

Instructor's Manual

**Export-Import Theory, Practices, and Procedures
Second Edition**

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Chapter 1

Test Questions

TRUE/FALSE

1. International trade is the exchange of goods and services within domestic borders.
Answer: *False*. It is the exchange of goods and services across *national boundaries*.
2. Exports create high-wage employment. This can be seen by the study conducted by the USTR, which found that workers in export-related sectors earn 17 percent more than the average worker in the United States.
Answer: *True*.
3. A recent study on wages and trade found a negative correlation between export intensity and wages.
Answer: *False*. A *positive* correlation was found.
4. Trade in services constitutes 25 percent of overall trade in 2004.
Answer: *True*.
5. Export-related wages are higher in the service sector than in manufacturing.
Answer: *False*. They are higher in manufacturing.
6. Import penetration is associated with lower demand elasticity, which increases workers' bargaining power.
Answer: *False*. Import penetration is associated with *greater* demand elasticity, which *reduces* workers' bargaining power.
7. Key factors that have contributed to the increase in Singapore's exports include the country's open trade, investment, and economic policies.
Answer: *True*.
8. Large countries tend to be more dependent on international trade than smaller countries.
Answer: *False*. *Smaller* countries are more dependent since they do not have a diversified economy.
9. In 2004, developing countries accounted for about half of the world's top twenty-five exporters and importers.
Answer: *False*. Developing countries accounted for more than *one-third* of the world's top twenty-five exporters and importers.
10. Global imbalances may be reduced by a reduction in excess savings.
Answer: *True*.

MULTIPLE CHOICE

1. In which of the following countries do services account for about 40 percent or more of total merchandise trade?

- a. China and Panama
- b. Panama and the Netherlands
- c. China, Panama, and the Netherlands
- d. China and the Netherlands

Answer: b

2. Which of the following are included in a typical services export?

- a. Tourism and transportation
- b. Sales and forecasting
- c. Technology and e-commerce
- d. All of the above

Answer: a

3. Who does international trade allow to seek out products, services, and components in foreign countries?

- a. Manufacturers and distributors
- b. Distributors and suppliers
- c. Suppliers and public officials
- d. Manufacturers and suppliers

Answer: a

4. For developing countries, determinants of import demand include:

- a. Government restrictions on all exports
- b. Government restrictions on imports
- c. Government restrictions on commercial exports only
- d. Government restrictions on gold shipments

Answer: b

5. The dollar value of total world trade in 2004 was greater than the gross national product of every nation except:

- a. United States
- b. Canada
- c. Australia
- d. a and b

Answer: d

6. Which technologies assisted with the physical integration of world markets?

- a. Media
- b. E-commerce
- c. a and b
- d. None of the above

Answer: a

7. Which of the following explains the reason why larger countries import less manufactured goods on a per capita basis?

- a. Larger countries have a diversified economy, so goods produced are usually outsourced.
- b. Larger countries have the land capacity and ability to produce their own goods.
- c. Larger countries have a larger population to help produce their own goods, thus contributing to a diversified economy.
- d. Larger countries have a diversified economy and export more services than manufactured goods.

Answer: c

8. Trade in manufactured goods:
- Has been a dynamic component of world merchandise trade
 - Has been a dynamic component of developed countries' trade with the rest of the world
 - Has been the fastest growing part of world trade
 - Is now dominated by China, Korea, and Canada
- Answer: a
9. Which of the following is an example of a free trade area/common market?
- SURMERCOS
 - DR-CAFTA
 - AFTA
 - SCHA
- Answer: b
10. Unsustainable global imbalances have been a result of:
- Weak currencies, domestic economic growth, and high savings
 - Strong currencies, domestic economic growth, and high savings
 - Weak currencies, domestic economic growth, and low savings
 - Strong currencies and domestic economic growth only
- Answer: a
11. The result of the 9/11 terrorist attacks has increased costs to U.S. exporters. Which of the following is a major factor?
- Rise in transportation costs
 - Rise in fuel costs
 - Rise in merchandise trade costs
 - Rise in security costs
- Answer: d
12. The major benefits of trade include:
- Reduction in transportation cost
 - Increases in incomes and employment
 - Advances in technical methods
 - b and c
- Answer: d
13. Faster growth in emerging economies:
- Has resulted in higher inflation
 - Has reduced globalization efforts
 - Has put pressure on the supply of raw materials
 - Has reduced global imbalances
- Answer: c
14. Which of the following will help in improving the U.S. balance of trade?
- Trade in soybeans
 - Increasing manufactured goods' exports
 - Increasing the share of exports by small and medium-sized businesses
 - All of the above
- Answer: c
15. In 2004, what was the value of world merchandise exports compared to that of services?
- \$6.21 (trillion), \$4.26 (trillion)

- b. \$6.21 (trillion), \$3.28 (trillion)
- c. \$8.91 (trillion), \$4.26 (trillion)
- d. \$8.91 (trillion), \$2.12 (trillion)

Answer: d

16. Between 2000–2004, the average increase in world merchandise and service exports was:

- a. 3 percent
- b. 0.45 percent
- c. 12.77 percent
- d. 9 percent

Answer: d

17. The Final Act of the Uruguay Round established:

- a. Reduction in global trade barriers and a multilateral framework of discipline for trade in services
- b. Reduction in global trade barriers and protection of trade-related intellectual property rights
- c. A multilateral framework of discipline for trade in services and protection of trade-related intellectual property rights
- d. Reduction in global trade barriers, a multilateral framework of discipline for trade in services, and protection of trade-related intellectual property rights

Answer: d

18. What was the primary focus of the Doha Round?

- a. Reduction of dumping by emerging economies in other countries
- b. Reduction of trade distorting agricultural subsidies by developing countries
- c. Reduction of trade distorting agricultural subsidies by developed countries
- d. All of the above

Answer: c

19. Which of the following is not part of the four Pacific Rim countries?

- a. Hong Kong
- b. South Korea
- c. China
- d. Taiwan

Answer: c

20. What is considered to be a significant development in world trade over the past two decades?

- a. Israel's free trade agreement with the United States
- b. China's membership in ASEAN
- c. The opening of China and Eastern Europe
- d. Outsourcing in India

Answer: c

21. What has been the major focus of developing countries with regard to trade?

- a. Increase international trade
- b. Increase production and exports
- c. Demand tariff cuts by wealthy countries
- d. Increase trade aid

Answer: b

22. Which of the following countries have a surplus in their service account from tourism and workers' remittances?

- a. Egypt, India, Pakistan
- b. Egypt, India, China
- c. China, India, Pakistan
- d. China and India

Answer: a

23. Today's integration of the world economy is driven by advances in _____, _____, and _____ to reduce obstacles to the flow of trade and capital.

- a. Communications, trade agreement, and government's policy
- b. Communications, information technology, and trade agreements
- c. Communications, information technology, and government's policy
- d. Trade agreements, information technology, and government's policy

Answer: c

24. Most occupations show a _____ from an equal amount of exports and imports except for _____ occupations, which are shrinking in most _____ countries because of low-wage imports.

- a. Net loss, white-collar, developed
- b. Net gain, blue-collar, developed
- c. Net gain, blue-collar, developing
- d. Net loss, white-collar, developing

Answer: b

25. Exports create:

- a. Low wage employment
- b. High wage employment
- c. No increase or decrease in employment
- d. None of the above

Answer: b

Chapter 2

Test Questions

TRUE/FALSE

1. The GATT in theory was an organization in which participating nations were called “contracting parties.”

Answer: *False*. GATT was not an organization.

2. The most current round of WTO negotiations was the Uruguay Round, which took place in Qatar.

Answer: *False*. The *Doha Round* is the most recent round that took place in Qatar.

3. According to NAFTA, Mexico is allowed to place temporary capital limits for banks, securities firms, and insurance companies during a transition period.

Answer: *True*.

4. NAFTA requires members to provide ninety days notice before adapting new standards and allowing for comments before implementation.

Answer: *False*. NAFTA requires *thirty* days notice.

5. A common market includes elements of a customs union and allows for the free movement of labor and capital among member nations.

Answer: *True*.

6. One of the objectives of the European Union is to abolish restrictions on the free movement of all factors of production, including labor, services, and capital.

Answer: *True*.

7. NAFTA provides for a common external tariff.

Answer: *False*. It does *not* provide for a common external tariff.

8. The European Union does not provide economic assistance to member states. However, it allows for economic/monetary union.

Answer: *False*. It does provide for economic assistance.

9. The GATT/WTO has used the principle of nondiscrimination to reduce trade barriers.

Answer: *True*.

10. All trade agreements seek free trade and economic cooperation.

Answer: *True*.

MULTIPLE CHOICE

1. Which trade policies did GATT use to reduce trade barriers among contracting parties?

- a. Nondiscrimination
- b. Trade liberalization

- c. Settlement of trade disputes
 - d. All of the above
- Answer: d

2. Countries that are members of the GATT/WTO are called:

- a. Member nations
 - b. Members
 - c. Contracting parties
 - d. Contracting members
- Answer: c

3. The Doha Round took place during the following years:

- a. 2000 to 2002
 - b. 2000 to 2004
 - c. 2001 to 2006
 - d. None of the above
- Answer: d

4. The GATT rules apply to all products both imported and exported, although most of the rules are relevant primarily to _____.

- a. Exports
 - b. Imports
 - c. Services
 - d. Free trade
- Answer: b

5. In 1982, the United States initiated a proposal to launch a new round of GATT talks. Which of the following was not a reason behind the U.S. initiative?

- a. Improve market access for U.S. through reduction of tariff/nontariff barriers
 - b. Extend GATT coverage to areas such as IPRs and investment
 - c. Bring other developed nations more effectively into the international trading system
 - d. a and b.
- Answer: d

6. The result of the Uruguay Round was:

- a. Trade liberalization
 - b. Trade rules
 - c. Institutional reforms
 - d. All of the above
- Answer: d

7. The Uruguay Round allowed for the reduction of trade barriers in the areas of ____ and ____, which had been resistant to reform.

- a. International property rights and investment
- b. Agriculture and textiles
- c. Textiles and apparel
- d. International property rights and services

Answer: b

8. From 2004 to 2005, approximately ____ RIAs were notified to the WTO.

- a. 44
- b. 51
- c. 42
- d. None of the above

Answer: d

9. Less than ____ percent of agreements provide for high levels of integration as well as the harmonization of trade policies.

- a. 10
- b. 11
- c. 12
- d. 13

Answer: a

10. Smaller nations enter into the RIA for which two reasons:

- a. Market access and creation of joint ventures with other developing nations
- b. Market access and establishing trade and FDI relations with transition economies
- c. Market access and to deal more effectively with larger economies in multilateral trade talks and other areas
- d. None of the above

Answer: c

11. Which of the following is a major vehicle for RIAs?

- a. Consolidation of peace and regional security
- b. Promotion of deeper levels of economic integration
- c. Sluggish progress in multilateral trade talks
- d. All of the above

Answer: d

12. NAFTA has facilitated substantial increases of foreign direct investment in which country?

- a. United States
- b. Canada
- c. Mexico
- d. All of the above

Answer: c

13. According to NAFTA, the qualification for preferential market access is that goods must be _____ within member countries.

- a. Sold
- b. Made
- c. a and b
- d. None of the above

Answer: b

14. Under NAFTA, disputes between member states are settled through:
- Consultations
 - Conciliation
 - Panel of nongovernment experts
 - All of the above
- Answer: d
15. Since the establishment of NAFTA, the U.S. merchandise trade deficit with Canada and Mexico has ____ and by 2005 had grown to \$_____.
- Doubled; \$330 billion
 - Tripled; \$330 billion
 - Quadrupled; \$ 330 billion
 - None of the above
- Answer: c
16. The European Free Trade Area, formed in 1960, has the following countries as members:
- Austria, Denmark, Norway, Portugal
 - Austria, Spain, Czech Republic, Portugal
 - Austria, Denmark, Norway, Spain
 - Austria, Norway, Portugal, Spain
- Answer: a
17. Which of the following is not an objective of the European Union?
- Establishment of free trade among nonmembers and member nations
 - Abolition of restrictions on the free movement of all factors of production
 - a and b
 - None of the above
- Answer: a
18. The European Union has the following policy:
- Uniform customs duties on goods imported from outside of the EU
 - The Common Agricultural Policy
 - Uniform common transport, agricultural and competition policy
 - All of the above
- Answer: d
19. Which of the following is not an objective of the Single European Act?
- Encouragement of monetary cooperation
 - Establishment of cooperation on research and development
 - Harmonization of working conditions across member nations
 - All of the above
- Answer: d
20. The Euro has allowed for:
- Higher transaction costs
 - Lower transaction costs
 - Nontransparent prices
 - a and c
- Answer: b

21. The Andean Pact includes which countries?

- a. Bolivia, Colombia, Ecuador, Peru
- b. El Salvador, Costa Rica, Guatemala, Honduras
- c. Bolivia, Colombia, Ecuador, Honduras
- d. Argentina, Bolivia, Nicaragua, Venezuela

Answer: a

22. The Southern African Customs Union has the following as its objective:

- a. Common currency and common external tariff
- b. Common currency and free movement of goods
- c. Common currency, common external tariff, and free movement of goods
- d. Common external tariff and free movement of goods

Answer: d

23. Which of the following countries is not a member of the Economic Community of West African States?

- a. Benin
- b. Ghana
- c. Kenya
- d. Togo

Answer: c

24. Which of the following countries is a member of Asia Pacific Economic Cooperation?

- a. Benin
- b. Singapore
- c. Venezuela
- d. All of the above

Answer: b

25. _____ is a common objective among all regional trade agreements.

- a. Common external tariff
- b. Single currency
- c. Free trade
- d. None of the above

Answer: c

Chapter 3

Test Questions

TRUE/FALSE

1. In a partnership, “persons” is not to be interpreted to include corporations, partnerships, or other associations.

Answer: *False*. “Persons” is interpreted to include corporations, partnerships, and other associations.

2. Co-ownership of a business in a partnership is determined by share of business profits and management responsibility.

Answer: *True*.

3. A corporation is not separate from its owners and is created pursuant to state laws in the place the business is incorporated.

Answer: *False*. The corporation *is* a separate entity.

4. The United States, the Netherlands, and Germany are some of the countries that do not impose taxes on the basis of worldwide income.

Answer: *False*. They *do* impose taxes on worldwide income.

5. A controlled foreign corporation (CFC) is a foreign corporation in which U.S. shareholders own less than 50 percent of its voting stock or more than 50 percent of the value of its outstanding stock on any of the foreign corporation’s tax year.

Answer: *False*. Shareholders must own *more* than 50 percent of its voting stock.

6. In general, U.S. companies that export their goods will incur no tax liability in importing countries if their agents overseas do not have authority to conclude sales contracts on behalf of the U.S. exporter.

Answer: *True*.

7. A foreign corporation marketing products in the United States through independent agents incurs no tax liability in the United States.

Answer: *True*.

8. If a parent company sells its output to a foreign marketing subsidiary at a higher price, it moves overall gains to the subsidiary.

Answer: *False*. Gains are moved to the *parent company*.

9. Standard business deductions include general and administrative expenses, personal and business expenses, and entertainment, travel, and other business-related expenses.

Answer: *True*.

10. Permanent establishment is meant to describe a fixed place of business through which the business of an enterprise is only partially discharged.

Answer: *False*. Permanent establishment is meant to describe a fixed place of business through which the business of an enterprise is *wholly or partially* discharged.

MULTIPLE CHOICE

1. Which of the following is a major advantage of sole proprietorships?

- a. They are easy to organize, but difficult to control.
- b. They are not as flexible to manage as a partnership.
- c. Sole proprietorships are more subject to maximum government regulations than other businesses.
- d. The owner of a sole proprietorship is taxed as an individual, at a lower rate than corporations.

Answer: d

2. The owner of a sole proprietorship is personally liable for the _____ and other _____ of the business.

- a. Debts; liabilities
- b. Risks; liabilities
- c. Debts; risks
- d. None of the above

Answer: a

3. Which of the following is not required in a partnership?

- a. Share in profits
- b. Share of bank accounts
- c. Written agreement
- d. All of the above

Answer: c

4. What is the fiduciary duty that partners owe the partnership and other partners?

- a. Trust and honesty
- b. Honesty and integrity
- c. Loyalty and honesty
- d. Loyalty and trust

Answer: d

5. A _____ partnership is a special form of partnership that consists of at least one general partner (investor, manager) and one or more investor partners.

- a. Joint
- b. Limited
- c. General
- d. None of the above

Answer: b

6. A general partner includes:

- a. Natural persons
- b. Partnerships
- c. Corporations
- d. All of the above

Answer: d

7. In a corporation, shareholders are liable only to the extent of their _____.

- a. Assets to the business
- b. Investments in the business
- c. Managerial duties
- d. None of the above

Answer: b

8. Advantages of a corporation include:

- a. Free transferability of shares
- b. Perpetual existence
- c. Ability to raise additional capital by selling shares in the corporation
- d. All of the above

Answer: d

9. Many businesses incorporate their companies in the state of _____ even though it is not the state in which the corporation does most of its business.

- a. Washington, DC
- b. California
- c. Massachusetts
- d. None of the above

Answer: d (the state is Delaware)

10. Which of the following is not a precondition for a corporation to be to be taxed as an S corporation?

- a. Domestic entity
- b. Membership in an affiliated group of firms
- c. Number of shareholders
- d. Classes of stock

Answer: b (no membership in an affiliated group is required)

11. If a small business is conducted from one's home, all direct expenses for the business part of the home are _____.

- a. Nondeductible expenses
- b. Deductible expenses
- c. a and b
- d. None of the above

Answer: b

12. An international company can organize its export-import department along which lines?

- a. Functional, product, nonmarketable, or geographical
- b. Nonfunctional, product, marketable, or climatic
- c. Functional, product, market, or geographical
- d. Functional, product, market, or climatic

Answer: c

13. If a company elects to be taxed as an S corporation, it has the best advantages of:

- a. A limited company and C corporation
- b. Sole proprietorship and partnership
- c. Sole proprietorship and investment firms
- d. partnership and a corporation

Answer: d

14. For U.S. tax purposes, an individual is considered a U.S. resident if the person:

- a. Has been issued a green card
- b. Has been physically present for 182 days
- c. Meets the cumulative physical test
- d. All of the above

Answer: a

15. If Jim (a U.K. citizen) was in Florida for 60 days in 2004, 30 days in 2005, and 160 days in 2006, would he be considered a U.S. resident for 2006? If not, how many more days would he be required to meet?

- a. Yes. He has to be in the country for only 180 days minimum.
- b. No. He needs at least one more day in order to meet the requirement.
- c. No. He needs at least two more days in order to meet the requirement.
- d. None of the above

Answer: d (he needs to be in the country for 183 consecutive days)

16. Amin, a Brazilian software exporter opens a small sales office in Indiana in order to sell in the United States and Canada. Amin is subject to pay taxes in which of the following places?

- a. United States and Canada
- b. United States
- c. Canada
- d. All of the above

Answer: b

17. In general, U.S. companies that export their goods overseas will incur no tax liability in the importing country if:

- a. They undertake their exports through independent distributors
- b. Their agents overseas do not have the authority to conclude sales contracts on behalf of the U.S. exporter
- c. Income from U.S. services income is generally exempt from host country taxation
- d. All of the above

Answer: d

18. Transfer prices do not affect _____ or the absolute amount of gain or loss among related persons or "controlled group of _____"

- a. Single income; corporations
- b. Combined income; corporations
- c. Single income; partnerships
- d. Combined income; partnerships

Answer: b

19. The United States has entered into a number of tax treaties with the following country:

- a. India
- b. China
- c. New Zealand
- d. All of the above

Answer: d

20. Which of the following are considered allowances?

- a. Organizational costs
- b. Personal and business expenses
- c. Entertainment and travel expenses
- d. All of the above

Answer: d

21. The following transfer pricing method is based on the allocation of profit between related parties based on the relative value of the contribution to the profit of each party:

- a. Profit split method
- b. Profit and cost plus method
- c. Resale price and profit method
- d. Comparable profits method

Answer: a

22. Arm's length charge is determined by using which of the following:

- a. Resale price method
- b. Cost price method
- c. Cost base method
- d. All of the above

Answer: a

23. ____ connected income may be extended beyond U.S.-source income to include certain types of foreign-source income.

- a. Efficiently
- b. Permanently
- c. Effectively
- d. Limited

Answer: c

24. A partnership is required to register its business name with the appropriate state agency under the following circumstance:

- a. In all cases
- b. In certain circumstances
- c. Only if it operates under a fictitious name
- d. Only if it uses the name of a similar business

Answer: c

25. Delaware has laws that are favorable to a business's _____ and _____.

- a. External operations; management
- b. International operations; management
- c. External and internal operations; management
- d. None of the above

Answer: b

Chapter 4

Test Questions

TRUE/FALSE

1. Factors that firms must consider before exporting their products overseas include the success of the product in the domestic market, participation in overseas trade shows, and advertising and market data.

Answer: *True*.

2. The reactive approach involves the selection of a product or service based on overall market demand.

Answer: *False*. The *systematic* approach involves this.

3. International market assessment is a form of environment scanning that permits a firm to select a large number of desirable markets on the basis of broad variables.

Answer: *False*. International market assessment is a form of environment scanning that permits a firm to select a *small* number of desirable markets on the basis of broad variables.

4. Secondary screening involves financial, but not economical conditions.

Answer: *False*. Secondary screening involves *both* financial and economical conditions.

5. Major programs offered by the Department of Commerce include trade development, market access and compliance, and the Gold Key Service.

Answer: *True*.

6. The Gold Key Service provides services to non-U.S. and U.S. exporters by prescreening potential suppliers, professional associations, and so on.

Answer: *False*. The service provides services only to U.S. exporters.

7. Commercial banks provide market research and promotion, financing exports, collections, credit information, and assistance.

Answer: *False*. Market research and promotion is a characteristic of trading companies.

8. Foreign media, commercial publications, and personal selling are ways that exporters can advertise their product or service overseas.

Answer: *True*.

9. Important factors to consider in selecting the export product include shifting spending patterns and emphasis on niche marketing.

Answer: *True*.

10. Trade missions are another import sales promotion tool.

Answer: *False*. They are only an *export* sales promotion tool.

MULTIPLE CHOICE

1. Uncontrollable environmental forces include:

- a. Exchange controls
- b. Taxation
- c. Inflation
- d. All of the above

Answer: d

2. _____ provide a preliminary indication of markets for a particular product in most countries.

