

## Chapter 02

### National Differences in Political Economy

#### True / False Questions

1. The two dimensions, according to which the political systems can be assessed, collectivism-individualism and democratic-totalitarian are independent of each other.

True   False

2. It is possible to have a democratic political system that emphasizes a mix of collectivism and individualism.

True   False

3. When collectivism is emphasized, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society."

True   False

4. Plato, to whom the advocacy of collectivism is traced back, did not equate collectivism with equality.

True False

5. The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.

True False

6. The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.

True False

7. The social democrats believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

True False

8. Modern socialists trace their intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx.

True False

9. In an individualist society, the welfare of society is best served by letting people pursue their own economic self-interest.

True   False

10. Aristotle argued that individual diversity and private ownership are undesirable.

True   False

11. In practical terms, individualism translates into an advocacy for democratic political systems and market economics.

True   False

12. Most modern democratic states practice representative democracy.

True   False

13. In a totalitarian country, there are safeguards to protect an individual's right to freedom of expression, opinion, and organization.

True   False

14. It is possible to have a totalitarian state that is hostile to collectivism and where some degree of individualism is encouraged.

True   False

15. In a market economy, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

True   False

16. The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

True   False

17. The objective of the government in a command economy is to encourage free and fair competition between private producers.

True   False

18. In a command economy, enterprises have little incentive to control costs and be efficient, because they cannot go out of business.

True   False

19. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

True   False

20. A nation's legal system is usually of very little interest to international business managers, because international businesses are headquartered in different countries.

True   False

21. When law courts interpret common law, they do so with regard to tradition, precedent, and custom.

True   False

22. Judges under a civil law system have more flexibility than those under a common law system.

True   False

23. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

True   False

24. Common law is primarily a moral rather than a commercial law and is intended to govern all aspects of life.

True   False

25. A theocratic law system is one in which the law is based on religious teachings.

True   False

26. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

True   False

27. Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

True   False

28. Many of the world's larger trading nations, including Japan and the United Kingdom, have not ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS).

True   False

29. Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

True   False

30. To facilitate international business, property rights are defined in a consistent way across countries.

True   False

31. Property rights can be violated in two ways—through private action and through public action.

True   False

32. The Foreign Corrupt Practices Act does not allow for grease payments.

True   False

33. In the 1970s, the United States passed the Foreign Corrupt Practices Act which requires all publicly traded companies, whether or not they are involved in international trade, to keep detailed records that would reveal whether a violation of the act has occurred.

True   False

34. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

True   False

35. Patents discourage companies from committing themselves to extensive basic research.

True   False

36. The Trade Related Aspects of Intellectual Property Rights, attempts to reduce intellectual property protections to enhance trade.

True   False

37. Product liability sets certain safety standards to which a product must adhere.

True   False

38. Product liability can be much lower if a product does not conform to required safety standards.

True   False

39. The political systems of a country raise ethical issues that have implications for the practice of international business.

True   False



40. The political, economic, and legal environments of a country influence the attractiveness of that country as a market or investment site.

True   False

### Multiple Choice Questions

41. Interdependent political, economic, and legal systems of a country make up its:

- A. administrative agenda.
- B. socioeconomic fabric.
- C. cultural environment.
- D. political economy.

42. A political system that prioritizes the needs of the society over individual freedoms is called \_\_\_\_.

- A. totalitarianism
- B. collectivism
- C. capitalism
- D. egalitarianism

43. Modern socialism has been popularized largely through the work of \_\_\_\_.

- A. Adam Smith
- B. Karl Marx
- C. David Hume
- D. Thomas Hobbes

44. The \_\_\_\_\_ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

- A. existentialists
- B. social democrats
- C. communists
- D. anarchists

45. In several Western democracies, the poor performance of state-owned enterprises, because of protection from competition and guaranteed government financial support, led to \_\_\_\_\_.

