

***International Business, 8e (Griffin/Pustay)***

**Chapter 2 Global Marketplaces and Business Centers**

1) One likely consequence of the diminishing Arctic ice cap is \_\_\_\_\_.

- A) less war
- B) more affordable utility rates for lesser-developed nations
- C) an increase in regional tourism
- D) the creation of the Northwest Passage

Answer: D

Diff: 1

Skill: Concept

Objective: 1

2) Which of the following is a member of the Arctic Council?

- A) France
- B) Singapore
- C) Finland
- D) Mexico

Answer: C

Diff: 1

Skill: Concept

Objective: 1

3) Approximately \_\_\_\_\_ of the world's current economic activity is concentrated in North America, the EU, and Japan.

- A) 24%
- B) 46%
- C) 57%
- D) 72%

Answer: C

Diff: 2

Skill: Concept

Objective: 1

4) Under the United Nations Convention on the Laws of the Sea, countries are given control over navigation within \_\_\_\_\_ of the coastline.

- A) one mile
- B) five miles
- C) twelve miles
- D) twenty miles

Answer: C

Diff: 2

Skill: Concept

Objective: 1

5) Companies doing international business are more likely to be successful when they \_\_\_\_\_.

- A) conduct frequent performance appraisals
- B) understand local market characteristics
- C) employ primarily local managers
- D) rely on experienced expatriates

Answer: B

Diff: 2

Skill: Concept

Objective: 1

6) What is London's origin as a world financial center?

- A) military power of the British Empire in the nineteenth century
- B) influence of royalty on the city's reputation
- C) rule over several former American colonies
- D) prestige of the London Stock Exchange

Answer: A

Diff: 2

Skill: Concept

Objective: 1

7) Which of the following markets has the GREATEST impact on the world's current economic activity?

- A) United States
- B) European Union
- C) China
- D) Japan

Answer: A

Diff: 1

Skill: Concept

Objective: 1

8) In the twenty-first century, growth rates in \_\_\_\_\_ have outpaced those in \_\_\_\_\_.

- A) the United States and China; India and Japan
- B) Canada and Japan; Germany and the U.S.
- C) Japan and India; China and Canada
- D) China and India; Germany and Japan

Answer: D

Diff: 3

Skill: Concept

Objective: 1

Learning Outcome: Discuss trends in and the debate over globalization

9) The European Union accounted for about \_\_\_\_\_ in GDP in 2011.

- A) 6 trillion dollars
- B) 17 trillion dollars
- C) 35 trillion dollars
- D) 79 trillion

Answer: B

Diff: 2

Skill: Concept

Objective: 4

10) Which country has the highest per capita income in North America?

- A) the United States
- B) Central America
- C) Canada
- D) Mexico

Answer: A

Diff: 1

Skill: Concept

Objective: 2

11) The countries of North America produce approximately \_\_\_\_\_ percent of the world's output.

- A) 18
- B) 26
- C) 45
- D) 52

Answer: B

Diff: 2

Skill: Concept

Objective: 2

12) \_\_\_\_\_ is the currency in which the sale of goods and services is denominated.

- A) Flight capital
- B) Euro currency
- C) Invoicing currency
- D) Capital substitution

Answer: C

Diff: 1

Skill: Concept

Objective: 2

Learning Outcome: Define the fundamental concepts of international business

13) The prime market for lower-income countries that are trying to raise their living standards through exports is \_\_\_\_\_.

- A) the United States
- B) Japan
- C) Germany
- D) China

Answer: A

Diff: 2

Skill: Concept

Objective: 2

14) \_\_\_\_\_ is the money sent out of a politically or economically unstable country to one perceived as a safe haven.

- A) Invoicing currency
- B) Flight capital
- C) Capital substitution
- D) Foreign currency

Answer: B

Diff: 1

Skill: Concept

Objective: 2

Learning Outcome: Define the fundamental concepts of international business

15) When a firm makes a sale of goods denominated in Japanese yen, the yen is referred to as \_\_\_\_\_.

- A) flight capital
- B) export capital
- C) the invoicing currency
- D) the transaction currency

Answer: C

Diff: 2

Skill: Concept

Objective: 2

Learning Outcome: Define the fundamental concepts of international business

16) Which country listed below commonly attracts flight capital?

- A) Germany
- B) Canada
- C) the United States
- D) Singapore

Answer: C

Diff: 1

Skill: Concept

Objective: 2

17) U.S. exports of goods and services in 2012 accounted for about \_\_\_\_\_ percent of U.S. GDP.

- A) 14
- B) 23
- C) 30
- D) 45

Answer: A

Diff: 3

Skill: Concept

Objective: 2

18) About what percentage of the world's 500 largest corporations in 2010 were headquartered in the United States?