- a. Trade statistics
- b. Foreign investment data
- c. Statistical data
- d. Data measurements

Answer: a

3. The difference between a systematic approach and a reactive approach is:

- a. The systematic approach involves the selection of a product based on immediate market need, whereas the reactive approach is based on overall market demand.
- b. A systematic approach involves the selection of a service based only on immediate market need, whereas a reactive approach is based on the selection based on overall market demand.
- c. A systematic approach involves the selection of a product and service based on overall market demand, whereas a reactive approach is based on the selection on the basis of immediate market demand.
- d. None of the above

Answer: c

4. In both cases (systematic or reactive), selection of the manufacturer (supplier) depends on a number of factors including:

- a. Price
- b. Quality and reliability
- c. Proximity to home or office
- d. All of the above

Answer: d

5. Lack of focus on a given product or market and absence of a long-term relationship with an importer are disadvantages of using:

- a. Systematic approach
- b. Reactive approach
- c. a and b
- d. None of the above

Answer: b

6. Which of the following are important factors to consider in selecting the export product?

- a. Shifting spending patterns
- b. Products to be included from the list
- c. Emphasis on quantity and niche marketing
- d. All of the above

Answer: a

7. International market research is needed because:

- a. Export/investment decisions are often made with careful assessment of foreign markets and with a wide appreciation for different environments abroad.
- b. Export/investment decisions are often made without careful and subjective assessment of foreign markets and with a wide appreciation for different environments abroad.
- c. Export/investment decisions are often made without careful and objective assessment of foreign markets and with a limited appreciation for different environments abroad.
- d. Export/investment decisions are often made without careful and objective assessment of foreign markets and with a wide appreciation for different environments abroad.

Answer: c

8. The purpose of international marketing research is to:

- a. Identify and compare the size and potential of various markets and select the most desirable market for a given product or service
- b. Reassess market changes that may require changes in a company's strategy
- c. a and b
- d. None of the above

Answer: c

9. Some of the limitations to using secondary sources are that:

- a. Information often meets and exceeds one's specific needs
- b. Similarities in the definition of terms or units of measure that make it difficult to categorize or compare the research data
- c. Difficulties associated with the assessment of the accuracy of the information because little is known about research design or techniques used to gather the data.
- d. Difficulties associated with data collection

Answer: c

10. In the early stages of assessment, secondary data are used to establish market size, level of trade, and _____.

- a. Banking
- b. Investment
- c. Preferences
- d. Tastes

Answer: b

11. Basic need potential is often determined by environmental conditions such as:
- Climate
 - Topography
 - Natural resources
 - All of the above
- Answer: d
12. Countries with high inflation rates should be carefully considered because they may limit:
- The volume of imports by restricting the availability of foreign exchange
 - The volume of exports by restricting the availability of foreign exchange
 - The volume of money supply by restricting the availability of foreign exchange
 - The volume of exports, imports, and money supply by restricting the availability of foreign exchange
- Answer: a
13. Exporting and importing of goods to and from politically unstable countries can be affected by:
- Entry barriers
 - Limits on foreign remittances and/or ownership
 - Taxes and price controls
 - All of the above
- Answer: d
14. The structure of an international business plan includes:
- Executive summary
 - Financial plan
 - Target market
 - All of the above
- Answer: d
15. World trade clubs provide:
- Education programs on international trade and organization of promotional events
 - Advice on all aspects of exporting ranging from domestic to foreign regulations
 - Market research and promotion, shipping and documentation, financing sales, and appointment of overseas distributors
 - All of the above
- Answer: a
16. The business contact programs provided by the Department of Commerce include:
- ADS
 - NCUSA
 - CPI
 - OPT
- Answer: a
17. Which of the following is not a tool used by exporters for overseas promotions?
- Indirect mail
 - Trade missions
 - Advertising
 - All of the above
- Answer: a

18. In Southeast Asia, what is the most effective way of promoting the sale of industrial goods?
- Advertising
 - Trade missions
 - Direct mail
 - Personal selling
- Answer: c
19. Which of the following techniques can an exporter use to advertise a product or service?
- National media
 - Noncommercial publications
 - Nongovernment sponsored advertising
 - Foreign media
- Answer: d
20. Trade fairs can be organized by:
- Certain industries
 - Trade associations
 - Chamber of Commerce
 - All of the above
- Answer: d
21. In the United States, which organization organizes various export promotion events?
- Department of Commerce
 - American Exporters Association
 - Ex-Im Bank
 - Chamber of Commerce
- Answer: a
22. _____ is communicating with an audience by personal or nonpersonal media that are not explicitly paid for delivering messages.
- Personal selling
 - Sales promotion
 - Publicity
 - The Internet
- Answer: c
23. Which of the following is not a source of export counseling to U.S. exporters?
- U.S. Department of Commerce
 - U.S. Export Assistance Centers
 - The Small Business Administration
 - U.S. Ex-Im Bank
- Answer: d
24. Which of the following is not a common mistake made by potential exporters?
- Failure to obtain qualified export counseling
 - Failure to print service, sale, and warranty messages in locally understood languages
 - Failure to provide readily available servicing for the product
 - Neglecting import business when the U.S. market booms
- Answer: d

25. Which of the following is not a factor in the export decision?

- a. Experience
- b. Human resource and personnel
- c. Production capacity
- d. Financial capacity

Answer: b

Chapter 5

Test Questions

TRUE/FALSE

1. Williamson states that assets specificity, uncertainty, and frequency determine the efficient transaction governance form.

Answer: *True*.

2. Export firms can be involved in two principal channels of distribution when marketing abroad: indirect channels and independent local middlemen.

Answer: *False*. They can be involved in indirect channels and direct channels. An independent local middleman is one form of an indirect channel.

3. A firm's channel structure is defined in terms of the percentage of equity held in the distribution organization whereby majority ownership (greater than 60 percent) is treated as an indirect or integrated channel, whereas less than majority ownership is considered a direct channel.

Answer: *False*. A firm's channel structure is defined in terms of the percentage of equity held in the distribution organization whereby majority ownership (greater than 50 percent) is treated as a *direct* or integrated channel, whereas less than majority ownership is considered as an *indirect* channel.

4. The export commission agent represents foreign buyers such as export firms and large industrial users.

Answer: *False*. The export commission agent represents foreign buyers such as *import* firms and large industrial users.

5. Export cartels are organizations of firms in the same industry for the sole purpose of marketing their products overseas.

Answer: *True*.

6. One of the advantages of an indirect channel structure is that it is a good way to test-market products, develop goodwill, and allow clients to be familiar with a firm's trade name or trademark before making substantial commitment.

Answer: *True*.

7. Sellers reserve the right to change prices at any time usually upon 60 to 90 days.

Answer: *False*. Usually upon 30 to 60 days.

8. Termination of a contract is allowed by either party with a defined prerequisite of action or omission by the other party upon giving advance notice.

Answer: *False*. The termination of a contract does not need a defined prerequisite of action or omission by the other party.

9. Bankruptcy, liquidation, and litigation are factors that may cause contracts to be terminated by either party.

Answer: *True*.

10. All contracts must state the applicable law of the manufacturer's home state, should a dispute occur.

Answer: *False*. Most contracts state the applicable law for a dispute settlement, but it is not required.

MULTIPLE CHOICE

1. Which of the following is not a disadvantage of using an indirect channel?

- a. The supplier loses control over the marketing of its product overseas
- b. The manufacturer loses control over the marketing of its product overseas
- c. The distributor loses control over the marketing of its product overseas
- d. a and b

Answer: d

2. Direct sales can be made through ____ located in a foreign country.

- a. Suppliers
- b. Manufacturers
- c. Agents
- d. Investors

Answer: c

3. Direct exporting is likely to provide opportunities for ____ even though it requires a high degree of financial commitment.

- a. High profit margins
- b. Low profit margins
- c. Medium profit margins
- d. None of the above

Answer: a

4. The choice of channel structure is primarily dictated by _____.

- a. Marketing objectives of the firm
- b. Market supply
- c. Manufacturer's talent and overall ability
- d. Demand consideration

Answer: a

5. In a study on export channels of distribution in the United States, ___ percent of the respondents indicated that the distribution of goods in a foreign country was primarily dictated by the market, while __ percent stated the choice was dictated by the nature of the exported product.

- a. 52.7; 15.5
- b. 52.7; 15.4
- c. 51.3; 15.5
- d. 51.3; 15.4

Answer: a

6. U.S. sales to Canada are characterized by:

- a. Long (direct) channels
- b. Long (indirect) channels
- c. Short (direct) channels
- d. Short (indirect) channels

Answer: c

7. Which two types of controls are available for the manufacturer and exporter?

- a. Process controls and input controls
- b. Process controls and output controls
- c. Servicing controls and input controls
- d. Servicing controls and output controls

Answer: b

8. Disadvantages of using EMCs include:

- a. Manufacturer may lose control over foreign sales.
- b. EMCs that work on commission may lose interest if sales do not come immediately.
- c. Exporters may not learn international business since the EMC does most of the work related to exports.
- d. All of the above are disadvantages of using EMCs.

Answer: d

9. Which of the following are the most traditional and dominant intermediary in many countries?

- a. Investment companies
- b. Servicing companies
- c. Distribution companies
- d. Trading companies

Answer: d

10. Which of the following describes the difference between trading companies and EMCs?

- a. Trading companies offer more diverse product lines than EMCs, which offer more services.
- b. Trading companies offer more services and have more diverse product lines than EMCs.
- c. Trading companies are largely restricted to export-import activities.
- d. EMCs are not restricted to export-import activities.

Answer: b

11. Export commission ____ reside and conduct business in the ____ country and are paid a commission by their ____ clients.

- a. Distributors; importer's; foreign
- b. Distributors; exporter's; foreign
- c. Agents; exporter's; foreign
- d. Agents; importer's; foreign

Answer: c

12. Most export merchants purchase products from?

- a. Manufacturers
- b. Suppliers
- c. Distributors
- d. None of the above

Answer: a

13. Which of the following are foreign end users?

- a. Schools
- b. Hospitals
- c. Banks
- d. All of the above

Answer: d

14. Which of the following is not a major disadvantage of using an agent?

- a. Legal and financial problems in the event of termination
- b. The agent assumes the attendant risks and responsibilities, including pricing and delivery to sales service
- c. Agents have limited training and knowledge about the product
- d. All of the above

Answer: b (the firm assumes the attendant risks and responsibilities)

15. ____ take possession of goods and provide the necessary pre- and postsale services.

- a. Agents
- b. Suppliers
- c. Manufacturers
- d. Distributors

Answer: d

16. Some of the disadvantages (for manufacturers) of using distributors are:

- a. Limited access to feedback from customers
- b. Loss of control over marketing and pricing
- c. Limited opportunity to learn international business know-how
- d. All of the above

Answer: d

17. In which country are distribution channels inefficient and complex, where the system is characterized by multiple layers of wholesalers who have close relations with other wholesalers, manufacturers, and so on?

- a. China
- b. India
- c. Japan
- d. Brazil

Answer: c

18. It is estimated that about ___ percent of global trade is handled through overseas agents and distributors.

- a. 48
- b. 49
- c. 50
- d. 51

Answer: c

19. In which countries are representation agreements required to be formally registered with and their contents approved by the appropriate authority?

- a. Egypt, Indonesia, Japan, and South Korea
- b. Egypt, Indonesia, China, and South Korea
- c. Saudi Arabia, Indonesia, Japan, and South Korea
- d. Saudi Arabia, Indonesia, China, and South Korea

Answer: a

20. What are parallel (gray) market goods?

- a. Goods that enter a country outside of regular, authorized distribution channels
- b. Goods that enter a country within the regular, authorized distribution channels
- c. Goods that enter a country outside of regular, unauthorized distribution channels
- d. Goods that enter a country outside of regular distribution channels

Answer: a

21. In ___ agreements, all sales of products are made in accordance with the price list and discount structure agreed between the parties.

- a. Distribution
- b. Suppliers'
- c. Agency
- d. Manufacturing

Answer: c

22. In many countries, issues relating to appointment, renewal, or termination of representatives are largely determined by ____ ____.

- a. Regional laws
- b. Local laws
- c. International laws
- d. Local/regional agreements

Answer: b

23. When are representative agreements terminated?

- a. In cases in which one of the parties is guilty of nonperformance
- b. In cases in which both parties are guilty of nonperformance
- c. In cases of action or omission by one party by the other party
- d. None of the above

Answer: a

24. Which of the following does not give rise to the termination of a contract?

- a. Bankruptcy
- b. Force majeure
- c. Change of ownership
- d. Change of business name and management

Answer: d

25. Many representative contracts provide that any dispute between the parties shall be submitted to arbitration for final settlement in accordance with the rules of the _____.

- a. International chamber of commerce
- b. National chamber of commerce
- c. Local chamber of commerce
- d. State chamber of commerce

Answer: a

Chapter 6
Test Questions

TRUE/FALSE

1. The two categories of business logistics are materials management and physical distribution.

Answer: *True*.

2. The interdependence of functional activities has been articulated through various new approaches or concepts, including the systems approach, total cost approach, and the trade approach.

Answer: *False*. It has not been articulated through the total cost approach, but instead through the opportunity cost approach.

3. A major political risk in foreign trade includes nonpayment or delays in payment for imports.

Answer: *False*. Nonpayment and delays are not political risks but are foreign credit risks.

4. A letter of credit transaction avoids risks arising from late payments or bad debts because it ensures that payments are made before the goods are shipped to the importer.

Answer: *False*. A *confirmed* letter of credit does this.

5. Many export firms do insure trade receivables, including fire or car insurance.

Answer: *False*. Many export firms do not insure trade receivables.

6. The primary purpose of insurance in the context of foreign trade is to reduce the financial burden of losses arising from the movement of goods over long distances.

Answer: *True*.

7. An all-risks policy covers total loss and partial loss from certain specified risks insured against.

Answer: *False*. FPA (free of particular average)

8. The Inchmaree clause relieves the insurer of liability for partial cargo losses, except for those caused by the stranding, sinking, burning, or collision of the vessel with another.

Answer: *False*. The free of particular average clause protects against these events.

9. The typical steps in claim procedures include the preliminary notice of claim, formal notice of claim, and the settlement of claim.

Answer: *True*.

10. Most developing countries provide insurance programs for their import firms to cover losses due to political upheaval in their countries.

Answer: *False*. Most industrialized nations provide insurance programs for their *export* firms to cover losses due to political risk.

MULTIPLE CHOICE

1. The total cost approach:
- a. Considers a trade-off in undertaking certain logistics decisions
 - b. Is a logistics concept based on evaluation of the total cost implications of various activities
 - c. Is a logistics concept based on the premise that the flow of materials within and outside the firm should be considered only in the context of their interaction.
 - d. Is all of the above

Answer: b

2. _____ applies to the timely movement of materials from the sources of supply to the point of manufacture, assembly, or distribution.

- a. Physical distribution
- b. Materials management
- c. Supply clusters
- d. Logistical procedures

Answer: b

3. The development of advanced logistics systems and capabilities has also increased efficient _____, _____, and _____ of products.

- a. Production; transportation; distribution
- b. Production; handling; supplying
- c. Production; transportation; supplying
- d. Production; handling; distribution

Answer: a

4. The reduction of shipping costs and increased productivity has been a result of which two processes?

- a. Privatization and regulation
- b. Privatization and deregulation
- c. Regulation and national standards
- d. Nationalization of existing means of production to reduce transportation cost

Answer: b

5. The pressures on firms to reexamine their logistics systems has been largely due to:
- The proliferation of new products and services
 - The changes in the local and state laws
 - The changes in the international laws
 - All of the above
- Answer: a
6. A reexamination of logistics system helps firms:
- Reduce inventory costs
 - Reduce transportation cost and delivery time
 - Reduce advertising expenditures
 - a and b
- Answer: d
7. What factors influence the need for adequate packing of goods?
- Breakage of goods, moisture, and theft
 - Faster transportation
 - Easier supervision
 - Easier containerization
- Answer: a
8. _____ and _____ of cargo has the added advantage of synchronizing promotions and long-term inventory decisions for customers.
- Tracking; tracing
 - Tracking; servicing
 - Tracing; servicing
 - None of the above
- Answer: a
9. Which of the following describes the difference between domestic logistics and international logistics?
- Domestic logistics requires products to be transported by truck or rail; international logistics requires products to be transported by air or sea.
 - Domestic logistics has different national regulations and many intermediaries participating in the distribution channel; international logistics requires the national regulation on packaging and labeling.
 - a and b
 - None of the above
- Answer: a
10. In a typical international logistics process, a pro-forma invoice prepared by the seller:
- May serve as a service contract
 - May serve as a sales contract
 - May be used to collect merchandise
 - May be used as a contract of shipment
- Answer: b

11. Preshipment inspection
- Is the responsibility of the buyer
 - Is the responsibility of the seller
 - Is used to control illegal flights of capital but delays movement of merchandise
 - a and c
- Answer: d
12. In a typical logistics process, after the merchandise is transported, the forwarder sends the necessary documents to:
- The buyer
 - The customs broker
 - The shipper
 - The inspector in the buyer's country
- Answer: b
13. Denmark held the world's top spot in logistics. Its excellence in logistics is attributed to which of the following sectors?
- Investment in infrastructure
 - Human resources
 - Business environment
 - All of the above
- Answer: d
14. "Do not roll," "keep frozen," or "live animals" are examples of appropriate:
- Packing for certain products
 - Labeling for certain products
 - Inventory for certain products
 - Packing and labeling for certain products
- Answer: b
15. The U.S. Clean Air Act requires which types of products to be labeled?
- Ozone depleting substances
 - Nuclear depleting substances
 - Oil and gas depleting substances
 - a and b
- Answer: a
16. The rigors of long-distance transportation of goods require protection of merchandise from possible breakage, moisture, pilferage, and theft by using appropriate:
- Packing
 - Labeling
 - Inventory
 - Packing and labeling only
- Answer: a

17. Which country requires that approximately 70 percent of packaging material used must be recycled or reused?

- a. Norway
- b. Finland
- c. Britain
- d. None of the above

Answer: d (Germany requires this)

18. Which logistics function includes the consolidation of small cargo, documentation, and filing of loss and damage claims?

- a. Inventory and storage
- b. Traffic management
- c. Packing
- d. All of the above

Answer: b

19. In international logistics, the most expensive mode of transportation is:

- a. Airfreight
- b. Sea freight
- c. Rail
- d. Truck

Answer: a

20. Risks in foreign trade include:

- a. War, terrorism, actions of legitimate government authorities to confiscate cargo
- b. Nonpayments or delays in payment for imports
- c. Loss or damage to shipment during transit
- d. All of the above

Answer: d

21. In many developed countries, less than ___ percent of trade debts are insured.

- a. 10
- b. 15
- c. 20
- d. 25

Answer: c

22. The different methods used to protect against foreign exchange risks include:

- a. Shifting the risk to third parties
- b. Shifting the risk to the other party in an export contract
- c. a and b
- d. None of the above

Answer: c

23. The two types of marine cargo insurance policies are:

- a. Perils-only policy and all-risks policy
- b. Perils-only policy and marine-risk policy
- c. Marine-risk policy and all-risks policy
- d. Marine-risk policy and perils-only policy

Answer: a

24. Which form is required for the completion of such particulars as points of shipment and destination, description of units, and amount of insurance?

- a. Customs form

- b. Air waybill
- c. Declarations form
- d. Bill of lading

Answer: c

25. Which of the following are typical clauses in cargo insurance contracts?

- a. The labels clause
- b. Craft and lighter clause
- c. Shore clause
- d. All of the above

Answer: d

26. Insurance certificates are used because:

- a. They are less expensive.
- b. Exporters tend to use them frequently.
- c. They save time.
- d. They are required by government agencies.

Answer: c

27. A particular average loss is:

- a. Part of general average loss
- b. Loss for goods lost or damaged
- c. Not covered by particular charges
- d. All of the above

Answer: c

28. In a general average loss:

- a. Goods are totally damaged
- b. Goods are subject to constructive total loss
- c. Goods are sacrificed as part of cargo owner's contribution for the general loss of others
- d. None of the above

Answer: c

29. In most cases, shippers claim from:

- a. Carriers
- b. Insurers and carriers
- c. Insurers
- d. All of the above

Answer: c

30. Once an insurance company settles the insured's claim, it exercises:

- a. Residual rights
- b. Subrogation rights
- c. Indemnity rights
- d. Claim rights

Answer: b

Chapter 7

Test Questions

TRUE/FALSE

1. Export prices should be low enough to remain competitive in the market, yet high enough to make reasonable profit.

Answer: *True*.

2. Parallel or gray markets are created when the product is purchased at a high price in one market and sold in markets that enjoy higher prices.

Answer: *False*. Parallel or gray markets are created when the product is purchased at a *low* price in one market and sold in markets that enjoy higher prices.

3. One of the external forces that influences export pricing is location and environment of the foreign market.

Answer: *True*.

4. FCA, Ex-Works, DAF, and Ex-Store are all terms that are part of Group E terms.

Answer: *False*.

5. Under a CIF contract, when goods are lost or destroyed during transit the buyer is entitled to claim the purchase price against presentation of proper shipping documents to the seller.

Answer: *False*. Under a CIF contract, when goods are lost or destroyed during transit the *seller* is entitled to claim the purchase price against presentation of proper shipping documents to the *buyer*.

6. Common features shared by D terms include the arrival/destination terms, seller's requirement to arrange for transportation, and that Incoterms do not require insurance during transportation.

Answer: *True*.

7. In arrival contracts, the buyer is under no obligation to pay the purchase price if the goods are lost in transit. However, in CIF the buyer is required to pay against documents.

Answer: *True*.

8. The UCC states that where a second-party carrier is not involved, risk of loss passes not upon mere tender of delivery but when the seller ships the goods.

Answer: *False*. The UCC states that where a *third* party carrier is not involved, risk of loss passes not upon mere tender of delivery but when the *buyer receives the goods*.

9. In cost-based pricing, the export price is based on the variable cost of producing the product.

Answer: *False*. Not in cost-based pricing but in *marginal* pricing.

10. DDU stands for delivered duty unpaid.

Answer: *True*.

