

Global Marketing, 7e (Keegan/Green)

Chapter 2 The Global Economic Environment

1) The history of twentieth-century world economic thought has been called a "battle of ideas."

Answer: TRUE

Diff: 1 Page Ref: 34

AACSB: Dynamics of Global Economy

Objective: 1

Question Type: Definitional

2) The Cold War decades that followed World War II saw the East and the West jockeying for geopolitical advantage.

Answer: TRUE

Diff: 2 Page Ref: 35

AACSB: Dynamics of Global Economy

Objective: 1

Question Type: Definitional

3) People or organizations with needs and wants and the willingness and ability to buy or sell represent the definition of a market.

Answer: TRUE

Diff: 1 Page Ref: 35

AACSB: Reflective Thinking

Objective: 1

Question Type: Definitional

4) During the past two decades production has become "uncoupled" from employment.

Answer: TRUE

Diff: 2 Page Ref: 36

AACSB: Reflective Thinking

Objective: 1

Question Type: Application

5) Gross domestic product (GDP), a measure of a nation's economic activity, is calculated by adding consumer spending (C), investment spending (I), government purchases (G), and net exports (NX).

Answer: TRUE

Diff: 2 Page Ref: 36

AACSB: Analytic Skills

Objective: 1

Question Type: Definitional

6) Kleptocracy refers to rampant corruption and bribery.

Answer: TRUE

Diff: 2 Page Ref: 37

AACSB: Reflective Thinking

Objective: 1

Question Type: Definitional

7) Despite talk of creating a Silicon-Valley-type development in suburban Moscow, some observers have begun asking whether it is time to take the "R" out of BRIC.

Answer: TRUE

Diff: 2 Page Ref: 37

AACSB: Reflective Thinking

Objective: 1

Question Type: Critical thinking

8) The lack of employment as seen in the recent times is indicative of the fact that manufacturing is in decline.

Answer: FALSE

Diff: 1 Page Ref: 38

AACSB: Dynamics of Global Economy

Objective: 1

Question Type: Definitional

9) Due to globalization, it is easier to categorize economic systems within the confines of a four-cell matrix.

Answer: FALSE

Diff: 2 Page Ref: 39

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

10) Today, market capitalism is widely practiced around the world, most notably in North America and the European Union.

Answer: TRUE

Diff: 2 Page Ref: 39

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

11) In centrally planned socialism economic systems, the state allocates resources, whereas production resources are privately owned.

Answer: FALSE

Diff: 1 Page Ref: 40

AACSB: Dynamics of Global Economy

Objective: 2

Question Type: Definitional

12) In centrally planned socialism economic systems, since demand typically exceeds supply, the elements of the marketing mix are not used as strategic variables.

Answer: TRUE

Diff: 2 Page Ref: 40-41

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

13) In Sweden, where the government controls two-thirds of all expenditures, resource allocation is more "market" oriented than "command" oriented.

Answer: FALSE

Diff: 1 Page Ref: 41

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

14) According to the 2011 Index of Economic Freedom compiled by the Heritage Foundation, Hong Kong is ranked as having the highest degree of economic freedom.

Answer: TRUE

Diff: 1 Page Ref: 42

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

15) One positive note about daily life in Venezuela is that the government subsidizes gasoline production, therefore 5 gallons of gas costs only 25 cents!

Answer: TRUE

Diff: 1 Page Ref: 43

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

16) As per the listings of the 2011 Index of Economic Freedom by the Heritage Foundation, there is a high correlation between the degree of economic freedom and the extent to which a nation's mixed economy is heavily market-oriented.

Answer: TRUE

Diff: 2 Page Ref: 43

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

17) The World Bank has developed a four-category classification system for stages of marketing development which uses GDP as a base.

Answer: FALSE

Diff: 3 Page Ref: 45

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

18) The World Bank has developed a four-category classification system for stages of marketing development which uses per capita gross national income (GNI) as a base.

Answer: TRUE

Diff: 2 Page Ref: 45

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

19) About 13% of the world population is included into the low-income economic countries category as per the World Bank classification system.

Answer: TRUE

Diff: 2 Page Ref: 45

AACSB: Analytic Skills

Objective: 3

Question Type: Definitional

20) Although Bangladesh is categorized in the low-income countries, they have genuine market opportunities, particularly in the garment industry.

