

9) In the model of monopolistic competition, an increase in industry output will \_\_\_\_\_\_\_\_ producers of higher-priced goods and \_\_\_\_\_\_\_\_ producers of lower-priced goods.

A) harm; benefit

B) benefit; benefit

C) benefit; harm

D) benefit; have no effect on

E) harm; harm

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

10) In the model of monopolistic competition, an increase in industry output will \_\_\_\_\_\_\_\_ market shares and \_\_\_\_\_\_\_\_ profits of producers of higher-priced goods and will \_\_\_\_\_\_\_\_ market shares and \_\_\_\_\_\_\_\_ profits of producers of lower-priced goods.

A) increase; reduce; increase; reduce

B) increase; increase; reduce; reduce

C) reduce; increase; reduce; increase

D) reduce; reduce; increase; increase

E) reduce; increase; increase; reduce

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

1) In the model of monopolistic competition, trade costs

A) explain why some firms choose not to export.

B) raise firms' profitability.

C) explain why some firms choose to import.

D) associated with national borders increase trade among countries.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

2) In the model of monopolistic competition, trade costs between countries will cause domestic and foreign markets to have \_\_\_\_\_\_\_\_ prices, \_\_\_\_\_\_\_\_ quantities sold, and \_\_\_\_\_\_\_\_ profit levels.

A) identical; identical; different

B) different; different; identical

C) identical; different; identical

D) different; different; different

E) identical; different; different

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

3) In the model of monopolistic competition, trade costs between countries cause

A) marginal costs of exported goods to exceed the marginal costs of goods sold domestically.

B) all firms that can earn a profit on domestic sales to export their goods at higher prices.

C) countries to negotiate the elimination of trade costs by mutual subsidization of trade.

D) marginal costs of goods sold domestically to exceed the marginal costs of exported goods.

E) all firms that can earn a profit on domestic sales to export their goods at lower prices.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

4) In the model of monopolistic competition, trade costs between countries cause

A) marginal costs of goods sold domestically to exceed the marginal costs of exported goods.

B) countries to negotiate the elimination of trade costs by mutual subsidization of trade.

C) prices of goods sold domestically to exceed the prices of exported goods.

D) some firms that can earn a profit on domestic sales to refrain from exporting their goods.

E) all firms that can earn a profit on domestic sales to export their goods at higher prices.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

1) Trade costs affect the following EXCEPT

A) how a firms will let go of profit for the benefit of domestic and overseas customers.

B) how a firm responds to competition in a market.

C) whether a firm will export their products.

D) how much a firm will lower its markup for the export market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

2) In response to trade costs,

A) a firm with a higher marginal cost will choose to set a lower markup over marginal cost for the export market.

B) a firm with a lower marginal cost will choose to set a lower markup over marginal cost for the export market.

C) a firm with a higher marginal cost will choose to set a higher markup over marginal cost for the export market.

D) a firm with a lower marginal cost will not export to the foreign market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

3) The trade practice when a firm sets an export price lower than its domestic price is called

A) preferential trade arrangements.

B) non-tariff barriers.

C) product boycotts.

D) voluntary export restraints.

E) dumping.

Answer: E

Difficulty: Easy

AACSB: Application of knowledge

4) Any firm from Foreign can appeal to its local authorities and seek punitive damages against the unfair trade practice of dumping in the form of

A) antidumping duty.

B) antidumping quota.

C) antidumping punishment.

D) antidumping demonstration.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

5) Economists believe that

A) there is no good economic justification for dumping to be considered particularly harmful.

B) enforcement of dumping claims is well-guided.

C) dumping is not a controversial issue in trade policy.

D) trade costs have no impact on firms' pricing decisions in the export market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

6) Complaints are often made to the International Trade Commission concerning foreign "dumping" practices. These complaints typically claim that

A) foreign companies are charging prices that are lower than prices they charge countries other than the U.S.

B) foreign companies are charging exorbitant prices that are higher than the true value of the products.

C) U.S. consumers cannot differentiate between the foreign and domestic goods.

D) U.S. firms are harmed by the unfair pricing of foreign exporters.

E) U.S. consumers are harmed by the lack of quality control or health concerns in foreign countries.

