

CHAPTER 1

Introduction

EASY

- 1.1 Historically, the primary motive for U.S. multinationals to produce abroad has been to
- a. lower costs
 - b. respond more quickly to the marketplace
 - c. avoid trade barriers
 - d. gain tax benefits

ANSWER: b: evolution of multinational

- 1.2 The primary objective of the multinational corporation is to
- a. maximize shareholder wealth
 - b. maximize world production
 - c. minimize debt
 - d. minimize the cost of doing business globally

ANSWER: a: Multinational Financial Management: Theory and Practice

- 1.3 _____ is defined as the purchase of assets or commodities on one market for immediate resale on another in order to profit from a price discrepancy.
- a. internationalization
 - b. arbitrage
 - c. financing
 - d. total risk

ANSWER: b: evolution of multinational

- 1.4 The value of good financial management is _____ in the global markets because of the much greater probability of market imperfections and multiple tax rates.
- a. minimized
 - b. neutralized
 - c. enhanced
 - d. arbitrated away

ANSWER: c: role of the financial executive

- 1.5 When a firm operates globally it offers advantages such as
- a. greater political power at home
 - b. less taxes on its profits
 - c. greater negotiating power with foreign minority groups
 - d. greater negotiating power with labor unions

ANSWER: d: rise of the multinational

- 1.6 The prime transmitter of global competitive forces is the
- a. public utility firm
 - b. financial management experience of the U.S. markets
 - c. the multinational corporation
 - d. the Federal Reserve System of the U.S.

ANSWER: c: rise of the multinational

- 1.7 _____ were the earliest multinationals.

- a. raw-material seekers
- b. market seekers
- c. cost minimizers
- d. oil companies.

ANSWER: a: raw material seekers

- 1.8 The _____ are the archetype of the modern multinational firm that goes overseas to produce and sell in foreign markets.

- a. cost minimizers
- b. market seekers
- c. raw-material seekers
- d. whaling companies

ANSWER: b: market seekers

- 1.9 _____ are a recent category of multinationals that seek out and invest in lower cost production sites overseas.

- a. Cost minimizers
- b. Market seekers
- c. Raw-material seekers
- d. High tech firms

ANSWER: a: cost minimizers

- 1.10 Which one of the following is a consequence of increased global competition?

- a. the creation of new steel plants in the old industrial countries
- b. the end of free-trade agreements between governments of the world
- c. increased comfort level of trade unions with the consequences
- d. increased anxiety among workers in the old industrial countries

ANSWER: d: Consequences of Global Competition

- 1.11 The defenders of multinationals believe that _____ are the appropriate reward for efficiently providing the global economy with products and services.

- a. profits
- b. subsidies
- c. tax holidays
- d. low-interest, government-subsidized loans

ANSWER: a: Criticisms of the Multinational Corporation

- 1.12 International _____ can reduce the volatility of an investment portfolio because national financial markets tend to move independently of each other.
- a. arbitrage
 - b. centralization of the MNC's cash
 - c. diversification
 - d. investment

ANSWER: c: The Importance of Total Risk

MODERATE

- 1.13 Into which category of multinational is IBM most likely to fall?
- a. raw materials seeker
 - b. market seeker
 - c. cost minimizer
 - d. all of the above

ANSWER: b: market seeker

- 1.14 Which one of the following did NOT accelerate the growth of the global economy in the past decade?
- a. the U.S.-Canada-Mexico free-trade pact
 - b. the creation of the European Union
 - c. China's entrance into the WTO
 - d. The Southeast Asia Currency Crisis

ANSWER: d: Consequences of Global Competition

- 1.15 The multinational financial system enables companies to
- a. avoid currency controls
 - b. reduce taxes
 - c. access lower cost financing sources
 - d. all of the above