MULTIPLE CHOICE

1. Mismanagement of export pricing could often lead to:

- a. Competitive pressures
- b. Development of parallel markets
- c. Pressures for price reductions
- d. b and c

Answer: d

2. Which of the following policies to pricing and markups apply to both domestic and export markets?

- a. High markups are common in industries with relatively large competitors.
- b. High markups are common in industries with relatively few competitors.
- c. Export prices tend to be relatively high in sectors where increased competition exists.
- d. All of the above

Answer: b

3. Which factors help reduce incidences of gray markets?

- a. Appropriate packing
- b. Appropriate pricing, control systems of quality
- c. Appropriate distribution system
- d. b and c

Answer: d

4. Which of the following is an external force that influences export pricing?

- a. Supply and demand
- b. Location and environment of the domestic market
- c. Government regulations in the home country
- d. All of the above

Answer: a

5. Which definition best describes polycentric pricing?

- a. Pricing that is sensitive to foreign conditions
- b. Pricing in which a firm strikes an intermediate position
- c. Pricing that is sensitive to local conditions
- d. Pricing in which a firm strikes a leading position

Answer: c

6. Penetration pricing is based on which of the following?

- a. Pricing policy based on charging higher prices for exports in order to stimulate market growth
- b. Pricing policy based on charging lower prices for exports in order to stimulate market growth
- c. Pricing policy used when businesses have unused capacity or to gain market share
- d. Pricing policy used when businesses have used capacity or to gain market share

Answer: b

7. In 1997, Toyota launched a special sales campaign in Tokyo to give away money to some customers of the competitor car it sells in Japan on behalf of General Motors. What type of pricing policy describes Toyota's actions?

- a. Competitive pricing
- b. Penetration pricing
- c. The marginal approach to pricing

d. Demand-based pricing

Answer: d

8. Which of the following organizations in the United States govern terms of sale?

a. Revised American Foreign Trade Definitions and the UCC

b. Revised American Foreign Trade Definitions and the CUC

c. American Trade Association and the UCC

d. American Trade Association and the CUC

Answer: a

9. How often are Incoterms revised to represent contemporary commercial practice?

a. Every 2 years

b. Every 5 years

c. Every 7 years

d. Every 10 years

Answer: d

10. Which of the following is not a Group F term?

a. FCA

b. FAS

c. FSA

d. FOB

Answer: c

11. Which of the following describes Group D terms?

a. The seller's delivery obligation extends to the country of destination.

b. At the point of delivery, transfer of risk is from the seller to the buyer.

c. The seller is expected to bear the risk and expense of the delivery to a nominated carrier.

d. All of the above

Answer: a

12. Under which term does the buyer or agent have to collect the goods at the seller's warehouse or store?

a. Ex warehouse

b. Ex store

c. Ex works

d. All of the above

Answer: d

13. In the Group E terms:

a. Risk is not transferred to the seller if damage or loss is attributed to the failure of delivery

b. Risk is not transferred to the buyer if damage or loss is attributed to the failure of delivery

c. The seller bears all risks and charges pertaining to preshipment inspection, export/import licenses, and customs duties needed for exportation

d. All of the above

Answer: b

14. Under Free Carrier, the buyer has which of the following obligations?

a. Contract at his or her own expense for carriage of goods from the named place of delivery

b. Pay the costs of any preshipment inspection except when such inspection is mandated by the exporting country

c. Obtain an import license and other official documents at his or her own risk

d. All of the above

Answer: d

15. The central feature of ___ contracts is the notion that the seller undertakes to place the goods on board the ship designated by the buyer.

- a. FAS
- b. CIS
- c. FOB
- d. CIP

Answer: c

16. The ___ contract places on the ___ the obligation to arrange for shipment of the goods.

- a. FOB; seller
- b. CIF; seller
- c. FOB; buyer
- d. CIF; buyer

Answer: b

17. The CPT term is similar to the CIP term, except that:

- a. The seller is not required to arrange or pay for insurance coverage of goods during transportation.
- b. The seller is required to arrange or pay for insurance coverage of goods during transportation.
- c. The buyer is not required to arrange or pay for the insurance coverage of goods during transportation.
- d. The buyer is required to arrange or pay for the insurance coverage of goods during transportation.

Answer: a

18. Which Incoterm is commonly used among large buyers such as wholesalers and department stores in order to ensure just-in-time deliveries?

- a. CFR and Ex works
- b. CFR and FCA
- c. Ex works and FCA
- d. a and b

Answer: c

19. Which of the following defines a seller's obligations under DAF?

- a. To contract his or her own expense for the carriage of goods to the named point at the place of delivery
- b. To place the goods at the disposal of the buyer on the arriving means of transport when unloaded at the named place of delivery
- c. To provide the seller (at the buyer's expense) with the necessary documents to enable the latter to take delivery of goods
- d. All of the above

Answer: a

20. The major differences between arrival contracts and a CIF contract are:

- a. In arrival contracts, delivery is effected upon loading the goods on board the vessel at the port of departure; in the CIF contract, delivery is effected when the goods are placed at the disposal of the buyer.

- b. In arrival contracts, delivery is effected when the goods are placed at the disposal of the buyer; in the CIF contract, delivery is effected upon loading the goods on board the vessel at the port of departure.
- c. In arrival contracts, the seller is under no obligation to pay the transport charges if the goods are lost in transit; in the CIF contract, the seller is required to pay against documents.
- d. None of the above

Answer: b

21. Under FAS, FOB, CFR, CIF, DES, and DEQ, who is responsible for trade documentation and customs clearance?

- a. Buyer
- b. Seller
- c. a and b
- d. None of the above

Answer: b

22. In FAS, FOB terms, which party is responsible for import charges and local cartage/domestic on carriage?

- a. Buyer
- b. Seller
- c. a and b
- d. None of the above

Answer: a

23. A buyer's receipt is required in:

- a. DES
- b. Ex Works
- c. FAS
- d. CIF

Answer: a

24. Export charges and domestic pre-carriage are obtained by which of the following?

- a. Distributor
- b. Seller
- c. Buyer
- d. Marketer

Answer: b

25. The responsibility of the transshipment at terminal under ___ falls on the ___; and under ___ falls on the ___.

- a. FOB; buyer; CIF; seller
- b. FOB; seller; CIF; buyer
- c. FAS; seller; CIF; buyer
- d. FAS; buyer; CIF; buyer

Answer: a

Chapter 8

Test Questions

TRUE/FALSE

1. Export sales contracts are central to international commercial transactions, and around them revolve a series of connected relationships, including cargo insurance, transportation, and payment arrangements.

Answer: *True*.

2. A motive behind the move toward harmonization of international contract law is the decrease of trade and other political relations between nations.

Answer: *False*. A motive behind the move toward harmonization of international contract law is the *increase* of trade and other *economic* relations between nations.

3. Parties can be held liable for verbal contracts under the SICG, if they either verbally accept an offer or their verbal offer is accepted by the other party.

Answer: *False*. Not SICG, but CISG.

4. Under the UCC, an oral testimony is an oral sales contract between the parties that can be modified only by prior or contemporaneous oral agreement.

Answer: *False*. Under the UCC, an oral testimony is a *written* sales contract between the parties that *cannot* be modified by prior or contemporaneous *written or oral agreement*.

5. The tendering process begins with a buyer of goods and services inviting potential suppliers for submission of tender (bids).

Answer: *True*.

6. A contract provision that would be of service for an exporter includes shifting the risk to the overseas seller by requiring payment in exporter's currency.

Answer: *False*. A contract provision that would be of service for an exporter includes shifting the risk to the overseas *customer* by requiring payment in *exporter's* currency.

7. In the United States, Canada, and other developed countries, an exporter (to these countries) will not be subject to any taxes if such sales are not performed through an agent, a branch, or a subsidiary.

Answer: *True*.

8. Some of the major clauses in export contracts include scope of work, price and delivery of terms, taxes, and duties.

Answer: *True*.

9. An export contract also includes distributor contracts for the manufacture of a product within a given period.

Answer: *False*. An export contract also includes *supply* contracts for the manufacture of a product within a given period.

10. The decline of the international customary law and the adaptation of international conventions and rules are factors behind the move toward harmonization of international contract and commercial law.

Answer: *False*. The *increases* of the international customary law and the adaptation of international conventions and rules are factors behind the move toward harmonization of international contract and commercial law.

MULTIPLE CHOICE

1. Which of the following is a motive behind the move toward the harmonization of international contract law?

- a. Increase in trade and other economic relations between nations
- b. The growth of international customary law
- c. The adoption of international conventions and rules
- d. All of the above

Answer: d

2. Which of the following is not a salient feature of the CISG, which has important implications for import/export managers?

- a. Oral contracts/statements
- b. Parole evidence
- c. Battle of forms
- d. Exemption of remedy deficiencies

Answer: d

3. Which organization deals with the issue of performance and bank guarantees supporting obligations arising in international contracts?

- a. International Chamber of Commerce
- b. Uniform Rules for Contracts Guarantees
- c. International Commerce Commission
- d. The Ex-Im Bank

Answer: b

4. What types of contracts are used in specific types of international commercial transactions such as trade in commodities or capital goods?

- a. Commercial contracts
- b. Transactional contracts
- c. Standard contracts
- d. International standard contracts

Answer: c

5. The CISG Convention claims that in accordance with the perfect tender rule:
- A buyer may not reject the goods or cancel the contract unless the conformity constitutes a fundamental breach of contract.
 - A buyer may not reject the goods or cancel the contract unless the nonconformity constitutes a fundamental breach of contract.
 - A seller may not reject the goods or cancel the contract unless the conformity constitutes a fundamental breach of contract.
 - A seller may not reject the goods or cancel the contract unless the nonconformity constitutes a fundamental breach of contract.

Answer: b

6. According to the UCC, the provisions of a written contract cannot be modified by a prior or contemporaneous oral agreement according to the:

- Enforceability of oral contracts
- Perfect tender rule
- Specification of oral/written contract
- None of the above

Answer: d (the provisions cannot be modified according to the oral testimony)

7. An ____ contract is an agreement between a seller and an overseas customer for the performance, financing, and other aspects of an ____ transaction.

- Export; export
- Export; import
- Import; import
- Import; export

Answer: a

8. In the case of *Chicago Prime Packers v. Northern Trading Co.*, the document used to describe the contents and condition of packages was:

- Air waybill
- Certificate of origin
- Bill of Lading
- Certificate of Export Labels

Answer: c

9. "300 million Colombian pesos at the exchange rate of \$1 = 1,000 pesos. The customer will compensate the exporter for any devaluation in the peso from the rate designated in the contract." Select the contract provision(s) that relates to this example.

- Shift of risk to the overseas customer and bank
- Shift of risk to the overseas bank
- Payment in importer's currency
- Payment in exporter's currency

Answer: a

10. In many contracts, a _____ clause is in force in the case of excusable delays in performance by the exporter.

- Price escalation
- Delivery escalation
- Foreign currency
- None of the above

Answer: a

11. Which of the following describes a method of protection against fluctuations in the importer's currency?

- a. The addition of risk premium on the price at the time of the contract
- b. The reduction of risk premium on the price at the time of the contract
- c. Establishment of a risk account in the importer's country
- d. Establishment of a risk account in the exporter's country

Answer: a

12. The force majeure clause covers certain specified events, including the inability of the exporter to obtain the necessary _____?

- a. Labor
- b. Price
- c. Insurance
- d. All of the above

Answer: a

13. The CISG and UCC are similar in areas pertaining to:

- a. Perfect tender rule
- b. Oral testimony
- c. Specification of price
- d. None of the above

Answer: d

14. The CISG and UCC differ in areas pertaining to:

- a. Additional terms
- b. Revocability of an offer
- c. Perfect tender rule
- d. All of the above

Answer: d

15. Which of the following is not an approach to limit risk exposure?

- a. Stipulate the kinds of damages which may be suffered by the buyer for which the seller is not responsible
- b. Limit the liability in exports machinery and equipment to a specified amount
- c. Vaguely mention in the contract the performance standards that are to be met, but specifically provide warranties to those that need to be objectively tested
- d. None of the above

Answer: c

16. Which organizations are prohibited from entering into major contracts without some form of bank guarantee or bond?

- a. Private agencies
- b. Public agencies
- c. Federal governments
- d. Local governments

Answer: b

17. Bid guarantees or bonds are often provided from all bidders to provide security to the overseas customer at what stage of the contract?

- a. First
- b. Second
- c. Third
- d. Fourth

Answer: a

18. In case of a bank guarantee, what document is issued by a bank, under which payment is made to the importer on demand upon failure of the exporter to perform its obligations under the export contract?

- a. Letter of credit
- b. Standby letter of credit
- c. Letter of issuance
- d. Standby letter of issuance

Answer: b

19. A bank guarantee and a bond are similar in that:

- a. Both instruments are a form of security provided by a third party to the importer against the exporter's default.
- b. Both instruments are a form of security provided by a third party to the importer against the importer's default.
- c. Both instruments are employed only if importer has a good credit standing
- d. All of the above

Answer: a

20. The fundamental principle of international contract law is ___ of contract.

- a. Freedom
- b. Nature
- c. Governance
- d. Subject matter

Answer: a

21. In cases where no express or implied choice of law exists, it may be the role of the ___ to decide what law should govern their contract.

- a. Attorneys
- b. Parties
- c. Courts
- d. None of the above

Answer: c

22. Commercial custom and usage have often been used in the drafting and interpretation of what type of law?

- a. Commercial
- b. Customary
- c. International
- d. Mercantile

Answer: a

23. According to the ____, CISG permits the seller to remedy the delivery of defective goods after the time of performance has expired unless such delivery would cause the buyer “unreasonable inconvenience.”

- a. Battle of the forms
- b. Duty to inspect and proper notice
- c. Right to remedy deficiencies
- d. Exemptions from liability

Answer: c

24. Standard contracts forms are often used in certain types of international commercial transactions such as _____ or _____.

- a. Trade in commodities; capital goods
- b. Trade in commodities; capital services
- c. Capital goods; capital services
- d. None of the above

Answer: a

25. In the case of the “Acceptance of Standard International Contracts,” the Indonesian firm contracted to buy from a seller in England 40,000 metric tons of what product?

- a. White rice
- b. White sugar
- c. Brown rice
- d. Brown sugar

Answer: b

Chapter 9

Test Questions

TRUE/FALSE

1. The air waybill is a contract of carriage between the shipper and air carrier. It is issued by the shipper and serves as a receipt for the air carrier.

Answer: *False*. It is issued by the *air carrier* and serves as a receipt for the *shipper*.

2. The bill of lading is a contract of carriage between the shipper and the steamship company; and the inland bill of lading is issued by the railway carrier or trucking firm.

Answer: *True*.

3. The three modes of transportation are available for exporting products overseas include air, ocean and inland, and rail and truck.

Answer: *True*.

4. Ocean shipping is the most expensive and the dominant mode of transportation in foreign trade. It is especially suitable for moving bulk freight such as commodities and other raw materials.

Answer: *False*. Ocean shipping is the *least* expensive and the *dominant* mode of transportation in foreign trade.

5. Types of ocean cargo include neo-bulk, tankers, and combination carriers.

Answer: *False*. These are not ocean cargo but types of ocean vessels.

6. The maximum limitation of liability under the Hague rules is \$600 per package. Under the Hague-Visby rules, it is \$1,500 per package.

Answer: *False*. The maximum limitation of liability is \$500 per package. Under the Hague-Visby rules, it is \$1,000 per package.

7. Forwarders are prohibited from providing any rebates to shippers or sharing any compensation or forwarding fees with shippers, consignees, or sellers.

Answer: *True*.

8. The major international rules for carriage of goods by air include the Warsaw Convention (1929) and the amended Warsaw Convention (1945).

Answer: *False*. The amended Warsaw Convention (1955) is the second set of rules.

9. Documents frequently used in export-import transactions include commercial invoice, dock receipt, shipper's import declaration, and import packing list.

Answer: *False*. A shipper's *export* declaration and *export* packing list are used.

10. The carriage of goods by sea is based on three conventions that cover rights and duties of parties to a contract of carriage by sea: the Hague Rules, the Hague-Visby Rules, and the Hanover Rules.

Answer: *False*.

MULTIPLE CHOICE

1. Which document is a contract of carriage between the shipper and the carrier, and is issued when the consignment is made directly to the overseas customer?

- a. Bill of lading
- b. Bill of exchange
- c. Air waybill
- d. None of the above

Answer: a

2. A(n) _____ is issued by the air carrier and serves as a receipt for the shipper.

- a. Consular invoice
- b. Inspection certificate
- c. Insurance certificate
- d. Air waybill

Answer: d

3. A(n) _____ bill of lading is issued by the railway carrier or trucking firm certifying carriage of goods from the place where the exporter is located to the point of exit for shipment overseas.

- a. Inland
- b. Through
- c. Claused
- d. Clean

Answer: a

4. Which type of bill of lading is used for intermodal transportation?

- a. Inland
- b. Clean
- c. Clause
- d. Through

Answer: d

5. Certain nations require a _____ for customs, statistical, and other purposes, and it must be obtained from the _____ of the country to which the goods are being shipped and usually must be prepared in the _____ of that country.

- a. Consular invoice; consulate; language
- b. Consular invoice; government; language
- c. Certificate of origin; consulate; language
- d. Certificate of origin; government; language

Answer: a

6. Inspection certificates are generally requested for certain commodities:

- a. With grade designations
- b. Machinery
- c. Equipment
- d. All of the above

Answer: d

7. Which of the following is not a requirement that should be included in the basic information of a commercial invoice?

- a. Description of goods
- b. Description of payment terms
- c. Order date
- d. Received shipment date

Answer: d

8. What type of a receipt is used to transfer accountability when the export item is moved by the domestic carrier to the port of embarkation and left with the international carrier for export?

- a. Commercial receipt
- b. Dock receipt
- c. Country of origin receipt
- d. Destination export receipt

Answer: b

9. A SED form is issued to control certain exports and compile trade data, and is required for shipments valued at more than what amount?

- a. \$300
- b. \$500
- c. \$700
- d. \$1,000

Answer: b

10. Even though air carriers are more expensive, their cost may be offset by reductions in _____, _____, and _____.

- a. Packing; documentation; mode of transportation
- b. Packing; documentation; exemption of import duties
- c. Packing; documentation; inventory requirements
- d. None of the above

Answer: c

11. _____ is the least utilized mode of transportation for cargo and accounts for less than _____ percent of total international freight movement.

- a. Air freight; one
- b. Rail freight; three
- c. Trucking; five
- d. Ocean freight; ten

Answer: a

12. What types of changes over the past two decades have significantly altered the size and design of aircraft to handle heavy cargo?

- a. Industrial changes
- b. Manufacturing changes
- c. Technological changes
- d. Transportation changes

Answer: c

13. Which of the following is an advantage of air transportation?

- a. Generally expensive for high bulk freight
- b. Shipping containers are often small enough to fit into the air carrier
- c. Standard domestic packing is sufficient
- d. It is suitable for products that are sensitive to low pressures and variations in temperatures

Answer: c

14. Which of the following is an example of an air carrier that provides integrated services?
- a. Super Sonic Air Service
 - b. DHL Sonic Air Service
 - c. UNACT Air Service
 - d. None of the above

Answer: d (UPS Sonic Air Service is an example)

15. The role of a _____ is similar to that of a nonvessel operating _____ in ocean freight.
- a. Forwarder; exporter
 - b. Forwarder; carrier
 - c. Consolidator; exporter
 - d. Consolidator; carrier

Answer: b

16. Which organization is the forum in which fares and rates are negotiated among member airlines?
- a. IATA
 - b. AITA
 - c. TAIA
 - d. AAIT

Answer: a

17. International transportation of goods by air is governed by:

- a. Warsaw Convention of 1936
- b. Amended Convention of 1929
- c. Warsaw Convention of 1935
- d. None of the above

Answer: d (they are governed by the Warsaw Convention of 1929 and Amended Convention of 1955)

18. What is another name for an air waybill?

- a. Air consignment note
- b. Air consignee note
- c. Air carrier's note
- d. Air entitlement's note

Answer: a

19. The time to give a written notice of loss or damage by consignee has been extended from 7 days to ___ days under the amended Warsaw Convention (1955).

- a. 10
- b. 12
- c. 14
- d. 16

Answer: c

20. Which of the following are also known as tramps?

- a. Chartered or leased vessels
- b. Chartered or leased fleets
- c. Chartered or leased cargos
- d. Chartered or leased rail

Answer: a

21. What is the purpose of a shipping conference?

- a. The self-regulation of price competition through uniform rates
- b. The self-regulation of price competition through predatory price rates
- c. The government regulation of price competition through uniform rates
- d. The government regulation of price competition through predatory price rates

Answer: a

22. A carrier transporting goods under a B/L is required to exercise “due diligence” in:

- a. Making the rail land worthy
- b. Making the ship safe and fit for their reception, carriage, and preservation of goods
- c. Loading and handling of goods with care
- d. All of the above

Answer: b

23. In order to ensure the application of liability limits to their agents and employees, carriers add which clause to their bill of lading?

- a. Hague Clause
- b. Hague-Visby Clause
- c. Himalaya Clause
- d. Liability Clause

Answer: c

24. To be eligible for an ocean freight forwarder’s license, the applicant must demonstrate to the FMC that:

- a. He or she has a minimum of four years experience in ocean freight forwarding duties
- b. The individual has obtained and filed a valid surety bond with the MFC
- c. He or she has a minimum of three years experience in ocean freight forwarding duties
- d. The individual has obtained and filed a valid surety bond with the CFM

Answer: c

25. Which of the following type of transport handles bulk cargo and absorbs loading, unloading, and other charges?

- a. Rail
- b. Fleet
- c. Vessel
- d. Trucking

Answer: a

Chapter 10
Test Questions

TRUE/FALSE

1. An exchange rate is the number of units of a given currency that can be purchased for one unit of another currency.

Answer: *True*.

2. It is common practice in world currency markets to use the direct quotation; that is, quoting all exchange rates per U.S. dollar.

Answer: *False*. It is common practice in world currency markets to use the *indirect* quotation.

3. Hedging is not always the most appropriate technique to limit foreign exchange risks, but it helps protect long-term cash flows.

Answer: *False*. Hedging is not always the most appropriate technique to limit foreign exchange risks, and does *not* protect long-term cash flows.

4. A swap transaction is a simultaneous purchase and sale of a certain amount of foreign currency for three different value dates.

Answer: *False*. A swap transaction is a simultaneous purchase and sale of a certain amount of foreign currency for *two* different value dates.

5. One of the criteria that countries must meet in order to participate in the single European currency is that inflation rates need to be below 2 to 3 percent.

Answer: *True*.

6. Public debt cannot be more than 50 percent GDP, and the budget deficit must be less than or equal to 3 percent GDP for countries that wish to participate in the single European currency.

Answer: *False*. Public debt cannot be more than *60* percent GDP.

7. The United Kingdom and Austria are countries that declined to participate in the Euro.

Answer: *False*. Austria did not decline.

8. One reason for the existence of the foreign exchange market is foreign direct investment and the purchase of foreign stocks and bonds.

Answer: *True*.

9. A swap transaction's central feature is that the bank arranges to the swap as a double transaction, usually between two partners.