- A. privatization
- B. nationalization
- C. liberalization
- D. socialization of production

46. Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?

- A. Socialism
- B. Individualism
- C. Collectivism
- D. Anarchism

47. The tenet of \_\_\_\_\_ is that the welfare of society is best served by letting people pursue their own economic self-interest.

- A. socialism
- B. communism
- C. anarchism
- D. individualism

48. Which of the following statements about individualism is NOT true?

- A. Individualism promotes private entrepreneurship.
- B. Individualism promotes free market economics.
- C. Individualism creates an anti-business environment.
- D. Individualism advocates for a democratic political system.

49. Which of the following is a feature of a democracy?

- A. Exercise of absolute control by one person or political party.
- B. Governance by people or elected representatives.
- C. Prohibition of entry to opposing political parties.
- D. Complete restriction of individual political freedom.

50. Totalitarianism:

- A. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
- B. is based on a belief that citizens should be directly involved in decision making.
- C. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
- D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

51. Peoples' right to protest on issues of accountability in public expenditure would be possible in a \_\_\_\_ political set-up.

- A. dictatorial
- B. democratic
- C. totalitarian
- D. fascist

52. \_\_\_\_ refers to a state where political power is monopolized by a party, group, or individual that governs according to religious principles.

- A. Representative democracy
- B. Theocratic totalitarianism
- C. Tribal anarchism
- D. Monotheistic communism

53. Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

- A. Tribal totalitarianism
- B. Right-wing totalitarianism
- C. Democratic totalitarianism
- D. Theocratic totalitarianism

54. In a pure market economy:

- A. all productive activities are owned by the state.
- B. production is determined by the interaction of supply and demand.
- C. collectivist goals are given priority over individual goals.
- D. the prices at which goods are sold is determined by the government.

55. An economy in which the interaction of supply and demand determines the quantity in which goods and services are produced is called a \_\_\_\_.

- A. planned economy
- B. command economy
- C. closed economy
- D. market economy

56. Antitrust laws in the United States are designed to:

- A. restrict agricultural subsidies.
- B. increase trade barriers.
- C. outlaw monopolies.
- D. restrict privatization.

57. In a(n) \_\_\_\_ economy the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

- A. market
- B. command
- C. open economy
- D. laissez-faire

58. In a \_\_\_\_ economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

- A. market
- B. private
- C. command
- D. mixed

59. In which of the following economies would the government be most likely to take into state ownership troubled firms whose continued operation is thought to be vital to national interests?

- A. Market economies
- B. Laissez-faire economies
- C. Liberal economies
- D. Mixed economies

60. Which of the following statements about the legal systems of countries is NOT true?

- A. They can affect the attractiveness of a country as an investment site or market.
- B. They are influenced by the prevailing political system of the country.
- C. They are almost the same for all countries.
- D. They are of immense importance to international business.

61. Under the \_\_\_\_, cases are judged with reference to three characteristics: tradition, precedent, and custom.

- A. theocratic law system
- B. civil law system
- C. contract law system
- D. common law system

62. A civil law system tends to be less adversarial than a common law system, since \_\_\_\_.

- A. the judges' decisions are based on detailed legal codes
- B. the judges have the freedom to interpret laws based on the situation
- C. the judges' decisions are based on religious teachings
- D. the judges are guided by interpretations made in prior legal cases



63. A common law system is different from a civil law system because:

- A. a common law system is based on religious teachings, while a civil law system is based on cultural traditions.
- B. a common law system is very rigid, while a civil law system tends to be more flexible.
- C. in a common law system a judge relies on legal codes to make rulings, while in a civil law system a judge relies on his intuition and moral reasoning to make judgments.
- D. in a common law system a judge has the power to interpret the law, while in a civil law system a judge has the power only to apply the law.