ANSWER: d: rise of the multinational

- 1.16 An alternative to the set up of an production facility overseas is to license a local firm to manufacture the company's products. One disadvantage of this method is
- a. the establishment of a competitor with loss of future revenues to the licensing firm
 - b. the time to market entry
 - c. the degree of financial and legal risks
 - d. the amount of the investment required

ANSWER: a: The Process of Overseas Expansion

- 1.17 Which of the following is an example of reverse foreign investment for the U.S.?
- a. Honda builds a factory in Ohio
 - b. Apple builds a plant in Ireland that exports to the United States
 - c. British Telecom issues new stock in the United States
 - d. American investors buy shares in Sony

ANSWER: a: market seeker

- 1.18 Which of the following is NOT a failing of the theory of comparative advantage?
- a. it ignores the role of uncertainty and economies of scale
 - b. it assumes that factors of production are relatively immobile
 - c. it assumes that there are no differentiated products
 - d. it deals with trade only differentiate rather than undifferentiated products

ANSWER: d: rise of the multinational

DIFFICULT

- 1.19 Which of the following theories identifies specialization as the main reason for international business activity?
- a. product life cycle theory of international trade
 - b. theory of diversification
 - c. doctrine of comparative advantage
 - d. theory of globalization

ANSWER: c: rise of the multinational

- 1.20 Critics of the multinational corporation would NOT fault its tendency to
- a. shift production from one location to another in search of lower costs
 - b. avoid taxes
 - c. cause balance of payments difficulties
 - d. engage in environmental protection measures

ANSWER: d: criticisms of the MNC

- 1.21 Multinational firms would most likely be
- a. riskier than purely domestic firms because of the exposures of operating abroad
 - b. less risky than purely domestic firms because of international diversification
 - c. less risky than domestic firms if the added risks of operating overseas are more than offset by the ability to operate in nations whose economic cycles are not perfectly in phase
 - d. invested in developed countries only and avoid developing economies

ANSWER: c: the importance of total risk

- 1.22 According to the capital asset pricing model

- a. only the systematic component of risk affects the required return
- b. foreign investments whose returns are uncorrelated with the market's return should have a higher required return than comparable domestic investments
- c. total risk of the investment is most relevant for small to medium-sized firms
- d. diversification is secondary to risk levels of the investment

ANSWER: a: capital asset pricing

1.23 The internationalization process most likely tends to

- a. proceed in a preprogrammed series of steps
- b. begin by licensing foreign producers
- c. inevitably involve foreign production
- d. begin by exporting

ANSWER: d: capital asset pricing

1.24 According to the efficient market hypothesis, which one of the following is NOT correct?

- a. markets place a premium on the future
- b. today's stock price is the best predictor of tomorrow's stock price
- c. stock prices reflect all available information
- d. today's stock price incorporates the past history of prices

ANSWER: a: market efficiency

1.25 Which one of the following provides strong evidence that internationalization continues to grow in the world economy?

- a. import restrictions by the Bush Administration on foreign steel
- b. efforts suggested by politicians to restrict the sourcing of foreign products by locally headquartered multinationals
- c. the growing volume of foreign direct investment by U.S. as well as other multinational companies
- d. pressure on governments to embargo unfriendly nations

ANSWER: c: Evolution of the Multinational Corporation

1.26 For the multinational corporation, which one of the following complements to the integration of world wide operations is MOST critical?

- a. flexibility
- b. adaptability
- c. speed
- d. economies of scale of distribution

ANSWER: c: A Behavioral Definition of the Multinational Corporation

Shapiro6thTESTBANK

Chapter 1

- 1.27 According to Shapiro, if you were the CEO of a multinational corporation, which of the following would be MOST important to you in hiring a manager? One that
- a. Avoids risk at any price
 - b. Manages effectively the political environment of the subsidiary country
 - c. Anticipates every future disturbance related to the supply chain
 - d. Makes decisions that anticipates problems and provides solutions that enhances the firm's prospects for growth

ANSWER: d: The Global Manager