Answer: *False*. A swap transaction's central feature is that the bank arranges the swap as a *single* transaction, usually between two partners.

10. Latin American countries are known to peg their currencies to the U.S. dollar.

Answer: *True*.

MULTIPLE CHOICE

1. ____ quotation is the expression of the number of U.S. dollars required to buy one unit of foreign currency.

- a. Direct
- b. Indirect
- c. Common
- d. None of the above

Answer: a

2. Which of the following is not a reason for individual companies or governments to enter into the foreign exchange market as buyers or sellers of foreign currencies?

- a. Foreign travel and purchase of foreign bonds and stocks
- b. Central banks enter the foreign exchange market and buy only foreign currency to stabilize the national currencies
- c. Speculation
- d. None of the above

Answer: b (central banks enter the foreign exchange market and buy *and sell* foreign currency to stabilize the national currencies)

3. Which of the following defines speculation?

- a. Sale of foreign currency at a low rate
- b. Purchase of foreign currency at a low rate
- c. Barter of foreign currency at high rate
- d. Purchase of local currency at a high rate

Answer: b

4. In which of the following places can foreign exchange trading take place?

- a. Private office
- b. Home
- c. Banks
- d. All of the above

Answer: d

5. Foreign exchange rates are derivatives of the fundamental ____ factors and ____ conditions in the market.

- a. Economic; geographical
- b. Economic; technical
- c. Financial; political
- d. Political; technical

Answer: b

6. During the 1970s the continuous deterioration in the U.S. trade deficit was mainly due to which of the following?

- a. Increased sale of domestic goods to foreign markets
- b. Oversupply of dollars in foreign central banks
- c. Low supply of dollars in foreign central banks
- d. a and c

Answer: b

7. Which of the following is not an important determinant of supply and demand for foreign currencies?

- a. Interest rates
- b. Growth in money supply
- c. Inflation
- d. Country's balance of power

Answer: d

8. Currency traders buy currencies of countries with _____ interest rates in order to _____ their investment returns and sell those currencies with _____ interest rates.

- a. Low; minimize; low
- b. Low; maximize; low
- c. High; maximize; low
- d. High; minimize; low

Answer: c

9. Since the end of what year has the dollar lost about half its value against the Euro?

- a. 1990
- b. 1991
- c. 1992
- d. 1993

Answer: c

10. The Mexican peso appreciated in 2006 due to:

- a. A decrease in the inflow of funds resulting from the rise of international oil prices
- b. An increase in the inflow of funds resulting from the rise of international oil prices
- c. A decrease in foreign investment
- d. All of the above

Answer: b

11. The rupiah has appreciated in value since 2004 due to what reasons?

- a. Political stability
- b. Economic growth
- c. Increase in foreign investment
- d. a and b

Answer: d

12. Which of the following is not a type of transaction that contributes to foreign exchange risks in international trade?

- a. Purchase of goods and services whose prices are stated in local currencies
- b. Purchase of goods and services whose prices are stated in foreign currencies
- c. Sale of goods and services whose prices are stated in local currencies
- d. Debt payments are accepted only in local currencies

Answer: b

13. Which of the following countries do not impose restrictions on the use of foreign exchange markets?

- a. France
 - b. China
 - c. Japan
 - d. a and c
- Answer: d

14. Which of the following is the most extreme form of exchange restrictions?

- a. The limitation of the availability of foreign currency to purchase imports
- b. The limitation of the availability of domestic currency to purchase imports
- c. The promotion of investment
- d. The discharge of debt payments

Answer: a

15. To the extent that an exporter's inputs are domestic, a strong domestic currency could lead to ____ of domestic and foreign markets.

- a. Loss
- b. Gain
- c. Weakness
- d. Strength

Answer: a

16. Who faces a loss of domestic markets due to the rise in the price of imports if the domestic currency weakens?

- a. Exporters
- b. Importers
- c. Both exporters and importers
- d. None of the above

Answer: b

17. What allows firms to reduce the adverse impact of foreign currency fluctuations?

- a. Spot prices
- b. Hedging
- c. Exchange rates
- d. Premiums

Answer: b

18. The difference between hedging in the spot markets and forward markets is that:

- a. Forward market hedging does not require borrowing or tying up a certain amount of money for a period of time.
- b. Spot market hedging does not require borrowing or tying up a certain amount of money for a period of time.
- c. Forward market hedging allows for a three day period, since the forward rates are quoted on a monthly basis.
- d. a and c

Answer: a

19. What are used to move out of one currency into another for a limited period of time without the exchange risk of an open position?

- a. Swaps
- b. Hedges
- c. Forwards
- d. All of the above

Answer: a

20. If currency changes are likely to result in a 10 percent loss, the price change could be increased by what percentage?

- a. 10
- b. 20
- c. 30
- d. 100

Answer: a

21. In what year did the Euro become the legal currency of the members of the EU?

- a. 1996
- b. 1997
- c. 1998
- d. None of the above

Answer: d (in 1999)

22. Which of the following is not a benefit of the Euro?

- a. The Euro will reduce the cost of foreign exchange with regard to all intra-European transactions
- b. European businesses will incur low inflation rates and higher interest rates
- c. Elimination of exchange rate uncertainty
- d. Member states will achieve rapid economic and financial integration

Answer: b

23. The major costs associated with the Euro pertain to:

- a. The inability of members to pursue independent policies
- b. The ability of members to pursue unionized policies
- c. The inability of members to pursue independent fiscal policies only
- d. All of the above

Answer: a

24. An ___ contract protects ___ from losses due to depreciation of the ___ currency.

- a. Export; importer; importer's
- b. Export; exporter; importer's
- c. Import; importer; importer's
- d. Import; exporter; importer's

Answer: b

25. Which of the following is a reason for the existence of the foreign exchange market?

- a. Foreign travel
- b. Foreign investment
- c. Payments in foreign currency
- d. All of the above

Answer: d

Chapter 11
Test Questions

TRUE/FALSE

1. On an open account, the distributor assumes all risk.

Answer: *False*.

2. A disadvantage for companies that insist on less risky transactions, such as a letter of credit, is that they may be losing business to competitors who sell on open accounts.

Answer: *True*.

3. In international business transactions, banks are concerned with documents, not the merchandise.

Answer: *True*.

4. Export drafts must be paid before the seller receives shipping documents.

Answer: *False*.

5. A confirmed letter of credit is preferred to a documentary draft because it guarantees payment to the seller.

Answer: *True*.

6. Straight bills of lading are negotiable.

Answer: *False*.

7. The role of banks in documentary payment transactions is to verify the documents received and comply with instructions.

Answer: *False*.

8. In letters of credit, the buyer pays the issuing bank on or before the draft maturity date.

Answer: *False*.

9. When discrepancies occur, the buyer can always waive them to allow the bank to pay the seller.

Answer: *False*.

10. In transferable letters of credit, the beneficiary is the buyer.

Answer: *False*.

MULTIPLE CHOICE

1. The payment terms offered by exporters to foreign buyers are all of the following except:

- a. Cash in advance
- b. Consignment but negotiable note
- c. Open account
- d. Documentary collection

Answer: b

2. The following payment method could be risky for the seller:

- a. Cash in advance
- b. Irrevocable letter of credit
- c. Open account
- d. Bank collection time draft

Answer: c

3. Which of the following method is the least costly for a buyer?

- a. Cash in advance
- b. Negotiable note
- c. Open account
- d. Bank collection time draft

Answer: c

4. A time draft signed and stamped by a merchant is:

- a. Trade acceptance
- b. Banker's acceptance
- c. Merchant acceptance
- d. Bank collection sight draft

Answer: a

5. An air waybill acts as:

- a. Document of title
- b. Contract of carriage
- c. Shipper's receipt of goods
- d. b and c

Answer: d

6. Letters of credit are used for all of the following except:

- a. As an important way of facilitating customs release of goods
- b. As a standby to guarantee a perform obligation
- c. As a method of financing export/import of goods
- d. As a device to guarantee payment obligation

Answer: a

7. The bank in the beneficiary country that guarantees the issuing bank's commitment to pay the letter of credit is the:

- a. Advising bank
- b. Correspondent bank
- c. Issuing bank
- d. Confirming bank

Answer: d

8. Interbank transactions including transfers and foreign exchange confirmations benefit from the use of a network called:

- a. EDI
- b. FARINE
- c. SWIFT
- d. MAC, first introduced by the U.S. International Trade Administration (ITA)

Answer: c

9. Letters of credit consist of a contractual relationship between the following:

- a. Buyer and its bank
- b. Issuing bank and seller
- c. Issuing bank and correspondent bank
- d. All of the above

Answer: d

10. The international rules governing documentary draft are called:

- a. Uniform Customs rules, 1994
- b. Uniform Rules for collections, 1995
- c. UCP 500, 1993
- d. UCC, 2000

Answer: b

11. The buyer or buyer's bank has no right to stop payment (under a letter of credit transaction) in order to inspect the quality of the goods shipped because of:

- a. the rule of strict compliance
- b. the independent principle
- c. the rule of red clause credit
- d. the rule of standby letters of credit

Answer: b

12. The buyer does not receive the documents and thus will not obtain possession of goods until payment is made to the collecting bank in documentary payments. This method is often called:

- a. Time draft
- b. Date draft
- c. Sight draft
- d. Acceptance draft

Answer: c

13. In documentary collection, the risk of nonpayment is higher in the case of:

- a. Sight draft, documents against payment
- b. Sight draft, documents against acceptance
- c. Time draft, documents against acceptance
- d. None of the above

Answer: d

14. A bank's guarantee to the beneficiary (buyer) that a specific sum of money will be received by the beneficiary in the event of default or nonperformance by the seller under a sales or service contract is:

- a. Credit surety
- b. Performance bond
- c. Standby letter of credit
- d. Retention surety

Answer: c

15. A letter of credit in which the buyer is allowed to reuse the credit after the letter is drawn by the seller and the bank is reimbursed is called:

- a. Transferable letter of credit
- b. Revolving letter of credit
- c. Back-to-back letter of credit
- d. None of the above

Answer: b

16. In a _____ letter of credit (L/C), the L/C may be split among many parties, and each party is able to present their own documents for payment.

- a. Revocable
- b. Red clause
- c. Transferable
- d. Confirmed

Answer: c

17. A letter of credit contains a typographical error of some significance. An amendment requires approval by:

- a. The account party
- b. The beneficiary
- c. The issuing bank
- d. a and c

Answer: d

18. Discrepancies that can be corrected by a written waiver from the buyer are:

- a. Accidental discrepancies
- b. Adjustable discrepancies
- c. Major discrepancies
- d. None of the above

Answer: d

19. A promissory note is a payment instrument that includes:

- a. The drawer
- b. The payee
- c. The drawee
- d. b and c

Answer: d

20. The exporter is allowed to receive an advance on the letter of credit before presentation of the necessary documents. This type of financing is:

- a. Factoring
- b. Forfeiting
- c. Transferable letter of credit
- d. Red clause credit

Answer: d

21. In letters of credit, banks can refuse or accept to pay letters of credit in order to:

- a. Serve the interests of the bank
- b. Accommodate the needs of its buyer
- c. Protect the public interest
- d. None of the above

Answer: d

22. Which of the following is a reason to not protest actions in cases when the buyer refuses to pay or honor the sales contract?

- a. A limited time is allowed for such actions
- b. They can be quite costly
- c. They could hinder future business dealings with customer
- d. All of the above

Answer: d

23. Irrevocable letters of credit:

- a. Can be amended by the seller if the bank agrees
- b. Cannot be amended
- c. Cannot be canceled before the expiry date without agreement of all parties to the credit
- d. Cannot be canceled without the agreement of the confirming and issuing bank

Answer: c

24. A letter of credit that is issued on the strength of another letter of credit is called a:

- a. Standby letter of credit
- b. Back-to-back letter of credit
- c. Acceptance letter of credit
- d. Transferable letter of credit

Answer: b

25. This type of credit can potentially result in an unfair and capricious calling in of the credit in spite of the absence of default or nonperformance.

- a. Standby letter of credit
- b. Acceptance letter of credit
- c. Transferable letter of credit
- d. Back-to-back letter of credit

Answer: a

Chapter 12

Test Questions

TRUE/FALSE

1. Presently, countertrade is estimated to account for 20 to 25 percent of world trade.
Answer: *False*. It is estimated to account for 15 to 20 percent.
2. One of the benefits of countertrade for exporters is transfer of technology.
Answer: *False*. It is one of the benefits for importers, but not for exporters.
3. Countertrade is correlated with a country's level of exports.
Answer: *True*.
4. In countries where exchange control restrictions are in place, countertrade is quite common.
Answer: *True*.
5. Countertrade is more ancient than (precedes) barter.
Answer: *False*.
6. Parallel transactions include clearing arrangements and counterpurchase.
Answer: *False*. Parallel transactions include buyback, counterpurchase, and offsets.
7. In clearing arrangements, trade imbalances are settled in hard currency payments, transfer of goods, or switch trading.
Answer: *True*.
8. Countertrade violates the national treatment and most-favored nation standard of the WTO.
Answer: *True*.
9. The U.S. government prohibits the use of countertrade in international business transactions.
Answer: *False*. The U.S. government prohibits federal agencies from promoting countertrade in *their* business or official contracts.
10. Buyback and counterpurchase are called parallel transactions.
Answer: *True*.

MULTIPLE CHOICE

1. The origins of countertrade can be traced to ancient times when international trade was based on the free exchange of goods. Barter flourished in Northern Mesopotamia as early as ___ BC, when inhabitants traded in ___ and metals.
 - a. 2000; spices
 - b. 3000; textiles
 - c. 4000; cinnamon
 - d. 5000; gold

Answer: b

2. The use of countertrade has steadily increased, and is presently estimated to account for about ___ to ___ percent of world trade.

- a. 10 to 15
- b. 15 to 18
- c. 15 to 20
- d. 20 to 25

Answer: c

3. Examples of countertrade include which of the following?

- a. Indonesia negotiated for a power station project with Asea Brown Boveri and for an air traffic control system with Hughes Aircraft.
- b. Counterpurchase obligations were to be 100 percent of the FOB values.
- c. Lockheed Martin agreed to sell F-16 military aircraft to Hungary in exchange for large investment and counterpurchase commitments. The firm agreed to buy \$250 million (U.S.) worth of Hungarian goods.
- d. Taiwan purchased 60 Mirage 2000-5 from a French aviation company, Dussault. In return, Dussault undertook a joint venture with Taiwan's aerospace company, Chenfeng, for the production of key aircraft parts and components for local aircraft and export.

Answer: d

4. Which of the following is not a benefit of countertrade for buyers?

- a. Transfer of technology
- b. Alleviating balance of payments difficulties
- c. Maintenance of stable prices for imports and exports
- d. All of the above are benefits of countertrade

Answer: c

5. Which of the following statements is false?

- a. Countertrade generates additional sales that would not otherwise be possible. It also enables entry into difficult markets.
- b. Countertrade provides exporters access to a continuous supply of production components, precious raw materials, or other natural resources in return for sales of manufactured goods or technology.
- c. Countertrade enables the exporter to adjust the price of a product in exchange for underpriced commodities.
- d. All of the above are benefits of countertrade for exporters.

Answer: c (the price can be adjusted for *overpriced* commodities)

6. Which of the following is not a theory of countertrade?

- a. Countertrade is positively correlated with a country's level of exports.
- b. Countertrade is often used as a substitute for foreign direct investment.
- c. The stricter the level of exchange controls, the lower the level of countertrade activity.
- d. Countertrade is positively correlated with a country's level of indebtedness.

Answer: c (the stricter the level of exchange controls, the *higher* the level of countertrade activity)

7. If the transaction involves the use of money, it is considered:

- a. Counterpurchase
- b. Offset
- c. Buyback
- d. All of the above

Answer: d

8. According to Figure 12.1, what occurs when third parties are involved in countertrade?

- a. Switch trading
- b. Clearing arrangements
- c. Simple barter
- d. Counterpurchase

Answer: a

9. What type of an arrangement allows two governments to agree to purchase a certain volume of each other's goods and/or services over a certain period of time, usually a year?

- a. Parallel
- b. Clearing
- c. Simple
- d. Compensation

Answer: b

10. In which type of transaction can a private firm sell or license technology or build a plant (with payment in hard currency) and agree to purchase, over a given number of years, a certain proportion of the output produced from the use of the technology or plant?

- a. Simple
- b. Compensation agreement (buyback)
- c. Clearing
- d. a and b

Answer: b

11. Identify the transaction that best fits these examples: A Japanese company exports computer chip processing and design technology to Korea, Singapore, and Taiwan, with a promise to purchase a certain percentage of the output over a given period of time. Levi Strauss transfers its know-how and trademark to a Hungarian firm for the production and sale of its products, with an agreement to purchase and market the output in Western Europe.

- a. Buyback
- b. Clearing
- c. Simple
- d. Compensation

Answer: a

12. In _____, a firm sells goods and/or services to an importer, promising to purchase from the importer or other entities in the importing nation goods that are unrelated to the items sold.

- a. Switch trade
- b. Counterbuyback
- c. Counterpurchase
- d. Compensation

Answer: c

13. In general, what is the duration of a counterpurchase?

- a. 2 to 3 years
- b. 3 to 4 years
- c. 3 to 5 years
- d. 5 to 8 years

Answer: c

14. This is an overseas production arrangement, usually based on a government-to-government agreement that permits a foreign government or producer to acquire the technical information to manufacture all or part of an equipment or component originating in the exporting country. It may include a government-to-government production under license.

- a. Subcontractor production
- b. Coproduction
- c. Investment production
- d. Technology transfer production

Answer: b

15. Identify the type of direct offset that best describes this example: In 1996, Italy announced plans to purchase four U212 submarines from Germany. The industrial cooperation agreement will give Italian companies substantial work in building the submarines and their systems. Indirect offsets (arrangements involving goods and services unrelated to the exports) will also be utilized as compensation for the predominance of German-supplied subsystems and components.

- a. Subcontractor production
- b. Coproduction
- c. Investment production
- d. Technology transfer production

Answer: a

16. ___ offsets are contractual arrangements in which goods and services unrelated to the exports are acquired from or produced in the host (purchasing) country. These include, but are not limited to, certain forms of foreign investment, technology transfer, and countertrade.

- a. Direct
- b. Indirect
- c. Bilateral
- d. Unilateral

Answer: b

17. Private countertrade transactions, however, fall outside the purview of the ___, which regulates only governmental actions.

- a. World Bank
- b. IMF
- c. GATT/WTO
- d. NAFTA

Answer: c

18. The U.S. policy on countertrade was developed in 1983 by an interagency working group. The policy includes which of the following?

- a. It prohibits federal agencies from promoting countertrade in their business or official contracts.
- b. It adopts a hands-off approach toward those arrangements that do not involve the U.S. government or are pursued by private parties.
- c. It provides no special accommodations for cases involving such transactions. The Export-Import Bank (Ex-Im Bank) will not provide financing support for the countertrade component of a transaction or accept countertrade as security, but the U.S. export component is eligible for all types of Ex-Im Bank support.
- d. All of the above

Answer: d

19. In view of congressional concern with respect to such practices, the ___ Trade Act mandated the establishment of an office of barter within the Department of Commerce's International Trade Administration and of an interagency group on countertrade.

- a. 1992
- b. 1995
- c. 1998
- d. 1999

Answer: c

20. Buybacks, counterpurchase, or offsets require the use of one or separate contracts. Its key provisions include which of the following?

- a. The compensation ratio
- b. Range of products to be countertraded
- c. Assignment clause
- d. All of the above

Answer: d

21. In Latin America, more than 75 percent of ___ industries engage in countertrade.

- a. Defense
- b. Technology
- c. Textile
- d. Metals

Answer: a

22. Which of the following is not a challenge of countertrade with Latin American countries?

- a. It often involves complex and time consuming negotiations.
- b. It may result in decrease in transaction costs.
- c. It may cause problems with disposition of acquired (lack of ready) merchandise, price-setting, and loss of purchasing flexibility.
- d. The involvement of third parties and the possibility of customers becoming competitors.

Answer: b

23. Which of the following is not a reason to countertrade?

- a. Lack of difficulty of obtaining credit for the buyer
- b. Increases production capacity and helps achieve growth
- c. Availability of expertise in countertrade for buyer or seller
- d. All of the above

Answer: a

24. Which of the following is a concern of the WTO with regard to countertrade?

- a. Countertrade represents a significant departure from the principles of free trade based on comparative advantage.
- b. Countertrade results in higher transaction costs.
- c. Countertrade is inconsistent with the national treatment standard which is embodied in most trade agreements.
- d. All of the above

Answer: d

25. What is the U.S. policy toward countertrade?

- a. U.S. government prohibits federal agencies from promoting countertrade in their business.
- b. A hands-off approach in relation to private transactions with U.S. corporations.
- c. The U.S. government allows federal agencies to promote countertrade.
- d. a and b

Answer: a

Chapter 13

Test Questions

TRUE/FALSE

1. Many small and medium-sized businesses suffer from undercapitalization and/or poor management of financial resources, often during the first few years of operation.

Answer: *True*.

2. In asset-based financing, banks and other commercial lenders provide loans secured by nonfixed assets.

Answer: *False*. They are secured by *fixed* assets.

3. SICBs are private companies funded by the SBA that are established to provide loan (sometimes equity) capital to small businesses.

Answer: *False*. SBICs are these companies.

4. Commercial finance companies grant short-term loans using accounts receivable, inventories, or equipment as collateral. They can also factor (buy) accounts receivable at a discount and provide the export-import firm the necessary capital for growth and expansion.

Answer: *True*.

5. Under consignment sales, an exporter will transfer possession or ownership of the merchandise on a deferred-payment basis (payment deferred for an agreed period of time).

Answer: *False*. This occurs under an open account, not under consignment sales.

6. Factoring is a continuous arrangement between a factoring concern and the exporter, whereby the factor purchases export receivables for a somewhat discounted price.

Answer: *True*.

7. Factoring is not available for shipments with a value of less than \$500,000. It is appropriate for continuous or repetitive transactions (not a one-shot deal). Factors often require access to a certain volume of the exporter's yearly sales.

Answer: *False*. Factoring is unavailable for values less than \$100,000.

8. Forms of external financing includes debt or equity financing, short-term/intermediate/long-term financing, and investment, inventory, or working capital financing.

Answer: *True*.

9. A long-term financing method includes trade/banker's acceptance: A draft accepted by the importer is used as collateral to obtain financing.

Answer: *False*. A short-term financing method includes this acceptance.

10. Financing by the importer includes advance or progress payments.

Answer: *True*.

