

***International Management, 9e (Deresky)***

**Chapter 1 Assessing the Environment: Political, Economic, Legal, Technological**

1) Which of the following is characterized by networks of international linkages that bind countries, institutions, and people in an interdependent economy?

- A) communism
- B) nationalization
- C) socialism
- D) globalization

Answer: D

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

2) \_\_\_\_\_ results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world.

- A) Economic integration
- B) Nationalization
- C) Protectionism
- D) Mercantilism

Answer: A

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

3) In which of the following groups of trade blocs does most of today's world trade take place?

- A) Middle East, China, and India
- B) North America, Africa, and Canada
- C) Western Europe, Asia, and the Americas
- D) Saudi Arabia, Western Europe, and the Gulf

Answer: C

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

4) The European Union currently consists of how many nations?

- A) 12
- B) 27
- C) 34
- D) 46

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

5) Which of the following is a true statement about China?

- A) The Chinese government's shift from communism to capitalism has led to an increase in FDI.
- B) China attracts FDI because the government has eliminated elaborate bureaucracies.
- C) The Chinese government manipulates market activities for political purposes.
- D) China lacks an educated pool of employees due to slowly developing industrialization.

Answer: C

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

6) Which of the following countries is today known as the world's services supplier, providing highly skilled and educated workers to foreign companies?

- A) China
- B) Brazil
- C) Mexico
- D) India

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

7) Which is the fourth largest trading bloc after the EU, NAFTA, and ASEAN and established in 1991?

- A) SAARC
- B) ASEAN
- C) NAFTA
- D) MERCOSUR

Answer: D

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

8) Emerson is a global manufacturing company headquartered in St. Louis, Missouri. The company employs almost 130,000 workers at its 250 manufacturing facilities located on five different continents. Emerson manufactures a wide range of products including air-conditioning compressors, garbage disposers, and automotive parts. Emerson's Asian operations employ over 50,000 people at manufacturing facilities in Asia. Emerson needs to build a new manufacturing facility to produce automotive parts for cars manufactured in Detroit. Emerson executives are considering whether to build the new facility in China or in the United States. Which of the following, if true, supports the argument to build a new Emerson facility in China?

- A) The Chinese courts recently ruled in favor of an MNC in an intellectual property rights lawsuit.
- B) The Chinese Commonwealth network is investing large amounts of capital in China.
- C) China has increased Internet controls and blocked most international search sites.
- D) China is revoking its membership from the World Trade Organization.

Answer: A

Difficulty: 3: Challenging

Chapter: 1

Skill: Critical Thinking

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Ethical understanding and reasoning

9) Emerson is a global manufacturing company headquartered in St. Louis, Missouri. The company employs almost 130,000 workers at its 250 manufacturing facilities located on five different continents. Emerson manufactures a wide range of products including air-conditioning compressors, garbage disposers, and automotive parts. Emerson's Asian operations employ over 50,000 people at manufacturing facilities in Asia. Emerson needs to build a new manufacturing facility to produce automotive parts for cars manufactured in Detroit. Emerson executives are considering whether to build the new facility in China or in the United States. Which of the following, if true, undermines the argument to build a new Emerson facility in China?

- A) China has committed over \$500 billion to infrastructure projects.
- B) U.S. firms continue outsourcing service jobs despite the economy.
- C) Fuel costs in China have risen sharply and are not expected to drop.
- D) China is the world's largest exporter of manufactured goods.

Answer: C

Difficulty: 3: Challenging

Chapter: 1

Skill: Critical Thinking

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Ethical understanding and reasoning

10) Emerson is a global manufacturing company headquartered in St. Louis, Missouri. The company employs almost 130,000 workers at its 250 manufacturing facilities located on five different continents. Emerson manufactures a wide range of products including air-conditioning compressors, garbage disposers, and automotive parts. Emerson's Asian operations employ over 50,000 people at manufacturing facilities in Asia. Emerson needs to build a new manufacturing facility to produce automotive parts for cars manufactured in Detroit. Emerson executives are considering whether to build the new facility in China or in the United States. Which of the following questions is LEAST relevant to Emerson's decision regarding where to build a new facility?

