

Name: _____ Class: _____ Date: _____

Chapter 03: Regional Economic Integration

1. One could argue that regional and global integration are not complements, but substitutes to economic development of a particular region.

- a. True
- b. False

ANSWER: False

2. Both common markets and economic unions abolish restrictions on factor movements.

- a. True
- b. False

ANSWER: True

3. The World Bank's *World Development Report* (WDR), titled "Reshaping Economic Geography," analyzes trade and regional economic integration through the lens of economic geography (i.e., market size, location, and openness to trade). The WDR concludes that positive changes within these three categories are essential for successful regional integration.

- a. True
- b. False

ANSWER: True

4. The appropriate approach for countries interested in regional integration could include the following three fundamentals: start small, think global, and compensate the least fortunate.

- a. True
- b. False

ANSWER: True

5. Generally, countries within trading blocs that have significantly lowered trade barriers have done better economically than others.

- a. True
- b. False

ANSWER: True

6. Remote regions with small local markets which Paul Collier calls the "bottom billion," are located in Central Asia; East, Central and West Africa; and the Pacific Islands.

- a. True
- b. False

ANSWER: True

7. With uncertainty surrounding the outcome of the Doha Round of trade negotiations, countries (large and small) are clamoring for bilateral or regional trade agreements to meet their specific agendas causing economists to be concerned about the prospects of creating a truly open global economic system that benefits all countries.

- a. True
- b. False

Chapter 03: Regional Economic Integration

ANSWER: True

8. The origins of the European Union (EU) can be traced to the creation of the North Atlantic Treaty Organization (NATO) in 1949.

- a. True
- b. False

ANSWER: False

9. Through various treaties (e.g, the Treaty of Rome, Maastricht Treaty, Copenhagen Treaty, Treaty of Nice, the Lisbon Treaty), the EU is deepening and strengthening its institutional linkages; it is hoped that this will enable the EU to act as one country that will effectively compete with the U.S.

- a. True
- b. False

ANSWER: True

10. All 28 EU countries are permitted to use the euro as their currency.

- a. True
- b. False

ANSWER: False

11. NAFTA is a comprehensive free-trade agreement among Canada, United States, and Mexico that addresses issues ranging from protection of workers' rights and the environment to phased reduction of tariff and non-tariff trade barriers, which were finally eliminated in 2009.

- a. True
- b. False

ANSWER: True

12. ASEAN, headquartered in New Delhi, India, was established in August 1967 by five founding members: India, Malaysia, the Philippines, Singapore, and Thailand.

- a. True
- b. False

ANSWER: False

13. In 2003, ASEAN leaders agreed to establish an ASEAN Community based on three pillars: ASEAN Security Community; ASEAN Economic Community; and ASEAN Socio-Cultural Community.

- a. True
- b. False

ANSWER: True

14. A growing ASEAN concern is the economic ascendancy of Turkey, which as a major low-cost manufacturing center, has been one of the world's most attractive destinations for foreign direct investment.

- a. True
- b. False

Chapter 03: Regional Economic Integration

ANSWER: False

15. In 1969, frustrated by the lack of progress in LAFTA, Bolivia, Chile, Colombia, Ecuador, and Peru joined in creating the Andean Group, which aimed to create economic integration through reduced taxes, a common external tariff, and investment in the poorer industrial areas of their respective countries.

- a. True
- b. False

ANSWER: True

16. _____ refers to the process of allowing efficient geographic distribution of business activities within and among countries.

- a. Regional integration
- b. Spatial transformations
- c. Free trade
- d. Economic integration
- e. Economic geography

ANSWER: b

17. Three countries, X, Y, and Z are part of a member area where they have eliminated all barriers to trade such as tariffs, quotas, and non-tariff barriers like border restrictions, while at the same time keeping their own external tariffs against nonmembers. Such an area could be described as a(n) _____ area.

- a. regional
- b. spatial
- c. open trade
- d. embargo
- e. free trade

ANSWER: e

18. According to the text, which of the following is the second stage of regional integration?

- a. A customs union
- b. An economic union
- c. A free trade area
- d. A common market
- e. A political union

ANSWER: a

19. A group of states with convergent social, economic, and monetary policies is called a(n) _____.

- a. customs union
- b. economic union
- c. free trade area
- d. common market

Chapter 03: Regional Economic Integration

e. political union

ANSWER: b

20. The union created when member countries of an economic and monetary union work closely with one another to arrive at common defense and foreign policies and behave as a single country is known as a(n) _____.