MULTIPLE CHOICE

1. The capital needs and financing alternatives of an export-import business are determined by which of the following options?

- a. Stage of evolution
- b. Ownership structure
- c. Distribution channel choice
- d. All of the above

Answer: d

2. What type of financing occurs when an export-import firm borrows money from a lender with a promise to repay (principal and interest) at some predetermined future date?

- a. Debt
- b. Intermediate
- c. Short-term
- d. a and c

Answer: a

3. It is the best source of financing for initial capital needs or expansion because no interest must be paid back or equity in the business must be surrendered.

- a. Internal
- b. External
- c. Intermediate
- d. Long-term

Answer: a

4. Which type of institution remains the cheapest source of borrowed capital for export-import firms as well as other small businesses?

- a. Family and friends
- b. Private lenders
- c. Public lenders
- d. Banks

Answer: d

5. Commercial lenders usually provide loans up to ___ percent of accounts receivable and ___ percent of inventory.

- a. 50; 60
- b. 50; 70
- c. 50; 75
- d. 50; 80

Answer: d

6. What types of capital sources are generally not required for new or existing export-import businesses because they are one of the costliest forms of business financing?

- a. Personal loans
- b. Commercial loans
- c. Credit cards
- d. SBCs

Answer: c

7. This type of guarantee by the SBA permits a lending institution to provide long-term loans to start-up or existing small businesses.

- a. 7(a) Loan Guarantee Program
- b. 7(b) Loan Guarantee Program
- c. 7(c) Loan Guarantee Program
- d. All of the above

Answer: a

8. Identify the correct SBA funding program that best fits this description: designed to increase the availability of funds under \$100,000 and to expedite the loan review process.

- a. International trade loan
- b. Fast track
- c. Low documentation
- d. Export working capital

Answer: c

9. The loan ranges from \$100 to \$25,000, and funds are available to nonprofit intermediaries, who in turn make loans to small business borrowers. Collateral and personal guarantee are required. What type of loan is this?

- a. Macroloan
- b. Microloan
- c. Working capital loan
- d. International loan

Answer: b

10. Which of the following are different ways of raising capital from finance companies to start or expand an export-import business?

- a. Commercial finance companies
- b. Loans from insurance companies
- c. Loans from pension funds
- d. All of the above

Answer: d

11. The source(s) of equity funding include

- a. Business angles
- b. Family and friends
- c. Venture capitalists
- d. All of the above

Answer: d

12. Which of the following is a reason why venture capitalists may not be suitable for small export-import firms?

- a. Their minimum investment is \$100,000–\$300,000
- b. They expect high returns (10 to 25 percent) on their investments over a relatively short period of time
- c. They seldom provide funding for start-up capital because they are interested in companies with a proven track record and market position
- d. None of the above

Answer: c

13. When extending credit to overseas customers, it is important to recognize the following:

- a. Normal commercial terms range from 40 to 120 days for sales of consumer goods, industrial materials, and agricultural commodities.
- b. An allowance may have to be made for longer shipment periods than are found in domestic trade because foreign buyers are often unwilling to have the credit period start before receiving the goods.
- c. Customers are usually charged interest on credit periods of a year or longer and seldom on short-term credit of up to 200 days.
- d. Overseas consumers must understand the provision of unfavorable financing terms, where the importer should carefully assess such financing against considerations of cost and risk of default.

Answer: b

14. International factoring has grown by about ___ percent during the last ten years, amounting to \$__ billion in 1994.

- a. 110; 20
- b. 110; 25
- c. 500; 20
- d. 500; 25

Answer: c

15. The export factoring business has been traditionally associated with the sale of:

- a. Textiles and apparel
- b. Carpets
- c. Footwear
- d. All of the above

Answer: d

16. Identify the step that best describes this statement: The export factor provides (cash in advance) funds to the exporter against receivables until money is collected from the importer. The exporter often receives up to 30 percent of the value of the receivables ahead of time and pay the factor interest on the money received, or the factor pays the exporter, less a commission charge, when receivables are due (or shortly thereafter). The commission often ranges between 1 and 3 percent. Under factoring, exporters offer terms of sale on:

- a. Consignment
- b. Documentary draft
- c. Open account
- d. Letter of credit

Answer: c

17. Which of the following is not an advantage of export factoring?

- a. Factoring allows immediate payment against receivables and increases working capital.
- b. Factors conduct credit investigations, collect accounts receivable from importer, and provide other bookkeeping services.
- c. Factoring is not a good substitute for bank credit when the latter is too restrictive or uneconomical.
- d. Factors assume credit risk in the event of buyer's default or refusal to pay.

Answer: c

18. Which of the following statement(s) are not true?

- a. Factoring is not available for shipments with value of less than \$100,000. It is appropriate for continuous or repetitive transactions.
- b. Factors do not work for receivables with maturity of over 90 days.
- c. Factors generally do not work with most developing countries because of their inadequate legal and financial framework.
- d. a and c

Answer: b

19. ____ is the practice of purchasing deferred debts arising from international sales contracts without recourse to the exporter.

- a. Buyer credit
- b. Forfeiting
- c. Discrepancy
- d. Discounting

Answer: b

20. Which of the following is a difference between factoring and forfeiting?

- a. Forfeiting is often used to finance consumer goods, whereas factors usually work with capital goods, commodities, and projects.
- b. Factors work with receivables from developing countries whenever they obtain an acceptable bank guarantor; forfeiters do not finance trade with most developing countries because of unavailability of credit information, poor credit ratings, or inadequate legal and financial frameworks.
- c. Factors generally work with short-term receivables, whereas forfeiters finance receivables with a maturity of more than 180 days.
- d. Forfeiterers are used for continuous transactions, but factors finance one-time deals.

Answer: c

21. Which of the following is not an advantage of forfeiting?

- a. Forfeiterers purchase receivables as a one-shot deal without requiring an ongoing volume of business, as in the case of factoring
- b. Financing can cover 100 percent of the sale
- c. Forfeiter also assumes all of the payment risk
- d. Transaction size is usually limited to \$250,000 or more

Answer: d

22. Which of the following is an example of forfeiting?
- a. The Bankers Association for Foreign Trade (BAFT) arranged with a cotton machinery company to sell over \$500,000 worth of cotton lint removal machinery payable eleven months from the date on the bill of lading.
 - b. Morgan Grenfell Trade Finance Limited purchased receivables from U.S. exporters to Peru. The finance company required the guarantee of one of the large Peruvian banks and accepted a repayment period of up to five years.
 - c. The Export Development Corporation (EDC) of Canada purchases accounts receivable from Canadian exporters provided the promissory notes issued by the overseas customer are guaranteed by a bank acceptable to the EDC, the transaction complies with the Canadian content requirement, and the promissory note does not exceed 85 percent of the contract price.
 - d. All of the above

Answer: d

23. Which of the following is not an advantage of leasing?
- a. One can lease up-to-date equipment that may be too expensive to purchase.
 - b. The lessee can always trade in the old equipment in the event of obsolescence and obtain new even before the end of the lease.
 - c. The cost of leasing is often lower than other financing methods.
 - d. All of the above

Answer: c

24. Major changes in small business financing include which of the following?

- a. Technology
- b. Nationalization
- c. Regulation
- d. Distribution channels

Answer: a

25. Determinants of capital needs and financing alternatives include which of the following?

- a. Stage of evolution
- b. Ownership structure
- c. Distribution channels
- d. All of the above

Answer: d

Chapter 14

Test Questions

TRUE/FALSE

1. Exporters prefer to be paid on or before shipment of the goods, whereas buyers want to delay payment until they have sold the merchandise.

Answer: *True*.

2. A guideline of the OECD on export credits for its members includes a minimum repayment term of ten and a half years, with exceptions for poor countries.

Answer: *False*. It includes a *maximum* repayment term of *eight* and a half years.

3. A function of the Ex-Im Bank includes negotiation with other countries to reduce the level of subsidy in export credits.

Answer: *True*.

4. For small business exporters, the Small Business Administration (SBA) can guarantee a working capital loan up to \$1.5 million or up to \$3.0 million under a co-guaranty agreement with the Ex-Im Bank.

Answer: *False*. The SBA can guarantee working capital loans up to \$1.1 million or \$2.0 million under a co-guaranty.

5. Exporters can borrow up to 75 percent of their inventory, including work-in-process and up to 90 percent of their foreign account receivable, thus increasing their borrowing capacity.

Answer: *True*.

6. Ex-Im Bank offers a long-term insurance policy (Small Business Insurance Policy) that is intended to meet the credit requirements of small, more experienced exporters.

Answer: *False*. This is a short-term insurance policy for less experienced exporters.

7. Under the direct loan program, Ex-Im Bank provides a fixed-rate loan directly to creditworthy foreign buyers for the purchase of U.S. capital equipment, projects, and related services. The loan covers up to 85 percent of the U.S. export value.

Answer: *True*.

8. The ECPW is a combined effort of the SBA and Ex-Im Bank to provide short-term working capital to U.S. exporters.

Answer: *False*. The EWCP is the combination.

9. OPIC offers many programs to insure investments in developing nations against political risk, including currency inconvertibility, expropriation, and political violence.

Answer: *True*.

10. The GSM-103 program provides credit guarantees for up to three years and will cover 98 percent of the export value and up to 2.8 percentage points of interest on the guaranteed value.

Answer: *False*. The GSM-102 program provides this.

MULTIPLE CHOICE

1. What types of institutions are able to provide buyer credits?

- a. Banks
- b. Government agencies
- c. Private parties
- d. All of the above

Answer: d

2. Which organization has developed guidelines on export credits to its members in order to provide the institutional framework for an orderly export credit market, thus preventing an export credit race in which exporting countries compete on the basis of who provides the most favorable financing terms rather than on the basis of who provides the best quality product at the lowest price?

- a. OECD
- b. OCED
- c. CEOD
- d. DEOC

Answer: a

3. Which of the following is a guideline developed by the Organization for Economic Cooperation and Development?

- a. A minimum of 25 percent of the contract price to be paid in cash
- b. Rapid abolition of subsidized interest rates and adjustment of discount rates for aid loans to better reflect market realities
- c. Maximum interest rates for set periods of up to five, eight and a half, and ten years
- d. The establishment of related conditions for certain sectors, including agriculture, that are not covered by the guidelines

Answer: d

4. The Ex-Im Bank was created in __ and established under its present law in __, with the aim of assisting in the financing of U.S. export trade. It was originally established to finance exports to Europe after World War II.

- a. 1934; 1955
- b. 1934; 1945
- c. 1936; 1955
- d. 1936; 1945

Answer: b

5. Ex-Im Bank's role in promoting U.S. exports is likely to be more significant now than in the past few decades for which of the following reasons?

- a. The U.S. economy is more internationalized, and imports constitute a growing share of the GNP
- b. The volume of international trade has substantially increased, and competition for export markets is quite intense
- c. The U.S. economy is more internationalized, and exports and imports constitute a growing share of the GNP

- d. The volume of international trade has substantially increased, but competition for export markets is not intense

Answer: b

6. In its more than 70 years of operations, the bank has supported more than \$__ billion of U.S. exports.

- a. 155
- b. 255
- c. 355
- d. 455

Answer: d

7. The highest exposure for Ex-Im Bank over the past five years has been in what region?

- a. Asia
- b. Eastern Europe
- c. Latin America
- d. Africa

Answer: a

8. According to Table 14.1, which country had the highest exposure of Ex-Im Bank authorizations in 2004?

- a. China
- b. Indonesia
- c. Mexico
- d. Venezuela

Answer: c

9. According to Table 14.2, which industry had the highest Ex-Im Bank exposure in 2004?

- a. Power projects
- b. Oil
- c. Aircraft
- d. Manufacturing

Answer: c

10. The four major export financing programs provided by Ex-Im Bank include which of the following?

- a. Working capital loan guarantees for U.S. exporters
- b. Credit insurance
- c. Guarantees of commercial loans to foreign buyers
- d. All of the above

Answer: d

11. U.S. government support for the bank has been the subject of criticism from various groups, including which of the following?

- a. The environmental community contends that the bank provides loans and loan guarantees for projects that harm the environment.
- b. It is often stated that the bank's assistance is largely provided to a small number of large U.S. firms such as Airbus, Bechtel, GE, and Halliburton.
- c. Some of Ex-Im Bank's loans to foreign companies have harmed domestic industries; for example, it is has been alleged that the \$18 million loan to the Chinese Iron and Steel industry adversely affected the competitiveness of local industries.
- d. All of the above

Answer: d

12. Ex-Im Bank's loans, guarantees, and intermediate-term insurance cover __ percent contract price.

- a. 65
- b. 75
- c. 85
- d. 95

Answer: c

13. In the event of default by the exporter, Ex-Im Bank will cover __ percent of the principal of the loan and interest, up to the date of claim for payment, insofar as the lender has met all the terms and conditions of the guarantee agreement.

- a. 70
- b. 80
- c. 90
- d. 100

Answer: c

14. For small businesses, the Ex-Im Bank offers a short-term insurance policy in which political losses are covered at what percentage?

- a. 75
- b. 80
- c. 90
- d. 100

Answer: d

15. ____ is extended to a foreign entity by a financial institution for the importation of U.S. goods and services; whereas the reimbursement loan is the financial institution's reimbursement of a buyer's payments to U.S. suppliers?

- a. Direct buyer credit loan
- b. Indirect buyer credit loan
- c. Direct seller credit loan
- d. Indirect seller credit loan

Answer: a

16. The Ex-Im Bank provides a fixed-rate loan directly to creditworthy foreign buyers for the purchase of U.S. capital equipment, projects, and related services. The loan covers up to 85 percent of the U.S. export value?

- a. Indirect Loans Program
- b. Direct Loans Program
- c. Project Finance Program
- d. Guarantee Finance Program

Answer: b

17. Which program supports exports of U.S. capital equipment and related services for projects whose repayment depends on project cash flows, as defined in the contract, and is suitable for major U.S. suppliers and sponsors that do not have adequate access to bank or government guarantees?

- a. Indirect Loans Program
- b. Direct Loans Program
- c. Project Finance Program
- d. Guarantee Finance Program

Answer: c

18. In order to be classified as a small business by the SBA, which of the following must hold true?

- a. Retail and service \$7.0 to \$24.5 million in average annual receipts
- b. Construction \$12.0 to \$28.5 million in average annual receipts
- c. Agriculture \$0.85 to \$6.0 million in average annual receipts
- d. Wholesale no more than 200 employees

Answer: b

19. Under the SBA Export Express, the SBA provides participating lenders with a payment guarantee up to a maximum loan amount of \$____.

- a. 150,000
- b. 250,000
- c. 350,000
- d. 500,000

Answer: b

20. OPIC programs are presently available for new and expanding businesses in some ____ countries worldwide.

- a. 140
- b. 145
- c. 150
- d. 155

Answer: a

21. Investments by OPIC clients may take many forms, including which of the following?

- a. Equity investments
- b. Loans
- c. Service contracts
- d. All of the above

Answer: d

22. Which organization is a major source of capital for intermediate- and long-term, fixed-rate loans for U.S. exporters?

- a. PEFCO
- b. OPIC
- c. OECD
- d. OEFCO

Answer: a

23. Which program offers credit guarantees with terms of greater than three but not more than ten years?

- a. GSM-101
- b. GSM-102
- c. GSM-103
- d. GSM-480

Answer: c

24. Which public law authorizes U.S. government financing of sales of U.S. agricultural products to friendly countries on concessional terms?

- a. Public Law 440
- b. Public Law 450
- c. Public Law 470
- d. Public Law 480

Answer: d

25. In addition to government programs, more than a dozen state governments have introduced export financing programs. Some of the programs implemented in California and Illinois have the following essential features, including which of the following?

- a. State-funded loan guarantee programs
- b. Preshipment and postshipment assistance in the form of loans to lenders and loan guarantees to exporters and their banks
- c. State agency acting as a delivery agent for Ex-Im Bank programs
- d. All of the above

Answer: d

Chapter 15

Test Questions

TRUE/FALSE

1. The first U.S. export control was introduced in 1775 when the Continental Congress outlawed the export of goods to Great Britain.

Answer: *True*.

2. The Equal Export Opportunity Act of 1932 curtailed the use of export controls if the product (that is subject to such restrictions) was available from sources outside the United States in comparable quality and quantity.

Answer: *False*. The Equal Export Opportunity Act of 1972 did this.

3. The Bureau of Industry and Security (BIS) is the primary licensing agency for dual use exports.

Answer: *True*.

4. AES is a system that allows electronic submission of license applications through private vendors.

Answer: *False*. ELAIN allows this.

5. The NSG was established in 1992 by a group of nuclear supplier countries (44 member countries). It seeks to contribute to the nonproliferation of nuclear weapons through the implementation of guidelines for nuclear and nuclear-related exports.

Answer: *True*.

6. The Export Administration Act was primarily aimed at the Arab boycott against Israel, however it also prevents U.S. firms from being used to implement foreign policies of other nations that are inconsistent or contrary to U.S. policy.

Answer: *True*.

7. The EAR applies only to U.S.-based companies, not including individuals in the United States.

Answer: *False*. EAR applies to individuals in the United States.

8. The Foreign Corrupt Practices Act (FCPA) of 1979 was enacted as a public response to the Watergate Scandal and the disclosure of corrupt payments by U.S. multinationals to foreign government officials in order to obtain business.

Answer: *False*. The FCPA of 1977 did this.

9. According to International Perspective 15.6, the country with the lowest level of corruption was Canada.

Answer: *True*.

10. Interest-charge DISCs: Under this arrangement, taxes on export sales can be deferred. However, shareholders must pay interest on their proportionate share of the accumulated taxes deferred.

Answer: *True.*

MULTIPLE CHOICE

1. The ___ amendment prohibited the president from imposing export controls without providing adequate evidence with regard to its importance to U.S. national security interests.

- a. 1977
- b. 1978
- c. 1979
- d. 1980

Answer: a

2. As of 1998, restrictions based on national emergencies have been imposed against which of the following countries?

- a. Nigeria
- b. Kenya
- c. North Korea
- d. Cuba

Answer: c

3. Since the events of September 11, 2001, the U.S. government introduced certain restrictions on exports, including which of the following?

- a. The prohibition of the conduct of business with any group whose names appear on the lists of denied persons maintained by the Office of Foreign Assets Control
- b. A deemed export license required before foreign nationals engaged in research in the United States receive technology or technical data on the use of export-controlled equipment/materials
- c. Efforts to strengthen the multilateral regime on export controls
- d. All of the above

Answer: d

4. U.S. Export controls are primarily imposed for the following reasons:

- a. To restrict the export/import of items that would make a significant contribution to the military potential of any other country that would prove detrimental to the national security of the United States
- b. To restrict the export/reexport of goods and technology to further the foreign policy objectives of the United States, such as human rights, regional stability, and antiterrorism
- c. To restrict the import of goods, wherever necessary, to protect the domestic economy from the excessive drain of scarce resources (crude petroleum, certain inorganic chemicals) and to reduce the serious inflationary impact of foreign demand
- d. All of the above

Answer: b

5. Which agency is the primary licensing agency for dual use of exports?

- a. BIS
- b. EAR
- c. RAI
- d. IBS

Answer: a

6. According to Figure 15.1, which step states that a request can also be made if an item has been incorrectly classified and/or should be transferred to another agency, and that any item controlled by the Department of Commerce has an ECCN?

- a. Step 1: Is the item subject to EAR?
- b. Step 2: Is the item classified under the ECCN on the CCL?
- c. Step 3: Do the general prohibitions apply?
- d. Step 4: Are there any controls on the country chart?

Answer: b

7. According to Figure 15.1, which step states that the commerce country chart allows you to determine the export/reexport requirements for most items listed on the CCL? If an "X" appears in a particular cell, transactions subject to that particular reason for control/destination combination require a license unless a license exception applies.

- a. Step 1: Is the item subject to EAR?
- b. Step 2: Is the item classified under the ECCN on the CCL?
- c. Step 3: Do the general prohibitions apply?
- d. Step 4: Are there any controls on the country chart?

Answer: d

8. Which service has an automated voice response system that provides applicants with the status of their license and product classification applications?

- a. EAR
- b. STELA
- c. ELAIN
- d. ERIC

Answer: b

9. The __ was formed in 1984 to harmonize export controls on chemical and biological weapons. It has 34 member countries.

- a. GA
- b. AG
- c. GC
- d. CG

Answer: b

10. Which organization was established in 1992 by a group of nuclear supplier countries (44 member countries) and seeks to contribute to the nonproliferation of nuclear weapons through the implementation of guidelines for nuclear and nuclear related exports?

- a. GNS
- b. SGN
- c. NGS
- d. None of the above

Answer: c

11. Which of the following categories can have license exceptions?

- a. GBS
- b. LVS
- c. GFT
- d. All of the above

Answer: d

12. Which license exception allows exports/reexports of gift parcels to an individual, religious, or charitable organization located in any country?

- a. GBS
- b. LVS
- c. GFT
- d. TMP

Answer: c

13. In September 2004, St. Jude Medical Export, an Australian subsidiary of a Minnesota-based U.S. exporter, agreed to pay a ___ civil penalty to settle charges that it violated the antiboycott provisions of the EAR.

- a. \$25,000
- b. \$30,000
- c. \$35,000
- d. \$50,000

Answer: b

14. The sources of U.S. antiboycott regulations can be found in:

- a. Export Administration Act (EAA)
- b. Export Administration Regulations (EAR)
- c. Internal Revenue Code
- d. All of the above

Answer: d

15. Some exceptions to the antiboycott prohibitions include which of the following?

- a. Compliance with import requirements of a boycotting country
- b. Compliance with a boycotting country's requirements regarding shipment and transshipment of exports
- c. Compliance with immigration, passport, visa, employment, and local requirements of a boycotting country
- d. All of the above

Answer: d

16. According to International Perspective 15.5, which of the following identifies that a request is not reportable?

- a. Supplying a certificate from an insurance company stating that the company has an agent or representative in the boycotting country including the name and address of such agent
- b. Complying with the laws of a country other than one that requires compliance with the country's boycott laws
- c. Supplying information about the exporter or exporter's family for immigration, passport, or employment purposes
- d. All of the above

Answer: d

17. A person who knowingly violates the antiboycott regulations is subject to a fine of up to \$_____ or five times the value of the exports involved whichever is greater.

- a. 40,000
- b. 50,000
- c. 60,000
- d. 70,000

Answer: b

18. The _____ of 1977 was enacted as a public response to the Watergate Scandal and the disclosure of corrupt payments by U.S. multinationals to foreign government officials in order to obtain business.

