

Study Questions
(*with Answers*)

Lecture 2
Current Tensions in the International Economy

Part 1: Multiple Choice

Select the **best** answer of those given.

1. Under what US President was NAFTA negotiated?

- a. Ronald Reagan
- b. George H. W. Bush
- c. Bill Clinton
- d. George W. Bush
- e. Barack Obama

Ans: b (It was approved by Congress under Clinton.)

2. What is a Rule of Origin?

- a. A prohibition on employing illegal immigrants
- b. A requirement for registering to vote
- c. A restriction on who can invest in a country
- d. A specification of what qualifies for zero tariff
- e. A law against exporting imitations

Ans: d

3. If the UK and EU do not reach a deal on Brexit, on March 29, 2019

- a. EU citizens resident in the UK may have to leave
- b. Canada will levy tariffs on UK exports
- c. Ireland will levy tariffs on goods from Northern Ireland
- d. The EU will levy tariffs on UK exports
- e. All of the above

Ans: e (Canada has an FTA with the EU, which will no longer apply to the UK.)

4. What is a trade war?

- a. Countries that export dangerous goods to each other
- b. Tariffs and retaliation
- c. Two countries using ship to blockade each other's exports
- d. A verbal dispute in the World Trade Organization
- e. One country dumps exports into another country, which responds with an antidumping duty

Ans: b

5. Which of the following countries is not subject to Trump's tariffs on steel and aluminum?

- a. Canada
- b. Mexico
- c. Germany
- d. China
- e. South Korea

Ans: e (The amended US-Korea FTA exempts them in return for reducing their exports of steel.)

6. What do "joint ventures" have to do with the US-China trade war?

- a. The US objects to China's exports of marijuana to US states where it has been legalized
- b. China insists that the US import unwanted goods jointly with those that are in high demand
- c. China requires that companies investing in China use joint ventures, thereby giving their technologies to Chinese companies
- d. The US has responded to unfair trade practices by China by filing complaints in the WTO jointly with the EU and Japan
- e. President Trump is concerned that China's Confucius Institutes in the US are joint ventures that will undermine democracy

Ans: c

7. What reason is given for Trump's threatened tariffs on cars?

- a. That imports are hurting US producers
- b. National security
- c. Unfair acquisition of intellectual property
- d. Dumping
- e. China's trade surplus

Ans: b

8. Who wins in a trade war?
- a. Nobody
 - b. The country with the highest tariffs
 - c. The country that, in the end, has a trade surplus
 - d. The country that collects the most revenue from its tariffs
 - e. Both may win if rates of unemployment fall in both

Ans: a

9. What has Trump done that undermines the WTO?
- a. Refuse to participate in biannual WTO ministerial meeting
 - b. Pull the US out of the organization
 - c. Persuade allies to vote in favor of US in disputes
 - d. Prevent China from becoming a member
 - e. Block appointment of new judges

Ans: e

10. How has the value of currencies changed since Trump started increasing tariffs?
- a. Dollar up; euro up; yuan up
 - b. Dollar up; euro up; yuan down
 - c. Dollar up; euro down; yuan down
 - d. Dollar down; euro down; yuan down
 - e. Dollar down; euro down; yuan up

Ans: b

Part II: Short Answer

Answer in the space provided.

1. Define the following terms:

- a. Brexit *Ans: The exit of the United Kingdom from the European Union.*
- b. Rule of origin *Ans: A requirement concerning the extent to which a good was produced within the countries of an FTA, such as NAFTA, in order for them to qualify for a zero tariff.*
- c. Hard landing *Ans: Brexit without continued access to the EU market by British exports.*
- d. Currency manipulation *Ans: Deliberate action by a country to reduce the value of its currency in order to make its exports cheaper and more competitive.*
- d. Countervailing duty *Ans: A tariff in response to a subsidy.*

2. So far, China has responded to US tariffs on its exports by putting tariffs on an equal value of US exports. Why will it not be able to continue to do that?

Ans: Because US exports to China are much smaller than China's exports to the US.

3. What was the “truce” agreed to between US President Trump and Jean Claude Juncker, Head of the European Commission?

Ans: The two countries would work together to reduce tariffs, while refraining from any further increase in tariffs (especially by the US on cars), and the EU committed to buying more soybeans from the US.

4. How did President Trump respond when the EU offered to cut auto tariffs to zero if the US would do the same?

Ans: “It’s not good enough.” “Their consumer habits are to buy their cars, not to buy our cars.”

5. The following currencies were mentioned in the lecture. Match them to their countries from the list at the right.

a. rand	<u>South Africa</u>	Argentina
b. yuan	<u>China</u>	China
c. lira	<u>Turkey</u>	Germany
d. dollar	<u>United States</u>	Iran
e. krona	<u>Sweden</u>	Japan
f. peso	<u>Argentina</u>	South Africa
g. renminbi	<u>China</u>	Sweden
h. euro	<u>Germany</u>	Turkey
i. rial	<u>Iran</u>	United Kingdom
j. pound	<u>United Kingdom</u>	United States