64. A \_\_\_\_ system is based on a very detailed set of laws organized into codes.

- A. traditional law
- B. theocratic law
- C. civil law
- D. common law

65. A theocratic law system is one in which the law is based on:

- A. religious teachings.
- B. tradition, precedent, and custom.
- C. a detailed set of laws organized into codes.
- D. cultural and social norms.

66. \_\_\_\_ is the collective term for the legal rights relating to the use to which a resource is put and over the use made of any income that may be derived from that resource.

- A. Trade rights
- B. Property rights
- C. Positive rights
- D. Common rights

67. In Russia in the chaotic period following the collapse of communism, an outdated legal system, coupled with a weak police force and judicial system, allowed the Russian Mafia to demand "protection money" from business owners. Any business owner who rebelled had to face violent retribution. This violation of property rights exemplifies \_\_\_\_.

- A. private action
- B. copyright violation
- C. infrastructural failure
- D. public liability

68. Violation of property rights done through legal mechanisms such as levying excessive taxation and requiring expensive licenses or permits from property holders is called \_\_\_\_\_.

- A. private action
- B. collective action
- C. public action
- D. copyright violation

69. Which of the following areas of international trade is regulated by the Foreign Corrupt Practices Act?

- A. Making and performance of commercial contracts in international trade.
- B. Preventing bribery and unethical acts in the conduct of international business.
- C. Establishing a set of safety standards to which a new product must adhere.
- D. Controlling the mafia activity that hinders trade in Russia, Japan, and the U.S.

70. Which of the following is NOT an example of intellectual property?

- A. A music score
- B. A video game
- C. A software business
- D. A screenplay

71. A \_\_\_\_ grants the inventor of a new product or process exclusive rights for a defined period of time to the manufacture, use, or sale of that invention.

- A. copyright
- B. trademark
- C. contract
- D. patent

72. Design and names by which merchants or manufacturers designate and differentiate their products are known as \_\_\_\_.

- A. trademarks
- B. copyrights
- C. patents
- D. licenses

73. The Research and Development division of a company has recently designed a new coffee vending machine that is likely to sell very well in the market. It is compact, user-friendly, and provides unprecedented efficiency in terms of cost per cup. Consequently, the company fears that its competitors would soon mimic the design of their product and to protect its product, it is now seeking a \_\_\_\_ for the same.

- A. copyright
- B. patent
- C. trademark
- D. certification

74. Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

- A. Patents
- B. Copyrights
- C. Trademarks
- D. Licenses

75. The TRIPS agreement was designed to:

- A. exclude China from all intellectual property agreements.
- B. oversee a much stricter enforcement of intellectual property regulations.
- C. hold a firm and its officers responsible when a product causes injury, death, or damage.
- D. support traded software and recorded property among developed markets.

76. Which of the following statements about the Trade Related Aspects of Intellectual Property Rights (or TRIPS) agreement is NOT true?

- A. It was designed to oversee enforcement of much stricter intellectual property regulations, beginning in 1995.
- B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
- C. It directed rich countries to comply with its rules of intellectual property protection within five years.
- D. It provided the very poorest countries 10 years to comply with its rules of intellectual property protection.

77. Safety standards to which a product must adhere are set by:

- A. safety certifications.
- B. contract laws.
- C. product safety laws.
- D. product liability laws.

## Essay Questions

78. Why did Karl Marx criticize capitalism? Describe how he planned to correct those shortcomings.

79. Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?



80. What are state-owned companies? Why do they usually perform poorly?

81. Discuss individualism. Explain the key positions of the philosophy, its roots, and its role in the modern economy.

82. Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

83. How do countries with representative democracies ensure that their elected officials are held responsible for their actions?

84. Compare and contrast the four forms of totalitarianism.

85. Identify the three types of economic systems. How do these three types of economic systems differ from each other? How are they the same?