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

7) Most antidumping complaints were directed at \_\_\_\_\_\_\_\_ in the early 1990s, at \_\_\_\_\_\_\_\_ since 1995.

A) developed countries; developing countries

B) developing countries; developed countries

C) developed countries; developed countries

D) developing countries; developing countries

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

8) Antidumping laws

A) allow domestic firms to be protected from foreign competition by raising their competitors' costs.

B) allow foreign firms to easily enter the domestic market.

C) allows domestic firms to be protected from foreign competition by lowering their competitors' costs.

D) allows foreign firms to be more competitive in the domestic market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

9) When U.S. tire manufacturers successfully lobbied for antidumping duties on Chinese tires in 2009,

A) production shifted to South Korea, Thailand, Indonesia, and exports from those countries doubled.

B) tire imports from China continued to increase.

C) tire exports from China and all other countries to the U.S. decreased.

D) tire exports from U.S. tire manufacturers increased.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

10) In 2012, after Whirlpool won its antidumping case against the imports of washing machines produced by LG and Samsung in South Korea, LG and Samsung

A) shifted their washing machine production for the U.S. market to China.

B) shifted their washing machine production for the U.S. market to Vietnam and Thailand.

C) shifted their washing machine production for the U.S. market to the U.S.

D) shifted their washing machine production for the U.S. market to Canada and Mexico.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

1) A corporation is considered a multinational \_\_\_\_\_\_\_\_ if \_\_\_\_\_\_\_\_.

A) parent; more than 10% of its stock is held by a foreign company

B) child; more than 50% of its stock is held by a foreign company

C) monopolist; it owns more than 50% of a foreign firm

D) parent; it owns more than 10% of a foreign firm

E) child; more than 10% of its stock is held by a foreign company

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

2) A corporation is considered a multinational \_\_\_\_\_\_\_\_ if \_\_\_\_\_\_\_\_.

A) child; more than 50% of its stock is held by a foreign company

B) child; more than 10% of its stock is held by a foreign company

C) parent; more than 10% of its stock is held by a foreign company

D) affiliate; more than 10% of its stock is held by a foreign company

E) monopolist; it owns more than 50% of a foreign firm

Answer: D

Difficulty: Easy

AACSB: Application of knowledge

3) Consider the following two cases. In the first, a U.S. firm purchases 18% of a foreign firm. In the second, a U.S. firm builds a new production facility in a foreign country. Both are \_\_\_\_\_\_\_\_, with the first referred to as \_\_\_\_\_\_\_\_ and the second as \_\_\_\_\_\_\_\_.

A) foreign direct investment (FDI); inflows; outflows

B) foreign direct investment (FDI) inflows; brownfield; greenfield

C) foreign direct investment (FDI) outflows; brownfield; greenfield

D) foreign direct investment (FDI) outflows; greenfield; brownfield

E) foreign direct investment (FDI) inflows; greenfield; brownfield

Answer: D

Difficulty: Moderate

AACSB: Application of knowledge

4) When a multinational affiliate replicates production in a foreign country it is called \_\_\_\_\_\_\_\_ foreign direct investment.

A) bisectional

B) direct

C) horizontal

D) transitional

E) vertical

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

5) When a multinational affiliate replicates elements of a production process in a foreign country it is called \_\_\_\_\_\_\_\_ foreign direct investment.

A) horizontal

B) vertical

C) transitional

D) bisectional

E) direct

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

6) Vertical FDI is mainly driven by

A) production cost differences between countries.

B) geographical location.

C) absolute advantage.

D) political power.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

7) In vertical FDI, when a multinational ships intermediate goods across its network of domestic and foreign affiliates, the resulting trade is classified as

A) intra-firm trade.

B) intra-industry trade.

C) intra-continent trade.

D) intra-nation trade.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

8) Horizontal FDI is mainly driven by

A) trade and transport costs.

B) production cost differences between countries.

C) political wills.

D) comparative advantage.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

9) Toyota's replicating the production for its most popular car model, the Corolla, in assembly plants in many countries all over the world is an example of

A) horizontal FDI.

B) vertical FDI.

C) circular FDI.

D) triangular FDI.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

10) A firm's foreign direct investment decisions are, in the case of horizontal FDI, strongly influenced by \_\_\_\_\_\_\_\_ and, in the case of vertical FDI, strongly influenced by \_\_\_\_\_\_\_\_.