- a. FCOPA
- b. FERPA
- c. FCPA
- d. REFA

Answer: c

19. The accounting provisions of the FCPA are intended to prevent companies from escaping detection by maintaining dubious accounts or slush funds. It requires any corporation that has certain classes of shares with the SEC to do which of the following?

- a. Make but not keep accurate books or accounts that fairly reflect the transactions
- b. Maintain a system of internal financing and accounting controls in order to prevent the unauthorized use of corporate assets and transactions and to ensure the accuracy of corporate records
- c. Maintain a system of only internal accounting controls in order to prevent the unauthorized use of corporate assets and transactions and to ensure the accuracy of corporate records
- d. a and c

Answer: c

20. Enforcement of the FCPA is the joint responsibility of which of the following agencies?

- a. SEC and USTR
- b. SEC and Department of Commerce
- c. SEC and Department of Justice
- d. SEC only

Answer: c

21. According to FCPA, criminal penalties may reach up to \$2 million for public corporations and domestic concerns and \$100,000 and/or a maximum of five years for which of the following parties?

- a. Officers
- b. Directors
- c. Employees
- d. All of the above

Answer: d

22. Which of the following is not an international effort to control corruption?

- a. The OECD Antibribery Resolution, 1992
- b. The OECD Convention on Combating Bribery, 1997
- c. The ICC Rules of Conduct to Combat Extortion and Bribery, 1977 (revised in 1996)
- d. Transparency International (TI)

Answer: a

23. Which of the following countries are known to have the highest level of corruption according to International Perspective 15.6?

- a. Nigeria
- b. Kenya
- c. Pakistan
- d. All of the above

Answer: d

24. U.S. antitrust laws are grouped into three categories, including which of the following?

- a. GSP
- b. Exemptions
- c. International GSP
- d. None of the above

Answer: b

25. The ___ is a tax deferral vehicle (on the first \$10 million U.S. export sales) that can be used by small and medium sized exporting companies.

- a. IC-DISC
- b. IC-ISDC
- c. IC-CISD
- d. IC-SIDC

Answer: a

Chapter 16

Test Questions

TRUE/FALSE

1. All goods imported into the United States are subject to duty or duty-free entry, depending on their classification under the applicable tariff schedule and their country of origin.

Answer: *True*.

2. Prohibited imports include certain drug paraphernalia, products sold in violation of intellectual property rights, and all types of narcotics.

Answer: *False*. Only certain narcotics are prohibited, not all types.

3. The Buy-America Act of 1933 provides the purchase of goods by all foreign governments from domestic sources unless they are not of satisfactory quality, are too expensive, or are not available in sufficient quantity.

Answer: *False*. The Buy-America Act of 1933 provides the purchase of goods by the U.S. government from domestic sources.

4. The U.S./Israel Free Trade Agreement provides for free or low rates of duty only for merchandise imports from Israel insofar as the imports meet the rules of origin requirements.

Answer: *True*.

5. The GSP is a special arrangement by developed nations, agreed on by the UN to provide special treatment for imports from developing countries to encourage their economic growth.

Answer: *True*.

6. The AOGA was created to offer beneficiary countries from sub-Saharan Africa duty-free treatment on more than 1,800 items that are exported to the United States.

Answer: *False*. The AGOA does this.

7. A license is required to transact customs business by the exporter only on his or her own account.

Answer: *False*. A license is *not* required to transact customs business by the exporter *or importer* on his or her own account.

8. Ad-valorem is a duty-based tax on the value of the imported product, whereas a specific duty is based on quantity or volume.

Answer: *True*.

9. Trade intermediaries and services include customs brokers, free-trade zones, and bonded warehouses.

Answer: *True*.

10. Bonded warehouses are secured, nongovernmental-approved warehouse facilities in which exported goods are stored or manipulated with payment of duty until they are removed and entered for consumption.

Answer: *False*. Bonded warehouses are secured, *government*-approved warehouse facilities in which *imported* goods are stored or manipulated *without* payment of duty until they are removed and entered for consumption.

MULTIPLE CHOICE

1. Which of the following are the three different methods used to levy tariffs on dutiable products?

- a. Ad valorem duty, specific duty, and merchandise duty
- b. Ad valorem duty, specific duty, and services duty
- c. Ad valorem duty, specific duty, and compound duty
- d. None of the above

Answer: c

2. The rules of nontariff barriers includes which of the following?

- a. The prohibition or limitation on the entry of some imports
- b. Limitation to the entry of certain ports
- c. Restriction on routing, storage, or use or require treatment
- d. All of the above

Answer: d

3. Imports prohibited without a license include arms and ammunition, and products from which countries?

- a. Cuba, Iran, North Korea
- b. Cuba, Syria, Iraq
- c. Iran, Syria, Lebanon
- d. Syria, North Korea, Lebanon

Answer: a

4. Which of the following imports require a permit before they can enter the United States?

- a. Alcoholic beverages
- b. Wool or fur products
- c. Metallic products
- d. All of the above

Answer: a

5. Which of the following imports are limited by absolute quotas in the United States?

- a. Wool and fur products
- b. Sugars and syrups
- c. Plant products
- d. All of the above

Answer: b

6. The tariff rates on which of the following imports are raised after a certain quantity have been imported?

- a. Cattle
- b. Whole milk
- c. Motorcycles
- d. All of the above

Answer: d

7. Aerospace products, live animals and animal products, beverages, chemicals, combustibles, cosmetics, and drugs are among the few products or product categories that _____?

- a. Have numerous import restrictions
- b. Are subject to certain restrictions or requirements
- c. Are generally prohibited
- d. a and b

Answer: b

8. Which respective government agencies oversee wildlife and pets, and textile, wool, and fur products?

- a. U.S. Department of Commerce; USDA
- b. U.S. Department of Commerce; FTC
- c. U.S. Department of Interior; USDA
- d. U.S. Department of Interior; FTC

Answer: d

9. Identify the country that has the following rules on tariffs: Average tariff is about 12 percent ad valorem, whereby external tariff will range from 0 to 35 percent and high tariffs are placed in certain protected sectors such as autos, textiles, and computers.

- a. Canada
- b. South Korea
- c. Brazil
- d. Argentina

Answer: c

10. Identify the country that has the following rules on nontariff barriers: cost of service markups and other barriers to imports of wines and spirits, and tariff quotas on dairy products, poultry, eggs, and barley products.

- a. Canada
- b. South Korea
- c. Germany
- d. Argentina

Answer: a

11. Identify the country that has the following rules on tariffs: tariffs range from 4 to 17 percent. Raw materials enter with higher rates.

- a. Canada
- b. South Korea
- c. Germany
- d. Japan

Answer: c

12. Identify the country that has the following rules on nontariffs: Slow and cumbersome import clearance procedures, product standards, and testing and certification requirements. Highly regulated, inefficient distribution system.

- a. Japan
- b. South Korea
- c. Germany
- d. Argentina

Answer: a

13. Which free trade agreement provides for the elimination of tariffs on over 97 percent of nonagricultural exports to the United States?

- a. USFATA
- b. USAFTA
- c. CAFTA-DR
- d. AGOA

Answer: b

14. Under the GSP system, imports from eligible countries are subject to tariff exemptions or reductions if:

- a. The merchandise is destined to the United States without contingency for diversion at the time of exportation
- b. The cost or value of materials produced in the beneficiary country and/or the direct cost of processing performed is no less than 35 percent of the appraised value of the goods
- c. The UN certificate of origin is prepared and signed by the exporter and filed with the entry of the goods
- d. All of the above

Answer: d

15. Which of the following is a limitation to the application of the GSP?

- a. The vice president is required to suspend GSP eligibility on imports of specific articles from a particular country when the latter supplied more than \$19 million in the value of the article during the previous calendar year or over 50 percent of the value of U.S. imports.
- b. The provision of GSP is not restricted for advanced developing nations.
- c. The president is required to suspend GSP eligibility on imports of specific articles from a particular country when the latter supplied less than \$19 million in the value of the article during the previous calendar year or over 50 percent of the value of U.S. imports.
- d. The provision of GSP is restricted for advanced developing nations.

Answer: d

16. In order to receive the CBI duty-free treatment, the merchandise must be wholly produced or substantially transformed in the beneficiary country and meet the __ percent value-added requirement similar to the GSP scheme.

- a. 35
- b. 40
- c. 45
- d. 50

Answer: a

17. Customs brokers provide services through which of the following ways?

- a. The entry and admissibility of merchandise
- b. Its classification and valuation
- c. The payment of duties and other charges assessed by customs or the refund or drawback thereof
- d. All of the above

Answer: d

18. Which of the following is not a duty or responsibility of customs brokers?

- a. Record of transactions
- b. Diligence in corresponding and paying monies
- c. Proper filing of information
- d. Provide banking materials on all import related items

Answer: d

19. To obtain a customs broker license, an individual must be:

- a. A resident-alien of the United States
- b. Be least 18 years of age
- c. Of good moral character
- d. All of the above

Answer: c

20. Which of the following is considered a customs broker?

- a. Individual
- b. Partnership
- c. Corporation
- d. All of the above

Answer: d

21. FTZs are operated as _____ utilities under the supervision of the FTZ Board, which is authorized to grant the privilege of establishing a zone.

- a. Private
- b. Public
- c. Loading
- d. Transportation

Answer: b

22. Economic advantages of FTZs include which of the following?

- a. Merchandise admitted into the zone is subject to partial customs duty until it is admitted into the customs territory.
- b. Businesses can export a product subject to a high rate of duty and manipulate and manufacture it into a final product that is classified under a low rate of duty when imported into the customs territory.
- c. Merchandise may be remarked but not reconditioned to conform to certain requirements for entry.
- d. Duties are paid on the partial quantity of such foreign goods incorporated in merchandise transferred from the customs territory into the zone of entry.

Answer: b

23. In which parts of the world besides the United States are FTZs established?

- a. Africa
- b. Asia
- c. Eastern Europe
- d. All of the above

Answer: d

24. Which of the following describes the difference between a bonded warehouse and an FTZ?

- a. Costs for the use of a bonded warehouse are generally more than for FTZs
- b. Bonded warehouses may be established under a user's facilities and with unlimited degree of difficulty as compared with FTZs
- c. The permitted types of manipulation are limited in the case of a bonded warehouse than for an FTZ
- d. Bonded warehouses charge high interest rates on all fees for the use of its facilities, unlike FTZs

Answer: c

25. Duty is not payable when goods under bond are ____, or ____ under customs supervision.

- a. Exported, destroyed
- b. Imported, destroyed
- c. Withdrawn, destroyed
- d. None of the above

Answer: a

Chapter 17

Test Questions

TRUE/FALSE

1. Products are considered unique when they are imported from other countries.

Answer: *True*.

2. German machine tools, Japanese cars, and French perfumes are products that are produced abroad and often of better quality than those produced domestically.

Answer: *True*.

3. Due to the large gap between the rich and poor in countries throughout the world, today's consumers tend not to be quality/brand name conscious, and are not willing to pay a higher price for good quality products.

Answer: *False*. Today's consumers are quality/brand name conscious, and are willing to pay a higher price for good quality products.

4. Trade fairs are the only method of finding foreign products that are of good quality.

Answer: *False*. Trade fairs, trade shows, exhibitions, trade publications, and so on are other ways of finding popular products.

5. In many Asian countries, consumers often base their purchasing decision on proof of certification for the product or service.

Answer: *False*. In European, not Asian, countries this occurs.

6. Larger countries (in terms of population) import manufactured goods more frequently on a per capita basis because they tend to have a less diversified industrial base.

Answer: *False*. Larger countries (in terms of population) import manufactured goods *less* frequently on a per capita basis because they tend to have a *more* diversified industrial base.

7. Major factors in international supplier selection include financial conditions, trade restrictions, and cultural and communication barriers.

Answer: *True*.

8. Selection of the supplier should also be based on the integrity of the product, which includes the assumptions that the importer does not violate any intellectual property rights registered in the country.

Answer: *True*.

9. The disadvantage of outsourcing includes political and labor problems and currency fluctuations, but it also has the benefits of providing the opportunity to quickly respond to market changes.

Answer: *False*. Outsourcing makes it *harder* to respond to market changes.

10. In this age of intense competition, firms that manufacture standardized products can no longer rely on firm-specific advantages arising solely from technology.

Answer: *True*.

MULTIPLE CHOICE

1. Keeping abreast of market trends often helps identify products that are in great demand.

Which of the following is an example of this statement?

- a. Increases in the immigrant population from Asia and Latin America have encouraged growth in the import of more and greater variety of spices.
- b. Increases in the agricultural sectors from Mexico and Latin America have encouraged growth in the import of more and greater variety of agricultural goods.
- c. Increases in the textile and apparel industry in China has encouraged growth in the import of more and greater variety of apparels.
- d. Increases in the cotton industry in Africa has encouraged growth in the imports of cotton to developed nations.

Answer: a

2. The major reason for global sourcing in the _____ industry is the unavailability of needed products in the U.S. market.

- a. Steel
- b. Textile
- c. Chemical
- d. Seafood

Answer: c

3. Trade shows provide importers with the following advantages:

- a. A variety of products to buy
- b. Opportunities for personal contact
- c. Information on competitors
- d. All of the above

Answer: d

4. Which of the following trade publications provide business and trade opportunities in various countries?

- a. *Trade Channel*
- b. *Asian Sources*
- c. *General Merchandise*
- d. All of the above

Answer: d

5. Approximately how many trade shows take place in more than 70 countries every year?

- a. 2,000
- b. 2,500
- c. 3,000
- d. 3,500

Answer: a

6. To which individual would a sample of a product be shown to obtain an estimate of the shipping and insurance cost in order to calculate the price at which the merchandise will be sold?

- a. Retailer
- b. Importer
- c. Exporter
- d. Freight forwarder

Answer: d

7. Which of the following is a quality control program used to measure the quality of imports?

- a. QS-1400
- b. QS-1200
- c. QS-9000
- d. QS-1000

Answer: c

8. Which of the following companies jointly developed the quality control program for imports?

- a. Chrysler, GM, and Ford
- b. GE, Unilever, and HLL
- c. HLL, GM, and Ford
- d. AV, HLL, and Chrysler

Answer: a

9. Which two critical factors determine import levels?

- a. Per capita incomes and population size
- b. Economic and trade relations
- c. Purchasing power parity
- d. GDP and FDI

Answer: b

10. Economic theory also suggests that import levels are affected by other factors, including which of the following?

- a. Price of imports, exchange rate, and price of international goods relative to exports
- b. Price of imports and exchange rate only
- c. Price of imports and price international goods relative to exports
- d. Price of imports, exchange rate, and price of domestic goods relative to imports

Answer: d

11. Whereas relative prices have a predictable and systematic impact on imports, price elasticities tend to be ____, and in most instances well ____ unity.

- a. High; above
- b. Low; below
- c. High; below
- d. Low; above

Answer: b

12. The study by ____ (1989) examining the factors influencing import demand in Pakistan from 1959 to 1986 found that a policy of devaluation or raising tariffs was not significant in reducing imports except in the case of imports of ____ and transport ____.

- a. Sarmad; machinery; equipment
- b. Prahalad; equipment; machinery
- c. Hammond; machinery; equipment
- d. Singh; equipment; machinery

Answer: a

13. Which policy led to more import dependence and was a popular economic strategy among some developing nations, specifically for the purchases of raw materials, components, etc.?

- a. Warner-Krenin import substitution policy
- b. Import substitution policy
- c. Foreign exchange substitution policy
- d. FDI substitution policy

Answer: b

14. Which of the following is not a major factor in international supplier selection?

- a. Quality assurance
- b. Financial conditions
- c. Buyer-supplier relationships
- d. Exporter-freight forwarder relationships

Answer: d

15. Certification of potential suppliers for strict quality assurance, technical capability to prevent quality failures, and overall commitment to quality assurance is important for:

- a. Quality assurance
- b. Financial conditions
- c. Buyer-supplier relationships
- d. Exporter-freight forwarder relationships

Answer: a

16. Which factors are considered to be important when selecting the right supplier?

- a. Protection of IPRs
- b. Delivery time
- c. Import duty implications
- d. All of the above

Answer: d

17. A study conducted in ____ on the decision process of U.S. purchasing agents suggests timely delivery, product brand name, and style as important factors that determine purchasing decisions.

- a. 1981
- b. 1982
- c. 1983
- d. 1984

Answer: c

18. Which of the following elements are used to identify low cost suppliers?
- a. Raw materials, labor costs, current exchange rates, and transportation costs
 - b. Raw materials, labor costs, and transportation costs only
 - c. Labor costs and transportation costs only
 - d. Raw materials and transportation costs only
- Answer: a
19. Buyer-supplier relationships includes evaluating:
- a. Financial stability of supplier
 - b. Negotiation flexibility of supplier
 - c. Supplier's commitment to quality
 - d. a and b
- Answer: d
20. Final selection of supplier is based on:
- a. International knowledge and experience of supplier
 - b. Supplier's willingness to devote sufficient time to develop the product
 - c. Supplier's willingness to provide training
 - d. All of the above
- Answer: d
21. Lower price, higher-quality products, and advanced technology available from external sources are all advantages of which of the following systems?
- a. Foreign direct investment
 - b. Outsourcing
 - c. Direct foreign investment
 - d. b and c
- Answer: b
22. Which of the following is an example of an in-bond plant contractor or wholly owned operation of the foreign firm?
- a. Maquiladora
 - b. Foreign direct investment
 - c. Foreign subsidiary
 - d. Joint venture
- Answer: a
23. Foreign producers are able to export through which of the following channels if a direct channel is adopted?
- a. Subsidiary
 - b. Joint venture
 - c. Importer
 - d. All of the above
- Answer: d
24. Which of the following is a common mistake by potential importers?
- a. Inability to develop an appropriate price structure
 - b. Insufficient knowledge of the market
 - c. Failure to invest sufficient time and effort to develop the business
 - d. All of the above
- Answer: d

25. Which of the following is not used as a tool to finance imports?

- a. Closed account
- b. Open account
- c. Letter of credit
- d. Documentary collection

Answer: a

Chapter 18

Test Questions

TRUE/FALSE

1. The making of an entry is generally required within eight working days after the arrival of the importing vessel or aircraft.

Answer: *False*. It is required within six working days.

2. Entry documents generally consist of an entry manifest (Form 7533) or application and special permit for immediate delivery (Form 3461).

Answer: *True*.

3. Liquidation is the first step in the ascertainment of the duties and drawback accruing on an entry by customs.

Answer: *False*. It is the final step.

4. The HSUTU was adopted in 1988, which provides a commodity description and coding system that is predominately used by other nations.

Answer: *False*. HTSUS was adopted in 1988.

5. Computed value is the final step when imported merchandise is appraised.

Answer: *True*.

6. The computed value does not include costs of materials, but cost of services only.

Answer: *False*. It includes costs of materials, labor, and overheads.

7. The ABI permits participants to electronically file required data with customs.

Answer: *True*.

8. For the United States specifically, all imported articles must be marked with the English and Spanish name of the country of origin unless otherwise indicated. This is based on the fact that Spanish is the second most-spoken language in the United States.

Answer: *True*.

9. Once the merchandise has been released from customs, a bond must be posted to guarantee payment of duty upon final assessment of duty.

Answer: *True*.

10. A bond is also known as a carnet because it serves as a customs entry document in order to ensure a guarantee payment of duty.

Answer: *False*. Bond and carnet are separate documents, not the same.

MULTIPLE CHOICE

1. A U.S. importer purchases 2,000 porcelain dolls from a manufacturer in China for \$25,000. Terms of sale are CIF San Francisco. International airfreight and insurance costs total \$7,400.

Following the dolls' importation, the importer pays the U.S. license holder a royalty fee of \$2 per doll for the right to resell the dolls in the United States. None of the parties are related. Which one of the following represents the correct appraised value for the imported dolls for customs purposes?

- a. \$25,000
- b. \$32,400
- c. \$17,600
- d. \$21,600

Answer: c

2. Select the correct the answer that best describes an entry.

- a. The act of filing the necessary documentation with the border patrol officer to secure the release of imported materials
- b. The act of transporting products into bordering countries
- c. The act of filing the necessary documentation with the customs officer to secure the release of imported merchandise
- d. None of the above

Answer: c

3. Which documentation serves as evidence of a right to make entry when goods are initially imported into the country?

- a. Air waybill
- b. Bill of lading
- c. Customs broker entry form
- d. Foreign entry form

Answer: b

4. In 2005, The U.S. Customs and CBP processed \$ _____ trade entries and collected about \$ _____ billion in tariffs, taxes, and user fees.

- a. \$29 million; \$31 billion
- b. \$29 million; \$31.4 billion
- c. \$28.3 million; \$31 billion
- d. \$28.3 million; \$31.4 billion

Answer: b

5. Entry documents generally consist of which of the following procedures?

- a. An entry manifest (Form 7533) or application and special permit for immediate delivery
- b. A commercial invoice
- c. A packing list
- d. All of the above

Answer: d

6. A bond must be posted ___ filing the entry summary to guarantee payment of duties or taxes upon the final assessment of duties or other fees by customs.

- a. Before
- b. After
- c. Upon
- d. None of the above

Answer: a

7. Customs bonds are usually ___ percent of the duties, taxes, and fees paid by the importer during the previous ___ months.

- a. 11; 13
- b. 11; 12
- c. 10; 13
- d. 10; 12

Answer: c

8. Which of the following element is not included on invoices?

- a. Description of port of entry and detailed description of merchandise
- b. Description of the name of the actual buyer, place, and date of purchase
- c. All charges included in the invoice price, including commissions, insurance, etc.
- d. Any discounts as well as charges incurred by seller or consignee

Answer: b

9. Which of the following is not a type of entry?

- a. Entry for warehouse
- b. Entry for transportation devoid of bond
- c. Entry for consumption
- d. Mail entry

Answer: b

10. Identify the type of entry: A refund of 99 percent of all customs duties is allowed under certain conditions, including if the imported material is exported in the same condition as when imported, or if the imported merchandise is used in the manufacturing process and exported within five years from the date of importation.

- a. Entry for warehouse
- b. Refund entry
- c. Drawback entry
- d. Temporary importation under bond

Answer: c

11. Identify the type of entry: No entry is required on duty-free merchandise not exceeding \$2,000 in value. For merchandise over \$2,000, formal entry is required. For certain entry of products such as furs, leathers, and footwear, the limit is \$250.

- a. Mail entry
- b. Informal entry
- c. Entry for consumption
- d. Entry for retail

Answer: a

12. ____ is the final ascertainment of the duties and drawback accruing on an entry by customs.