- a. customs union
- b. economic union
- c. free trade area
- d. common market
- e. political union

ANSWER: e

21. NAFTA is in which stage of the economic integration process?

- a. First stage (free trade area)
- b. Second stage (customs union)
- c. Third stage (common market)
- d. Fourth stage (economic union)
- e. Fifth stage (political union)

ANSWER: a

22. Of the following, which is NOT a cost of regional integration?

- a. Moving away from most-favored-nation status rule
- b. Disregarding cultural and social differences
- c. Losing some national sovereignty
- d. Reducing the powers of the national government
- e. Enhancing the flow of capital, labor, and technology

ANSWER: e

23. The World Bank's (2009) *World Development Report* concludes that successful regional integration depends on positive changes within

- a. comparative and absolute advantage.
- b. market size, location, and openness to trade.
- c. government control over the economy.
- d. the relationship between employers and employees.
- e. regional integration blocs.

ANSWER: b

24. All of the following statements about regional integration are true EXCEPT:

- a. regional integration should initially address a broad, ill-defined area of cooperation.
- b. regional integration should not create unconnected or isolated countries.

Chapter 03: Regional Economic Integration

- c. regional integration should compensate the least fortunate.
- d. regional integration has advantages and disadvantages.
- e. regional integration may reduce the powers of the national government.

ANSWER: a

25. When the various regional integration blocs are analyzed from an economic geography perspective, they fall under three general categories – regional blocs close to major world markets, remote regions with large local markets, or _____.

- a. urban regions with small local markets
- b. urban regions with large local markets
- c. urban regions with no local markets
- d. remote regions with small local markets
- e. remote regions with no local markets

ANSWER: d

26. According to the text, which of the following is NOT a regional bloc close to world markets?

- a. Guatemala
- b. Chile
- c. Russia
- d. Singapore
- e. Vietnam

ANSWER: c

27. Of the following statements about regional blocs close to major world markets, which is NOT true?

- a. The ASEAN is intensifying its free trade relations with the huge markets in China.
- b. India, Japan, and South Korea play an important role in the SAARC.
- c. Access to markets is essential for economic growth.
- d. The oil-rich regional economy of the Middle East and North Africa has been growing fast and creating jobs for its population.
- e. Countries close to major markets have the advantage of connecting to suppliers and ideas.

ANSWER: d

28. The members of the Maghreb Union

- a. all have similar political and economic systems.
- b. hope to form an economic and political union in North Africa.
- c. all suffer under enormous amounts of debt.
- d. are losing their competitiveness against EU countries.
- e. have been unable to attract much foreign investment.

ANSWER: b

29. Of the following, which is NOT a primary reason why countries are now seeking to pursue regional

Chapter 03: Regional Economic Integration

integration at the expense of multilateral trade liberalization?

- a. Uncertainty surrounding the Doha Round
- b. Concern that the prospect of creating a truly open global economic system that benefits all countries may recede
- c. Some governments may initiate regional pacts
- d. Some countries are clamoring for bilateral or regional trade agreements to meet their specific agendas
- e. NAFTA is pushing the EU to pursue regional integration

ANSWER: e

30. In which country is the EU headquartered?

- a. Belgium
- b. France
- c. Germany
- d. Italy
- e. Turkey

ANSWER: a

31. All of the following statements about the EU are true EXCEPT:

- a. it is headquartered in Brussels.
- b. it is the most highly evolved example of regional integration in the world.
- c. its founding members consisted of ten countries.
- d. its origins can be traced to the creation of the European Coal and Steel Community.
- e. its eastward enlargement reflects a common past.

ANSWER: c

32. The newest member of the EU is _____.

- a. Bulgaria
- b. Malta
- c. Russia
- d. Turkey
- e. Croatia

ANSWER: e

33. Of the following statements regarding the euro, which is NOT true?

- a. The U.K., Denmark, and Sweden use the euro as their currency.
- b. The euro was introduced on January 1, 1999.
- c. Eighteen of the 28 EU countries are permitted to use the euro as their currency.
- d. The euro was considered the crowning success of the EU's plans to integrate European economies.
- e. The European Central Bank is the apex central bank for the Eurozone countries.