Answer: TRUE

Diff: 2 Page Ref: 46

AACSB: Analytic Skills

Objective: 3

Question Type: Definitional

21) The United Nations designates 50 countries in the bottom ranks of the low-income category as least-developed countries (LDCs); the term is sometimes used to indicate a contrast with developing countries and developed countries.

Answer: TRUE

Diff: 2 Page Ref: 46

AACSB: Analytic Skills

Objective: 3

Question Type: Definitional

22) Upper-middle-income countries, also known as industrializing or developing countries, are those that achieve the highest rates of economic growth and are also collectively referred to as Newly Incoming Economies or NIEs.

Answer: FALSE

Diff: 2 Page Ref: 47

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

23) With per capita GNI of \$10,150, Venezuela is classified as an upper-middle-income country.

Answer: TRUE

Diff: 2 Page Ref: 48

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

24) According to C.K. Prahalad and A. Hammond, the poor often pay higher prices for many goods, and so there is an opportunity for efficient competitors to realize attractive margins by offering quality and low prices.

Answer: TRUE

Diff: 2 Page Ref: 49

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

25) The Coca-Cola Company recently began to address dietary and health needs in low-income countries by developing Vitango, a beverage product that can help fight anemia, blindness, and other ailments related to malnutrition.

Answer: TRUE

Diff: 2 Page Ref: 50

AACSB: Reflective Thinking

Objective: 1

Question Type: Application

26) Global companies can also contribute to economic development by finding creative ways to preserve old-growth forests and other resources while creating economic opportunities for local inhabitants.

Answer: TRUE

Diff: 3 Page Ref: 50

AACSB: Reflective Thinking

Objective: 1

Question Type: Critical thinking

27) With the exception of a few oil-rich nations, the countries in the high-income category reached their present income level through a process of sustained economic growth.

Answer: TRUE

Diff: 2 Page Ref: 51

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Definitional

28) A distinction between industrial and postindustrial countries is that the postindustrial countries exhibit an orientation toward the future and stress the importance of interpersonal relationships in the functioning of society.

Answer: TRUE

Diff: 2 Page Ref: 51

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Definitional

29) The thirty nations that belong to the OECD, who believe in market-allocation economic systems and pluralistic democracy, addressed the vexing problem of bribery by requiring members to cooperate when pursuing bribery allegations.

Answer: TRUE

Diff: 3 Page Ref: 52

AACSB: Reflective Thinking

Objective: 3

Question Type: Application

30) The CEO of Otis Elevators says they measure elevator populations in countries as units installed per thousand people. According to this, China is about half an elevator per thousand people.

Answer: TRUE

Diff: 1 Page Ref: 54

AACSB: Analytic Skills

Objective: 3

Question Type: Critical thinking

31) In China, saturation levels of private motor vehicles and personal computers (PCs) are quite high.

Answer: FALSE

Diff: 2 Page Ref: 54

AACSB: Reflective Thinking

Objective: 3

Question Type: Synthesis

32) The "balance of payments" is a record of all economic transactions between the residents of a country and the rest of the world.

Answer: TRUE

Diff: 2 Page Ref: 54

AACSB: Reflective Thinking

Objective: 4

Question Type: Definitional

33) A country with a positive current account balance has a trade deficit; that is, the outflow of money to pay for imports exceeds the inflow of money for sales of exports.

Answer: FALSE

Diff: 2 Page Ref: 55

AACSB: Reflective Thinking

Objective: 4

Question Type: Definitional

34) The United States regularly posts deficits in both the current account and the trade balance in goods.

Answer: TRUE

Diff: 2 Page Ref: 55

AACSB: Reflective Thinking

Objective: 4

Question Type: Synthesis

35) China offsets its trade surpluses with an outflow of capital, while the United States offsets its trade deficit with an inflow of capital.

Answer: TRUE

Diff: 2 Page Ref: 55

AACSB: Reflective Thinking

Objective: 4

Question Type: Definitional

36) The foreign exchange market consists literally of a buyer's and a seller's market where currencies are traded for both spot and future delivery on a continuous basis. The *forward* market is for immediate delivery and the *spot* market is for future delivery.

Answer: FALSE

Diff: 2 Page Ref: 57

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Critical thinking

37) In the broadest sense, a stronger Chinese currency, renminbi, should help rebalance the global economy.

