

International Business: The New Realities, 3e (Cavusgil)

Chapter 1 Introduction: What Is International Business?

1) International business is primarily carried out by individual companies.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

2) The globalization of markets refers to the growing independence and self-sufficiency of countries worldwide.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

3) International business today is predominantly the domain of large, multinational companies.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

4) Exporting is an entry strategy involving the sale of products or services to customers located abroad.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

5) A country's economic assets are also known as factors of production.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

6) The two primary types of international investment are portfolio investment and foreign direct investment.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

7) Over the last few decades, export activity by nations has grown more quickly than has domestic production.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

8) In the past, international trade and investment activities were mainly conducted by companies that sold services.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

9) Services are the fastest growing sector in international trade.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

10) The level of government intervention in commercial activities is similar across most countries.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Dynamics of the global economy

11) Currency risk refers to the risk posed by adverse fluctuations in exchange rates.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Dynamics of the global economy

12) For internationalizing firms, the consequences of poor business management decisions are usually more costly when mistakes occur abroad than when they occur at home.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Dynamics of the global economy

13) MNEs with extensive international operations tend to focus mainly on downstream activities such as marketing in foreign countries.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

14) International business is primarily the domain of large, resourceful firms.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

15) Exporting is the most common foreign market entry strategy of the SME.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

16) For manufacturing companies, on a per-unit-of-output basis, high volumes of production are correlated with lower per-unit cost.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-5

AACSB: Dynamics of the global economy

17) Since the 1980s, emerging market countries have experienced substantial market liberalization and privatization.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 1-6

AACSB: Dynamics of the global economy

18) Firms that do not export tend to create jobs more quickly than do exporting firms.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 1-6

AACSB: Dynamics of the global economy

19) International business is defined as the performance of _____ activities by firms across national borders.

- A) marketing and fiduciary
- B) trade and investment
- C) finance and operational
- D) manufacturing and sales

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

20) International business is also known as which of the following?

- A) born global business
- B) laissez-faire business
- C) cross-border business
- D) multi-hub business

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

21) Which of the following best characterizes the development of international business?

- A) It has existed in some form for centuries.
- B) It first started in Europe.
- C) It developed after the year 2000.
- D) Its development has slowed in recent years.

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

22) Globalization has helped increase all of the following EXCEPT _____.

- A) the variety of capital flows across national borders
- B) the economic isolation of developing countries
- C) the rate at which products are diffused worldwide
- D) the volume of cross-border transactions

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

23) Which of the following is another term for importing?

- A) capital investment
- B) supply side development
- C) global sourcing
- D) unilateral procurement

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

24) Which of the following is subject to importing and exporting?

- A) both finished products and intermediate goods
- B) finished products but not intermediate goods
- C) intermediate goods but not raw materials
- D) raw materials and components, but not finished products

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

25) _____ refers to the transfer of assets to another country or the acquisition of assets in that country.

- A) International investment
- B) International trade
- C) Importing
- D) Exporting

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

26) Each of the following represents a factor of production EXCEPT _____.

- A) manufacturing infrastructure
- B) technology
- C) government regulations
- D) managerial talent

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

27) Which of the following would NOT be considered an example of foreign direct investment (FDI)?

- A) cross-border purchase of a textile plant
- B) cross-border purchase of stocks
- C) purchase of capital assets of a foreign company
- D) purchase of foreign land for business operations

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

28) _____ is the total value of products and services produced in a country over the course of a year.

- A) GDP
- B) CAD
- C) FDI
- D) PPP

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

29) Which of the following best explains why export growth has outpaced the growth of domestic production during the last few decades?

- A) Both world exports and domestic production have grown significantly over the past 30 years.
- B) The cost to import products is generally higher than the cost to produce domestic products.
- C) Growth in gross domestic product in most countries has steadily increased since 1970.
- D) Advanced economies now source many of their consumable products from low-cost manufacturing nations.