ANSWER: a

Chapter 03: Regional Economic Integration

34. Which of the following is NOT an objective of NAFTA?

- a. The expansion of the trade in goods and services
- b. The phased elimination of all trade barriers
- c. Protection of intellectual property rights
- d. The creation of a uniform currency in North America
- e. The creation of institutions to address potential problems

ANSWER: d

35. In which country is ASEAN headquartered?

- a. Indonesia
- b. Vietnam
- c. Canada
- d. Japan
- e. India

ANSWER: a

36. ASEAN's current membership stands at how many countries?

- a. 5
- b. 10
- c. 2
- d. 25
- e. 30

ANSWER: b

37. What is the goal of the ASEAN Security Community (ASC)?

- a. To ensure that countries in the region live in peace with one another
- b. To come to the aid of member nations in time of war
- c. To ensure that the ASEAN workforce is prepared to benefit from economic integration
- d. To oversee the construction of roads and railways between member nations
- e. To use the military to ensure the free flow of goods across borders

ANSWER: a

38. ASEAN has two main objectives: 1) to accelerate economic growth, social progress, and cultural development in the region; and 2) _____.

- a. to trade with NAFTA
- b. to promote regional peace and stability
- c. to cover Asian countries to use of the euro
- d. to create more countries in Asia
- e. to become a world power

ANSWER: b

Chapter 03: Regional Economic Integration

39. How does ASEAN differ from the EU?
- a. It does not call for the free movement of labor across member states.
 - b. It maintains both tariff and non-tariff barriers among member states.
 - c. It calls for the establishment of a single market.
 - d. It calls for the establishment of a production base.
 - e. It refuses to do business with non-member states.

ANSWER: a

40. Investments in basic and higher education are made through the ASEAN _____ community.
- a. sociocultural
 - b. security
 - c. educational
 - d. literacy
 - e. economic

ANSWER: a

41. Of the following, which is NOT true about the future of ASEAN?
- a. ASEAN's Vision 2020 calls for aggressive outward-looking economic policies.
 - b. Several bilateral Free Trade Agreements are currently being implemented.
 - c. A growing ASEAN concern is the economic ascendancy of North Korea.
 - d. The ASEAN-Japan Comprehensive Economic Partnership agreement covers trade in goods, services, and investment and economic cooperation.
 - e. The ASEAN Australian-New Zealand FTA was signed in February 2009.

ANSWER: c

42. The Treaty of Montevideo created _____.
- a. the EU
 - b. ASEAN
 - c. LAFTA
 - d. NAFTA
 - e. MERCOSUR

ANSWER: c

43. With the anticipated success of NAFTA, formal discussions to establish a Free Trade Area of the Americas began under the _____ administration.
- a. Obama
 - b. Bush
 - c. Clinton
 - d. Reagan
 - e. Carter

Chapter 03: Regional Economic Integration

ANSWER: c

44. Venezuela became a member of MERCOSUR in July 2012 and is considered a key member because of its
- low tax rates and absence of tariffs.
 - large population of educated, highly skilled workers.
 - vast energy resources and significant domestic market.
 - high-tech economy, the most advanced in South America.
 - long history of political and economic stability.

ANSWER: c

45. As a means to push NAFTA south of Mexico, the Bush administration began free-trade talks with all of the following countries EXCEPT
- Costa Rica.
 - Honduras.
 - the Dominican Republic.
 - Haiti.
 - Nicaragua.

ANSWER: d

46. Implementation of a multitude of economic and/or political steps by member states to increase their global competitiveness, including preferential trade access refers to _____.

ANSWER: regional integration

47. The process of allowing efficient geographic distribution of business activities within and among countries refers to _____.

ANSWER: spatial transformations

48. A(n) _____ is an area in which two or more countries agree to eliminate all barriers to trade such as tariffs, quotas, and non-tariff barriers like border restrictions, while at the same time keeping their own external tariffs (within WTO guidelines) against nonmembers.

ANSWER: free-trade area

49. A group of free trade member countries that have adopted a common external tariff with nonmember countries refers to _____.

ANSWER: customs union

50. A _____ (or single) market is formed when member countries of a customs union remove all barriers to allow the movement of capital and labor within the customs union.

ANSWER: common

51. A(n) _____ is formed when members of a common market agree to implement common social programs and coordinated macroeconomic policies that would lead to the creation of a single regional currency and a regional apex central bank.

Chapter 03: Regional Economic Integration

ANSWER: economic and monetary union

52. A(n) _____ union is created when member countries of an economic and monetary union work closely with one another to arrive at common defense and foreign policies and behave as a single country.