- A) 12%
- B) 19%
- C) 27%
- D) 45%

Answer: C

Diff: 2

Skill: Concept

Objective: 3

19) Which of the following is true of Mexico?

- A) It is the world's third-largest Spanish-speaking nation.
- B) It has increased its protectionist measures in recent years.
- C) It has been promoting the privatization of multiple industries.
- D) It has refused to sign free trade pacts with El Salvador, Guatemala, and Honduras.

Answer: C

Diff: 3

AACSB: Dynamics of the global economy

Skill: Concept

Objective: 3

Learning Outcome: Describe how differences in political economy influence economic development

20) \_\_\_\_\_ is the dominant market for Canadian goods.

- A) The European Union
- B) The United States
- C) China
- D) Mexico

Answer: B

Diff: 1

Skill: Concept

Objective: 3

21) Which of the following aspects about Canada is a concern to many international investors?

- A) legal system instability
- B) separatist movement
- C) weak infrastructure
- D) education system

Answer: B

Diff: 3

Skill: Concept

Objective: 3

Learning Outcome: Describe how differences in political economy influence economic development

22) As of 2013, how many countries participate in the European Union's common currency, the euro?

- A) 12
- B) 17
- C) 22
- D) 27

Answer: B

Diff: 1

Skill: Concept

Objective: 4

23) Countries designated "middle income" have per capita incomes of \_\_\_\_\_.

- A) less than \$995
- B) between \$1,025 and \$12,476
- C) between \$12,477 and \$23,221
- D) between \$23,222 and \$34,021

Answer: B

Diff: 2

Skill: Concept

Objective: 2

24) The European Union is comprised of \_\_\_\_\_ countries.

- A) 12
- B) 15
- C) 22
- D) 28

Answer: D

Diff: 1

Skill: Concept

Objective: 4

25) Which country is an undeveloped nation?

- A) Cambodia
- B) Costa Rica
- C) India
- D) Somalia

Answer: A

Diff: 2

Skill: Concept

Objective: 6

26) What is the most likely reason that Germany is considered the most important member of the EU?

- A) Germany has the world's fourth largest economy.
- B) Germany's government promotes human rights.
- C) Germany initially suggested developing the EU.
- D) Germany uses a codetermination system.

Answer: A

Diff: 3

Skill: Concept

Objective: 4

27) Which EU country has drawn criticism for promoting an agenda of economic nationalism, and in particular, for protecting its farmers under the guise of the Common Agricultural Policy?

- A) Germany
- B) France
- C) Italy
- D) Spain

Answer: B

Diff: 2

Skill: Concept

Objective: 4

Learning Outcome: Describe how differences in political economy influence economic development

28) Who was responsible for introducing *glasnost* and *perestroika* to the Soviet Union?

- A) Czar Nicholas II
- B) Boris Yeltsin
- C) Vladimir Putin
- D) Mikhail Gorbachev

Answer: D

Diff: 2

Skill: Concept

Objective: 4

Learning Outcome: Describe how differences in political economy influence economic development

29) Which of these countries is *not* a member of the EU?

- A) Austria
- B) Monaco
- C) Norway
- D) Portugal

Answer: C

Diff: 1

Skill: Concept

Objective: 4

30) What country holds the world's largest land mass?

- A) the United States
- B) Russia
- C) China
- D) Canada

Answer: B

Diff: 2

Skill: Concept

Objective: 4

31) Who was Russia's first democratically elected president?

- A) Mikhail Baryshnikov
- B) Mikhail Gorbachev
- C) Boris Yeltsin
- D) Vladimir Putin

Answer: C

Diff: 1

Skill: Concept

Objective: 4

32) The Newly Independent States refers to the \_\_\_\_\_.

- A) Central European countries
- B) former Soviet republics
- C) largest African nations
- D) Four Tigers

Answer: B

Diff: 1

Skill: Concept

Objective: 4



33) Which of the following has achieved high-income status according to the World Bank?

- A) the Czech Republic
- B) Mexico
- C) Chile
- D) Turkey

Answer: A

Diff: 2

Skill: Concept

Objective: 4

34) Russia's major natural resources include which of the following?

- A) aluminum
- B) natural gas
- C) vermiculite
- D) grain

Answer: B

Diff: 2

Skill: Concept

Objective: 4

35) Immediately following World War II, Japan's Ministry for International Trade and Investment encouraged firms to concentrate on \_\_\_\_\_.

- A) steel and shipbuilding
- B) automobiles and electronics
- C) financial services
- D) apparel and footwear

Answer: A

Diff: 2

Skill: Concept

Objective: 5

36) The Japanese term *sogo shosha* refers to a(n) \_\_\_\_\_.

- A) major Japanese bank
- B) family of interrelated companies
- C) export trading company
- D) supplier

Answer: C

Diff: 2

Skill: Concept

Objective: 5

37) The Japanese term, *keiretsu*, refers to a(n) \_\_\_\_\_.