- a. Protest
- b. Petition
- c. Liquidation
- d. Bond posting

Answer: c

13. Liquidation is required for all entries of imported merchandise with exception of which of the following?

- a. Temporary importation bond entry
- b. Transportation in bond
- c. Imports subject to immediate exportation
- d. All of the above

Answer: d

14. Customs has the right to reliquidate any entry within ____ days from the date of notice of the original liquidation.

- a. 30
- b. 45
- c. 60
- d. 90

Answer: d

15. In what year was the Harmonized Tariff Schedule of the U.S. adopted?

- a. 1988
- b. 1989
- c. 1990
- d. None of the above

Answer: a

16. Which of the following is a major benefit of adopting the HTSUS?

- a. The HTSUS will be in line with the tariff determination procedures of most countries of the world.
- b. It facilitates the shipment and documentation of merchandise into the United States and creates a uniform and familiar system for U.S. exporters shipping to other countries.
- c. Such uniformity in classification and coding across countries simplifies the conduct of international trade negotiations and increases the accuracy of international trade statistics.
- d. All of the above

Answer: d

17. The HTSUS classifies goods according to their ____ _____, or in the case of apparel, on the basis of the fiber of chief weight.

- a. Essential materials
- b. Essential character
- c. Essential weight
- d. All of the above

Answer: b

18. What is the average tariff rate in the United States, regardless of the fact that some imports are subject to higher tariffs?

- a. 2 percent
- b. 3 percent
- c. 4 percent
- d. 5 percent

Answer: d

19. Select the correct order in which imported merchandise is appraised.

- a. Deductive value, transaction value, computed value
- b. Transaction value, deductive value, computed value
- c. Computed value, transaction value, deductive value
- d. Computed value, deductive value, transaction value

Answer: b

20. Which method is used when the transaction value cannot be determined in such cases as sales between related parties?

- a. Computed value
- b. ISM value
- c. Deductive value
- d. None of the above

Answer: c

21. This method starts with the costs of materials, labor, and overheads in producing the imported goods. Customs then adds profits and general expenses incurred by the producer.

- a. Computed value
- b. ISM value
- c. Deductive value
- d. Transaction value

Answer: a

22. Imported articles are to be marked with the name of which of the following?

- a. Country of origin
- b. Manufacturing company
- c. a and b
- d. None of the above

Answer: a

23. Special markings are required for certain articles, including which of the following?

- a. Artworks
- b. Lumber
- c. Sugar
- d. All of the above

Answer: d

24. Marking is not required for which of the following items?

- a. Steel
- b. Crude substances
- c. a and b
- d. None of the above

Answer: b

25. Select which automated service best fits this description: This is a cargo inventory control and release notification system. This system interfaces with other systems such as ABI to allow for faster identification and release of low-risk shipments. It speeds the flow of cargo and entry processing and provides participants with electronic authorization of cargo release prior to arrival. It also facilitates the intermodal movement and delivery of cargo.

- a. AMS
- b. AIS
- c. ACH
- d. AES

Answer: a

Chapter 19

Test Questions

TRUE/FALSE

1. U.S. antidumping and countervailing duty laws have been subject to several changes over the years; the most recent amendments were to implement the Uruguay Round Agreements of the GATT.

Answer: *True*.

2. Actionable subsidies are subsidies conferred on a public corporation to encourage exports or to promote use of domestic goods.

Answer: *False*. They are conferred on a producer.

3. Typically, the USTIC considers the collective impact of all imports of a product from a given country in arriving at its injury determination.

Answer: *False*. The USITC does this.

MULTIPLE CHOICE

1. The cumulative doctrine is allowed for which of the following reasons?

- a. Determining material injury in dumping cases
- b. Determining material injury in subsidy cases
- c. a and b
- d. None of the above

Answer: c

2. In the case of a petition, ___ determines within ___ days whether to initiate or terminate the investigation based on whether the petition adequately alleges material injury?

- a. Commerce; 20
- b. Commerce; 60
- c. ITA; 20
- d. ITA; 60

Answer: a

3. What happens after Commerce's affirmative preliminary determination?

- a. Suspension of liquidation of the investigated merchandise
- b. The requirement of bonds or cash deposits to be posted for each entry
- c. The continuation of the investigation by the ITC of a final investigation concerning injury, threat, or retardation
- d. All of the above

Answer: d

4. Which of the following is not among the top ten countries cited for antidumping cases in the United States?

- a. U.K.

- b. Brazil
- c. India
- d. Korea

Answer: c

5. Which of the following countries has the highest rate of antidumping cases in the United States?

- a. France
- b. China
- c. Japan
- d. Germany

Answer: c

6. Among the countervailing duty cases in the United States, which country has the highest percentage?

- a. India
- b. Brazil
- c. Germany
- d. Canada

Answer: b

7. In order to successfully petition for the imposition of countervailing duties on imported goods, a U.S. company or industry must show that:

- a. Foreign exporters are selling their goods on the U.S market for less than fair value
- b. The dumping causes material injury to U.S. industry
- c. a and b
- d. None of the above

Answer: c

8. The Tariff Act of 1930 prohibits:

- a. The importation of articles that violate a valid U.S. patent, trademark, copyright, etc.
- b. Unfair methods of competition by the importer
- c. Unfair methods of competition by the consignee
- d. All of the above

Answer: d

9. Which of the following describes gray-market goods?

- a. Products that are authorized by the owner of production rights to be made and sold in one market are diverted and sold in another, often unauthorized.
- b. Products that are authorized by the owner of production rights to be made and sold in one market are diverted and sold in the same market, often unauthorized.
- c. Products that are authorized by the owner of production rights to be made and sold in one market are diverted and sold in another, often authorized.
- d. Products that are authorized by the owner of production rights to be made and sold in one market are diverted and sold in the same market, often authorized.

Answer: a

10. A large percentage of Section ___ cases involve patent infringement.

- a. 354
- b. 227
- c. 337
- d. 378

Answer: c

11. Which of the following is a remedy if intellectual property rights violation has occurred?

- a. A general or limited exclusion order that directs customs to deny entry of certain goods
- b. A cease and desist order that enjoins a person from further violation of Section 337
- c. a and b
- d. None of the above

Answer: c

12. Identify the definition of market disruption.

- a. A moderate increase in imports that causes material injury or threat to a domestic industry producing a product similar to, or in direct competition with, the imported article
- b. A moderate increase in exports that causes material injury or threat to a domestic industry producing a product similar to, or in direct competition with, the exported article
- c. A rapid increase in imports that causes material injury or threat to a domestic industry producing a product similar to, or in direct competition with, the imported article
- d. A rapid increase in exports that causes material injury or threat to a domestic industry producing a product similar to, or in direct competition with, the exported article

Answer: c

13. Section ___ of the Trade Act of ___ was introduced in order to seek open access to U.S. exports in foreign markets. It is directed at foreign government practices that restrict U.S. exports or artificially direct goods or services to the United States.

- a. 301; 1975
- b. 301; 1974
- c. 303; 1975
- d. 303; 1974

Answer: b

14. ___ 301 is another version of ___ 301 applicable to intellectual property rights.

- a. Super; special
- b. Special; special
- c. Super; super
- d. Special; super

Answer: d

15. Which of the following countries were identified for their trade policies and practices that had the greatest adverse effect on U.S. products in 2005?

- a. China
- b. Argentina
- c. Poland
- d. All of above

Answer: d

16. Which act gives the president discretion to restrict imports that threaten national security?

- a. IPR Act
- b. PRI Act
- c. Tariff Act
- d. U.S. Trade Act

Answer: c

17. ____ is the selling of a product in a foreign market at a price that is lower than the price for which it is sold in the home market.

- a. Subsidy
- b. Dumping
- c. Export subsidy
- d. Domestic subsidy

Answer: b

18. Trade remedies include which of the following?

- a. Import interference with agricultural programs
- b. Trade adjustment assistance
- c. The escape clause
- d. All of the above

Answer: d

19. Injury is established by which of the following?

- a. Import volumes
- b. Lost sales
- c. Impact on domestic producers of the similar products
- d. All of the above

Answer: d

20. In the absence of sales or sufficient sales of the like product in the domestic market of the exporting country, dumping may be measured by comparison through which of the following ways?

- a. With a comparable price of a like product sold in a third country
- b. With the cost of production in the country of origin plus a reasonable amount for administrative, selling, and other costs and for profits (constructed value)
- c. With a comparable price of a like product sold in the same country
- d. a and b

Answer: d

21. Actionable subsidies include ____ subsidies bestowed on ____ products used in the production of an imported item (upstream subsidies).

- a. Domestic; input
- b. Domestic; output
- c. Global; input
- d. Global; output

Answer: a

22. _____ and _____ investigations are conducted either on the basis of a petition filed with the _____ through the _____ and the _____ on behalf of a domestic industry or by Commerce upon its initiative.

- a. AD; CVD; Commerce; ITA; ITC
 - b. AD; ITC; Commerce; ITA; CVD
 - c. AD; Commerce; CVD; ITC; ITA
 - d. AD; ITA; CVD; Commerce; ITC
- Answer: a

Chapter 20

Test Questions

TRUE/FALSE

1. Intellectual property rights are one form of exclusive rights conferred by the state to promote science and technology.

Answer: *True*.

2. A patent is a word, name, symbol, or device or any combination of these used by a manufacturer or seller of goods to identify and distinguish the particular manufacturer's goods from goods made or sold by others.

Answer: *False*. This is a trademark.

3. In some countries, a formula might be patentable, whereas methods of production based on personal skills are not patentable.

Answer: *True*.

4. In the United States, Section 336 of the Tariff Act of 1931 authorizes the International Trade Commission (ITC) to institute an investigation into the importation of articles that may infringe on U.S. patents, trademarks, or copyrights.

Answer: *False*. This is Section 337 of the Tariff Act of 1930.

5. In Argentina, the National Intellectual Property Institute (INPI) has begun to approve patents for pharmaceutical products, and India provides product patent protection to drugs, food, agricultural, and chemical substances.

Answer: *True*.

6. The Patent Cooperation Treaty (PCT) allows for multiple applications and a worldwide search for novelty in all member countries; that is, a search is made in one of the designated offices based on a single application without the need to file applications in all other member states.

Answer: *False*. The PCT allows for a *single* application.

7. Developing countries criticize the intellectual property conventions administered by WIPO because their minimum standards are considered insufficient and they contain no provisions for dispute settlement. Member states retain broad discretion in granting intellectual property rights.

Answer: *False*. Developed countries criticize the WIPO.

8. The TRIPS agreement covers almost all forms of intellectual property including patents, trade and service marks, industrial designs, trade secrets, and layout designs of integrated circuits.

Answer: *True*.

9. The major regional agreement in the area of intellectual property rights (IPRs) is the European Patent Convention (1977), under which a single application may result in the grant of a European patent valid in all member countries.

Answer: *False*. It is the European Patent Convention of 1973.

10. International agreements on IPRs include the Paris Convention, the Universal Copyright Convention, the Patent Cooperation Treaty, and trade-related aspects of IPRs (the TRIP) agreement

Answer: *True*.

MULTIPLE CHOICE

1. Intellectual property rights include:

- a. Patents
- b. Trade secrets
- c. Copyrights
- d. All of the above

Answer: d

2. The issue of IPRs has received wider attention compared to other property rights for which of the following reasons?

- a. The volume of trade in goods protected by intellectual property rights is becoming increasingly significant as more countries produce and consume products that result from creative activity and innovation.
- b. The globalization of markets has created opportunities for the production and/or sale of unauthorized copies to supply the newly generated demand.
- c. a and b
- d. None of the above

Answer: c

3. Select the statement that best defines a patent.

- a. A proprietary right granted by the government to inventors for an unlimited period of time to exclude other persons from manufacturing or using the product
- b. A proprietary right granted by the government to inventors for an unlimited period of time to exclude other persons from only selling the product
- c. A proprietary right granted by the government to inventors for a fixed period of time to exclude other persons from manufacturing, selling, or using the product
- d. None of the above

Answer: c

4. In the United States, patents are valid for a period of how many years from the filing date?

- a. 20 years
- b. 25 years
- c. 30 years
- d. 35 years

Answer: a

5. Which of the following is not a function of a trademark?

- a. Identifies multiple sellers' goods and distinguishes them from goods sold by others
- b. Signifies that all goods bearing the trademark come from a single source and are of an equal level of quality
- c. Serves as a primary instrument in advertising and selling the goods
- d. b and c

Answer: d

6. Patentable subject matter includes all of the following except:

- a. Machines
- b. Manufactured articles
- c. Software
- d. Processes

Answer: c

7. In the United States, trademarks are valid for how many years from the date of registration?

- a. 4 years
- b. 8 years
- c. 10 years
- d. 12 years

Answer: c

8. The historical roots of trade secrets protection can be traced to ancient ____, where death by torture was prescribed for revealing the secret of silk making to outsiders, and to ancient ____, where enticing a competitor's servant to disclose business secrets was a punishable offense.

- a. China; Rome
- b. Rome; China
- c. Japan; Greece
- d. Greece; Japan

Answer: a

9. In most developed nations, protection is afforded through laws pertaining to which of the following?

- a. Contracts
- b. Criminal law or torts
- c. Breach of confidence
- d. All of the above

Answer: d

10. Which of the following products are not patented?

- a. Aircraft and automobiles
- b. Detergents
- c. Food products
- d. All of the above

Answer: d

11. A copyright does not protect which of the following?

- a. Literary work
- b. Musical work
- c. Technological innovations
- d. Dramatic works

Answer: c

12. After the death of an author, for how many more years are copyrights protected?

- a. Minimum of 50 years
- b. Maximum of 50 years
- c. Minimum of 75 years
- d. Maximum of 75 years

Answer: a

13. Which of the following are considered to be core copyright industries?

- a. Business
- b. Entertainment software
- c. Motor vehicles
- d. All of the above

Answer: d

14. Which of the following is considered an issue pertaining to IPRs?

- a. The growth of trade in counterfeit goods
- b. The strong enforcement of IPR protection
- c. Nonpiracy acts of IPRs
- d. The growth in trade of new technologies

Answer: a

15. Which of the following are considered reasons that a country may be designated as a priority foreign country by the U.S. government?

- a. Its policies or practices have the greatest adverse impact on relevant U.S. products.
- b. It is engaged in good faith negotiations to address these problems.
- c. The policies and procedures have the minimal adverse impact on relevant U.S. products.
- d. b and c

Answer: a

16. Which U.S. organization has the authority to exclude the importation of imports that violate intellectual property rights?

- a. U.S. Department of IPRs
- b. U.S. Customs
- c. U.S. Department of Commerce
- d. U.S. CBP

Answer: b

17. Which of the following is considered a red flag for IPRs?

- a. Exporter is known to sell infringing goods and has a history of enforcement actions for IPR violations
- b. Merchandise is exported from sources with IPR problems
- c. Payment term is CDO rather than letter of credit
- d. Shipment is underinsured

Answer: d

18. Select the country that best fits this description: Trademarks and trade secrets are inadequately protected. Software piracy is widespread, and the narrow interpretation of patents by domestic courts has allowed local competitors to conduct activity that violates the rights of legitimate patent owners. In order for enforcement to take place on copyright and patent products, all trademarks must be registered. Any delays in the registration process makes enforcement difficult, and open the door to piracy.

- a. China
- b. Singapore
- c. Japan
- d. Malaysia

Answer: c

19. Select the country that best fits this description: The National Intellectual Property Institute (INPI) has begun to approve patents for pharmaceutical products. The service has been extremely slow for issuing patents to products with commercial value. It has adequate protection for IPRs, mostly due to the government's ratification of the World Intellectual Property Organization Copyright Treaty. However, this is not enough, as recorded music, videos, books, and computer software products continue to be pirated. Currently, the country is under the Special 301 Priority Watch List due to its lack of enforcement of IPRs.

- a. Brazil
- b. Bolivia
- c. Argentina
- d. Chile

Answer: c

20. Which of the following countries, whose protection and enforcement of IPRs warrants close monitoring and resolution, was placed on the 2006 priority watch list?

- a. China
- b. Syria
- c. Bolivia
- d. South Korea

Answer: a

21. The Paris Convention is used in connection with which of the following?

- a. International protection of industrial property
- b. International copyright protection
- c. Universal Copyright Convention
- d. All of the above

Answer: d

22. The Paris Convention treaty sets three fundamental rules, including which of the following?

- a. National treatment
- b. Right of priority
- c. Minimum standards
- d. All of the above

Answer: d

23. The Paris Convention is monitored by ____?

- a. WIPO
- b. IWPO
- c. PCT
- d. CPT

Answer: a

24. Which of the following is considered a fundamental feature of the TRIPS agreement?

- a. Lack of standards
- b. Lack of enforcement
- c. Nondispute settlement
- d. None of the above

Answer: d

25. Regional conventions that aim to increase the enforcement of IPRs include the following:

- a. African Regional Intellectual Property Organization
- b. Latin American Patent Office
- c. Asian Regional Intellectual Property Organization
- d. U.S. Patent and IRP Organization

Answer: a

Answers to Review Questions

Chapter 1

1. Cost advantages, access to resources not available at home, higher incomes, and employment.
2. Trade and exchange rate regimes, presence of an entrepreneurial class, efficiency enhancing government policy, and secure access to transport and marketing services.
3. The volume of trade in 2004 was about three times what it was in 1990, and approached eleven trillion dollars.
4. Establishment of the World Trade Organization in 1994, increasing role of developing nations in world trade, increase in the establishment of regional trading arrangements such as NAFTA, MERCOSUR, dynamic role of services.
5. Lower global production/exports, unless surplus countries such as Japan and China absorb more imports and reduce excess savings through currency adjustments.
6. Globalization, slow pace of multilateral trade talks.
7. It is difficult for all countries to increase exports by 8 to 10 percent per year when the world economy grows at 2 to 3 percent per year. The United States cannot continue to run large trade deficits.
8. Larger countries have a diversified economy that enables them to produce most of their own products to fulfill needs.

Chapter 2

1. Trade liberalization in agriculture and textiles, new rules on dumping, subsidies and safeguards, services, intellectual property rights (TRIPS).
2. Most favored nation standard: each contracting party (CP) of the WTO must grant every other CP the most favorable tariff treatment it grants to any country with respect to import/export of goods. National treatment standard: any privileges extended to national firms should be extended to similar foreign firms operating in the country.
3. To promote deeper levels of integration, attract foreign direct investment, consolidate regional security and free market reforms.
4. Canada: Canadian firms achieve economies of scale, secure access to a large consumer markets, reduce uncertainty by providing rules for the application of trade remedies. Mexico: secure access to U.S. and Canadian markets, attract foreign investment, and achieve export led growth.
5. NAFTA (services): National treatment standard to service providers from member states, phases out ownership restrictions, removes restrictions on cross-border trucking and rail. Investment: extends the national treatment standard to investors from member countries, prohibits performance requirements, prohibits investment in their most strategic industries. Yes, it has increased trade between members.
6. Preferential trade arrangements, free-trade area, customs union, common market, economic union.

7. Free trade between members, common external tariff, abolition of restrictions on the free movement of factors of production, establishment of a common transport, agricultural and competition policy. Ten countries joined the EU in 2004. Bulgaria and Romania joined in 2007.
8. Unlike EU, NAFTA does not provide for a common external tariff, free movement of labor and does not have a provision for economic assistance or monetary union.
9. To encourage monetary cooperation, harmonize working conditions, remove remaining barriers to trade, and establish cooperation on R & D and a common standard on environmental policy.
10. The EU Commission initiates policies and ensures members' compliance with the treaty.

Chapter 3

1. Personal liability, a partner's action can bind the partnership.
2. A partnership is a legal entity for limited purposes: to sue or be sued, collect judgments, title of ownership of partnership property, or to have all accounting procedures in the name of the partnership.
3. They bring complimentary assets needed to distribute or commercialize the product.
4. S Corporations offer the benefits of limited liability but still permit the owner to pay taxes as an individual, thereby avoiding double taxation.
5. Attorneys, accountants, consultants.
6. Organization along functional, geographic, or product/market basis. No.
7. The United States, according to the "organizational test"; the Netherlands, according to the "management and control test."
8. No. A branch firm is not a separate entity, and is considered an extension of the domestic corporation. Foreign branch taxes are paid when they are earned and losses reported when incurred.

Chapter 4

1. Systematic and reactive approach. Participation in trade shows is a good way to test the export potential of products.
2. Lack of focus on a given product or market; absence of long-term relationship with importer.
3. Shifting spending patterns: If the consumer's income increases, demand for most goods will rise. However, the demand for goods that people regard as necessities, such as fuel, bread, or meat, tends to decline while the demand for luxuries such as cars expands more rapidly. Quality/niche marketing: erosion of the mass market, emphasis on quality and niches.
4. No. Imports may be subject to tariffs and nontariff barriers.
5. Financial and economic conditions provide important information such as market size, market intensity, and growth rate of the market, inflation, and interest rates.
6. It provides pertinent information pertaining to entry barriers, limits on ownership/profit remittances, taxes, price controls, and protection of intellectual property rights.
7. U.S. Department of Commerce, Small Business Administration, U.S. Department of Agriculture, state and city agencies.

8. Commercial banks, trading companies, chambers of commerce. The Gold Key Service is a matching service that sets appointments in foreign markets with prescreened partners for U.S. exporters. The service provides orientation briefing, market research, and assistance in generating follow-up strategies.
9. For steps in a typical export transaction, see International Perspective 4.3.
10. SCORE, Service Corps of Retired Executives, is a nonprofit group that offers free business counseling, evaluates export potential, helps develop and implement export marketing plans, etc.

Chapter 5

1. Direct and indirect channels can be distinguished by the location of the second channel. If the second channel is located in the producer's country, it is considered an indirect channel, whereas if it is located in the buyer's country, it is a direct channel. Advantages of indirect channels: Limited investment, good way to test-market products. Disadvantages of indirect channels: lower profit margins, limited contact with end-users, loss of control over marketing.
2. Manufacturer's resources and experience, customer and product characteristics, control and coverage.
3. Yes. They exercise high levels of control over foreign intermediaries to protect their proprietary rights.
4. Manufacturer's export agents represent the manufacturer and handle direct marketing, promotion, shipping, and financing of the merchandise. They take possession of, but not title to, the goods.
5. Manufacturer may lose control of goods, exporter may not learn about the business, EMCs may not devote sufficient time and effort if product is new or unknown, etc.
6. Export trading companies (ETCs) are more diverse, larger, and often better financed than EMCs. ETCs are not exclusively restricted to export-import activities.
7. Webb-Pomerene Associations are organizations of firms in the same industry established for the sole purpose of marketing their products abroad. They are exempted from antitrust laws under the U.S. Export Trade Act of 1918 and are permitted to set prices, allocate orders, sell products, negotiate and consolidate freight, and arrange shipment.
8. Loss of control over marketing and pricing; limited access to, or feedback from, customers; dealer protection laws in many countries.
9. Exporter's rights and obligations, representative's rights and obligations, definition of price, renewal or termination of contract.
10. The occurrence of specific events such as acts of God, wars, etc. that are beyond the control of the parties. In such cases, most agreements provide for termination of the contract.