Answer: D

Difficulty: Hard

Skill: Critical Thinking

Objective: 1-2

AACSB: Dynamics of the global economy; Reflective thinking skills

30) Each of the following has contributed to the rapid integration of world economies EXCEPT _____.

- A) the growth of emerging market countries
- B) the increase in trade barriers
- C) advances in information technology
- D) the liberalization of markets

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

31) Which of the following types of risk is also known as political risk?

- A) currency risk
- B) cross-cultural risk
- C) commercial risk
- D) country risk

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Dynamics of the global economy

32) Which of the following is NOT an example of a cross-cultural risk factor?

- A) negotiation patterns
- B) decision-making styles
- C) costs of production
- D) ethical practices

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 1-3

AACSB: Dynamics of the global economy

33) Fluctuating exchange rates are an example of which of the following?

- A) country risk
- B) political risk
- C) currency risk
- D) cross-cultural risk

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 1-3

AACSB: Dynamics of the global economy

34) Businesses that directly initiate and implement international business activity are known as _____.

- A) focal firms
- B) fiscal enterprises
- C) fiduciary trusts
- D) business affiliates

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

35) The largest multinational firms are found in each of the following industries EXCEPT _____.

- A) retailing
- B) health care
- C) automobiles
- D) oil and gas

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

36) Which of the following countries hosts the greatest number of MNEs?

- A) Germany
- B) Japan
- C) Netherlands
- D) United States

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

37) Each of the following types of organizations is active in international business EXCEPT _____.

- A) MNE
- B) SME
- C) RND
- D) NGO

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

- 38) Which of the following is an example of a new global challenger?
- A) a firm from Russia that is rapidly growing in the communications industry
 - B) a U.S. non-profit that focuses on fundraising for children's health care
 - C) an MNE from France with large-scale operations across the globe
 - D) an SME from Canada that began international operations early in its development

Answer: A

Difficulty: Moderate

Skill: Application

Objective: 1-4

AACSB: Dynamics of the global economy

- 39) Calexor is a telecommunications SME that has been highly successful despite its limited resources. Stakeholders attribute Calexor's success to its ability to serve niche markets. Which of the following, if true, would most strongly support the claim that Calexor's growth can be attributed to niche market sales?

- A) Calexor developed an interest in serving niche markets through an R & D experiment.
- B) Most of Calexor's sales are in specialty markets that larger competitors do not serve.
- C) Calexor's sales in mainstream telecommunications markets have always been strong.
- D) Calexor's growth soared after it entered its first overseas market and has continued to climb.

Answer: B

Difficulty: Easy

Skill: Critical Thinking

Objective: 1-4

AACSB: Dynamics of the global economy; Reflective thinking skills

- 40) The process of targeting and serving markets outside the home country is known as _____.

- A) market diversification
- B) competition intensity
- C) reactive internationalization
- D) trade protectionism

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-5

AACSB: Dynamics of the global economy

41) A U.S. shoe manufacturer is considering internationalizing to promote growth by diversifying its markets. Which of the following, if true, would most strongly support the claim that moving to France would help the company grow through market diversification?

- A) Doing business in France would likely expose the company to new ideas for product innovation.
- B) French women tend to purchase shoes more frequently than do French men.
- C) French consumers represent a sizeable market that could significantly boost the company's sales.
- D) Many of the company's U.S. customers have moved overseas to Europe.

Answer: C

Difficulty: Moderate

Skill: Critical Thinking

Objective: 1-5

AACSB: Dynamics of the global economy; Reflective thinking skills

42) Which of the following contributes LEAST to increasing a company's profit margins?

- A) increasing demand
- B) increasing global competition
- C) high-growth markets
- D) underserved economies

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

43) Which of the following best explains why the Japanese firm Canon relocated much of its production to China?

- A) low-cost financial capital
- B) low-cost labor
- C) access to raw materials
- D) lack of skilled managerial talent in home country

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

44) A restaurant chain based in Hong Kong plans to open a series of restaurants in the United States to gain access to low-cost capital for its expansion efforts. Which of the following, if true, would most strongly support the claim that establishing U.S. operations would NOT be the best choice for providing the chain access to the low-cost capital it seeks?