- A) major Japanese bank
- B) family of interrelated companies
- C) export trading company
- D) supplier

Answer: B

Diff: 2

Skill: Concept

Objective: 5

38) Samsung, Hyundai, Daewoo Group, and LG are all examples of \_\_\_\_\_.

- A) *chaebol*
- B) *keiretsu*
- C) *glasnost*
- D) *sogo shosha*

Answer: A

Diff: 2

Skill: Concept

Objective: 5

39) Which of the following is most likely a true statement about New Zealand?

- A) The country prohibits privatization in most industries.
- B) Most of the country's population lives on the South Island.
- C) The country primarily relies on its gold and coal resources.
- D) Merchandise trade is extremely important to the country's GDP.

Answer: D

Diff: 3

AACSB: Dynamics of the global economy

Skill: Concept

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

40) All of the following *except* \_\_\_\_\_ are typical exports from New Zealand.

- A) dairy products
- B) computer technology
- C) kitchen appliances
- D) petroleum

Answer: A

Diff: 2

Skill: Concept

Objective: 5

41) The Four Tigers are also called \_\_\_\_\_.

- A) newly industrialized countries
- B) newly independent states
- C) commonwealth of independent states
- D) commonwealth of industrialized countries

Answer: A

Diff: 2

Skill: Concept

Objective: 5

42) Which of the countries listed below is considered one of the Four Tigers?

- A) North Korea
- B) Indonesia
- C) Taiwan
- D) China

Answer: C

Diff: 1

Skill: Concept

Objective: 5

43) The World Bank classifies the Four Tigers as \_\_\_\_\_.

- A) developing
- B) middle-income
- C) newly developed
- D) high-income

Answer: D

Diff: 2

Skill: Concept

Objective: 5

44) What caused South Korea's economic growth to suddenly slow in 1997-1998?

- A) collapse of the chaebol
- B) return to Communist rule
- C) Asian currency crisis
- D) import substitution policies

Answer: C

Diff: 2

Skill: Concept

Objective: 5

45) The Korean term, chaebol, refers to \_\_\_\_\_.

- A) a family-based conglomerate
- B) workplace harmony
- C) economic restructuring
- D) cooperative banks

Answer: A

Diff: 1

Skill: Concept

Objective: 5

46) Which of the following African countries is not a major oil exporter?

- A) Algeria
- B) Gabon
- C) Zambia
- D) Libya

Answer: C

Diff: 1

Skill: Concept

Objective: 6

47) The Republic of China is most commonly known as \_\_\_\_\_.

- A) Taiwan
- B) Vietnam
- C) Hong Kong
- D) Singapore

Answer: A

Diff: 1

Skill: Concept

Objective: 5

48) What is the most likely reason that Taiwanese businesses are increasingly investing in Chinese factories?

- A) demand for automated manufacturing
- B) need for low-wage workers
- C) government requirements
- D) need for additional land

Answer: B

Diff: 2

Skill: Concept

Objective: 5

49) What is the most significant problem for Singapore today?

- A) Chinese control
- B) shipping costs
- C) labor shortages
- D) low technological expertise

Answer: C

Diff: 2

Skill: Concept

Objective: 5

50) Because of its excellent port facilities, Singapore thrives on \_\_\_\_\_.

- A) shipping
- B) oil refining
- C) franchising
- D) reexporting

Answer: D

Diff: 2

Skill: Concept

Objective: 5

51) \_\_\_\_\_ is the world's most populous country.

- A) India
- B) China
- C) Indonesia
- D) The United States

Answer: B

Diff: 1

Skill: Concept

Objective: 5

52) India was a colony of which country?

- A) China
- B) France
- C) Pakistan
- D) the United Kingdom

Answer: D

Diff: 1

Skill: Concept

Objective: 5

53) Which two countries make up the Indian subcontinent?

- A) India and Egypt
- B) India and Pakistan
- C) Afghanistan and India
- D) India and Iran

Answer: B

Diff: 1

Skill: Concept

Objective: 5

54) Which of the following is *not* a similarity between India and Great Britain?

- A) parliamentary system
- B) dependent judiciary
- C) an amateur bureaucracy
- D) state-owned industry

Answer: A

Diff: 2

Skill: Concept

Objective: 6

55) Alfred Communications, a U.S. firm, is considering opening a facility in India. However, executives at the firm are not certain that India is the best location for investment. What is the most likely reason for management's concerns?

- A) weak judiciary system
- B) rampant corruption
- C) state capitalism
- D) religious strife

Answer: B

Diff: 3

Skill: Application

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

56) Thailand, Malaysia, and Indonesia were all recipients of significant FDI during the 1980s and 1990s because they offer \_\_\_\_\_.