Answer: TRUE

Diff: 2 Page Ref: 57

AACSB: Analytic Skills

Objective: 6

Question Type: Application

38) A country's currency would be overvalued if the Big Mac price (converted to dollars) is lower than the U.S. price.

Answer: FALSE

Diff: 1 Page Ref: 58

AACSB: Reflective Thinking

Objective: 6

Question Type: Application

39) Hedging exchange rate exposure involves establishing an offsetting currency position such that the loss or gain of one currency position is offset by a corresponding gain or loss in some other currency.

Answer: TRUE

Diff: 2 Page Ref: 59

AACSB: Analytic Skills

Objective: 6

Question Type: Critical thinking

40) A call option in foreign currency gives the buyer the right, not the obligation, to sell a specified number of foreign currency units at a fixed price, up to the option's expiration date.

Answer: FALSE

Diff: 2 Page Ref: 60

AACSB: Analytic Skills

Objective: 6

Question Type: Definitional

41) During the past two decades, the world economic environment has become increasingly dynamic. To achieve success, executives and marketers must take into account all of the following realities *except*:

A) capital movements have replaced trade as the driving force of the world economy.

B) production has become "uncoupled" from employment.

C) the world economy dominates the scene.

D) the struggle between capitalism and socialism continues.

E) the growth of e-commerce diminishes the importance of national barriers.

Answer: D

Diff: 2 Page Ref: 36

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

42) That Russia is being transformed by economic change can be witnessed in all of the following observations *except*:

- A) affluent Russians can shop at boutiques that offer Versace.
- B) per capita gross national income in Russia is only \$9370.
- C) the banking system in Russia is robust.
- D) Russian shoppers spend an estimated \$4 billion each year on luxury goods.
- E) the Russian government lifted all currency controls.

Answer: C

Diff: 2 Page Ref: 37

AACSB: Reflective Thinking

Objective: 3

Question Type: Critical thinking

43) Market capitalism is an economic system in which:

- A) individuals and firms allocate resources and production resources that are privately owned.
- B) the state has broad powers to serve the public interest as it sees fit.
- C) market resource allocation is commanded by both private and state ownership.
- D) there is no correlation between economic freedom and a nation's economy.
- E) market-oriented economies function in an identical manner.

Answer: A

Diff: 1 Page Ref: 39

AACSB: Analytic Skills

Objective: 2

Question Type: Definitional

44) One of the distinguishing features of a Centrally Planned Capitalism economic system is:

- A) all production resources are privately owned.
- B) the state has broad powers to serve the public interest as it sees fit.
- C) command resource allocation is utilized extensively in a private resource ownership environment.
- D) market allocation policies are permitted within an environment of state ownership.
- E) none of the above

Answer: C

Diff: 3 Page Ref: 40

AACSB: Reflective Thinking

Objective: 2

Question Type: Critical thinking

45) The Swedish government has significant holdings in key business sectors and has a hybrid economic system that incorporates:

- A) market capitalism and centrally planned socialism.
- B) centrally planned socialism and market socialism.
- C) centrally planned socialism and capitalism.
- D) market socialism and market capitalism.
- E) market capitalism and socialistic capitalism.

Answer: C

Diff: 2 Page Ref: 41

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

46) The Washington, D.C.-based Heritage Foundation survey consists of over 175 countries ranked by degree of economic freedom. The key economic variables considered for this ranking includes all of the following *except*:

- A) taxation policy.
- B) government consumption of economic output.
- C) percent foreign ownership.
- D) banking policy.
- E) wage and price control.

Answer: C

Diff: 3 Page Ref: 43

AACSB: Reflective Thinking

Objective: 3

Question Type: Synthesis

47) Singapore banned the import, manufacture, and sales of chewing gum in the country since wads of gum were making a mess on sidewalks, buses, and subway trains. Violators are subject to severe penalties, and before buying a pack consumers must register their names and addresses. This, according to author William Greider, demonstrates that Singapore's government:

- A) is harshly autocratic.
- B) administers a paranoid control over Singaporeans.
- C) administers a paranoid control over press and politics.
- D) runs an effective welfare state.
- E) all of the above

Answer: E

Diff: 1 Page Ref: 43

AACSB: Multicultural and Diversity

Objective: 3

Question Type: Critical thinking

48) Low-income countries have a GNI per capita of less than \$996. The general characteristics shared by countries at this income level include all of the following *except*:

- A) high literacy rates.
- B) high birth rates.
- C) heavy reliance on foreign aid.
- D) political unrest.
- E) high agricultural population.

