Study Questions
(with Answers)

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

    Ans: c

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.

    Ans: a (This is the definition quoted in lecture from Bivens)

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.

Ans: c (The Brainard-Litan piece gives a number, for offshoring, 2%, of <u>involuntary</u> job losses.)

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.

   Ans: d (See Amiti and Wei.)

5. Which of the following jobs does Alan Blinder code as "offshorable"?

   a. Architects
   b. Computer repair
   c. Pediatrics
   d. Geriatrics
   e. Builders

   Ans: a

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.

   Ans: d

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

   Ans: b

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.

   Ans: e (See Economist, "Offshoring: Welcome Home")

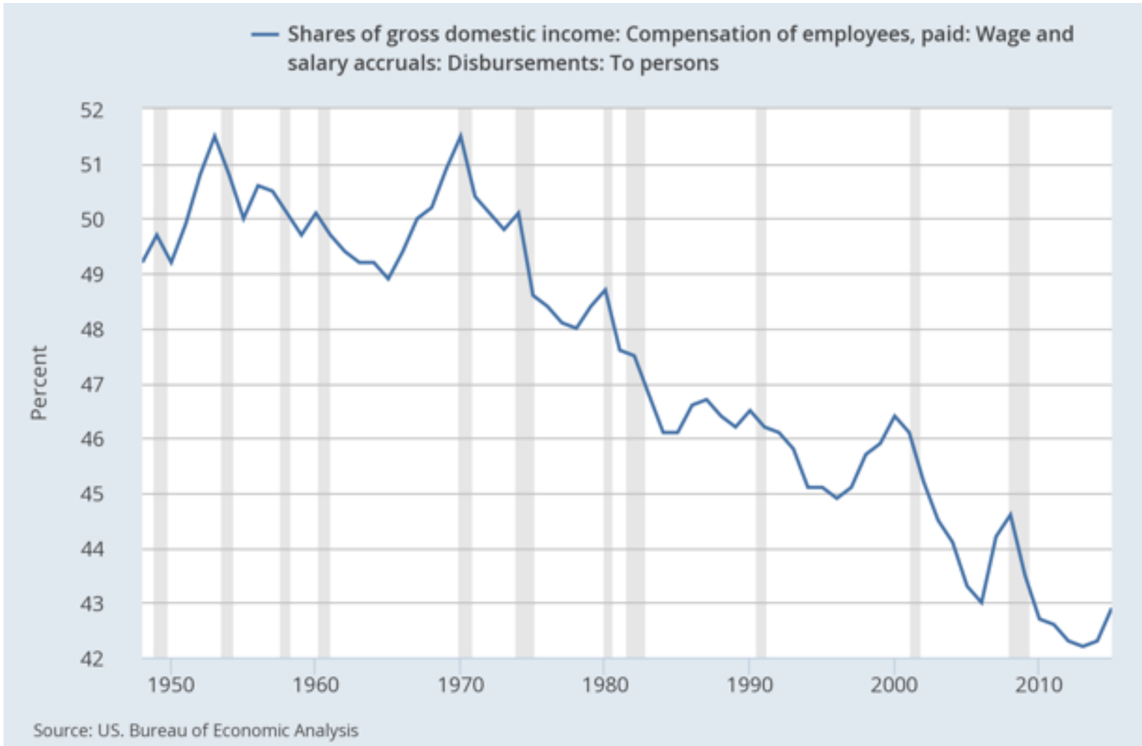
9. Why, according to the article by Schuman in the *New York Times*, "Is China Steeling Jobs?", is China losing them instead?
   a. The US has increased tariffs against China's exports.
   b. Costs in China are now about the same as in US.
   c. US firms are pulling out of China due to human rights concerns.
   d. US firms are pulling out of China in anticipation of Donald Trump's presidency.
   e. China's population is migrating to neighboring countries.
   Ans: b

Part II: Short Answer

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

   Ans: Hiring of workers abroad can make a domestic industry viable whose costs would otherwise have been too high to survive, or even in some cases to start. See Bhagwati et al. for an example. Also (as an alternative answer), some outsourcing comes into the US and employs workers here.

2. The graph below was shown in lecture. Based on it, answer the questions below.



a. Does it appear that labor income is more likely to decline in recessions or in booms?
Ans: In recession. The shaded bars are recessions, and in almost all of them the curve slopes steeply down.

b. By how much did non-labor's share of US income rise from 1970 to about 2015?
Ans: From about 48.5% to almost 58%.

c. Why are the changes shown here thought to be relevant for the issue of offshoring?
Ans: Because labor is mostly unable to move across national borders, but capital can move, capital's bargaining power in setting wages is higher than that of labor. The increased potential for offshoring in recent decades has therefore permitted owners of firms to resist wage increases and increase profits.