A) Relocation to the U.S. would involve substantial cross-cultural risk.

B) U.S. funding sources are more expensive than capital sources in many other promising locations.

C) The company has attracted significant interest from American venture capitalists.

D) U.S. funding offered in the hospitality sector tends to be more expensive than funding for health care firms.

Answer: B

Difficulty: Hard

Skill: Critical Thinking

Objective: 1-5

AACSB: Dynamics of the global economy; Reflective thinking skills

45) Increases in international trade and investment are accompanied by increases in all of the following EXCEPT _____.

A) literacy rates

B) individual affluence

C) cross-border conflict

D) national prosperity

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 1-6

AACSB: Dynamics of the global economy

46) Which of the following, if true, would most strongly support the claim that national prosperity is increased by participation in international business?

A) Countries that participate in international trade have higher GDPs than non-participating countries.

B) Individuals in advanced economies tend to set purchasing trends for consumers worldwide.

C) For most countries, levels of international trade have increased significantly in recent decades.

D) National literacy levels are strongly correlated with a country's degree of political freedom.

Answer: A

Difficulty: Hard

Skill: Critical Thinking

Objective: 1-6

AACSB: Dynamics of the global economy; Reflective thinking skills

Freehold Investment Corp. (Scenario)

Dan Freehold and his business partner, Bethany Quinn, are successful investors engaged in a variety of enterprises. Recently Dan and Bethany have decided to expand their foreign investing operations. They hold a meeting for individuals interested in participating in certain overseas ventures.

47) At the meeting, Dan explains to the attendees that Freehold direct investment projects differ from international trade in that _____.

- A) the firm itself is crossing international borders to purchase foreign assets
- B) the firm is restricting its investments to stocks and does not purchase mutual funds
- C) the firm has chosen to focus strictly on the technology sector
- D) the firm is engaging in the transfer of products across national borders

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

48) Dan discusses an investment opportunity that involves the purchase of selected securities from the Chinese stock market. This opportunity represents which type of international investment?

- A) indirect production
- B) international portfolio
- C) foreign direct
- D) domestic securities

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

49) Bethany presents another opportunity that involves the purchase of a manufacturing plant in South Korea. She explains that this type of strategy will involve _____ ownership on the part of the firm.

- A) indirect
- B) passive
- C) short-term
- D) active

Answer: D

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

50) Phillip Hardy, one of the potential investors, expresses the desire to purchase only those types of assets in which he can maintain a relatively short-term interest. Which of the following investment opportunities would be most suited for Mr. Hardy?

- A) a venture that gives investors ownership of the equipment used by multiple South African mining companies
- B) an initiative to purchase the technology assets of an Indian consulting firm
- C) the Freehold Eastern Growth Fund, which purchases Eastern European growth stocks
- D) the Freehold World Climb Project, which maintains partial ownership of an Australian hiking equipment production plant

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 1-2

AACSB: Dynamics of the global economy

International Trade Summit (Scenario)

An international trade summit is held in Geneva, Switzerland. The purpose of the summit is to cooperatively develop policies that promote international trade. Representatives from 50 different countries attend the summit.

51) One of the attendees represents a leading nation in the international merchandise trade. This attendee is most likely from which of the following countries?

- A) New Zealand
- B) Germany
- C) Kenya
- D) Saudi Arabia

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

52) One of the attendees represents a leading nation in the international services trade. This attendee is most likely from which of the following countries?

- A) Brazil
- B) Greece
- C) Spain
- D) South Africa

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

53) One summit attendee pointed out that the total value of her country's products trade typically accounted for more than 100 percent of her nation's GDP. This attendee most likely represents _____.

- A) Japan
- B) United Kingdom
- C) France
- D) Netherlands

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

Overseas Expansion (Scenario)

Whittaker Semiconductors has recently decided to expand its operations overseas. Amanda Quan, Vice President of International Business, assigned a team of investigators to analyze the risks faced by the company in making this move. Of particular interest were the risks that might affect the success of a new production plant to be located in one of three potential countries.