Answer: A

Diff: 1 Page Ref: 45

AACSB: Reflective Thinking

Objective: 3

Question Type: Application

49) The greatest percentage of world GDP is in the following income group countries:

- A) high-income countries.
- B) upper-middle-income countries.
- C) lower-middle-income countries.
- D) low-income countries.
- E) BRIC countries.

Answer: A

Diff: 3 Page Ref: 45

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

50) The majority of the world's population is included in the following economic category:

- A) high-income countries.
- B) upper-middle-income countries.
- C) lower-middle-income countries.
- D) low-income countries.
- E) lower-upper income countries.

Answer: C

Diff: 2 Page Ref: 45

AACSB: Analytic Skills

Objective: 3

Question Type: Synthesis

51) Upper-middle-income countries, also known as industrializing or developing countries, are those with GNI per capita ranging from:

- A) \$996 to \$3,945
- B) \$3,946 to \$12,195
- C) \$12,196 or higher
- D) less than \$995
- E) no correct answer

Answer: B

Diff: 2 Page Ref: 45

AACSB: Analytic Skills

Objective: 3

Question Type: Critical thinking

52) The general characteristics shared by low-income countries do not include:

- A) high birth rates.
- B) low literacy rates.
- C) concentration in Africa south of the Sahara.
- D) heavy reliance on foreign aid.
- E) lack of genuine market opportunities.

Answer: E

Diff: 3 Page Ref: 45

AACSB: Analytic Skills

Objective: 3

Question Type: Definitional

53) Global marketers should take note of the fact that almost half of the world's population is located in:

- A) low-income countries.
- B) lower-middle income countries.
- C) upper-middle income countries.
- D) high-income countries.
- E) higher-middle income countries.

Answer: A

Diff: 1 Page Ref: 45

AACSB: Reflective Thinking

Objective: 3

Question Type: Critical thinking

54) The United Nations designates 50 countries in the bottom ranks of the low-income category named as:

- A) Low-income countries.
- B) Lower-middle-income countries.
- C) BRIC countries.
- D) Developing countries.
- E) LDCs (least-developed countries).

Answer: E

Diff: 2 Page Ref: 46

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

55) Upper-Middle-income countries are also known as:

- A) Industrializing countries.
- B) BRIC countries.
- C) Stabilized countries.
- D) Manufacturing countries.
- E) Agricultural countries.

Answer: A

Diff: 1 Page Ref: 47

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

56) Upper-middle-income countries that achieve the highest rates of economic growth are sometimes referred to collectively as:

- A) LDCs.
- B) BEMs.
- C) BRICs.
- D) NIEs.
- E) BOPs.

Answer: D

Diff: 1 Page Ref: 47

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

57) Which of the following nations fall in the lower-middle-income category?

- A) Burundi
- B) Bangladesh
- C) China
- D) Venezuela
- E) none of the above

Answer: C

Diff: 1 Page Ref: 47

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Definitional

58) Nike produces only a small portion of its output in China, but when the firm refers to China as a "two-billion-foot market," it is referring to the fact that:

- A) the Chinese do not wear shoes.
- B) the Chinese shoe market is very competitive.
- C) China can develop its own shoe market.
- D) it will take a long time for China to develop future market.
- E) China is a potential future market.

Answer: E

Diff: 2 Page Ref: 49

AACSB: Reflective Thinking

Objective: 3

Question Type: Application

59) According to the authors of the *Harvard Business Review* article, "Serving the World's Poor, Profitably", which of the following is a mistaken assumption that global companies might have about the BOP (bottom of the pyramid)?

- A) The poor have no money.
- B) The poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods.
- C) People in BOP markets will be criticized for exploiting the poor.
- D) People in BOP markets cannot use advanced technology.
- E) all of the above are mistaken assumptions discussed by the authors

Answer: E

Diff: 2 Page Ref: 49-50

AACSB: Multicultural and Diversity

Objective: 3

Question Type: Critical thinking

60) Pursuing alternative sources of energy, such as wind and solar power, is important due to the fact that:

- A) people in developing countries are more conscious about the environment.
- B) global marketers are more interested in publicizing environmental issues.
- C) it is easy to develop solar power in many parts of the world.
- D) heavy reliance on fossil fuels contributes to global warming.
- E) people worldwide can afford to buy power generated from wind and solar.