- A) strong domestic currencies
- B) large domestic markets
- C) few trade barriers
- D) low labor costs

Answer: D

Diff: 2

Skill: Concept

Objective: 5

57) Because of its past colonial relationship, France has a competitive advantage in which of the countries listed below?

- A) Botswana
- B) Chad
- C) Kenya
- D) the Republic of South Africa

Answer: B

Diff: 2

Skill: Concept

Objective: 6

Learning Outcome: Explain how differences in culture affect the international business environment

58) Because of its past colonial relationship, the United Kingdom has a competitive advantage in which of the countries listed below?

- A) Somalia
- B) Gabon
- C) Senegal
- D) the Republic of South Africa

Answer: D

Diff: 2

Skill: Concept

Objective: 6

Learning Outcome: Explain how differences in culture affect the international business environment

59) What region is sometimes called the cradle of civilization?

- A) the European Union
- B) the Middle East
- C) the Far East
- D) Africa

Answer: B

Diff: 2

Skill: Concept

Objective: 6

60) Which of the following religions was *not* born in the Middle East?

- A) Buddhism
- B) Christianity
- C) Judaism
- D) Islam

Answer: A

Diff: 2

Skill: Concept

Objective: 6

Learning Outcome: Explain how differences in culture affect the international business environment

61) A policy that attempts to stimulate development of local industry by discouraging imports through tariffs and nontariff barriers is called \_\_\_\_\_.

- A) export substitution
- B) import substitution
- C) development stimulation
- D) protectionism

Answer: B

Diff: 2

Skill: Concept

Objective: 1

Learning Outcome: Describe how differences in political economy influence economic development

62) A policy that encourages economic growth through export expansion is called \_\_\_\_\_.

- A) export expansion
- B) export substitution
- C) export promotion
- D) development stimulation

Answer: C

Diff: 2

Skill: Concept

Objective: 1

Learning Outcome: Describe how differences in political economy influence economic development

63) Export promotion has been successfully applied by which of the countries listed below?

- A) Taiwan
- B) Cuba
- C) Argentina
- D) Brazil

Answer: A

Diff: 2

Skill: Concept

Objective: 6

64) Which of the following best explains why Japan's economic growth has slowed?

- A) state industries
- B) import restrictions
- C) poor quality control
- D) fast-growing population

Answer: B

Diff: 2

Skill: Concept

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development



65) ITX Enterprises, an electronics firm, plans to open a new manufacturing facility. Managers are considering building the new plant in Canada. Which of the following is a risk associated with a Canadian expansion?

- A) unstable federal and state governments
- B) inadequate secondary education systems
- C) political instability related to language conflicts
- D) shrinking supply of natural resources for exporting

Answer: C

Diff: 2

Skill: Application

Objective: 3

66) Parker Manufacturing is considering relocating its headquarters from its current location in Vancouver, British Columbia. Executives at Parker want the firm to be located with the majority of other MNCs in the world. Which location would be most appropriate?

- A) Zurich
- B) Boston
- C) Tokyo
- D) London

Answer: B

Diff: 2

Skill: Application

Objective: 3

67) Brampton Industries has a facility in a country that has been designated by the World Bank as middle-income. Which of the following is the most likely location of Brampton's plant?

- A) Costa Rica
- B) Turkey
- C) Latvia
- D) Rwanda

Answer: A

Diff: 1

Skill: Application

Objective: 3

68) The world's most populous Spanish-speaking nation is \_\_\_\_\_.

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

Answer: C

Diff: 2

Skill: Application

Objective: 3

69) Hawthorne Enterprises, an Australian firm, has plans to open a manufacturing facility in France next year. Some executives at the firm are unhappy with this decision, most likely because France \_\_\_\_\_.

- A) opposes human rights legislation
- B) promotes economic nationalism
- C) refuses to switch to the euro
- D) advocates free trade

Answer: B

Diff: 2

AACSB: Dynamics of the global economy

Skill: Application

Objective: 4

Learning Outcome: Discuss arguments for and against government intervention in international business

70) A small to medium, family-owned enterprise, often located in a small German town is city is known as \_\_\_\_\_.

- A) *keiretsu*
- B) *perestroika*
- C) *glasnost*
- D) *mittelstand*

Answer: D

Diff: 1

Skill: Concept

Objective: 4

71) Executives at Oswego Enterprises, a U.S. textile company, are discussing the idea of expanding into the Asian market by opening a facility in Hong Kong. Which of the following is a characteristic of Hong Kong?

- A) complete autonomy from China
- B) entry point to mainland China
- C) location of few major banks
- D) low labor rates for a poorly educated workforce

Answer: B

Diff: 2

AACSB: Dynamics of the global economy

Skill: Application

Objective: 5

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

72) Executives at Cornwall Industries, a U.S. firm, are considering expanding into Niger. As a manager at the firm you have been given the task of analyzing the advantages and disadvantages of Niger. Which of the following is the most likely problem associated with expanding into Niger?

