

CHAPTER ONE
RISKS OF INTERNATIONAL BUSINESS TRANSACTIONS

TRUE/FALSE

1. Globalization in trade is likely to be accelerated through increased regionalization.

ANS: True

2. Direct foreign investment measures the degree of trade in goods between two nations.

ANS: False

3. Private individuals may use the International Court of Justice to settle commercial disputes.

ANS: False

4. Under U.S. law, treaties are not binding on state and local governments.

ANS: False

5. *Lex Mercatoria* refers to the process by which day-to-day practices become codified into international customary law.

ANS: True

6. International harmonization in the area of contract law will have the effect of increasing costs in international contract formation.

ANS: False

7. The United Nations Convention on Contracts for the International Sale of Goods (CISG) requires a written document as proof that a contract has been formed.

ANS: False

8. An Export Trading Company (ETC) is a type of Export Management Company (EMC) that takes title to a product.

ANS: True

9. Soft currency refers to the currency of a country that may be exchanged for another without restriction.

ANS: False

10. Some countries block the repatriation of money earned or invested in their countries.

ANS: True

11. A forward contract gives a party the right, but not the obligation, to buy or sell a currency at a fixed rate in the future.

ANS: False

12. In the area of sale of goods, the civil law concept of *Nachfrist Notice* dictates that contractual delivery dates should not be strictly enforced unless the non-breaching party can give a commercially viable reason for not granting the extension.

ANS: True

13. Evergreen statutes limit an employer's ability to terminate an employee or agent.

ANS: True

14. Import quotas are a type of non-tariff trade barrier.

ANS: True

15. The threat of foreign governments nationalizing industries or expropriating a foreign company's assets has been the dominant trend over the past few decades.

ANS: False

16. Political risk assessment is difficult because of the scarcity of research materials.

ANS: False

17. Countertrade often is used to overcome currency convertibility or repatriation problems.

ANS: True

18. Customs brokers act as the seller's or exporter's agent.

ANS: False

19. Non-tariff barriers do not significantly influence a firm's trade and investment decision-making.

ANS: False

20. The four types of international business transactions are importing, exporting, trade in services, and countertrade.

ANS: False

21. Trade in goods and direct foreign investment are good measures of globalization.

ANS: True

22. Currency exchange risk cannot be minimized because of the unpredictability of currency fluctuations.

ANS: False

23. There are no United Nations Agencies that are active in issues pertaining to international business transactions.

ANS: False

24. Copyrights, patents, and real estate are all forms of intellectual property.

ANS: False

25. Protection of domestic industries is a reason nations impose trade barriers.

ANS: True

MULTIPLE CHOICE

1. Which of the following geographic regions has not significantly contributed to an increase in world direct foreign investment.

- A. The Americas
- B. Africa
- C. East Asia
- D. Europe

ANS: B

2. In order of superiority, the sources of law that guide the International Court of Justice's decisions are:

- A. (1) International custom or general practice, (2) general principles of law recognized by civilized nations, (3) judicial decisions and scholarly writings, (4) international conventions and treaties.
- B. (1) International conventions and treaties, (2) international custom or general practice, (3) judicial decisions and scholarly writings, (4) general principles of law recognized by civilized nations.
- C. (1) International conventions and treaties, (2) international custom or general practice, (3) general principles of law recognized by civilized nations, (4) judicial decisions and scholarly writings.
- D. (1) General principles of law recognized by civilized nations, (2) international conventions and treaties, (3) general principles of law recognized by civilized nations, (4) judicial decisions and scholarly writings.

ANS: C

3. Which of the following is not a service of the International Chamber of Commerce:

- A. International Court of Arbitration
- B. UCP 500
- C. Incoterms 2000
- D. Convention on Contracts for the International Sale of Goods (CISG)

ANS: D

4. _____ is a form of exporting used to overcome local restrictions against the repatriation of capital, profits, or hard currency.