ANSWER: political

53. The study of principles that govern the efficient spatial allocation of economic resources and the resulting consequences refers to _____.

ANSWER: economic geography

54. The Treaty of _____ in 1957 established the European Economic Community (EEC).

ANSWER: Rome

55. NAFTA is a free-trade agreement among Canada, the United States, and _____.

ANSWER: Mexico

56. Describe briefly the form and stages of regional integration.

ANSWER: Student answers will vary.

57. Explain the pros and cons of regional integration.

ANSWER: Student answers will vary.

58. If you are hired as an advisor for countries interested in regional integration, what would be your recommendation for the appropriate approach for these countries? Explain.

ANSWER: Student answers will vary.

59. Compare and contrast EU and NAFTA as regional integration blocs.

ANSWER: Student answers will vary.

60. Some argue that Asia may become the most important free trade region for this century. Do you agree? Explain.

ANSWER: Student answers will vary.

Scenario – Sarten Gas Company

Established in Salt Lake City, UT in 1975, the Sarten Gas Company (SGC) has grown to be a recognized name in the industry. Since its inception, this company has been able to withstand serious economic downturns in the economy. It has been able to remain financially stable when many others in the industry have struggled with financial losses. The expertise and knowledge of its leaders has led the SGC to be one of the few companies in the industry able to report continued growth.

This excellent track record has inspired the owners of SGC into embracing the idea of expansion. Sarten plans to begin trading with Canada this year and plans to include trading with Mexico within the next three years. The leaders of Sarten Gas feel confident these new trade deals will prove successful for the company and its shareholders.

Chapter 03: Regional Economic Integration

61. Which one of the following represents a trade agreement most likely to impact the Sarten Gas Company and its proposed trading partners?

- a. NAFTA
- b. ASC
- c. ASEAN
- d. CAFTA
- e. NATO

ANSWER: a

62. Which of the following is not a free trade policy impacting Sarten Gas Company?

- a. Phased elimination of all trade barriers
- b. Protection of intellectual property
- c. Stringent immigration policies
- d. Environmental protection standards
- e. Protection of workers' rights

ANSWER: c

63. Given that SGC's home country, the United States, is part of a regional integration bloc that is based on purely economic goals, benefits to these countries would include all but which one of the following?

- a. Increase the global competitiveness of each member
- b. Surrender of sovereignty of each member
- c. Provide a free trade area for the members
- d. Eliminate tariffs and non-tariff barriers to trade for the members
- e. Provide for the creation of a larger pool of consumers for the members

ANSWER: b

Scenario – The Lynette Company

The Lynette Company was founded in 1982 by Solomon and Andrea Lynette. It is currently based in Jakarta, Indonesia and plans to remain in the region due to the potential for continued market growth. The company provides modern office equipment to customers throughout Southeast Asia and has watched a steady rise in need for its products.

Last year, Lynette grossed over five million dollars in sales. It anticipates gross sales to more than double this year. The Lynette Company is pleased by the ample supply of workers from the local region available to help the company. The owners realize this area of the world has the potential to become an important global market.

64. Which one of the following would most likely set guidelines for the Lynette Company to follow as it conducts its business in Southeast Asia?

- a. European Union
- b. NAFTA
- c. ASC
- d. MERCOSUR
- e. ASEAN

ANSWER: e

65. The regional bloc affecting Lynette

Name: _____ Class: _____ Date: _____

Chapter 03: Regional Economic Integration

- a. has abolished tariffs and quotas among members.
- b. uses a common currency among members.
- c. allows for the free movement of labor among members.
- d. uses a common language for trade among members.
- e. has not eliminated nontariff barriers among members.

ANSWER: a

66. Which one of the following is not considered a main objective of the regional bloc affecting Lynette?

- a. To accelerate economic growth
- b. To increase cultural development in the region
- c. To encourage regional peace
- d. To diminish relationships with major powers
- e. To promote stability through the rule of law

ANSWER: d

67. The Lynette Company's plan to continue its operations within the Asia market offers many benefits as well as challenges. Which one of the following would provide the least degree of challenge for the stability of this company's business operations?

- a. Development of a free trade agreement with China
- b. The economic rise of China
- c. Ability to tap China's declining business market
- d. Job loss prevention through a free trade agreement with China
- e. Ability to tap China's growing consumer market

ANSWER: a