- A) influence of British government
- B) insufficient natural resources
- C) dominance of French firms
- D) risk of civil unrest

Answer: C

Diff: 2

AACSB: Dynamics of the global economy

Skill: Application

Objective: 6

Learning Outcome: Discuss arguments for and against government intervention in international business

73) China possesses the world's largest economy.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 3

74) Money sent out of a politically or economically unstable country to one perceived as a safe haven is known as protected capital.

Answer: FALSE

Diff: 1

Skill: Concept

Objective: 3

Learning Outcome: Define the fundamental concepts of international business

75) The currency in which the sale of goods and services is denominated is the invoicing currency.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 3

Learning Outcome: Define the fundamental concepts of international business

76) International trade accounts for a major part of the U.S. economy.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 3

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

77) Over 30 OECD's members are all classified as high-income countries .

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 2

78) All European Union member countries share a common currency—the euro.

Answer: FALSE

Diff: 1

Skill: Concept

Objective: 4

79) The Czech Republic, Hungary, and Poland are classified as high-income countries by the World Bank.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 4

80) Asia is a source of both skilled and unskilled labor.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 5

81) Japan's economic success has been facilitated by its *keiretsu*.

Answer: TRUE

Diff: 3

Skill: Concept

Objective: 5

82) Over the last two decades, Mexico has been relatively closed to foreign goods and investors.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 3

83) Like France, the United Kingdom is a strong supporter of protectionist policies.

Answer: FALSE

Diff: 3

Skill: Concept

Objective: 3

84) The single largest bilateral trading relationship in the world is between the United States and Canada.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 3

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

85) By evaluating the income level of a nation, a firm can assess the purchasing power of citizens and the status of the public infrastructure.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 2

Learning Outcome: Describe how differences in political economy influence economic development

86) Switzerland is a long-standing member of the European Union.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 4

87) Japan's remarkable growth rate has continued into the twenty-first century.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 5

88) Soviet leader Boris Yeltsin's 1986 political reform initiatives of *glasnost* and *perestroika* led to significant changes in the region's political, economic, and social environment of Russia.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 4

Learning Outcome: Describe how differences in political economy influence economic development

89) Twelve of the 15 Newly Independent States established a forum called the Commonwealth of Independent States.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 4

90) All of the countries that were aligned with the former Soviet Union are classified as lower-income countries.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 4

91) A *sogo shosha* is typically a member of a *keiretsu*.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 5

92) The Ministry of International Trade and Industry helped spur Japan's rapid growth by guiding the investment strategies of Japanese firms.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

93) All four countries that are part of the Four Tigers have a Chinese heritage.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 5

94) Japan has been criticized for unfairly promoting its exports and at the same time protecting its markets from imports.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

95) Singapore's economy relies on reexporting.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 5

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

96) Hinduism is the dominant religion in India.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 5

97) Since World War II, India's economic development plan has focused on state ownership of key industries such as power and transportation.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 5

98) Coca-Cola turned over its secret soft drink formula to the Indian government in order to remain in the country.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 5

99) The Middle East is known for its oil-rich countries.

Answer: TRUE

Diff: 1

Skill: Concept

Objective: 6

100) In Saudi Arabia, oil makes up 90 percent of its total export earnings.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 6

101) South American producers rely on mass production and economies of scale for their success in international markets.

Answer: FALSE

Diff: 2

Skill: Concept

Objective: 6

102) Brazil's poverty reduction program offers cash to families who keep their children in school and participate in public health programs.

Answer: TRUE

Diff: 2

Skill: Concept

Objective: 6

103) Where is the majority of the world's current economic activity conducted?

Answer: About 57% of the world's current economic activity is conducted in North America, the EU and Japan.

Diff: 2

Skill: Application

Objective: 1

104) Which country possesses the world's largest economy? Why do you think international trade is such a small component of the U.S. economy?

Answer: The United States has the world's largest economy, accounting for almost 21 percent of the world's GDP. Although international trade has become increasingly more important during the past decade, it is a relatively small component of the U.S. economy. U.S. exports of goods and services in 2012 totaled \$2.9 trillion but were only 14 percent of its GDP. However, this figure is somewhat misleading. Because of the country's large size, trade that might be counted as international in smaller countries is considered domestic in the United States. For example, the money spent for a hotel room in neighboring Belgium by a Dutch motorist trapped in a thunderstorm 50 miles from home late at night is counted in the international trade statistics of both Belgium and the Netherlands. A similar expenditure by a Connecticut motorist stuck in New Jersey after watching a football game at the Meadowlands is a purely domestic transaction.

Diff: 3

Skill: Critical Thinking

Objective: 3

Learning Outcome: Define the fundamental concepts of international business

105) How important is international trade to the U.S. economy? Which country is the largest trading partner to the U.S.?