Chapter 6

1. Efficient allocation of resources, expansion of economic growth, employment.
2. The systems concept puts more emphasis on maximizing the benefits of the corporate system as a whole, compared to those of individual units.
3. Regulations, competition, technology.
4. Materials management is the timely movement of materials from the sources of supply to the point of manufacturer, assembly, or distribution. Physical distribution relates to the movement of the firm's product to consumers.

5. In domestic logistics (unlike international logistics), domestic currency is used, most goods are transported by truck or rail, and short distances and lead times are involved.
6. Actions of government authorities, war, revolution, strikes. It can be managed by monitoring political developments, insuring against political risks.
7. Voyage, time, and open policy. FPA policy covers total loss and partial loss from certain specified risks insured against. WA policy covers total loss and partial losses, often greater than a given percentage.
8. The insured party cannot benefit from overinsurance. It can collect only the amount of the actual loss, or \$7,500.00. It could even be considered evidence of criminal fraud and void the contract.
9. Actual total loss: goods are totally damaged or so changed in their nature as to be unmarketable. Constructive total loss: actual loss is inevitable and damaged cargo can be saved only at considerable cost (cost greater than its value). Yes, the insurer stands in place of the insured or is subrogated to the insured's general average rights upon the payment of the claim.
10. Preliminary notice of claim, formal notice of claim, settlement of claim.

Chapter 7

1. High markups are considered as rent arising from market power. They may also be due to R & D expenditures and skilled labor force. In the chemical industry, the biggest profits are in specialty chemicals designed and produced for particular industrial uses.
2. Shrimp is considered a luxury item and consumers are willing to pay more for it. This strong perception of value allows retailers to maintain or increase shrimp prices despite decreases in wholesale costs.
3. Marginal pricing is the export price based on variable cost of producing the product, whereas cost-based pricing is based on full cost plus a desired amount of return on investment.
4. No. Under a DES contract, the seller fulfills his or her obligations by delivering the goods to the port of destination and paying off the ship. The buyer is responsible for clearing the goods through customs.
5. It depends on whether the goods had been cleared from importation by customs. If they had, then the buyer would be liable for the loss. If not, the seller would be liable.
6. Yes. A buyer has a duty to pay upon presentation of documents by the seller.
7. In arrival contracts, delivery is affected when the goods are placed at the disposal of the buyer. In CIF terms, delivery is effected upon loading the goods on board the vessel at the port of departure.
8. Unlike Incoterms (1999), Incoterms (2000) places the responsibility for export clearance on the seller in FAS contracts, requires the buyer to clear imports at own expense in DEQ term, and obligates seller to load the goods on buyer's collecting vehicle under FCA term.
9. Incoterms deal only with matters pertaining to the interpretation of terms of delivery. The terms do not deal with transfer of property rights, or exemptions from liability. Differences between Incoterms and UCC include certain applications of ex-works, FAS, FOB, and CIF contracts.
10. In cases in which the seller can procure insurance at competitive price.

Chapter 8

1. Increases in global trade, growth in international trade custom, and the adoption of international conventions and rules.
2. Oral testimony, enforceability of oral contracts, perfect tender rule, specification of quantity/price.
3. CISG views mixed sales and service contracts as sales of commercial goods unless the “preponderant part of the obligation” of the seller consists in the supply of labor or other services.
4. The CISG does not apply to certain types of contracts, such as sales of consumer goods, securities, labor services, electricity, ships, and aircraft, or to the supply of goods for manufacture if the buyer provides a substantial part of the material needed for such manufacture or production.
5. Yes. A contract in writing that requires any modification to be made in writing may not be otherwise modified by agreement. However, a party may be precluded by his conduct from asserting such a provision to the extent that the other party has relied on that conduct.
6. Both the United States and Canada are parties to the CISG. California law includes the CISG. CISG is a federal treaty and preempts all state laws. Thus, CISG applies.
7. Battle of the forms: a reply to a sales offer that purports to be acceptance but contains additions or modifications is a rejection of the offer. However, if the counteroffer does not materially alter the terms of the offer, it constitutes an acceptance unless objected and notified by the offerer. Material terms include price, payment, quantity and quality of goods, place and time of delivery, and liability.
8. For typical tendering process for export contracts, see International Perspective 8.1.
9. Scope of work, delivery, delay and penalties, taxes and duties.
10. Shifting the risk to overseas customer by requiring payment in exporter’s currency, or fix the exchange rate to protect against devaluation if paid in importer’s currency.

Chapter 9

1. A bill of exchange is an unconditional written order by one party (the drawer) that orders a second party (debtor or drawee) to pay a certain sum of money to the drawer (creditor) or designated third party. A bill of lading is a contract of carriage between the shipper and the carrier. It also certifies ownership and receipt of goods by the carrier for shipment. A straight bill of lading is not negotiable.
2. A certificate of origin is required by certain countries to enable them to determine whether the imported product is eligible for preferential duty treatment. A destination control statement is intended to notify the carrier and other parties that the item may be exported only to certain destinations. Pro forma invoice is a provisional invoice sent to the prospective buyer (by seller) in response to the buyer’s request for a price quotation. It is needed by the buyer to obtain foreign exchange or import permit.
3. Heavy infrastructure investment in many developing countries (certain types of equipment do not fit into a standard ocean container), just-in-time delivery of supplies. No.
4. Tankers, roll-on and roll-off (RO/RO) vessels, and bulk carriers.
5. Carrier’s duty under a bill of lading: making the ship seaworthy; properly manning, equipping, and supplying the ship; making the ship fit and safe for reception, carriage and preservation of

the goods; properly and carefully loading, stowing, carrying, and discharging the goods. The Himalaya Clause entitles agents/employees of the carrier the protection of the Hague Rules.

6. Limits of liability and its extension to independent contractors, carrier's liability for delays in delivery, burden of proof to show fault.

7. A freight forwarder facilitates the movement of cargo to the overseas destination on behalf of shippers. NVOCCs are international ocean carriers that do not operate their own vessels. They fulfill the role of the shipper with respect to carriers and that of a carrier with respect to shippers.

8. Based on previous cases, the container is not a COGSA package (the contents of the container were described as 2,300 cases of soft drinks, with each case containing four six-packs). Himalaya Clause could be valid.

Chapter 10

1. The spot rate is the exchange rate between two currencies for their immediate trade for delivery within two business days. The forward rate is the cost today for a commitment to buy or sell an agreed amount of a currency at a fixed (usually a 30, 60, 90, or 180 day basis), future date. The U.S. import firm can purchase its future payment in U.K. pounds at the percent spot rate and leave it until payment is due (if the future pound will be higher than today's spot rate).

2. If the forward rate is below the present spot rate (in relation to the dollar), the foreign currency is said to be at a forward discount.

3. To reduce exchange risks involving payments or receipts in foreign currency.

4. In view of fees associated with hedging, export-import firms should consider using this technique when a high proportion of their cash flow is vulnerable to exchange rate fluctuations.

5. The Canadian exporter. If the value of the Canadian dollar appreciates in terms of the U.S. dollar, the Canadian exporter's receipts in local currency will be reduced.

6. Eliminates exchange rate volatility as well as the need to exchange currencies among EU-area members.

7. The U.S. importer can hedge by buying 30,000 U.K. pounds today at the spot rate (\$2.00 per pound). It will deposit the pounds in the bank until the payment date in six months and earn interest.

8. If the importer does not hedge, he or she has to pay more than if he had hedged.

9. The U.S. exporter can hedge by selling 350,000 yen today for delivery in three months at today's three month forward rate. After three months, the exporter receives \$2,660 for 350,000 yen, regardless of the spot rate of the yen. If the U.S. exporter does not hedge, he or she gets \$2,730, or \$70 more than if he or she had hedged.

10. Yes. Strong U.S. economic growth, large and open credit market, diversified financial institutions, and independent central bank.

Chapter 11

1. Consignment, time draft, and revocable letter of credit (in that order) entail high risk to the exporter (less risk to overseas buyer).

2. Documentary collection advantages: bank fees are less expensive, seller retains title and control of shipment till payment is received or promissory note is given; disadvantage: buyer may refuse to pay or accept draft at maturity. Open account sales advantages: increases sales, helps test-market new products, buyer gets enough time to resell products; disadvantages: buyer

could delay/default on payment. Revocable letter of credit advantages: Less costly, and is convenient for transactions between parent and subsidiaries as well as between firms who have done business over some time and trust each one another; disadvantages: issuing bank can cancel/amend credit at any time; seller's bank does not confirm credit and hence no guarantee for seller as in irrevocable/confirmed L/C.

3. Steps in letter of credit: see Figure 11.3.

4. <u>Documentary credit</u>	<u>Documentary draft</u>
Bank fees are expensive	Bank fees are less expensive
Banks guarantee payment	Banks do not guarantee payment
Reduces risk of default/nonpayment	There is limited protection against nonpayment

5. The manager must pay the exporter if the latter has presented all the documents required under the letter of credit.

6. Role of banks in documentary draft: verification of documents received and compliance with instructions in the collection order. Role of banks in documentary credit: honor the letter of credit if the documents comply with the terms of the credit, act equitably and in good faith.

7. Independent principle: The letter of credit is separate from, and independent of, other contracts relating to the transaction.

8. Rule of strict compliance: the exporter cannot compel payment by banks unless the documents presented strictly comply with the terms specified in the credit.

9. Presentation of documents after the expiry date of the letter of credit, expiration of the letter of credit.

10. Transferable letter of credit: the letter of credit permits a beneficiary to transfer the credit to a second beneficiary. Back-to-back credit: a letter of credit issued on the strength of another letter of credit. Deferred letter of credit: seller agrees not to present a sight draft until after a specified period following presentation of documents. No draft need accompany the documents. Standby letter of credit: a credit used to guarantee that a party will fulfill its obligation under a sales or service contract.

Chapter 12

1. East-West trade, shortage of hard currency in many developing/East European countries.

2. Increased sales opportunities, access to sources of supply, flexibility in prices.

3. Multinational firms resort to countertrade when host countries impose restrictions on inward FDI.

4. In switch trading, the switch trader will buy or market countertraded goods for hard currency. In clearing arrangements, two governments agree to purchase a certain volume of each other's goods/services over a given period of time.

5. For steps in a typical barter transaction, see International Perspective 12.1.

6. Buybacks entail an arrangement in which a private firm will sell or license technology to an overseas customer with an agreement to purchase part of the output produced from the use of such technology. In counterpurchase, a firm exports a product to an overseas buyer with a promise to purchase from the latter or other parties in the country not related to the items exported.

7. Direct offsets: coproduction, subcontractor production, investments, and transfer of technology.

8. Complicated and time-consuming negotiations, increased transaction costs, product mismatch, loss of flexibility (see International Perspective 12.4).
9. The U.S. government prohibits federal agencies from promoting countertrade in their business, adopts a hands-off approach in relation to private transactions.
10. Countertrade is inconsistent with free trade, national treatment standard, and also results in higher transaction costs.

Chapter 13

1. Technology enables the financial world to operate more efficiently and to choose from a vast range of financial instruments; globalization allows businesses to turn increasingly to international markets to raise capital; deregulation allows for competition across all depository institutions.
2. Stage of evolution, ownership structure, and distribution channel choice.
3. Debt or equity financing; short-term/intermediate/long-term financing; investment, inventory, or working capital financing.
4. Small business investment companies (SBICs): private companies funded by the SBA to provide loan capital to small businesses. Certified Development Company (CDC 504): a program designed to provide fixed asset financing to small businesses. It can be used to purchase land, machinery, or equipment. International trade loan: used to develop/expand export market or for working capital.
5. Letters of credit such as transferable L/C, back to back L/C, or assignment of proceeds can be used to finance exports.
6. Export factoring is an arrangement between a factoring concern and exporter whereby the factor purchases export receivables for a discount. Factors are used to finance consumer goods, whereas forfeiters usually work with capital goods, commodities, and projects; factors are used for continuous transactions, but forfeiters finance one-time deals; factors generally work with short-term receivables, whereas forfeiters finance receivables with a maturity of more than 180 days.
7. For typical steps in factoring, see Figure 13.1.
8. Not available for low value shipments or for receivables with a maturity of more than 180 days. Factors also do not work with developing countries due to their inadequate legal and financial framework. Exporter could be liable for disputes concerning quality/condition of the goods.
9. No. Minimum investment is between \$50,000 to \$100,000, they seldom provide start-up capital, they expect high returns on their investments.
10. Microloans, export working capital, fast track, international trade loan, SBICs, CDC/504, 7(a) loan guarantee.

Chapter 14

1. Supplier credits are extended to the buyer by the exporter, that is, the exporter arranges for financing or directly extends credit to overseas buyer. Buyer credits are extended to overseas customers by parties other than the exporter, such as government agencies and banks and other private agencies.

2. A minimum of 15 percent of the contract price to be paid in cash, maximum repayment term of eight and a half years (except for poor countries), minimum interest rates for set periods, gradual abolition of subsidized interest rates.
3. Ex-Im Bank was created in 1934 and established under its present law in 1945 to assist in the financing of U.S. export trade. Ex-Im Bank provides guarantees and export credit insurance as well as competitive financing to foreign buyers.
4. Criticism of the Ex-Im Bank: it provides financing for projects that harm the environment, domestic industries. Financing is provided to a small number of large U.S. firms such as Boeing, Bechtel, and General Electric.
5. Working Capital Guarantee Program: Ex-Im Bank will guarantee 90 percent of the loan provided to a U.S. exporter by a qualified lender. Under the direct loan program, medium/long-term loan is provided by Ex-Im Bank to creditworthy foreign buyers for the purchase of U.S. capital goods and services.
6. To cover purchase of raw materials, finished goods for export, to pay for overhead and cover standby letters of credit.
7. Single-buyer policy: covers a single sale or repetitive sale over a one-year period to a single buyer. A multibuyer policy covers short-term export sales to many different buyers. They are similar in terms of eligible exports, eligible exporters, and risks covered.
8. OPIC insures U.S. investors against political and commercial risks. It provides financing through loans and loan guarantees.
9. PEFECO works in conjunction with Ex-Im Bank in the financing of foreign purchases of U.S. goods and services. Its loans are guaranteed by Ex-Im Bank.
10. GSM-102, GSM-103, Public Law 480.

Chapter 15

1. Export administration regulations (EAR), antiboycott law, the Foreign Corrupt Practices Act (FCPA), antitrust and incentives to promote exports (interest-charge DISCs).
2. Present controls focus on a small group of critical goods, technology, and countries. However, after the terrorist attacks of September 11, 2001, certain restrictions have been imposed on exports.
3. National security, foreign policy, nonproliferation of weapons of mass destruction, and prevention of excessive drain of scarce natural resources. To establish whether a product needs an export license, see International Perspective 15.1, and Figures 15.1 and 15.2.
4. Refusals to do business, discriminatory actions, furnishing information to a boycotting country and implementing letters of credit with prohibited conditions. For requests that are not reportable, see International Perspective 15.5.
5. Knowledge requirement under FCPA: FCPA holds businesses liable only if they are substantially certain that illicit payments are to occur or that such a circumstance exists. Lockheed Martin, Young and Rubicam.
6. OECD antibribery recommendation, 1994; OECD convention on combating bribery; Transparency International.
7. Webb-Pomerene Associations, export trade certificate of review, title IV of the Export Trading Act.

8. Interest-charge DISCs allow deferral of taxes on export sales. Since 1972, different incentives have existed: DISCs, FSCs.

9. A U.S. exporter forms a tax-exempt IC-DISC corporation, the U.S. exporter pays the IC-DISC commission, the U.S. exporter deducts the commission paid to the IC-DISC from its income tax at 35 percent, and the shareholders pay dividend income tax of 15 percent.

10. Yes. It could still be considered an export subsidy.

Chapter 16

1. Ad valorem, specific and compound duty.

2. Quotas, tariff quotas, labeling/licensing requirements.

3. Imports requiring a permit are products that are subject to government regulations or inspection, such as alcoholic beverages, plants, etc. Imports prohibited without a license includes products such as arms and ammunition, which are generally prohibited unless a license is procured.

4. No. The agreement provides for free or low rates of duty for imports from Israel that meet rules-of-origin requirements.

5. 35 percent of the value of goods to be produced in beneficiary country, merchandise to be destined to the United States, certificate of origin to be prepared and signed by the exporter and filed with entry of the goods.

6. Yes. AGOA provides duty and quota exemptions on their exports of textile and apparel products to the U.S. market.

7. Customs brokers act as agents for importers for activities involving transactions with the customs service: entry, classification and valuation of goods, and payment of duties assessed by customs or the refund of drawback thereof. Freight forwarders facilitate the movement of cargo to the overseas destination on behalf of shippers, and process the documentation or perform activities related to those shipments.

8. Record of transactions, responsible supervision, diligence in corresponding, and paying monies prohibits the filing of false information.

9. Free-trade zones (FTZs) are areas usually located in or near customs ports of entry and legally outside the customs territory of the United States. Goods brought into the zone may be stored, sorted, or manufactured. While conducting these operations, duty payments are delayed until products officially enter into the customs territory. Major differences between FTZs and bonded warehouse: Bonded warehouses are less costly to establish and may be established on user's facilities. Types of manipulation are limited in the case of bonded warehouse compared to FTZs.

10. Foreign goods brought into FTZs may be stored, sorted, or manufactured; merchandise admitted into FTZ is not subject to duty; businesses can import a product subject to a high rate of duty and manipulate/manufacture into a final product that is classified under a lower rate of duty when imported into the customs territory; merchandise may be remarked or reconditioned to conform to certain requirements for entry into the customs territory.

Chapter 17

1. Products that are unique, products that are less expensive, products with proven market demand.

2. A company enters into a contract with a foreign supplier to import a given quantity of products according to specifications. The supplier manages the day-to-day operation of the production process and allows the importer to focus on other core activities.
3. Per capita income, population size, exchange rates, government restrictions, and availability of foreign exchange.
4. For steps involved in a typical import transaction, see International Perspective 17.3.
5. Lower-price, high-quality products; supply of products not available domestically and advanced technology.

Chapter 18

1. Upon arrival of the vessel or upon arrival of merchandise by other means of transport.
2. Entry is the act of filing the necessary documentation with customs to secure release of imported merchandise. Who may enter the goods? Owner, purchaser, authorized regular employee, or a licensed customs broker.
3. A single entry bond application is made by the importer or designated person to secure the entry of a single customs transaction, while a continuous bond application is made for multiple transactions.
4. If merchandise is not liquidated within one year from the date of entry, it is considered liquidated at the rate and amount of duty stated at the time of entry.
5. Uniformity in product classification and coding across nations, accuracy of trade statistics.
6. Computed value is a method of customs valuation based on the cost of materials, labor, and overhead in producing the imported product, plus profits and general expenses incurred by the producer and value of any items supplied by buyer.
7. Country-of-origin is important because imports are subject to selective tariffs and nontariff barriers depending on the origin of the merchandise.
8. Automated Broker Interface, Automated Clearing House, Automated Information Systems Security policy, Automated Manifest System.
9. Liquidation is the final ascertainment by customs of the duties and drawback accruing on any entry. It involves determination of the value of imports, ascertainment of their classification and applicable rate of duty, and computation of the final amount of duty to be paid.
10. In cases in which the transaction value cannot be determined or is not acceptable (related parties) as well as in cases of restrictions on the sale or use of the product.

Minicase 18.1

1. \$0.80 (per unit entered value).
2. Mexico.

Minicase 18.2

1. \$3,822.00; Seattle, Port no. 3095 (HTS Schedule D).
2. \$1,182.00.

Minicase 18.3

1. \$87,191.00.
2. \$720,000.00.

3. Any of the following is correct: \$335,207; \$334,348; \$333,398 or \$336,325.
4. Transaction value.

Chapter 19

1. Dumping is the selling of a product in a foreign market at a price that is lower than the price for which it is sold in the home market. Subsidies are benefits given by the government to domestic producers.
2. Subsidies that are not specific, subsidies for industrial/research and competitive development, subsidies to entities in disadvantaged regions and environmental subsidies.
3. Causation, that is, material injury, threat of material injury, or retardation of a U.S. industry.
4. Within forty-five days after petition is filed or an investigation is begun by Commerce, the ITC makes its preliminary determination, of whether a reasonable indication of injury to domestic industry exists.
5. Initiation of investigation by Commerce, preliminary phase of ITC investigation, preliminary phase of Commerce investigation, final phase of investigation by Commerce, final phase of investigation by ITC.
6. Market disruption is a rapid increase in imports that causes material injury or threat of material injury to domestic industry producing a product similar to, or directly competitive with, the imported article.
7. The escape clause allows the ITC to assess whether U.S. industries are being seriously injured by fairly traded imports and to recommend to the president to provide some relief to facilitate positive adjustment to import competition.
8. Special 301 is another version of Super 301, applicable to intellectual property rights. Under this clause, countries that do not provide adequate protection for U.S. intellectual property rights are identified for bilateral negotiations. A Special 301 investigation is similar to an industry Section 301 petition.

Chapter 20

1. Growth of trade in counterfeit goods, lack of adequate protection, and enforcement of IPRs in many countries; piracy of IPRs becomes a trade barrier.
2. Patents are proprietary rights granted by the government to inventors for a fixed period of years to exclude other persons from using, manufacturing, or selling a patented product or from utilizing a patented method. Advantages of granting patents: promotion of innovative activity, dissemination of technical knowledge, and facilitation of transfer of technology.
3. Identify one seller's goods, signify source of product, and serve as a primary instrument in advertising and selling of the goods.
4. Patent protection expires at some point; some inventions may not be patentable.
5. Piracy leads to the misallocation of resources by diverting trade from legitimate producers to pirates. It distorts trade.
6. Japan: inadequate protection for trademarks and trade secrets. Enforcement is dependent on registration of copyrighted/patented products. Software piracy. Narrow interpretation of patent rights. China: inadequate protection and enforcement of IPRs. Widespread sale of pirated goods.
7. Right of priority under the Paris Convention: it enables any resident/national of a member country of WIPO to apply for protection in any other member state of the convention within a

certain period of time after filing the first application in one of the member states of the treaty. These later applications will then be regarded as if they had been filed on the same day as the first application.

8. Minimum standard enforcement and provisions for dispute settlement.