A) materials costs; labor costs

B) trade costs; production costs

C) labor costs; trade costs

D) production costs; trade costs

E) production costs; materials costs

Answer: B

Difficulty: Easy

AACSB: Application of knowledge

11) Fluctuations in FDI flows are strongly influenced by the following factors EXCEPT

A) the ups and downs of the domestic business cycles.

B) changes in corporate tax policy.

C) the gyrations of stock markets worldwide.

D) the financial crisis.

E) the waves of cross-border mergers and acquisitions.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

12) Historically, \_\_\_\_\_\_\_\_ have been the biggest recipients of inward FDI.

A) the richest OECD

B) the low-income countries

C) the middle-income countries

D) the poorest outside OECD

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

13) From 2017 to 2019, FDI outflows are dominated by

A) the developed economies.

B) Brazil and India.

C) developing countries.

D) Cayman Islands and British Virgin Islands.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

1) A firm is more likely to engage in horizontal foreign direct investment if

A) trade costs are low and firms experience constant returns to scale in production.

B) trade costs are low and there are increasing returns to scale in production.

C) trade costs are high and there are increasing returns to scale in production.

D) trade costs are high and there are decreasing returns to scale in production.

E) trade costs are low and there are decreasing returns to scale in production.

Answer: C

Difficulty: Easy

AACSB: Application of knowledge

2) The proximity-concentration trade-off for FDI happens when

A) firms have an incentive to locate a production facility near their foreign customers to avoid the high trade costs associated with exports to that foreign destination.

B) trade costs are low and exporting is less expensive.

C) it is cost effective to replicate the production process many times.

D) firms operate facilities that produce too little output to take advantage of increasing returns to scale in production.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

3) If the total trade-related cost to export exceeds the alternative of the fixed cost of setting up an additional production facility in the foreign market, then

A) exporting is more expensive and FDI is the profit-maximizing choice.

B) FDI alternative is more expensive, and exporting is the profit-maximizing choice.

C) there should be no trade between the two countries.

D) neither exporting nor FDI is the profit-maximizing choice.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

4) Higher trade costs on one hand and lower fixed production costs on the other hand

A) lower the FDI cutoff.

B) raise the FDI cutoff.

C) keeps the FDI cutoff the same.

D) have no impact on the FDI cutoff.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

5) A firm's decision to break up its production chain and move parts of that chain to a foreign supplier is called

A) foreign sourcing.

B) foreign transferring.

C) foreign sharing.

D) foreign assembling.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

6) Foreign outsourcing is

A) the transfer of operations to foreign contractors.

B) an example of foreign direct investment.

C) an example of internalization.

D) currently illegal in the U.S.

E) the substitution of immigration for foreign direct investment.

Answer: A

Difficulty: Moderate

AACSB: Application of knowledge

7) During the past decade, U.S. imports of business services have \_\_\_\_\_\_\_\_, U.S. exports of business services have \_\_\_\_\_\_\_\_, and U.S. net exports of business services have \_\_\_\_\_\_\_\_.

A) increased; decreased; decreased

B) decreased; increased; increased

C) decreased; decreased; increased

D) increased; increased; increased

E) increased; increased; not changed

Answer: D

Difficulty: Moderate

AACSB: Application of knowledge

8) A scale cutoff for foreign sourcing depends on

A) the production cost differentials and the fixed cost of coordinating with a foreign supplier.

B) transportation and trade costs.

C) the corporate tax rates and government subsidies.

D) the number of jobs to be created in the foreign market.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

9) When the scale effect is strong,

A) the decisions to use some foreign suppliers make the firm more likely to use others.

B) the decisions to use some foreign suppliers will have no impact on whether the firm will use others.

C) the decisions to use some no foreign suppliers will never change.

D) the decisions to use some foreign suppliers will make the firm less likely to use others.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

10) U.S. firms that source from a wider range of countries

A) enjoy greater cost advantages and have higher scales of production.

B) enjoy smaller cost advantages and have lower scales of production.

C) incur higher fixed costs and bear higher risks.