54) Philip Baxter reported on the risks associated with establishing the plant in Country A. The most significant risk, in his view, was posed by the government's complex bureaucratic structure. Philip reported the likelihood of significant administrative delays in opening the plant. The risk identified by Philip is an example of which of the following?

- A) country risk
- B) commercial risk
- C) currency risk
- D) cross-cultural risk

Answer: A

Difficulty: Moderate

Skill: Application

Objective: 1-3

AACSB: Dynamics of the global economy

55) LeShaun Golding researched the risks linked to establishing the plant in Country B. He cited government intervention, lack of local managerial talent, and unethical business practices as the most prominent risks for this location. LeShaun noted all of the following types of risks EXCEPT _____.

- A) currency risk
- B) political risk
- C) country risk
- D) cross-cultural risk

Answer: A

Difficulty: Moderate

Skill: Application

Objective: 1-3

AACSB: Dynamics of the global economy

56) Rosa Suarez reported on her analysis of cross-cultural risks involved with establishing the plant in Country C. Each of the following was most likely discussed in her report EXCEPT _____.

- A) language barriers
- B) lifestyle differences
- C) religious beliefs
- D) the level of national debt

Answer: D

Difficulty: Moderate

Skill: Application

Objective: 1-3

AACSB: Dynamics of the global economy

Sterling Auto International (Scenario)

Sterling Auto International is a successful car manufacturing company headquartered in Detroit, Michigan. Over the past year, the company implemented multiple efforts to expand its overseas operations. At a recent shareholder's meeting, attendees questioned the CEO's motivations for authorizing certain aspects of the expansion efforts.

57) One shareholder questioned the CEO's rationale for beginning an exploratory effort to establish a new manufacturing plant in India. The CEO responded by explaining that India was an untapped market with a high demand for products such as those produced by Sterling. His rationale represented an example of which of the following reasons for international expansion?

- A) investing in a potentially rewarding relationship with a foreign partner
- B) gaining access to lower-cost or better-value factors of production
- C) seeking opportunities for growth through market diversification
- D) better serving key customers that have relocated abroad

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

58) The CEO introduced another overseas effort by noting that it represented an attempt to confront an international competitor. The CEO was most likely referring to which of the following efforts?

- A) a new plant established in Vietnam to benefit from low-cost labor
- B) a sales outlet established in Indonesia, where Sterling could charge more for its products
- C) a marketing and advertising partnership established with a successful French car retailer
- D) a distribution center established in London to preempt the growth of a British car manufacturer

Answer: D

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

59) One shareholder wanted clarification about a research effort that investigated the possibility of setting up a plant in China. The CEO explained that serving China's rapidly growing middle class population would enable Sterling to increase the size of its customer base dramatically. In China, the CEO was most likely interested in _____.

- A) avoiding government intervention
- B) challenging Chinese competitors
- C) gaining access to innovative ideas
- D) developing economies of scale

Answer: D

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

60) The CEO justified one of the company's moves by pointing out that it not only enabled Sterling to benefit from global sourcing advantages, but it also provided access to new ideas about business methods. The shareholders viewed this justification positively most likely because they understood which of the following?

- A) Sourcing advantages are usually more important to growth than obtaining new business ideas.
- B) International firms may have more than one motive for international expansion.
- C) The most compelling motive for international expansion is to gain new ideas from other markets.
- D) This expansion strategy would enable the company to better manage cross-cultural risk.

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

61) In discussing the expansion effort to India, the CEO reminded shareholders of Black and Decker's move to partner with the Indian auto retailer Bajaj. The CEO was most likely attempting to justify which of the following?

- A) a joint venture that would position Sterling for long-term sales in India
- B) a marketing effort targeted to American citizens living in India
- C) a price drop to ward off competition from an emerging Indian auto retailer
- D) a new manufacturing protocol based on an efficient Indian production method

Answer: A

Difficulty: Moderate

Skill: Application

Objective: 1-5

AACSB: Dynamics of the global economy

62) What is international business, and how has it transformed the world economy?