Answer: D

Diff: 2 Page Ref: 50

AACSB: Reflective Thinking

Objective: 3

Question Type: Synthesis

61) Which two companies are sourcing product components from small-scale enterprises, which in turn are helping preserve old-growth forests as well as economic opportunities in Brazil?

- A) Ford Motor Company and Armani
- B) DaimlerAG and Hermes
- C) General Motors and Hugo Boss
- D) Volkswagen and Coach
- E) Coca-Cola and Nestlé

Answer: B

Diff: 3 Page Ref: 50

AACSB: Reflective Thinking

Objective: 2

Question Type: Application

62) Product and market opportunities in a postindustrial society are more heavily dependent upon new products and innovations than in industrial societies. An example of this would be:

- A) Nestlé marketing Bono brand cookies in Brazil.
- B) Coca-Cola company developing a beverage Vintago in low-income countries.
- C) New e-commerce markets for interactive forms of electronic communication.
- D) Hermes creating handbags called Amazonia.
- E) India's Suzlon Energy using wind-driven turbines.

Answer: C

Diff: 3 Page Ref: 51

AACSB: Use of IT

Objective: 3

Question Type: Application

63) Which country is the only country classified as an emerging market among the high-income countries by influential stock market indexes?

- A) United States
- B) South Korea
- C) Britain
- D) Italy
- E) Malaysia

Answer: B

Diff: 3 Page Ref: 51

AACSB: Reflective Thinking

Objective: 3

Question Type: Definitional

64) The Organization for Economic Cooperation and Development (OECD) is comprised of:

- A) the 30 high-income countries.
- B) countries that believe in market-allocation economic systems.
- C) pluralistic democracies.
- D) countries that demonstrate progress toward economic reform.
- E) All of the above statements are applicable.

Answer: E

Diff: 3 Page Ref: 51-52

AACSB: Reflective Thinking

Objective: 4

Question Type: Definitional

65) The term "Expanded Triad" includes all of the following countries or regions *except*:

- A) Japan
- B) United States
- C) Canada
- D) Mexico
- E) Russia

Answer: E

Diff: 1 Page Ref: 52

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Definitional

66) Recently, the Organization for Economic Cooperation and Development (OECD) has become more focused on global issues as seen by:

- A) addressing the vexing problem of bribery.
- B) requiring members to cooperate when pursuing bribery allegations.
- C) helping members candidly assess their own economic policies.
- D) member nations working together in committees to review social policies.
- E) all of the above

Answer: E

Diff: 1 Page Ref: 52

AACSB: Dynamics of Global Economy

Objective: 4

Question Type: Critical thinking

67) Which of the following is true about the Triad?

- A) Triad countries account for approximately one-third of world income and one-third of world population.
- B) Triad countries account for approximately 75% of world income as measured by GNP.
- C) Triad countries are those in which consumer products, industrial products, and the services sector each contribute one-third to GDP.
- D) Triad countries account for approximately 25% of world income as measured by GNP.
- E) Triad countries account for approximately 50% of world income as measured by the World Bank.

Answer: B

Diff: 2 Page Ref: 52

AACSB: Reflective Thinking

Objective: 4

Question Type: Application

68) When the world's leaders meet to discuss policy issues, non-governmental organizations (NGOs):

- A) are included in meetings.
- B) often take advantage of the opportunity to make their voices heard.
- C) sign final documents.
- D) provide educational materials.
- E) are excluded from meetings.

Answer: B

Diff: 1 Page Ref: 53

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Application

69) The "balance of payments" is a record of all economic transactions between the residents of a country and the rest of the world. It is divided into the current and capital accounts. Current accounts include all of the following *except*:

- A) balance on goods.
- B) portfolio investments.
- C) balance on services.
- D) goods imports.
- E) goods exports.

Answer: B

Diff: 3 Page Ref: 54

AACSB: Analytic Skills

Objective: 4

Question Type: Critical thinking

70) Measuring elevator populations in countries measured as units installed per thousand people gives an estimate of the market for elevators. That China has about one half an elevator per thousand people is indicative of:

- A) low product saturation level.
- B) high product saturation level.
- C) high population level.
- D) high technological level.
- E) low technological level.