Answer: International trade is a relatively small component of the U.S. economy and accounts for less than 12 percent of the country's GDP. Canada is the U.S.'s largest trading partner.

Diff: 2

Skill: Application

Objective: 3

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

106) Define the term invoicing currency.

Answer: Invoicing currency is the currency in which the sale of goods and services is denominated.

Diff: 2

Skill: Concept

Objective: 1

107) What is flight capital? Why does the U.S. attract flight capital?

Answer: Flight capital is money sent out of a politically or economically unstable country to one perceived as a safe haven. The U.S. attracts flight capital because of its political stability and military strength.

Diff: 2

Skill: Application

Objective: 1



108) What is the Organization for Economic Cooperation and Development?

Answer: The Organization for Economic Cooperation and Development, or OECD, is a group of 34 market-oriented democracies formed to promote economic growth.

Diff: 2

Skill: Concept

Objective: 1

109) What is the Commonwealth of Independent States? What is its purpose?

Answer: Gorbachev's economic and political reforms led to the Soviet Union's collapse in 1991 and subsequent declarations of independence by the 15 Soviet republics, which are now often referred to as the Newly Independent States. In 1992, 12 of the NIS (all but the Baltic countries of Estonia, Latvia, and Lithuania, which are now part of the European Union) formed the Commonwealth of Independent States (CIS) as a forum to discuss issues of mutual concern.

Diff: 2

Skill: Application

Objective: 4

110) What do *perestroika* and *glasnost* mean? How do these concepts relate to the Russian economy?

Answer: Soviet leader Mikhail Gorbachev's 1986 reform initiatives of *glasnost* (openness) and *perestroika* (economic restructuring) triggered the region's political, economic, and social revolutions.

Diff: 2

Skill: Application

Objective: 4

111) What is the meaning of the terms *keiretsu* and *sogo shosha*?

Answer: A *keiretsu* is a large family of interrelated companies. *Sogo shosha* is an export trading company used by *keiretsu* members to export their products.

Diff: 2

Skill: Application

Objective: 5

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

112) What are the main characteristics of the Australian marketplace? How do these characteristics affect Australia's exporting?

Answer: Australia is rich in natural resources but has a relatively small workforce. As a result, its merchandise exports, which in 2011 accounted for 20 percent of its \$1,379 billion GDP, are concentrated in natural resource industries (such as gold, iron ore, and coal) and in land-intensive agricultural goods (such as wool, beef, and wheat).

Diff: 3

Skill: Application

Objective: 5

Learning Outcome: Discuss the roles of exporting, importing, and countertrade in international business

113) What are the countries collectively known as the Four Tigers? Why are these countries known as the Four Tigers?

Answer: South Korea, Hong Kong, Singapore, and Taiwan are the Four Tigers. These countries have made rapid economic strides since 1945, so they are collectively known as the "Four Tigers," a reference to the Chinese heritage that three of the four countries share.

Diff: 2

Skill: Application

Objective: 5

114) What does chaebol mean? What has been the history of chaebol?

Answer: A chaebol is a family of interrelated firms in South Korea. To promote economic development after the Korean War, South Korea relied on tight cooperation between the government and 30 or so large, privately owned, and family-centered conglomerates that dominate the Korean economy. The most important of these conglomerates, or **chaebol**, were Samsung, Hyundai, Daewoo Group, and LG (formerly Lucky-Goldstar). Unfortunately, Korea's growth came to a screeching halt as a result of the 1997-1998 Asian currency crisis, and many of the chaebol were plunged into financial difficulties. Many observers argued that their problems were due to overexpansion and the poor lending practices of Korean banks. Many of the chaebol seemed to be more interested in size than profitability and borrowed money to enter industries already burdened by overcapacity, such as automobiles, computer chips, and steel manufacturing. Some of the chaebol learned their lesson and emerged from the crisis as stronger and leaner competitors.

Diff: 3

Skill: Application

Objective: 5

Learning Outcome: Discuss arguments for and against government intervention in international business

115) In 2011, Singapore's exports totalled 171% of its GDP. Briefly explain how this is possible.

Answer: Singapore is a major reexporter because of its shipping ports and facilities.

Diff: 2

Skill: Application

Objective: 5

116) Historical connections exist between many European powers and markets such as Hong Kong, India, and Africa. Briefly discuss these historic relationships. How do past relationships impact international business in these markets today?