Answer: International business refers to the performance of trade and investment activities by firms across national borders. Firms organize, source, manufacture, market, and conduct other value-adding activities on an international scale. They seek foreign customers and engage in collaborative relationships with foreign business partners.

International business is transforming the world as never before. In the last 50 years, international trade and investment have experienced unprecedented growth. Since the 1980s, *emerging markets* have provided new impetus to worldwide economic interconnectedness. These fast-growth developing economies—some thirty countries including Brazil, Russia, India, and China, the so-called BRICs—are experiencing substantial market liberalization, privatization, and industrialization, which are fueling global economic transformation. Located on every continent, they are gradually breaking away from the stagnation typical of developing economies. The emerging markets are home to the largest proportion of world population and participate increasingly in foreign trade.

Along with market globalization, *advances in technology* is another megatrend helping to transform the global economy. The rise of information and communication technologies, as well as production and process technologies, has dramatically reduced the cost of conducting business with customers located around the world. E-commerce makes international business increasingly imperative for firms of all sizes and resource levels. Technological advances are allowing globalization to progress more rapidly. Globalization, in turn, is accelerating the development of the latest technologies.

Difficulty: Hard

Skill: Synthesis

Objective: 1-1, 1-6

AACSB: Dynamics of the global economy

63) In a short essay, explain the four trends that provide evidence for the globalization of markets. Provide an example to illustrate one of the trends.

Answer: In practical terms, the globalization of markets is evident in several related trends. First is the unprecedented growth of international trade. For example, in 1960, cross-border trade was modest — about \$100 billion per year. Today, it accounts for a substantial proportion of the world economy, amounting to some \$13 trillion annually — that is, \$13,000,000,000,000! Second, trade between nations is accompanied by substantial flows of capital, technology, and knowledge. The third trend is the development of highly sophisticated global financial systems and mechanisms that facilitate the cross-border flow of products, money, technology, and knowledge. Fourth, globalization has brought about a greater degree of collaboration among nations through such organizations as the World Trade Organization and the International Monetary Fund.

Difficulty: Moderate

Skill: Concept

Objective: 1-1

AACSB: Dynamics of the global economy

64) In a short essay, explain the main differences between international portfolio investment and foreign direct investment.

Answer:

- a. Types of assets purchased—The first main difference between the two types of investments concerns the types of assets purchased. Portfolio investment involves the purchase of securities or other financial assets. Foreign direct investment involves the purchase of productive assets, such as capital, technology, labor, land, plants, and equipment.
- b. Types of ownership—The second main difference concerns the level or type of ownership. Portfolio investment refers to passive ownership, with no active management of or control over the assets purchased. Foreign direct investment, on the other hand, involves a more active type of ownership over a productive enterprise.
- c. Interest timeline—The third main difference between the two types of strategies involves the length of interest maintained by investors. In international portfolio investment, investors have a relatively short-term interest in the ownership of their assets. In foreign direct investment, firms usually have a long-term investing interest.

Difficulty: Moderate

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

65) What is meant by the term "entrepôt economies?" In a short essay, explain the concept and provide an example.

Answer: Entrepôt economies are those that import a large volume of products. Some of these products may be processed into higher value-added products, and some are simply re-exported to other destinations. For entrepôt economies, merchandise trade is a large component of economic activity. The countries are very dependent on international trade relative to domestic value-adding activity.

Singapore is a major entrepôt, or depot, for petroleum products received from the Middle East, which it then exports to China and other destinations in Asia. Other examples of entrepôt economies include Belgium, the Netherlands, Hong Kong, South Korea, and Malaysia. In all of these countries, trade accounts for more than 100 percent of GDP.

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

66) In a short essay, describe the major trends in the growth of foreign direct investment (FDI) since the 1980s.

