Study Questions  
(with Answers)

Lecture 2  
Institutions of the International Economy

Part 1: Multiple Choice

Select the best answer of those given.

1. Which of the following is not one of the international economic institutions that were created at the end of World War II?

   a. International Monetary Fund  
   b. International Bank for Reconstruction and Development  
   c. General Agreement on Tariffs and Trade  
   d. World Trade Organization  
   e. World Bank

   Ans:  
   d (The WTO was created in 1995)

2. During the half century since the end of World War II,

   a. The major currencies of the world, which initially had flexible exchange rates, have become fixed.  
   b. The World Bank has switched from providing assistance to poor countries to primarily settling transactions among rich countries.  
   c. The GATT has been transformed into the WTO.  
   d. The IMF has changed from being a members-only bank to being a mutual fund for investment in emerging-economy stock markets.  
   e. Tariffs levied by developed countries against developing-country exports have increased.

   Ans:  
   c (The WTO incorporates the GATT, and more. As for answer (e), these tariffs have fallen much less than tariffs against other developed countries, but they have not actually increased.)
3. Which of the following was the name of one of the GATT negotiating rounds?

a. NAFTA  
b. Wilbur  
c. Nixon  
d. Seattle  
e. Uruguay  

*Ans:*  
e (The Uruguay Round, which took place in the late 1980s and early 1990s, was named after the country in which the meeting took place where the decision was made to start the round.)

4. Which of the following is *not* an example of an international public good?

a. Open markets in a recession  
b. Capital flows to less-developed countries  
c. Money for settlement of international debts  
d. Coordination of last resort lending  
e. Exploration for new oil deposits  

*Ans:*  
e (See Gerber p. 27.)

5. Near the end of World War II, the architecture of the postwar economic environment was constructed at a conference of the major Western powers held at?

a. Geneva, Switzerland  
b. Bretton Woods, New Hampshire  
c. New York City  
d. Versailles, France  
e. Stratford on Avon, England  

*Ans:*  
b

6. How many countries are member of the G-20?

a. 7  
b. 8  
c. 19  
d. 20  
e. 24  

*Ans:*  
c (The G-20 is 19 countries plus the EU, which is not a country.)
7. In the article by Paul Blustein, a journalist reporting on breakup of the Potsdam Meeting on June 21, 2007, he attributes the deadlock in part to

   a. China’s refusal to increase the value of its currency.
   b. The developing countries’ reluctance to reduce farm subsidies.
   c. The effort of Boeing and Airbus to form a single company.
   d. The European Union’s unwillingness to reduce protection of agriculture.
   e. Mis-management by the IMF of financial crises.

   Ans: d
Part II: Short Answer

Answer in the space provided.

1. Define the following terms:
   a. Conditionality  
      Ans: The conditions imposed by the IMF on countries to which it makes loans, requiring various changes in their national economic policies.
   
   b. National Treatment  
      Ans: The requirement in the WTO that imports, once they are allowed into a country, may not be treated any differently than domestically produced goods.
   
   c. Free Riding  
      Ans: To enjoy the benefits of a public good without contributing to paying for it.
   
   d. G-7  
      Ans: The seven large industrial economies – Canada, France, Italy, Germany, Japan, United Kingdom, United States whose heads of state meet annually (first joined by Russia, as the G-8, and then by others in the G-20).

2. What was the Marshall Plan?
   
      Ans: A plan created by the United States to assist Europe with its economic and political reconstruction after World War II.

3. Who, according to the Web site The Global Economy, are “the Three Stooges of Corporate Folly”?
   
      Ans: WTO, World Bank, IMF.

4. What is the current status of the Doha Development Round?
   
      Ans: As of July 2008, the multilateral trade negotiations in the WTO, begun at Doha in 2001 with the objective of liberalizing trade while helping developing countries, had collapsed due to disagreement especially between the U.S. and China/India over agricultural subsidies and special safeguards. It is still (in 2011) not clear that there are realistic prospects for the negotiations resuming.
5. Which of the following are problems that Desmond Lachman, author of “The World Has Changed, Why Won't the Fund and the Bank?,” argues that one of the international institutions should be attending to? Check all that apply.

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<thead>
<tr>
<th>Problem</th>
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<tr>
<td>✅ Poverty</td>
<td>World Bank</td>
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<td>✅ Payments imbalances</td>
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<td>____ Poverty</td>
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<td>____ Conditionality</td>
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<td>____ Repayment of loans</td>
<td>World Bank</td>
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<td>____ Non-tariff barriers</td>
<td>WTO</td>
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6. What do the following acronyms stand for?

a. MFN  \(Ans: \) Most Favored Nation

b. ITO  \(Ans: \) International Trade Organization

c. WIPO \(Ans: \) World Intellectual Property Organization

d. GATT \(Ans: \) General Agreement on Tariffs and Trade

e. EME \(Ans: \) Emerging Market Economies