- A) How will China's underdeveloped infrastructure affect Emerson's ability to manufacture and ship products?
- B) How is China's political and economic agenda likely to affect Emerson's investment?
- C) What is the likelihood of expropriation occurring to Emerson if it builds in China?
- D) How will e-commerce affect Emerson's ability to export products from China?

Answer: D

Difficulty: 3: Challenging

Chapter: 1

Skill: Critical Thinking

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Ethical understanding and reasoning

11) To which of the following free-trade agreements do Mexico, Canada and the United States all belong?

- A) NAFTA
- B) ASEAN
- C) CAFTA
- D) MERCOSUR

Answer: A

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

12) Small- and medium-sized enterprises contribute to their national economies by creating new jobs.

Answer: TRUE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

13) SAARC is an agreement that came into force to bring faster growth, more jobs, better working conditions, and a cleaner environment for all as a result of increased exports and trade.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

14) NAFTA is an agreement that came into force to lower tariffs to 25 percent within three to five years, and to eliminate them within seven years.

Answer: FALSE

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

15) What is the European Union (EU)? Discuss how the EU affects both Europe and international managers working in Europe.

Answer: The EU now comprises a 27-nation, unified market of over 400 million people. Since the euro became a legally tradable currency, Europe's business environment has been transformed. The vast majority of legislative measures have been adopted to create an internal market with free movement of goods and people among the EU countries. The elimination of internal tariffs and customs, as well as financial and commercial barriers, has not eliminated national pride.

Global managers face two major tasks in the EU. One is strategic: how firms outside of Europe can deal with the implications of the EU and of what some have called a "Fortress Europe"—that is, a market giving preference to insiders. The other task is cultural: how to deal effectively with multiple sets of national cultures, traditions, and customs within Europe, such as differing attitudes about how much time should be spent on work versus leisure activities.

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

16) What is SAARC?

Answer: SAARC stands for South Asia Association of Regional Cooperation—an association of seven developing South Asian nations. According to the Agreement that was effective January 1, 2006, the countries will lower tariffs by 25% within three to five years and eliminate them within seven years. Trade in South Asia is estimated at \$14 billion, although the majority of that trade will take place between India and Pakistan, the two largest members.

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-1: To understand the global business environment and how it affects the strategic and operational decisions which managers must make

AACSB: Application of knowledge

17) \_\_\_\_\_ is the chance that political forces may change a country's business environment in ways that lead investors to lose some or all of the value of their investment or be forced to accept a lower-than-projected rate of return.

A) Governmental risk

B) Operating risk

C) Transaction risk

D) Political risk

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

- 18) Which of the following best describes nationalization?
- A) outsourcing of governmental functions to private entities
  - B) hiring preferences given to locals rather than expatriates
  - C) government's gradual and subtle actions against a firm
  - D) forced sale of an MNC's assets to local buyers

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

19) **Expropriation** occurs when a local government seizes and provides inadequate compensation for the foreign-owned assets of an MNC; when no compensation is provided, it is \_\_\_\_\_.

- A) privatization
- B) confiscation
- C) private action
- D) repatriation

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

20) Expropriation is most likely to occur in a country that has \_\_\_\_\_.

- A) numerous MNCs in operation
- B) constant political upheaval and change
- C) a capitalistic economic system in place
- D) stable economic growth and political consistency

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

21) The government of Jonovia seizes all assets of Refresh, a world-famous, soft-drink brand in Jonovia, and offers compensation to the company. This action by the government of Jonovia is an example of \_\_\_\_\_.

- A) private action
- B) repatriation
- C) privatization
- D) expropriation

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

22) Which of the following is an example of a macropolitical risk event?

- A) a terrorist attack
- B) forced sale of equity to host-country nationals
- C) expropriation of corporate assets without prompt and adequate compensation
- D) barriers to repatriation of funds

Answer: A

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

23) Zagreb Inc., a transnational energy company, negotiates a multimillion-dollar contract with the government to provide electricity to Pilladia. The government is voted out of power shortly after. The new government cancels all contracts it has with all oil companies but not contracts with firms in other industries. This is an example of \_\_\_\_\_.

- A) barriers to repatriation
- B) protectionism
- C) confiscation
- D) micropolitical risk

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Analytic skills



24) Intelligentia is attempting to do business in Bazania, but the Bazanian government purposely delays granting Intelligentia the necessary licenses and permissions required to conduct business in the country. Which of the following best describes this situation?

- A) creeping expropriation
- B) nationalization
- C) barriers to repatriation
- D) confiscation

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

25) Micropolitical risk events are those that affect \_\_\_\_\_.

- A) multiple industries and companies
- B) several other nations in the same region
- C) one industry or company or a few companies
- D) domestic industries or companies

Answer: C

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

26) Recently, the level of \_\_\_\_\_ in Europe, for example, was a great concern around the world, in particular regarding concerns in the eurozone brought about by debt problems in Greece.

- A) legal risk events
- B) political risk events
- C) cultural risk events
- D) economic risk events

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

27) Expropriation of corporate assets without prompt and adequate compensation is an example of \_\_\_\_\_.

- A) economic risk
- B) political risk
- C) legal risk
- D) cultural risk

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

28) For autonomous international subsidiaries, most of the impact from political risks will be in which of the following areas?

- A) financial operations
- B) ownership and control
- C) marketing and sales operations
- D) managerial strategy and policy-making

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

29) For global corporations, the primary impact of political risks is likely to be on the firm's \_\_\_\_\_.

- A) ownership and control
- B) hiring and recruiting policies
- C) transfers of money or products
- D) managerial strategy and policy-making

Answer: C

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

30) \_\_\_\_\_ includes the initiation of joint ventures with nationals (individuals or those in firms, labor unions, or government) to reduce political risks.

- A) Development assistance
- B) Equity sharing
- C) Localization of the operation
- D) Participative management

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

31) Which of the following means of political risk reduction is best suited for firms that decide a high-risk environment is worth the potential returns?

- A) avoidance
- B) adaptation
- C) hedging
- D) dependency

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

32) Which of the following strategies is a firm most likely to use, if it initiates a joint venture with a local company in a foreign country, as a way of adapting to risk?

- A) equity sharing
- B) participative management
- C) localization of the operation
- D) development assistance

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

33) Which of the following means of adaptation to political risk requires that a firm actively involve nationals in the management of its subsidiary?

- A) equity sharing
- B) participative management
- C) localization of the operation
- D) development assistance

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

34) In addition to avoidance and adaptation, two other means of risk reduction available to managers are \_\_\_\_\_ and \_\_\_\_\_.

- A) qualitative approach; quantitative approach
- B) dependency; hedging
- C) checklisting; blocklisting
- D) protectionist approach; stability approach

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

35) Which of the following is a form of protectionist policies?

- A) patents
- B) quotas
- C) foreign direct investment
- D) bribes

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

36) \_\_\_\_\_ poses a severe and random political risk to company personnel and assets, and interrupts the conduct of business.

- A) Plagiarism
- B) An election
- C) Privatization
- D) Terrorism

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

37) If a foreign-based firm borrows money from a host country bank as a hedge against being forced out of operation without adequate compensation, the firm is managing political risk with \_\_\_\_\_.

- A) local debt financing
- B) position control
- C) development assistance
- D) adaptation

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

38) Political risk insurance and local debt financing are both forms of \_\_\_\_\_.

- A) input control
- B) adaptation
- C) equity sharing
- D) hedging

Answer: D

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

39) Which of the following is a form of hedging?

- A) expatriate control in key positions
- B) development assistance
- C) local debt financing
- D) localization of the operation

Answer: C

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

40) A country's ability or intention to meet its financial obligations determines its \_\_\_\_\_.

- A) technological risk
- B) legal risk
- C) political risk
- D) economic risk

Answer: D

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

41) Which of the following is analyzed through the quantitative approach, qualitative approach, and the checklist approach?

- A) the legal risks of a country
- B) the creditworthiness of a country
- C) the political risks of a country
- D) the cultural atmosphere of a country

Answer: B

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

42) The \_\_\_\_\_ method of analyzing economic risk attempts to measure statistically a country's ability to honor its debt obligation by assigning different weights to economic variables.

- A) quantitative
- B) qualitative
- C) checklist
- D) objective

Answer: A

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

43) Which two factors are primarily assessed when using the qualitative approach to measure a country's economic risk?

- A) the country's natural resources and its long-term national debt
- B) the competence of the country's leader and the economic policy direction
- C) the probability of terrorism and the likelihood that the country's debts will be repaid
- D) the country's purchasing power overseas and the consistency of the country's leadership

Answer: B

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

44) Representatives of a multinational firm seek an interview with local government leaders in the Department of Commerce in Argonia with a view to assess the types of policies likely to be implemented. According to Mathis, this is an example of \_\_\_\_\_.

- A) qualitative approach
- B) quantitative approach
- C) checklist approach
- D) systemic approach

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Application

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

45) The \_\_\_\_\_ approach to analyzing economic risk relies on a few easily measurable and timely criteria believed to reflect or indicate changes in the creditworthiness of the country.

- A) qualitative
- B) checklist
- C) quantitative
- D) systemic

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

46) Confiscation occurs when a local government seizes and provides inadequate compensation for the foreign-owned assets of an MNC.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

47) Expropriation occurs when a local government seizes and does not provide any compensation for the foreign-owned assets of an MNC.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

48) Privatization refers to the forced sale of an MNC's assets to local buyers with some compensation to the firm, perhaps leaving a minority ownership with the MNC.

Answer: FALSE

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge



49) An event that affects all foreign firms doing business in a country or region is called a micropolitical risk event.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

50) An event that affects one industry or company or only a few companies is called a macropolitical risk event.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

51) Political risk insurance and local debt financing are forms of dependency.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

52) The quantitative approach evaluates a country's economic risk by assessing the competence of its leaders and analyzing the types of policies they are likely to implement.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

53) The checklist approach relies on a few easily measurable and timely criteria believed to reflect or indicate changes in the creditworthiness of the country.

Answer: TRUE

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

54) How does the phenomenon of ethnicity affect the international manager?

Answer: Ethnicity is a driving force of political instability around the world. Many uprisings and conflicts are expressions of differences in ethnic groupings, and religious disputes often lie at the heart of those differences. Managers must understand the ethnic and religious composition of the host country in order to anticipate problems of general instability as well as those of an operational nature—such as effects on their workforce, on production and access to raw materials, and also the market as a whole.

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Reflective thinking

55) What is political risk? Give an example of how political risk can affect an MNC.

Answer: Political risks are any government action or politically motivated event that could adversely affect the long-run profitability or value of the firm. For example, Bolivia nationalized its natural gas industry ordering foreign companies to give up control of fields and accept much tougher operating terms within six months or leave the country.

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

56) Identify and describe four means of political risk adaptation.

Answer: The four means of political risk adaptation are: (1) equity sharing—shared ownership or partial ownership with nationals; (2) participative management—actively involving nationals in the management of the firm; (3) localization of operations—modifications to the company's management style, company name, etc., to accommodate national issues; and (4) development assistance—corporate aid for infrastructure development.

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

57) What is currency translation exposure? Provide an example to illustrate your answer.

Answer: The risk of exchange-rate volatility results in currency translation exposure to the firm when the balance sheet of the entire corporation is consolidated, and may cause a negative cash flow from the foreign subsidiary. Currency translation exposure occurs when the value of one country's currency changes relative to that of another. When exchange-rate changes are radical, repercussions are felt around the world. For example, a U.S. company operating in Mexico at the time of the peso devaluation in the late 1990s meant that the company's assets in that country were worth less when translated into U.S. dollars. The company's liabilities, however, were also less.

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-2: To develop an appreciation for the ways in which political and economic factors and changes impact the opportunities that companies face

AACSB: Application of knowledge

58) Which of the following best explains why many foreign companies find operating in China a difficult experience from a business perspective?

A) China lacks the financial and legal systems needed to support the country's foreign trade.

B) China's local market is not large enough to support its extensive exporting to the United States.

C) China's government mandates that workers receive high wages and benefits.

D) China's exchange rate changes too frequently for U.S. businesses to compete.

Answer: A

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

59) Past court decisions serve as precedents to the interpretation of the law under \_\_\_\_\_.

- A) civil law
- B) common law
- C) theocratic law
- D) contract law

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

60) An international agreement which regulates international business by spelling out the rights and obligations of the seller and buyer is known as \_\_\_\_\_.

- A) Agreement to Technical Barriers to Trade
- B) International Standards on Accounting and Reporting
- C) General Agreement on Tariffs and Trade
- D) Contracts for International Sale of Goods

Answer: D

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

61) \_\_\_\_\_ is based on a comprehensive set of laws organized into a code.

- A) Theocratic law
- B) Civil law
- C) Common law
- D) Contract law

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

62) Which of the following terms refers to an agreement by the parties concerned to establish a set of rules for governing a business transaction?

- A) charter
- B) policy
- C) contract
- D) license

Answer: C

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

63) Under which law system must the details of the promises be written into a contract in order for it to be enforced?

- A) common law
- B) theocratic law
- C) civil law
- D) company law

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

64) In the context of doing business in Asia, what is meant by the phrase "the contract is in the relationship, not on the paper"?

- A) Asian contracts are not legally binding for MNCs.
- B) Contracts are ceremoniously destroyed after they are written.
- C) Managers risk being offensive to Asians by requiring contracts.
- D) Managers should nurture the relationship to ensure the reliability of the contract.

Answer: D

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

65) Under civil law, past court decisions act as precedents to the interpretation of the law and to common custom.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

66) Common law is based on a comprehensive set of laws organized into a code.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

67) Under common law, it is assumed a contract reflects promises that will be enforced without specifying the details in the contract.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

68) Differences in laws and regulations from country to country are very few and simple.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

69) What is the difference between common law, Islamic law, and civil law?

Answer: In common law, past court decisions act as precedents to the interpretation of law. Civil law is based on a comprehensive set of laws organized into a code. Interpretations of civil law are based on reference to codes and statutes. In Islamic countries, such as Saudi Arabia, the dominant legal system is Islamic law; based on religious beliefs; it dominates all aspects of life. Islamic law is followed in approximately 27 countries and combines, in varying degrees, civil, common, and indigenous law.

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

70) What methods are used by MNCs to protect intellectual property rights?

Answer: The most common methods of protecting proprietary technology are the use of patents, trademarks, trade names, copyrights, and trade secrets. Various international conventions afford some protection in participating countries; more than 80 countries adhere to the International Convention for the Protection of Industrial Property, often referred to as the Paris Union, for the protection of patents. However, restrictions and differences in the rules in some countries not signatory to the Paris Union, as well as industrial espionage, pose continuing problems for firms trying to protect their technology.

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-3: To develop an appreciation of the legal environment for international business

AACSB: Application of knowledge

71) Which of the following is a method of hedging?

- A) home country debt financing
- B) localization of the operation
- C) political risk insurance
- D) maintaining control over technology

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge

72) The appropriability of technology is best defined as \_\_\_\_\_.

- A) the potential of a firm's technology to become obsolete within a few years
- B) the likelihood that a firm's technology will generate long-term debts
- C) the degree of ease with which new technology can be learned and used by host-nation employees
- D) the ability of a firm to protect its technology from competitors and to profit from that technology

Answer: D

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge

73) Which type of country is most likely to use its investment laws to acquire appropriate technology?