D) incur higher tax rates and bear higher risks.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

11) Sourcing choices are based on different trade-offs between

A) cost savings and the fixed costs of coordinating with suppliers in foreign destinations.

B) producers' surplus and consumers' surplus.

C) deadweight loss and social welfare.

D) gains and loss from trade.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

12) In terms of foreign sourcing, China and Mexico offer \_\_\_\_\_\_\_\_ cost savings with relatively \_\_\_\_\_\_\_\_ fixed costs while Germany and Canada offer substantially \_\_\_\_\_\_\_\_ fixed costs.

A) highest; high; lower

B) lowest; low; higher

C) highest; low; higher

D) lowest; high; lower

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

13) As a substitute for horizontal FDI,

A) a parent could license an independent firm to produce and sell its products in a foreign location.

B) a parent could contract an independent firm to perform a specific part of the production process in a foreign location.

C) a parent could build more manufacturing facilities in their home country.

D) a parent could expand the current manufacturing facilities in their home country.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

14) As a substitute for vertical FDI,

A) a parent could contract with an independent firm to perform specific parts of the production process in a foreign location.

B) a parent could license an independent firm to produce and sell its products in a foreign location.

C) a parent could contract with more independent suppliers in their home country.

D) a parent could expand the current manufacturing facilities in their home country.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

15) A firm selects a make-or buy internationalization choice by considering the following EXCEPT

A) the difference between the unemployment rates at home and abroad.

B) the different trade-offs between production cost savings and the fixed cost of moving parts of the production process abroad.

C) the risks of losing some proprietary technology during licensing.

D) the potential arising conflict regarding specific attributes of the inputs that cannot be specified in a legal contract between the buying and supplying firms.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

16) Which of the following statements is NOT true?

In a world where production chains increasingly stretch around the world, the rise of intermediate good trade

A) makes measures of bilateral trade deficits based on standard trade flows (at gross value) still irrelevant.

B) makes aggregate trade statistics very misleading.

C) makes measures of bilateral trade deficits based on standard trade flows (at gross value) irrelevant.

D) affects the measures of the bilateral trade deficit across various U.S. trading partners.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

17) The reported U.S. iPhone imports from China

A) represent imports from many other countries–including the United States–that export iPhone components to China.

B) represent manufacturing costs with components produced solely in China.

C) represent value of iPhone components exported to China from the U.S. only.

D) represent only the value added of assembly, testing cost, and battery produced in China.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

18) When a firm switches from domestic sourcing to foreign sourcing, it is commonly referred to as

A) offshoring.

B) domestic sourcing.

C) forwarding.

D) transferring.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

19) In many cases, the overall employment effect for the offshoring firm is positive because

A) firms expand their overseas employment as well as U.S. employment thanks to higher productivity.

B) jobs used to be performed in the U.S. are now moved overseas.

C) call center or manufacturing workers displaced by offshoring are not the ones being hired by the expanding firms.

D) U.S. service offshoring has grown faster than inshoring (exports of business services).

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

20) Manufacturing employment has been steadily decreasing over the past 30 years in the US,

A) but offshoring played a very minor role in this trend.

B) and offshoring played a very significant role in this trend.

C) but offshoring has nothing to do with this trend.

D) and offshoring is the main reason for this trend.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

21) As with other forms of trade, trade in intermediates has substantial consequences for

A) the distribution of income.

B) climate change.

C) culture.

D) political stability.

Answer: A

Difficulty: Easy

AACSB: Application of knowledge

22) During the past decade, U.S. imports of business services have \_\_\_\_\_\_\_\_, U.S. exports of business services have \_\_\_\_\_\_\_\_, and U.S. net exports of business services have \_\_\_\_\_\_\_\_.

A) increased; decreased; decreased

B) decreased; increased; increased

C) decreased; decreased; increased

D) increased; increased; increased

E) increased; increased; not changed

Answer: D

Difficulty: Moderate

AACSB: Application of knowledge

23) Product differentiation and internal economies of scale yield gains from trade in the form of

A) higher profits and lower trade costs.

B) lower production costs and a greater variety of goods.

C) the proximity-concentration effect.

D) the substitution of immigration for foreign direct investment.

E) a proliferation of competitive firms.

Answer: B

Difficulty: Moderate

AACSB: Application of knowledge