86. Discuss why there is inefficiency in a monopoly situation. What is the role of the government in such a situation?

87. Discuss the effects of private ownership of production in a market economy.

88. Why do command economies tend to stagnate?

89. What is a country's legal system? Why is it important to international businesses?

90. Explain the differences between common law and civil law systems by the approach of each to contract law.

91. What is the United Nations Convention on Contracts for the International Sale of Goods (CIGS)?

92. What is private action?

93. Discuss the ways in which public action to violate property rights can occur.

94. Discuss the Foreign Corrupt Practices Act.

95. Discuss the different ways to protect intellectual property.

96. What is product liability?

97. What are the factors that contribute to the attractiveness of a country as a market or investment site?



## Chapter 02 National Differences in Political Economy **Answer Key**

### True / False Questions

1. The two dimensions, according to which the political systems can be assessed, collectivism-individualism and democratic-totalitarian are independent of each other.

**FALSE**

Political systems can be assessed according to two dimensions. The first is the degree to which they emphasize collectivism as opposed to individualism. The second is the degree to which they are democratic or totalitarian. These dimensions are interrelated.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

2. It is possible to have a democratic political system that emphasizes a mix of collectivism and individualism.

TRUE

Systems that emphasize collectivism tend toward totalitarian, whereas those that place a high value on individualism tend to be democratic. However, a large gray area exists in the middle. It is possible to have democratic societies that emphasize a mix of collectivism and individualism. Similarly, it is possible to have totalitarian societies that are not collectivist.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

3. When collectivism is emphasized, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society."

TRUE

When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms. In such circumstances, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society" or to "the common good."

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

4. Plato, to whom the advocacy of collectivism is traced back, did not equate collectivism with equality.

TRUE

Advocacy of collectivism can be traced to the ancient Greek philosopher Plato. Plato did not equate collectivism with equality; he believed that society should be stratified into classes, with those best suited to rule (which for Plato, naturally, were philosophers and soldiers) administering society for the benefit of all.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

5. The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.

**FALSE**

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

6. The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.

**FALSE**

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

7. The social democrats believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

**FALSE**

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

8. Modern socialists trace their intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx.

**TRUE**

Modern socialists trace their intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx (elements of it can be traced to Plato).

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

9. In an individualist society, the welfare of society is best served by letting people pursue their own economic self-interest.

**TRUE**

Individualism refers to a philosophy that an individual should have freedom in his or her economic and political pursuits. In contrast to collectivism, individualism stresses that the interests of the individual should take precedence over the interests of the state.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

10. Aristotle argued that individual diversity and private ownership are undesirable.

**FALSE**

Aristotle argued that individual diversity and private ownership are desirable. According to Aristotle, communal property receives little care, whereas property that is owned by an individual will receive the greatest care and therefore be most productive.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

11. In practical terms, individualism translates into an advocacy for democratic political systems and market economics.

TRUE

In practical terms, individualism translates into an advocacy for democratic political systems and market economics, which in general creates a more favorable environment for international businesses to operate in.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

12. Most modern democratic states practice representative democracy.

TRUE

In complex, advanced societies with populations in the tens or hundreds of millions the pure form of democracy is impractical. Most modern democratic states practice representative democracy.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

13. In a totalitarian country, there are safeguards to protect an individual's right to freedom of expression, opinion, and organization.

**FALSE**

In a totalitarian country, all the constitutional guarantees on which representative democracies are built—an individual's right to freedom of expression and organization, a free media, and regular elections—are denied to the citizens.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

14. It is possible to have a totalitarian state that is hostile to collectivism and where some degree of individualism is encouraged.

**TRUE**

Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism. A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*



15. In a market economy, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

TRUE

In a market economy, if demand for a product exceeds supply, prices will rise, signaling producers to produce more. If supply exceeds demand, prices will fall, signaling producers to produce less. In this system consumers are sovereign.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

16. The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

TRUE

Historically, command economies were found in communist countries where collectivist goals were given priority over individual goals. Since the demise of communism in the late 1980s, the number of command economies has fallen dramatically.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

17. The objective of the government in a command economy is to encourage free and fair competition between private producers.