Answer: A

Diff: 2 Page Ref: 54

AACSB: Analytic Skills

Objective: 4

Question Type: Synthesis

71) The United States' growing trade deficit reflects a number of factors which exclude:

- A) increased imports from China.
- B) a seemingly insatiable consumer demand for imported goods.
- C) the enormous cost of military operations in the Middle East.
- D) the services trade surplus.
- E) record goods sales to developing countries.

Answer: D

Diff: 3 Page Ref: 55

AACSB: Dynamics of Global Economy

Objective: 4

Question Type: Critical thinking

72) The fastest-growing sector of world trade includes:

- A) travel and entertainment.
- B) accounting and legal services.
- C) royalties and license fees.
- D) engineering services.
- E) all of the above

Answer: E

Diff: 1 Page Ref: 56

AACSB: Dynamics of Global Economy

Objective: 4

Question Type: Application

73) Devaluation can result from government action or an economic crisis. In August 1998, the Russian economy imploded. As a result all of the following listed events happened *except*:

- A) the ruble plunged in value.
- B) the government defaulted on its foreign debt obligation.
- C) many Russians faced wage cuts and layoffs.
- D) Russia's economy did not recover from the impact.
- E) savings were wiped out as banks collapsed.

Answer: D

Diff: 3 Page Ref: 57

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Critical thinking

74) To the extent that a country sells more goods and services abroad than it buys, there will be:

- A) a greater demand for its currency.
- B) a surplus production of goods and services.
- C) a scarcity of goods and services within the country.
- D) a need for revaluation of its currency.
- E) time for fluctuating its currency.

Answer: A

Diff: 2 Page Ref: 57

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Definitional

75) Between the year 2001 and 2006, China bought more than \$250 billion in U.S. Treasury bonds. Such purchases:

- A) ensures that China's currency is relatively weak compared to the U.S. dollar.
- B) indicate that China is not sure of its economic viability.
- C) show that the currency exchange rate is unpredictable.
- D) predict that yuan will be devalued in the near future.
- E) indicate that China's currency is stronger than the U.S. dollar.

Answer: A

Diff: 3 Page Ref: 58

AACSB: Analytic Skills

Objective: 6

Question Type: Application

76) The Big Mac Index shows that the price of Big Mac in China converted from the local currency, yuan, to be \$2.18, whereas its price in the United States is \$3.73. This shows that:

- A) the Big Mac is more popular in China than in the United States.
- B) the Big Mac is less expensive in the United States than in China.
- C) the Chinese yuan is overvalued when compared to US \$.
- D) the Chinese yuan is undervalued against the US \$.
- E) beef is less expensive in China than in the United States.

Answer: D

Diff: 3 Page Ref: 58

AACSB: Analytic Skills

Objective: 6

Question Type: Critical thinking

77) One Friday a few years ago, the Big Mac Index suggested that the yen was overvalued relative to the dollar by 70%. When currency markets opened on the following Monday, anyone using the Big Mac Index would conclude that yen was only 20% overvalued relative to the dollar. What is the most likely explanation for this?

- A) Japan's Central Bank acted to prop up the yen.
- B) Inflation in Japan suddenly spiked upward.
- C) McDonald's headquarters stopped hedging.
- D) McDonald's Japan reduced the yen price of a Big Mac.
- E) McDonald's Japan increased the yen price of a Big Mac.

Answer: D

Diff: 3 Page Ref: 58

AACSB: Analytic Skills

Objective: 6

Question Type: Critical thinking

78) If an American tourist in Tokyo pays more in dollars for the same amount of yen that she bought last week, then:

- A) a Japanese tourist in San Francisco pays more in yen for the same amount of dollars that she bought the week before.
- B) the dollar has depreciated relative to the yen.
- C) the yen has depreciated relative to the dollar.
- D) the dollar has appreciated relative to the yen.
- E) the dollar and yen both remained same in value.