Answer: As a consequence of the "opium war," Hong Kong was ceded to the British. In 1860, the British obtained possession of Kowloon and later they were granted a 99-year lease on the area. The lease expired on July 1, 1997. On that date China again assumed political control of Hong Kong and designated it a special administrative region (SAR). As an SAR, Hong Kong enjoys a fair degree of autonomy. It has its own legislature, economic freedom, free-port status, and a separate taxation system. Hong Kong will enjoy these privileges until 2047. However, China has made it clear that it will impose its own political will on Hong Kong. India was part of the British Empire until 1947, when the Indian subcontinent was partitioned along religious lines into India, where Hindus were in the majority, and Pakistan, where Muslims were dominant. India adopted many aspects of British government, including the parliamentary system, a strong independent judiciary, and a professional bureaucracy. Most of Africa was colonized in the late nineteenth century by the major European powers for strategic military purposes or to meet domestic political demands. The tide of colonialism began to reverse in the mid-1950s, as one by one the European powers surrendered control of their colonies. Vestiges of colonialism remain in today's Africa, however, affecting opportunities available to international businesses. For example, Chad, Niger, and the Côte d'Ivoire (Ivory Coast) retain close economic and cultural ties to France. They link their currencies to that of France and follow French legal, educational, and governmental procedures. Because of these ties, French manufacturers, financial institutions, and service-sector firms often dominate international commerce with these countries. Similarly, the public institutions of Kenya, Zimbabwe, and the Republic of South Africa are modeled along British lines, giving British firms a competitive advantage in these countries.

Diff: 3

AACSB: Reflective Thinking

Skill: Synthesis

Objective: 5, 6

117) What led to the separation of Taiwan from China?

Answer: In the aftermath of the civil war in China between the nationalist forces and the communist forces, General Chiang Kai-shek fled to Taiwan. He declared the island the Republic of China and himself the rightful governor.

Diff: 3

Skill: Application

Objective: 5

118) How have reforms in India and Mexico altered the economies of both countries?

Answer: In 1991, India's Prime Minister implemented market-opening reforms which reduced trade barriers, opened the door to increased FDI, and modernized the country's financial sector. Since then, India has attracted considerable FDI from MNCs from developed countries, and seen its GDP grow. For over half a century the Mexican government implemented a program of economic nationalism under which Mexico discouraged foreign investment and erected high tariff walls to protect its domestic industries. During the past three decades, however, Mexico has abandoned these policies and opened its markets to foreign goods and investors. Mexico also reduced the government's role in its economy by selling off many publicly owned firms. In 1994, Canada, Mexico, and the United States initiated the North American Free Trade Agreement (NAFTA), which reduced barriers to trade among the three countries over a 15-year period. Thousands of foreign companies have established new factories in Mexico to take advantage of NAFTA, generating hundreds of thousands of new jobs in the process.

Diff: 3

AACSB: Dynamics of the global economy

Skill: Synthesis

Objective: 3, 5

Learning Outcome: Describe how differences in political economy influence economic development

119) Why would a global firm most likely consider the Middle East a risky marketplace? As a global manager, how would you determine if the benefits in the Middle East outweighed the risks?

Answer: The Middle East has a long history of conflict and political unrest. In the last half century it has experienced several Arab-Israeli wars, the Iran-Iraq war, and two Persian Gulf wars, all of which raised the risk of doing business in the region. In 2011, political unrest swept the area. Protests against the lack of democracy, poor employment opportunities, and high levels of income inequality led to the resignation of the long-time rulers of Egypt and Tunisia and to a civil war in Libya. A global manager can determine if the benefits are worth the risks by gathering information. Ignorance of basic geography, market characteristics, culture, and politics may lead to lost profits or, in the extreme, doom a venture to failure. Linguistic and cultural ties, past political associations, and military alliances play significant roles in the world pattern of trade and investment and in shaping the opportunities available to businesses today.

Diff: 3

AACSB: Dynamics of the global economy

Skill: Synthesis

Objective: 1, 6

Learning Outcome: Describe how differences in political economy influence economic development

120) As a global manager, why should you consider South Africa as a potential source for your firm's future development?

Answer: Many experts predict that South Africa will be the dominant economic power and growth engine in Africa in the twenty-first century. South Africa, which has fertile farmland as well as rich deposits of gold, diamonds, chromium, and platinum, was used as a base by many MNCs for their African operations until the trade sanctions imposed by the United Nations in the 1970s. The UN was protesting the government's apartheid policies. Today, voting rights have been extended to all citizens regardless of race and color.

Diff: 3

AACSB: Dynamics of the global economy

Skill: Critical Thinking

Objective: 6

Learning Outcome: Discuss trends in and the debate over globalization

121) What are import and export substitution policies? How have these policies affected Asian and South American markets?

Answer: Countries using import substitution policies attempt to stimulate the development of local industry by discouraging imports via high tariffs and nontariff barriers. The opposite of import substitution is export promotion, whereby a country pursues economic growth by expanding its exports. This is the developmental approach successfully adopted by Taiwan, Hong Kong, and Singapore. However, many major South American countries adopted these well-intentioned but destructive import substitution policies. For most South American industries, however, the domestic market is too small to enable domestic producers to gain economies of scale through mass-production techniques or to permit much competition among local producers. Thus, prices of domestically produced goods tend to rise above prices in other markets. The result is inflation and destruction of middle class savings.