- A. Franchising
- B. Countertrade
- C. Direct exporting
- D. Direct foreign investment

ANS: B

5. The advantage of indirect exporting as opposed to direct exporting is:
- A. Higher profits
 - B. More control over the export process
 - C. Minimized risk
 - D. None of the above
- ANS: C
6. Management consulting would generally fall under which category for conducting international business:
- A. Sale of services
 - B. Licensing
 - C. Direct foreign investment
 - D. Exporting/Importing
- ANS: A
7. In general, _____ is the most risky of all international business transactions:
- A. Indirect exporting
 - B. Licensing
 - C. Direct foreign investment
 - D. Sale of services
- ANS: C
8. Convertibility, repatriation, and rate fluctuation are all types of:
- A. Currency risk
 - B. Legal risk
 - C. Economic risk
 - D. Political risk
- ANS: A
9. Two types of countertrade include:
- A. Repatriation; convertibility
 - B. Barter; counterpurchase
 - C. Joint venture; technology transfer
 - D. None of the above
- ANS: B
10. Local participation requirements refer to:
- A. The host country restricts currency repatriation
 - B. Local employees must be host country nationals.
 - C. The host country retains all intellectual property of a foreign investment.
 - D. Limits on the amount of foreign equity ownership in a host country firm.
- ANS: D

11. Trade barriers, expropriation, and nationalization are all forms of:

- A. Political risk
- B. Legal risk
- C. Economic risk
- D. Currency risk

ANS: A

12. _____ is a complicated form of barter, comprising a chain of buyers and sellers in different markets:

- A. Counterpurchase
- B. Buy-back
- C. Protocol agreement
- D. Switch trading

ANS: D

13. In order to reduce the political risk of expropriation or non-repatriation of currency, countries have entered into:

- A. Reciprocal trade agreements
- B. Agreements on technical barriers
- C. Agreements on import licensing
- D. Bilateral investment treaties

ANS: D

14. The method by which a firm can move profits and costs from a high tax to a low tax country is:

- A. Transfer pricing
- B. Offset agreements
- C. Competitive trade
- D. Barter

ANS: A

15. Technology or intellectual property transfer is characterized as which type of international business transaction:

- A. Exporting and importing
- B. Sale of services
- C. Direct foreign investment
- D. None of the above

ANS: D

16. Import quotas, customs charges, export subsidies, and discriminatory labeling are all examples of:

- A. Value-added taxes
- B. Non-tariff barriers
- C. Local participation requirements
- D. Indemnity charges

ANS: B

17. The process of purchasing goods from a foreign supplier and shipping them to the firm's home country is known as:

- A. Foreign exchange
- B. Exporting
- C. Importing
- D. None of the above

ANS: C

18. A government corporation that assists U.S. investments in developing countries by providing loans, investment services, and political risk insurance is:

- A. OPIC
- B. MIGA
- C. WTO
- D. GATT

ANS: A

19. Export Management Companies work with individual exporters by acting as:

- A. Freight forwarders
- B. Customs brokers
- C. Accountants
- D. Consultants

ANS: D

20. The two types of exporting are:

- A. Multi-lateral; bilateral
- B. Single; multiple
- C. Direct; indirect
- D. Foreign; Domestic

ANS: C

21. The simultaneous buying and selling of a foreign currency in two or more markets in order to take advantage of price differences:

- A. Foreign exchange options
- B. Futures contract
- C. Arbitrage
- D. Forward contract

ANS: C

22. The risks of exporting, licensing, and direct foreign investment can be reduced through the use of:

- A. International bankers
- B. Commercial insurance companies
- C. Freight forwarders
- D. All of the above

ANS: D

23. An agreement by a foreign seller to include as part of the sale in the foreign nation the use of parts or services from local suppliers in order to satisfy local content requirements is known as:

- A. Buy-back agreement
- B. Offset agreement
- C. Switch agreement
- D. Protocol agreement

ANS: B

24. Countertrade arrangements between and among sovereign nations are known as:

- A. Clearing agreements
- B. Framework agreements
- C. Performance agreements
- D. Import entitlement agreements

ANS: A

25. Differences in the rules and remedies in the civil, common, and socialist legal systems that can give rise to unexpected liabilities in international business transactions is known as:

- A. Political risk
- B. Cultural risk
- C. Country risk
- D. Legal risk

ANS: D

ESSAY QUESTIONS

1. Describe the general methods of conducting international business (exporting, etc.) and discuss the risks associated with each method.

ANS: Answers will vary.

2. Describe why the risks to a firm increase as the level of penetration in a foreign market increases.

ANS: Answers will vary.

3. Describe the difference between indirect and direct exporting and the advantages of each. Discuss the various third parties available to exporters that help facilitate the export process and minimize a firm's risk.

ANS: Answers will vary.

4. Discuss the three types of currency risk and describe how an international businessperson might minimize or overcome those risks.

ANS: Answers will vary.

5. Discuss the various political risks facing the international businessperson and how one might minimize those risks.

ANS: Answers will vary.