Answer: B

Diff: 2 Page Ref: 58

AACSB: Analytic Skills

Objective: 6

Question Type: Critical thinking

79) Porsche relies on currency hedging rather than price increases in order to:

- A) boost pretax profits on sales of its automobiles.
- B) balance the relative value of the dollar compared to the euro.
- C) protect all earnings from foreign-exchange movements.
- D) generate about 45% of its sales in the United States.
- E) A, B & C

Answer: E

Diff: 3 Page Ref: 59

AACSB: Analytic Skills

Objective: 6

Question Type: Critical thinking

80) When countries or regions experience currency and/or economic stress, all of the following events can take place *except*:

- A) increased exposure to certain risks.
- B) new profit opportunities.
- C) lower local currency financing costs.
- D) bad debts occur.
- E) cancellation of aircraft equipment sales.

Answer: C

Diff: 1 Page Ref: 59

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Critical thinking

81) The world economic environment is changing very rapidly and has become increasingly competitive. In order to achieve success, based on author William Greider's analysis, what are the realities that executives and marketers should take into account in such a dynamic environment?

Answer: (a) Capital movements have replaced trade as the driving force of the world economy; (b) production has become "uncoupled" from employment; (c) the world economy dominates the scene; individual country economies play a subordinate role; (d) the struggle between capitalism and socialism is largely over; and (e) the growth of e-commerce diminishes the importance of national barriers and forces companies to reevaluate their business models.

Diff: 2 Page Ref: 36-37

AACSB: Dynamics of Global Economy

Objective: 1

Question Type: Definitional

82) Traditionally economists identified four main types of economic systems. However, due to globalization it is harder to categorize the systems narrowly. What will be more robust descriptive criteria that can be used for classification?

Answer: (a) type of economy; (b) type of government; (c) trade and capital flows; (d) the commanding heights; (e) services provided by the state and funded through taxes; (f) institutions; and (g) markets.

Diff: 2 Page Ref: 38-39

AACSB: Reflective Thinking

Objective: 1

Question Type: Definitional

83) What are the distinguishing features between Centrally Planned Socialism and Centrally Planned Capitalism? Give examples of countries which follow these systems.

Answer: In Centrally Planned Socialism, the state has broad powers to serve the public interest as it sees fit. Ownership of entire industries as well as individual enterprises belongs to the government. The elements of the marketing mix are not used as strategic variables. In Centrally Planned Capitalism, economic system command resource allocation is utilized extensively in an overall environment of private resource ownership. In Sweden, the government controls two-thirds of all expenditures, and the resource allocation is more "command" oriented than "market" oriented. This would be an example of centrally planned socialism although it can have elements of capitalism. China is an example of centrally planned socialism.

Diff: 2 Page Ref: 40-41

AACSB: Reflective Thinking

Objective: 2

Question Type: Definitional

84) A decade ago, a number of countries in Central Europe, Latin America, and Asia were expected to experience rapid economic growth. Today much attention is focused on opportunities in Brazil, Russia, India, and China. Give reasons for this shift using an example of a manufacturer.

Answer: These four countries are collectively known as BRIC. Microsoft's experience illustrates the nature of the market opportunity in these countries: In fiscal 2008, the software giant's collective revenues from BRIC grew 54%, compared with overall global revenue growth of 18%. Experts predict that the BRIC nations will be key players in global trade even as their track records on human rights, environmental protection, and other issues come under closer scrutiny by their trading partners. The BRIC government leaders will also come under pressure at home as their developing market economies create greater income disparity.

Diff: 2 Page Ref: 45

AACSB: Dynamics of Global Economy

Objective: 2

Question Type: Definitional

85) The newly independent countries of the former Soviet Union present an interesting situation: income is declining, and there is considerable economic hardship. The potential for disruption is certainly high. Are they problem cases, or are they attractive opportunities with good potential for moving out of the low-income category?

Answer: These countries are good example of risk-reward trade-off. Many companies have taken the plunge, but many others are still assessing whether to take risk. Belarus and Turkmenistan are rated quite low in the rankings in terms of economic freedom. Russia itself has slipped within the upper-middle income category. However, there are still some former Soviet-dominated countries which have opportunities for economic growth. It much depends on the actions taken by the Soviet republic. For example, the launching of a military action in Georgia creates a ripple effect and causes economic and political instability.

Diff: 2 Page Ref: 46

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Definitional

86) Authors Prahalad and Hammond have identified several assumptions and misconceptions about the "bottom of the pyramid" (BOP). Explain these assumptions, giving examples.