**FALSE**

The objective of a command economy is for government to allocate resources for "the good of society." In addition, in a pure command economy, all businesses are state owned.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

18. In a command economy, enterprises have little incentive to control costs and be efficient, because they cannot go out of business.

**TRUE**

In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

19. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

TRUE

In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

20. A nation's legal system is usually of very little interest to international business managers, because international businesses are headquartered in different countries.

**FALSE**

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained. The legal system of a country is of immense importance to international business.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

21. When law courts interpret common law, they do so with regard to tradition, precedent, and custom.

**TRUE**

Common law is based on tradition, precedent, and custom. Tradition refers to a country's legal history, precedent to cases that have come before the courts in the past, and custom to the ways in which laws are applied in specific situations. When law courts interpret common law, they do so with regard to these characteristics.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

22. Judges under a civil law system have more flexibility than those under a common law system.

**FALSE**

A civil law system is based on a detailed set of laws organized into codes.

Judges under a civil law system have less flexibility than those under a common law system.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

23. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

**TRUE**

Common law is based on tradition, precedent, and custom. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

24. Common law is primarily a moral rather than a commercial law and is intended to govern all aspects of life.

**FALSE**

The common law system evolved in England over hundreds of years. Common law is based on tradition, precedent, and custom.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

25. A theocratic law system is one in which the law is based on religious teachings.

**TRUE**

A theocratic law system is one in which the law is based on religious teachings.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

26. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

**TRUE**

Contract law is the body of law that governs contract enforcement. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

27. Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

**FALSE**

Because common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, however, contracts tend to be much shorter and less specific because many of the issues are already covered in a civil code.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

28. Many of the world's larger trading nations, including Japan and the United Kingdom, have not ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS).

TRUE

One problem with the CIGS, however, is that fewer than 70 nations have ratified the convention (the CIGS went into effect in 1988). Many of the world's larger trading nations, including Japan and the United Kingdom, have not ratified the CIGS.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

29. Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

TRUE

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*



30. To facilitate international business, property rights are defined in a consistent way across countries.

**FALSE**

Countries differ in the extent to which their legal systems define and protect property rights.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

31. Property rights can be violated in two ways—through private action and through public action.

**TRUE**

Property rights can be violated in two ways—through private action and through public action.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

32. The Foreign Corrupt Practices Act does not allow for grease payments.

**FALSE**

Both the U.S. law and OECD convention include language that allows for exceptions known as facilitating or expediting payments (also called grease payments or speed money ), the purpose of which is to expedite or to secure the performance of a routine governmental action.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

33. In the 1970s, the United States passed the Foreign Corrupt Practices Act which requires all publicly traded companies, whether or not they are involved in international trade, to keep detailed records that would reveal whether a violation of the act has occurred.

**TRUE**

The Foreign Corrupt Practices Act requires all publicly traded companies (whether or not they are involved in international trade) to keep detailed records that would reveal whether a violation of the act has occurred.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

34. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

TRUE

Patents, copyrights, and trademarks establish ownership rights over intellectual property.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

35. Patents discourage companies from committing themselves to extensive basic research.

FALSE

The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical record, and the like, for his or her idea and effort. Without the guarantees provided by patents, companies would be unlikely to commit themselves to extensive basic research.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

36. The Trade Related Aspects of Intellectual Property Rights, attempts to reduce intellectual property protections to enhance trade.

**FALSE**

Under the new agreement, known as the Trade Related Aspects of Intellectual Property Rights (or TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations. These regulations oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

37. Product liability sets certain safety standards to which a product must adhere.

**FALSE**

Product safety laws set certain safety standards to which a product must adhere. Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

38. Product liability can be much lower if a product does not conform to required safety standards.

**FALSE**

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Product liability can be much greater if a product does not conform to required safety standards.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

39. The political systems of a country raise ethical issues that have implications for the practice of international business.