Answer: Since the 1980s, foreign direct investment (FDI) has undergone dramatic growth into various world regions. The dollar volume of FDI has grown immensely, especially into advanced (or developed) economies such as Japan, Europe, and North America. FDI inflows were interrupted in 2001 with the worldwide panic that ensued following the September 11 terrorist attacks in the United States, but the trend remains strong and is growing over time.

Of particular significance is the growth of FDI into *developing economies*, nations with lower incomes, less developed industrial base, and shortage of investment capital. Most of the developing economies are located in parts of Africa, Asia, and Latin America. Despite poor income levels, developing economies collectively comprise a substantial and growing proportion of international trade and investment activities.

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

67) What are the main differences between products and services? In a short essay, explain the difference between the two and provide three examples of each. Which sector has seen the greatest growth in international trade in recent years?

Answer: Products are defined as tangible merchandise, such as clothing, computers, and cars. Services, by contrast, are intangible deeds, performances, or efforts performed directly by people working in firms in the services sector. Some examples of services are creating advertising campaigns, underwriting mortgages, and managing restaurant operations. In recent years, services trade has been growing faster than products trade. International trade in services now accounts for about one quarter of all international trade and is growing rapidly.

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

68) In a short essay, identify three sectors in the service industry that are internationalizing rapidly. Explain the types of activities conducted within each sector, and provide examples of three companies that operate in each.

Answer:

- a. Architectural, construction, and engineering—Activities within this sector include construction, electric power utilities, design, and engineering services for airports, hospitals, and dams. Companies within this sector include ABB, Bechtel Group, Halliburton, Kajima, Philip Holzman, and Skanska AB.
- b. Banking, finance, and insurance—Activities within this sector include banking services, insurance provision, risk evaluation, and financial management. Companies within this sector include CIGNA, Barclays, HSBC, and Ernst & Young.
- c. Education, training, and publication—Activities within this sector include management training, technical training, and English language training. Companies within this sector include Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, and Elsevier.

Difficulty: Easy

Skill: Concept

Objective: 1-2

AACSB: Dynamics of the global economy

69) In a short essay, explain the cross-cultural risk faced by internationalizing firms. What causes this type of risk? Why might it pose a problem for internationalizing firms?

Answer: Cross-cultural risk refers to a situation or event where a cultural miscommunication puts some human value at stake. Cross-cultural risk is posed by differences in language, lifestyles, mindsets, customs, and religion. Values unique to a culture tend to be long-lasting and transmitted from one generation to the next. These values influence the mindset and work style of employees and the shopping patterns of buyers. Foreign customer characteristics differ significantly from those of buyers in the home market.

Language is a critical dimension of culture. In addition to facilitating communication, language is a window on people's value systems and living conditions. When translating from one language to another, it is often difficult to find words that convey the same meanings. Such challenges impede effective communication and cause misunderstandings. Miscommunication due to cultural differences gives rise to inappropriate business strategies and ineffective relations with customers.

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Communication abilities; Dynamics of the global economy; Multicultural and diversity understanding

70) In a short essay, discuss how international firms manage the four types of international business risk. Provide an example that illustrates the process of risk management.

Answer: International business risks cannot be avoided, but they can be anticipated and managed. Experienced international firms conduct research to forecast potential risks, understand their implications, and take proactive action to reduce their effects.

Some international risks are extremely challenging. A recent example is the global financial crisis that emerged in the fall of 2008. The crisis spread to banks and insurance firms in Asia, Europe, and elsewhere. Many countries experienced deflation and severe declines in consumer confidence and spending power. The year 2009 saw sharp reductions in international commerce and shipping. Central banks worldwide sought to rally national economies by injecting billions of dollars into their financial systems.

Difficulty: Easy

Skill: Concept

Objective: 1-3

AACSB: Dynamics of the global economy

71) What distinguishes an MNE from an SME? In a short essay, describe the major differences between the two types of firms.