Answer: (1) The poor have no money. In Bangladesh villagers spend considerable sums to use village phones operated by local entrepreneurs; (2) the poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods. Consumers who are too poor to purchase a house do buy luxury goods such as televisions and cell phones; (3) the goods sold in developing markets are so inexpensive that there is no room for a new market entrant to make a profit. Since the poor often pay higher prices for many goods, there is an opportunity for efficient competitors to realize attractive margins by offering quality and low prices; (4) people in BOP markets cannot use advanced technology. Residents of rural areas can and do quickly learn to use cell phones and PCs; and (5) global companies that target BOP markets will be criticized for exploiting the poor. A global company offering basic goods and services that improve a country's standard of living can earn a reasonable return while benefiting society.

Diff: 2 Page Ref: 49-50

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Critical thinking

87) Some people believe that marketing is relevant only in affluent, industrialized countries, whereas others believe that the role of marketing is to identify people's needs and wants worldwide, irrespective of the economy. Giving examples of companies involved in energy conservation and technology, support the latter argument.

Answer: People everywhere need affordable and safe drinking water. Recognizing this fact, Nestlé launched Pure Life bottled water in Pakistan. The Coca-Cola Company recently began to address dietary and health needs of low-income countries by developing a beverage, Vitango, which has several nutritional and health benefits. Technology is another area which can benefit countries all over the world. Intel's World Ahead is developing a \$550 computer that is powered by a car battery. Hewlett-Packard engineers are working to develop solar-powered communication devices that can link remote areas to the Internet.

Diff: 3 Page Ref: 50-51

AACSB: Dynamics of Global Economy

Objective: 3

Question Type: Synthesis

88) The table below is taken from the Big Mac Index. After reviewing it, answer the questions listed below.

Country	Big Mac Prices in U.S. dollars or local currency	Official Exchange Rate	(-)/(+) Under/Over Valuation against \$, %
United States	\$3.73		
China	Yuan 14.5	6.65/\$1	
Norway	Kroner 45	6.25/\$1	
Thailand	Baht 70	32.3/\$1	
Mexico	Peso 32	12.8/\$1	

What is meant by PPP? According to this table, which is the most overvalued and undervalued currency? Fill the last column showing under or over valuation of local currencies. Give reasons for your answer. What is the primary drawback of this index? How can this be used?

Answer: PPP stands for purchasing power parity, and this concept is used in adjusting national income data to improve comparability. The table shows by how much, in Big Mac PP terms, selected currencies were over- or undervalued at that time. The most overvalued currency is Norway. On the other hand the most undervalued currency is Thailand, followed by China and Mexico. It should be noted that the PPP-theory-based Big Mac index is too simplistic. Exchange rates are affected by different factors such as interest rate and monetary policies, not by price alone.

Diff: 3 Page Ref: 58

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Application

89) What is "Economic exposure," and how does it impact companies like Nestlé, Daimler AG, Royal Dutch Shell, and Astra Zeneca? Assess the impact of a weaker dollar on the financial performance of these corporations.

Answer: Economic exposure refers to the impact of currency fluctuations on the present value of a company's expected future cash flows. Economic exposure is directly proportional to the amount of business a company conducts outside its home market. Nestlé, for example, has 98% of annual sales taking place outside of Switzerland and therefore faces critical economic or currency exposure. Similarly, Daimler AG, Royal Dutch Shell and Astra Zeneca generate over one-third of their sales from the United States. They are all in the eurozone. If the dollar becomes weak relative to the euro, all of these companies will face economic exposure. On the other hand, U.S. companies will be less exposed compared to these companies.

Diff: 3 Page Ref: 58-59

AACSB: Analytic Skills

Objective: 6

Question Type: Definitional

90) Porsche relies on currency hedging rather than price increases to boost pretax profits on sales of its automobiles. What is the advantage of doing this, and how does hedging work?

Answer: Hedging exchange rate exposure involves establishing an offsetting currency position such that the loss or gain of one currency position is offset by a corresponding gain or loss in some other currency. Porsche manufactures all of its cars in Europe but generates about 45% of its sales in the United States. It therefore faces economic exposure stemming from the relative value of the dollar compared to the euro. Thus Porsche is considered to be fully hedged, which means it takes currency positions to protect all earnings from foreign-exchange movements.

Diff: 2 Page Ref: 59-60

AACSB: Dynamics of Global Economy

Objective: 6

Question Type: Synthesis