**TRUE**

The political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business. For example, what ethical implications are associated with doing business in totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business?

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*

*Topic: Implications For Managers*

40. The political, economic, and legal environments of a country influence the attractiveness of that country as a market or investment site.

TRUE

The political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*

*Topic: Implications For Managers*

## Multiple Choice Questions

41. Interdependent political, economic, and legal systems of a country make up its:

- A. administrative agenda.
- B. socioeconomic fabric.
- C. cultural environment.
- D. political economy.

The term political economy is used to stress that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so they affect the level of economic well-being.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Introduction*

42. A political system that prioritizes the needs of the society over individual freedoms is called \_\_\_\_.

A. totalitarianism

B. collectivism

C. capitalism

D. egalitarianism

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*



43. Modern socialism has been popularized largely through the work of \_\_\_\_.

- A. Adam Smith
- B. Karl Marx
- C. David Hume
- D. Thomas Hobbes

Modern socialists trace their intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx (elements of it can be traced to Plato). Marx argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

44. The \_\_\_\_\_ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

- A. existentialists
- B. social democrats
- C. communists
- D. anarchists

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

45. In several Western democracies, the poor performance of state-owned enterprises, because of protection from competition and guaranteed government financial support, led to \_\_\_\_\_.

- A. privatization
- B. nationalization
- C. liberalization
- D. socialization of production

In many countries, state-owned companies performed poorly. As a consequence, a number of Western democracies voted many Social Democratic parties out of office in the late 1970s and early 1980s. They were succeeded by political parties, such as Britain's Conservative Party and Germany's Christian Democratic Party, that were more committed to free market economics. These parties sold state-owned enterprises to private investors (a process referred to as privatization).

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

46. Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?

- A. Socialism
- B. Individualism
- C. Collectivism
- D. Anarchism

Like collectivism, individualism can be traced to an ancient Greek philosopher, in this case Plato's disciple Aristotle (384-322 BC). In contrast to Plato, Aristotle argued that individual diversity and private ownership are desirable.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

47. The tenet of \_\_\_\_ is that the welfare of society is best served by letting people pursue their own economic self-interest.

- A. socialism
- B. communism
- C. anarchism
- D. individualism

A tenet of individualism is that the welfare of society is best served by letting people pursue their own economic self-interest, as opposed to some collective body (such as government) dictating what is in society's best interest.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

48. Which of the following statements about individualism is NOT true?

- A. Individualism promotes private entrepreneurship.
- B. Individualism promotes free market economics.
- C. Individualism creates an anti-business environment.
- D. Individualism advocates for a democratic political system.

In practical terms, individualism translates into an advocacy for democratic political systems and market economics, which in general creates a more favorable environment for international businesses to operate in.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

49. Which of the following is a feature of a democracy?

- A. Exercise of absolute control by one person or political party.
- B. Governance by people or elected representatives.
- C. Prohibition of entry to opposing political parties.
- D. Complete restriction of individual political freedom.

Democracy refers to a political system in which government is by the people, exercised either directly or through elected representatives.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

50. Totalitarianism:

- A. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
- B. is based on a belief that citizens should be directly involved in decision making.
- C. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
- D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*



51. Peoples' right to protest on issues of accountability in public expenditure would be possible in a \_\_\_\_ political set-up.

- A. dictatorial
- B. democratic
- C. totalitarian
- D. fascist

In a representative democracy, elected representatives who fail to perform this job adequately will be voted out of office at the next election. To guarantee that elected representatives can be held accountable for their actions by the electorate, an ideal representative democracy has a number of safeguards that are typically enshrined in constitutional law.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

52. \_\_\_\_ refers to a state where political power is monopolized by a party, group, or individual that governs according to religious principles.

- A. Representative democracy
- B.** Theocratic totalitarianism
- C. Tribal anarchism
- D. