

## **Chapter 2**

### **The economic environment**

#### **TRUE/FALSE**

1. NIEs, or newly industrialising economies, cover places like Hong Kong and Taiwan.  
ANS: T                      PTS: 1                      DIF: Moderate                      REF: Market characteristics
2. OPEC is made up of 11 petroleum-exporting countries including Russia.  
ANS: F                      PTS: 1                      DIF: Difficult                      REF: Market characteristics
3. Despite an image of hopeless poverty, India has more middle-class consumers than Germany.  
ANS: T                      PTS: 1                      DIF: Moderate                      REF: The economic environment
4. Only 1 per cent of the world's private investment goes to sub-Saharan Africa.  
ANS: T                      PTS: 1                      DIF: Difficult                      REF: Market characteristics
5. The more developed the economy, the more income distribution tends to converge towards the middle class.  
ANS: T                      PTS: 1                      DIF: Easy                      REF: Market characteristics
6. United Nations projections point to a population explosion, mainly in the developing nations.  
ANS: T                      PTS: 1                      DIF: Moderate                      REF: Market characteristics
7. Japan has the third-largest GDP in the world, only behind the USA and China.  
ANS: F                      PTS: 1                      DIF: Moderate                      REF: The economic environment
8. Age distribution and life expectancy correlate heavily with the level of development of the market.  
ANS: T                      PTS: 1                      DIF: Moderate                      REF: Market characteristics
9. The GDP per capita of the USA is higher than the GDP per capita of Australia.  
ANS: F                      PTS: 1                      DIF: Easy                      REF: Market characteristics
10. Engel's laws state that as a family's income increases, the percentage spent on food will decrease but the percentage spent on housing and household operations will remain roughly constant.  
ANS: T                      PTS: 1                      DIF: Moderate                      REF: Market characteristics
11. The countries that are part of the Group of Eight are Canada, France, Germany, Italy, Japan, Russia, UK and the USA.  
ANS: T                      PTS: 1                      DIF: Easy                      REF: The economic environment

12. China is economically developed in the east, north and west.  
ANS: F PTS: 1 DIF: Moderate REF: Market characteristics
13. It is estimated that the total world population exceeded 15 billion people in 2012.  
ANS: F PTS: 1 DIF: Easy REF: Market characteristics
14. Europe will show negative population growth for the next decades.  
ANS: T PTS: 1 DIF: Moderate REF: Market characteristics
15. One factor behind the overall growth in households, and the subsequent decline in their average size, has been the increase in the numbers of divorced and sole survivor households.  
ANS: T PTS: 1 DIF: Moderate REF: Market characteristics
16. There is a close relationship between economic and social development and therefore many economic figures can be used as social indicators.  
ANS: T PTS: 1 DIF: Moderate REF: Impact of the social environment on social development.
17. The Physical Quality of Life Index (PQLI) is a composite measure of the level of welfare in a country. It has two major components only: life expectancy and infant mortality.  
ANS: T PTS: 1 DIF: Easy REF: Impact of the social environment on social development.
18. The world's developing countries have the most to gain from economic alliances like AFTA and ANCOM.  
ANS: T PTS: 1 DIF: Moderate REF: Regional economic integration.
19. In markets where urbanisation is recent and taking place rapidly, the marketer faces additional responsibility as a change agent, especially when incomes may be low and the conditions for the proper use of products may not be adequate.  
ANS: T PTS: 1 DIF: Moderate REF: Regional economic integration
20. Since the recent GFC (global financial crisis), the World Trade Organization (WTO) is no longer the major, and most comprehensive, trade facilitation entity.  
ANS: F PTS: 1 DIF: Moderate REF: Regional economic integration

## MULTIPLE CHOICE

1. When assessing a market's potential an international marketer should consider:
- A. income, infrastructure, information and internationalisation.
  - B. population, income, consumption patterns and geography.
  - C. income, infrastructure and information.
  - D. consumption patterns, infrastructure and topology.

ANS: B PTS: 1 DIF: Moderate REF: Market characteristics

2. Which of the following statements is correct?

- A. The increased urbanisation of many markets has not distinctly changed consumption patterns.
- B. Urban areas provide larger groups of consumers who may be less receptive to marketing efforts.
- C. The concept of urbanisation has different meanings depending on where one operates.
- D. None of the above

ANS: C                      PTS: 1                      DIF: Difficult                      REF: Market characteristics  
(Population)

3. According to the textbook, the newly industrialised countries (NICs) are:

- A. Singapore, Malaysia, Thailand, Myanmar, Cambodia and the Philippines.
- B. Singapore, Taiwan, Thailand, Korea, Chile and Mexico.
- C. Singapore, Taiwan, Korea, Hong Kong, Bengali and Malacca.
- D. Singapore, Taiwan, Korea, Hong Kong, Brazil and Mexico.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: The economic environment.

4. BRIC is an acronym for:

- A. Brazil, Russia, India and China.
- B. Burma, Russia, India and China.
- C. Britain, Russia, India and China.
- D. Brazil, Russia, India and Czech Republic.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: The economic environment.

5. In 2012 \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ had the three highest GDP per capita in the world.

- A. Luxembourg; Australia; Norway
- B. Norway; Switzerland; Sweden
- C. Norway, Qatar; United Arab Emirates
- D. Luxembourg; Qatar; Norway

ANS: D                      PTS: 1                      DIF: Moderate                      REF: The economic environment.

6. The international marketer can use which of the following classification as a planning guide?

- A. Very low family incomes: subsistence economies tend to be characterised by rural populations in which consumption relies on personal output or barter. Some urban centres may provide markets.
- B. Very low, very high family incomes: some countries exhibit strongly bimodal income distributions. The majority of the population may live barely above the subsistence level, but there is a strong market in urban centres and a growing middle class. The affluent are truly affluent and will consume accordingly.
- C. Low, medium and high family incomes: industrialisation produces an emerging middle class with increasing disposable income.
- D. All of these choices

ANS: D                      PTS: 1                      DIF: Moderate                      REF: The economic environment.

7. What is the free trade referred to as AFTA:

- A. ASEAN Free Trade Area.
- B. the American Free Trade Area.
- C. the Agreement on Freight, Tariffs, and Access.
- D. the Australian Free Trade Agreement.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Regional economic integration

8. An international marketer should consider which of the following general country variables?

- A. Population, infrastructure, geography and foreign involvement in the economy
- B. Population, GDP, geography, manufacturing as a percentage of national product, infrastructure and per capita income
- C. Population, GNP, geography, production as a percentage of national product, infrastructure and per capita income.
- D. Population, GDP, geography, production as a percentage of national product, infrastructure and per capita income.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Market characteristics

9. Which of the following nations had the highest debt in 2010?

- A. Bulgaria
- C. China
- B. Brazil
- D. Russian Federation

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

10. According to the textbook, how many people in the world live on less than US\$1500 a year?

- A. 4 billion
- B. 4 million
- C. 75 million
- D. 1 billion

ANS: A                      PTS: 1                      DIF: Moderate                      REF: The world economic pyramid

11. In 2011 all of the following countries were among the top 10 economies in the world, except:

- A. Canada
- B. Brazil
- C. Italy
- D. France

ANS: A                      PTS: 1                      DIF: Moderate                      REF: The economic environment.

12. A true economic union:

- A. integrates economic policies between members.
- B. allows the free movement of goods, services, but not the movement of the factors of production across borders.
- C. prevents fixed exchange rates in the common currency.
- D. is like the Southern African Customs Union.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Regional economic integration

13. The main dimensions of a market can be captured by considering variables such as:

- A. those relating to the population and its various characteristics, education, infrastructure, geographical features and foreign involvement.
- B. those relating to the population and its various characteristics, infrastructure, geographical features of the environment, and foreign involvement in the country.
- C. those relating to the population, race, religion, education, infrastructure, geographical features and foreign involvement.
- D. those relating to the population, race, religion, gender, education, infrastructure, geographical features, foreign involvement and environmental concerns.

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Market characteristics

14. The free trade area is:

- A. the least restrictive form of economic integration among nations.
- B. not actually possible in Asia.
- C. where all barriers to trade among member countries are removed.
- D. the least restrictive form of economic integration among nations and where all barriers to trade among member countries are removed.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Regional economic integration

15. What is the Physical Quality of Life Index (PQLI)?

- A. A composite measure of the level of welfare in a country
- B. A composite measure of the GDP per capita of a country times the 'world happiness index score
- C. A composite measure of the level of life satisfaction of the population of a country
- D. None of the above

ANS: A                      PTS: 1                      DIF: Moderate                      REF: Impact of the economic environment on social development.

16. Which of the following statements is false?

- A. The World Trade Organization (WTO) is the major, and most comprehensive, trade facilitation entity, and with the accession of Russia on 22 August 2012 it now encompasses all of the world's significant economies.
- B. Blocs are joining bigger blocs as in the case of the Asia Pacific Economic Cooperation (APEC), which brings partners together from multiple continents (including NAFTA, ASEAN Free Trade Area and individual countries such as Australia, China, Japan and Russia).
- C. The World Trade Organization (WTO) is the major, and most comprehensive, trade facilitation entity, and with the accession of China on 22 August 2012 it now encompasses all of the world's significant economies.
- D. Economic integration has been one of the main economic developments affecting world markets since the Second World War.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: Regional economic integration

17. Debt crises:

- A. reduce a nation's buying power.
- B. force imports down.
- C. force exports up.
- D. reduce a nation's buying power, force exports up and force imports down.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

18. Infrastructure that is critically important to evaluating marketing operations abroad includes:

- A. transportation, communications and energy.
- B. marketing communications, financing, distributing and information.
- C. land, road, air and water transportation networks.
- D. All of these choices

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

19. All of the alternatives below are correct, except:

- A. Differences in the degree of urbanisation of target markets in less-developed countries influence international marketers' product strategies.
- B. If products are targeted only to urban areas, products need minimal adjustments, mainly to qualify them for market entry.
- C. When targeting national markets, firms may need to make extensive adaptations to match more closely the expectations and the more narrow consumption experiences of the rural population.
- D. All of these choices

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Impact of the economic environment on social development.

20. Inflation is a problem that may cause:

- A. a government to invoke price controls.
- B. higher profit situation for international marketers due to maximum prices being set.
- C. increased investment activity in the region.
- D. increases in production as wages are now comparatively cheaper.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

21. A country's debt must be considered in terms of:

- A. its size.
- B. the ability of the country to service the debt, measured by export revenue earnings.
- C. GNI of the country.
- D. All of these choices

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

22. In which country is an urban area defined as a built-up area with at least 200 inhabitants with no more than 200 metres between houses?

- A. Sweden
- B. South Africa
- C. Singapore
- D. Sri Lanka

ANS: A                      PTS: 1                      DIF: Easy                      REF: Market characteristics

23. Which is often used as a primary indicator for evaluation of purchasing power?

- A. Purchasing power parities
- B. Exchange rates
- C. Per capita GNP
- D. Per capita GDP

ANS: C                      PTS: 1                      DIF: Difficult                      REF: Market characteristics

24. As regional economic integration occurs, the international marketer must make integration assessments and decisions from four points of view:

- A. Export quotas and tariffs, laws and regulations, size of the market and attractiveness of the market
- B. Product differentiation, price advantage, distinctive competency and market compatibility
- C. External analysis, internal analysis, strategy, and control and monitoring
- D. Outcome of the change, change readiness, strategic response and company reorganisation

ANS: D                      PTS: 1                      DIF: Difficult                      REF: Regional economic integration

25. International marketers can respond to a recession in the target market by:

- A. temporarily abandoning the target market.
- B. increasing marketing efforts.
- C. decreasing the capitalisation rate.
- D. temporarily abandoning the target market and increasing marketing efforts.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Market characteristics

26. Low rates of diffusion should be approached cautiously because they can signal a market opportunity or lack thereof resulting from:

- A. low income levels, use of a substitute product or lack of acceptance.
- B. high income levels, use of a substitute product or lack of acceptance.
- C. low income levels, lack of substitute product or lack of acceptance.
- D. high income levels, lack of substitute product or lack of acceptance.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

27. What affects the ability of both industrial customers and consumers to buy and also introduces uncertainty into both the marketer's planning process and consumers' buying habits?

- A. Higher purchasing power parities
- B. Stagnation
- C. Deflation
- D. Inflation

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

28. A household:

- A. describes all the persons who occupy a housing unit.
- B. describes all the related persons who occupy a housing unit.
- C. is a variable important to marketers in the European Union because it is increasing in size.
- D. describes all the persons who occupy a housing unit and is a variable important to marketers in the European Union because it is increasing in size.

ANS: A                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

29. Purchasing power is a function of:

- A. prices, income, fixed commitments and government credit policy.
- B. prices, debt levels, income and fixed commitments.
- C. income, credit availability, prices and debt levels.
- D. income, prices, savings and credit availability.

ANS: D                      PTS: 1                      DIF: Moderate                      REF: Market characteristics

30. Product saturation:

- A. means the same as product diffusion.
- B. means the percentage of households that own a particular product.
- C. means the same as product diffusion and the percentage of households that own a particular product.
- D. is the percentage of product production that cannot be sold after all consumers have already bought the product.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Market characteristics



31. Which of the following indicators relates to the overall industrialisation of the market and can be used effectively by suppliers of industrial products and services?

- A. Steel consumption, cement production and electricity production
- B. Steel production, cement consumption and electricity consumption
- C. Steel consumption, gold production and electricity production
- D. Steel production, gold consumption and electricity consumption

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Market characteristics

32. Forms of economic integration in regional markets include:

- A. economic unions and regional trade areas.
- B. trading blocs and common markets.
- C. economic unions and customs unions.
- D. common external trade policies, harmonisation of economic policies and free trade areas.

ANS: C                      PTS: 1                      DIF: Moderate                      REF: Regional economic integration

33. A \_\_\_\_\_ the highest level of economic integration.

- A. common market
- B. economic union
- C. Free Trade Area
- D. customs union

ANS: B                      PTS: 1                      DIF: Moderate                      REF: Regional economic integration

## SHORT ANSWER

1. Discuss the movement towards regional trading agreements and the advantages and disadvantages of it to international marketers.

ANS:

Students' answers will vary both in length and complexity of issues tackled. A good answer will include what regional trading agreements mean; the fact that they reduce restrictions in terms of trade and the movement of factors of production; and the fact that they increase market size for any company within the trade area. It will also discuss the inevitability of trade agreements (such as the European Union). Also likely is that companies should endeavour to operate within as many regional trade areas as possible, restrictions on 'outsiders' are likely, partners within a trade agreement/area are not likely to be 'equal' and trade agreements are inherently more efficient.

PTS: 1                      DIF: Moderate                      REF: Regional economic integration

2. Give some examples of how regional differences in China can have an impact on the consumption patterns of the population.

ANS:

A complete answer should mention all the issues mentioned in the 'International Marketplace 2.3' on page 64 of the textbook.

PTS: 1                      DIF: Moderate.                      REF: Consumption patterns

3. How have Australia and New Zealand benefited from the rapid rise of China and India as economic and market powerhouses over the past 20 years?

ANS:

A good answer will discuss the size and increasing sophistication of these two markets, particularly in terms of the number of middle-income earners in the two populations. The growth of these two markets has been stunning. This has led to rises in the need for the commodities and farm produce that Australia and New Zealand can so easily supply. Reference should also be made to the close proximity of these markets. A good answer may also touch on the fact that traditional markets for Australia and New Zealand were closing (e.g. England) as a result of the European Union.

PTS: 1                      DIF: Moderate                      REF: Regional economic integration