- A) post-industrial country
- B) newly industrializing country
- C) less-developed country
- D) highly developed country

Answer: C

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge

74) The Paris Union was established for the purpose of \_\_\_\_\_.

- A) enforcing contract laws
- B) reducing trade barriers
- C) protecting patents
- D) reducing pollution

Answer: C

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge

75) Some countries rigorously enforce employee secrecy agreements in order to \_\_\_\_\_.

- A) protect a firm's intellectual property
- B) limit the influence of organized labor
- C) avoid litigation between competing firms
- D) strengthen international contract laws

Answer: A

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge



76) Robert is a technology officer in an Umerian firm and he manages the firm's operations at its facility in Elador. Robert is considering the idea of installing new technology in the facility that would significantly improve productivity and reduce labor costs. Which of the following undermines the argument that Robert should install the new technology?

- A) Elador's government leaders encourage firms to install the most modern machinery available.
- B) The high school graduation rate in Elador is higher than in neighboring countries.
- C) Elador is currently experiencing a very high rate of unemployment.
- D) The firm's competitors recently installed the same technology.

Answer: C

Difficulty: 3: Challenging

Chapter: 1

Skill: Critical Thinking

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Ethical understanding and reasoning

77) Which of the following terms refers to the integration of systems, processes, organizations, value chains, and entire markets using Internet-based technologies?

- A) horizontal integration
- B) e-business
- C) vertical integration
- D) technological leapfrogging

Answer: B

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

78) The term \_\_\_\_\_ refers directly to the marketing and sales process via the Internet.

- A) e-commerce
- B) virtualization
- C) peer production
- D) database management

Answer: A

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

79) Which of the following is an advantage of e-business?

- A) lower cost of production
- B) easy availability of technology
- C) convenience in conducting business worldwide
- D) increased availability of information

Answer: C

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

80) Experts suggest that firms wanting to globalize through e-commerce must first localize, which means firms need to \_\_\_\_\_.

- A) use local suppliers, vendors, and distributors to manufacture products for the local market
- B) modify their products and services to meet the needs and interests of local cultures
- C) sell their products in a brick-and-mortar store before selling them through an e-market
- D) test their products and services in local markets before selling them over the Internet

Answer: B

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

81) Firms use e-business to help build new relationships between businesses and retailers.

Answer: FALSE

Difficulty: 1: Easy

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

82) Internet is a completely open platform and it does not have to abide by any laws.

Answer: FALSE

Difficulty: 2: Moderate

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology

83) What is globalization? What is the relationship between globalization and information technology?

Answer: Globalization is defined as global competition characterized by networks of international linkages that bind countries, institutions, and people in an interdependent global economy. Information technology, more than anything else, is making those networks of international linkages more possible by boosting the efficiency of that "connectedness." The Internet is propelling electronic commerce around the world. Companies around the world are linked electronically with employees, customers, distributors, suppliers, and alliance partners in many countries making the world a global marketplace.

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Application of knowledge

84) How does the Internet facilitate both e-commerce and business-to-business transactions?

Answer: The Internet and e-business provide a number of uses and advantages in business-to-consumer transactions: (1) convenience in conducting business worldwide—facilitating communication across borders contributes to the shift toward globalization and a global market; (2) an electronic meeting and trading place, which adds efficiency in conducting business sales; (3) a corporate Intranet service, merging internal and external information for enterprises worldwide; (4) power to consumers as they gain access to limitless options and price differentials; and (5) a link and efficiency in distribution. Although most early attention was on e-commerce, experts now believe the real opportunities are in business-to-business (B2B) transactions where the Internet offers assistance with supply chain, procurement, and distribution channels.

Difficulty: 3: Challenging

Chapter: 1

Skill: Concept

LO: 1-4: To review the technological environment around the world and how it affects the international manager's decisions and operations

AACSB: Information technology