Diff: 3

AACSB: Dynamics of the global economy

Skill: Synthesis

Objective: 4, 6

Learning Outcome: Discuss arguments for and against government intervention in international business

122) What are sovereign wealth funds? Why are they controversial?

Answer: Sovereign wealth funds are a new and controversial source of capital. They are government controlled pools of capital that invest in a variety of industries, mostly in a passive way. Most of the SWFs are owned by oil-rich governments. The Abu Dhabi Investment Authority is currently the largest, with \$627 billion in assets, followed by the Government Pension Fund of Norway with \$557 billion. Other SWFs are owned by governments of countries enjoying large balance of payments surpluses, such as China and Singapore. The funds are controversial because they should be solely for commercial purposes but could be a backdoor means of promoting the political goals of the governmental owner of the SWF.

Diff: 3

AACSB: Reflective Thinking

Skill: Synthesis

Objective: 1, 5

Learning Outcome: Define the fundamental concepts of international business

123) As a manager, why do you need to understand global marketplaces and business centers? Why should you also have an understanding of international income data?

Answer: Businesses trying to internationalize their operations frequently make mistakes because they fail to obtain information vital to their success. Managers that are ignorant of basic geography, market characteristics, culture, and politics may cause a company to lose profits or even cause a venture to fail entirely. Managers need to understand linguistic and cultural ties, past political associations, and military alliances, and how they shape world trade and investment patterns, and the opportunities available to companies. Often the single most important piece of information needed by international businesspeople about a country is its income level. Income levels provide clues to the purchasing power of residents, the technological sophistication of local production processes, and the status of the public infrastructure.

Diff: 3

AACSB: Reflective Thinking

Skill: Synthesis

Objective: 1, 2

Learning Outcome: Define the fundamental concepts of international business

124) China has designated Hong Kong as a special administrative region. How did this occur? What does this mean for Hong Kong? Be sure to address how this designation relates to international business concerns.

Answer: Hong Kong was ceded to the British following the Opium War in 1842. In 1860, the British also obtained possession of Kowloon on the Chinese mainland, and in 1898 they were granted a 99-year lease. The lease expired on July 1, 1997 and China resumed political control of Hong Kong and designated it a special administrative region. As a SAR, Hong Kong has its own legislature, economic freedom, free-port status, and a separate taxation system. This status will last until 2047. From an international business perspective, China's designation of Hong Kong as a SAR went far in terms of reassuring MNCs with operations in Hong Kong.

Diff: 3

Skill: Critical Thinking

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

125) China has gone through three stages since communist forces took power in 1949. Name these stages and explain how each has affected China's economic power.

Answer: The three stages include the Great Leap Forward, the Cultural Revolution, and free-market policy. The Great Leap Forward sought to force industrialization through the growth of small, labor-intensive factories. Its failure led to the Cultural Revolution, which attempted to reinforce the communist doctrine. After Mao Tse-tung's death, the government adopted limited free-market policies. China continues to develop in this stage. It continues to adopt market-oriented economic policies while maintaining political control.

Diff: 3

AACSB: Reflective Thinking

Skill: Critical Thinking

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

126) What economic reforms have occurred in India? What has been the impact of these reforms on India's economy?

Answer: In 1991, Indian Prime Minister Rao implemented various reforms including reduced trade barriers, designed to open India's economy to foreigners, and modernizing its financial sector. Today, the effect of the reforms is evident in the country's growing GDP and the FDI from MNCs based in developed countries; however, government policy is still unclear causing confusion for some investors.

Diff: 3

AACSB: Reflective Thinking

Skill: Critical Thinking

Objective: 5

Learning Outcome: Describe how differences in political economy influence economic development

127) What is the impact of income gaps in countries such as Brazil? How is the Brazilian government addressing these inequalities? Why are income gaps relevant to international businesses?

Answer: For most of its history, Latin America has been characterized by huge income inequalities. The rich have done very well; the prospects for children borne into poverty have been grim. One innovative and successful program is Brazil's Bolsa Família. The poverty reduction program involves conditional cash transfers (CCTs). CCT programs provide cash subsidies to poor families, but the cash comes with strings attached. Families receive payments from Bolsa Família only if their children attend school on a regular basis and participate in public health programs, such as keeping their vaccinations up to date. Countries with low per capita incomes and significant income gaps are less attractive to international businesses because they offer less consumer demand and lack the public infrastructure necessary for reliable production and distribution of goods and services.. Such countries may also experience social unrest, political instability, and lost productivity, which impacts IB.

Diff: 3

AACSB: Analytical Thinking

Skill: Critical Thinking

Objective: 6

Learning Outcome: Discuss arguments for and against government intervention in international business