

Study Questions

Lecture 22 Outsourcing / Offshoring

Part 1: Multiple Choice

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

1. Outsourcing is
 - a. Exporting
 - b. Importing
 - c. A firm having someone else do part of what it previously did itself.
 - d. Building a factory in another country to produce for that country's market.
 - e. Going out of business

2. Offshoring is
 - a. Substituting foreign for domestic labor.
 - b. Subcontracting a part of production to another firm.
 - c. Exporting
 - d. Importing
 - e. Building a factory in another country to produce for that country's market.

3. According to the Brainard and Litan Policy Brief, what percentage of those in the U.S. who involuntarily lose their jobs each year do the authors estimate are due to offshoring?
 - a. None. Outsourcing has no effect on employment.
 - b. None. Outsourcing actually causes employment to increase.
 - c. Less than five percent.
 - d. Between ten and twenty percent.
 - e. More than half.

4. How does offshoring affect an industry's productivity?
 - a. It reduces productivity by making workers anxious and unable to concentrate on their jobs.
 - b. It reduces productivity by replacing workers with low-quality machines, produced abroad.
 - c. It increases productivity by scaring workers into working harder.
 - d. It increases productivity by eliminating the activities at which the firm is least efficient.
 - e. It has no measurable effect on productivity, according to studies that have sought to measure it.

5. Which of the following jobs does Alan Blinder code as "offshorable"?
 - a. Architects
 - b. Computer repair
 - c. Pediatrics
 - d. Geriatrics
 - e. Builders

6. Which of the following is **not** one of the policies recommended for dealing with outsourcing/offshoring in the United States?
 - a. Gather more data about it.
 - b. Provide additional assistance to workers who lose their jobs because of it.
 - c. Repeal any tax laws that artificially increase the practice.
 - d. Prohibit imports that have been produced with foreign labor.
 - e. Provide wage insurance.

7. Which of the following is **not** one of advantages that Tom Friedman, in the assigned article "Made in the World," says will allow the US to prosper in the new world where companies produce wherever they view it as most beneficial, rather than "in" or "out" of a home country?
 - a. Protection for intellectual property
 - b. Low wages
 - c. Secure capital markets
 - d. Government funding for science
 - e. Strength in logistics

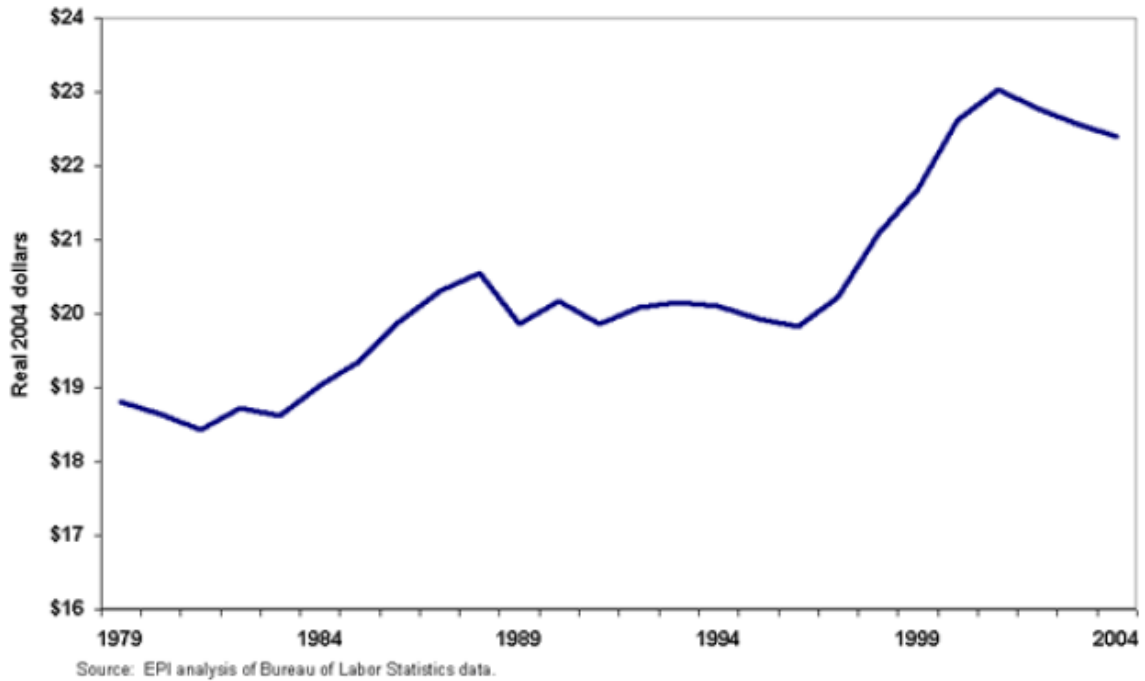
8. Which of the following are among the reasons that companies are engaging in “reshoring.”
- a. Increased use of anti-dumping duties on products manufactured abroad.
 - b. The US House of Representatives passed legislation prohibiting offshoring.
 - c. The declining price of the Chinese currency is reducing the value of producing abroad.
 - d. US wages have fallen below wages in China.
 - e. Manufacturers are increasing their use of robots.

Part II: Short Answer

1. How could offshore outsourcing create new jobs in the U.S.?

2. The graph below was shown in lecture from Bivens, at the Economic Policy Institute. Which part of it is relevant to offshoring, and why?

**Figure 2: Real hourly wages of young college graduates
ages 25-35, 1979-2004**



3. Suppose that the US company General Electric (GE) is initially employing 1000 US workers to make condensers for the refrigerators that it sells to consumers in the US. It pays these workers a total of \$50 million per year. It also is initially buying \$30 million worth of shelves for its refrigerators from Mexico. In each of the examples below, assume that the rest of the US economy continues to do everything that it did before, and so does GE except for the changes listed. Then, for each of examples (a)-(c), answer the following questions:
- i. From the information given, what is the change in US GDP as it would normally be measured?
 - ii. What is the change in the output that the US actually produces?
 - iii. How much of the change in GDP in (a) is therefore “Phantom GDP”?
 - iv. Is the US made better off, worse off, or unaffected by these changes?
- a. GE switches its purchases of shelves from Mexico to a supplier in China, which produces them for one-third the price: \$10 million.
- b. GE finds a way to make the same number of condensers with only 800 (US) workers instead of 1000. It therefore reassigns 200 workers, paying them the same as before, to make a new product, gePods, that it sells to US consumers for \$10 million.
- c. GE now learns that it can manufacture the condensers in China as well, for only \$5 million. It therefore reassigns the other 800 also to making still more of the newly popular gePods, and its sales of gePods rise from \$10 million to \$50 million.