Answer: A multinational enterprise (MNE) is a large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries. One of the hallmarks of MNEs is that they tend to carry out R&D, procurement, manufacturing, and marketing activities wherever in the world it makes most economic sense. In addition to a home office or headquarters, the typical MNE owns a worldwide network of subsidiaries. It collaborates with numerous suppliers and independent business partners abroad (sometimes termed affiliates).

Typical MNEs include Caterpillar, Samsung, Unilever, Vodafone, Four Seasons Hotels, Disney, DHL, and Nippon Life Insurance.

A small and medium-sized enterprise (SMEs) is a company with less than 500 employees in the United States and Canada, and less than 250 employees in Europe. In addition to being smaller players in their respective economies, SMEs tend to have limited managerial and other resources and primarily use exporting to expand internationally.

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

72) In a short essay, explain why non-profit organizations might conduct cross-border activities. Answer: In addition to profit-seeking focal firms in international business, there are numerous *non-profit organizations* that conduct cross-border activities. These include charitable groups and *non-governmental organizations (NGOs)*. Nonprofit organizations pursue special causes through their international activities. They may serve as advocates for the arts, education, politics, religion, or research. They operate internationally either to conduct their activities or raise funds.

Examples of non-profit organizations include the Bill and Melinda Gates Foundation and the British Wellcome Trust, which support health and educational initiatives. CARE is an international non-profit organization dedicated to reducing poverty.

Difficulty: Easy

Skill: Concept

Objective: 1-4

AACSB: Dynamics of the global economy

73) Why might firms choose to pursue internationalization strategies? In a short essay, identify five major motivations for expanding overseas. Classify these motivations as strategic or reactive and provide an example of each.

Answer: Strategic Motivations

- a. One reason why firms might expand internationally is to *seek opportunities for growth through market diversification*. Firms expand to tap into the market potential that exists outside the home country. One example is the expansion of automatic teller machines (ATMs) throughout the world.
- b. Firms expand to *earn higher margins and profits*. Foreign markets are often underserved or not served at all. Less intense competition, combined with strong market demand, implies that companies can command higher margins for their offerings. For example, compared to their respective home markets, bathroom fixtures manufacturers American Standard and Toto (of Japan) have found a more favorable competitive environment in rapidly industrializing countries such as Indonesia, Mexico, and Vietnam.
- c. Firms internationalize to *gain new ideas about products, services, and business methods*. The experience of doing business abroad helps firms acquire new knowledge for improving organizational effectiveness and efficiency. For example, just-in-time inventory techniques were refined by Toyota and then adopted by other manufacturers all over the world.
- d. Firms might internationalize to *be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products*. Companies often establish international operations in countries where needed raw materials are located, or where raw materials and labor can be more flexibly accessed. One example is the aluminum producer Alcoa, which locates mining operations abroad to extract aluminum's base mineral bauxite, from mines in Brazil, Guinea, Jamaica, and elsewhere.
- e. Firms expand to *gain access to lower-cost or better-value factors of production*. Internationalization enables the firm to access capital, technology, managerial talent, labor, and land at lower costs, higher-quality, or better overall value at locations worldwide. For example, some Taiwanese computer manufacturers have established subsidiaries in the United States to access low-cost capital.
- f. Firms internationalize to *develop economies of scale in sourcing, production, marketing, and R&D*. Economies of scale refers to the reduction of the per-unit cost of manufacturing and marketing due to operating at high volume. For example, the per-unit cost of manufacturing 100,000 cameras is much cheaper than the per-unit cost of making just 100 cameras. By expanding internationally, the firm greatly increases the size of its customer base, thereby increasing the volume of products that it manufactures.
- g. Firms might expand to *invest in a potentially rewarding relationship with a foreign partner*. Firms often have long-term strategic reasons for venturing abroad. Joint ventures or project-based alliances with key foreign players can lead to the development of new products, early positioning in future key markets, or other long-term profit-making opportunities. For example, Black and Decker entered a joint venture with Bajaj, an Indian retailer, to position itself for expected long-term sales in the huge Indian market.

Reactive Motivations

Firms expand to *better serve key customers that have relocated abroad*. In a global economy, many firms internationalize to better serve clients that have moved into foreign markets. For example, when Nissan opened its first factory in the United Kingdom, many Japanese auto-parts suppliers followed, establishing their own operations there.

Strategic or Reactive Motivations

Firms might also internationalize to *confront international competitors more effectively or thwart the growth of competition in the home market*. International competition is substantial and increasing, with multinational competitors invading markets worldwide. The firm can enhance its competitive positioning by confronting competitors in international markets or preemptively entering a competitor's home markets to destabilize and curb its growth. If the firm acts to confront an existing competitor, it would be responding reactively. If the firm acts to preempt a competitor, it would be responding proactively.

One example of a proactive response is Caterpillar's preemptive entry into Japan just as its main rival in the earthmoving equipment industry, Komatsu, was getting started in the early 1970s. Caterpillar's preemptive move hindered Komatsu's international expansion for at least a decade. Had it not moved proactively to stifle Komatsu's growth in Japan, Komatsu's home market, Caterpillar would certainly have to face a more potent rival sooner.

Difficulty: Moderate

Skill: Concept

Objective: 1-5

AACSB: Dynamics of the global economy

74) What is a born global firm? Explain one strategic or reactive reason why an SME might choose to start as a born global.

Answer: A born global firm is a young entrepreneurial company that initiates international business activity very early in its evolution, moving rapidly into foreign markets. Born globals are found in advanced economies, such as Australia and Japan, and emerging markets, such as China and India.

An SME might start as a born global to lower its production costs by establishing manufacturing bases in foreign countries. Alternatively, the company might benefit from establishing international operations as a way to confront its industry competitors.

Difficulty: Moderate

Skill: Synthesis

Objective: 1-4, 1-5

AACSB: Dynamics of the global economy

75) In a short essay, explain the meaning of international trade. Describe the two major forms through which international trade takes place. Explain the relationship between international trade and national prosperity and provide examples to illustrate this relationship.

Answer: International trade refers to exchange of products and services across national borders. Trade involves both products (merchandise) and services (intangibles). Exchange is carried out through two main forms:

- a. exporting—an entry strategy involving the sale of products or services to customers located abroad, from a base in the home country or a third country; and
- b. importing or global sourcing—activities that involve the procurement of products or services from suppliers located abroad, for consumption in the home country or a third country.

Exporting is an outbound activity, while importing is an inbound flow of products and services. Both finished products and intermediate goods, such as raw materials and components, are subject to importing and exporting.

There is a strong relationship between national prosperity and participation in international trade and investment. Nations once suffering from economic stagnation are now increasingly prosperous. For example, China, India, and Eastern European nations are active international traders. The proportion of affluent citizens in these countries is rapidly growing. In terms of material gain, households in many developing economies have recently experienced huge increases in the ownership of televisions, refrigerators, and other mass-produced products. While these gains are attributable to various causes, the benefits of free exchange of products, services, capital, and technology among nations are paramount.

Rising prosperity associated with international trade and investment helps improve literacy rates, nutrition, and health care in nations around the world. Trade and investment promote freedom and democracy and may reduce the likelihood of cross-border conflict. In an era of economic turmoil and strained global relations, international business is helping decrease such tensions, by reducing world poverty and increasing interactions that help soothe relations among nations. Cross-border business also helps integrate world economies. Development of the European Union (EU) is transforming Europe into a new powerhouse in global trade. The North American Free Trade Agreement (NAFTA), launched in 1994, has integrated the economies of Canada, Mexico, and the United States into a giant market of roughly 450 million consumers. Following NAFTA's launch, the volume of trade among the three countries jumped dramatically. In Mexico, NAFTA led to substantially higher wages and higher employment rates. Recently, a new accord was launched between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Known as the Dominican Republic Central American Free Trade Agreement (DR-CAFTA), it is invigorating the economies of the member countries.

Difficulty: Hard

Skill: Synthesis

Objective: 1-2, 1-6

AACSB: Dynamics of the global economy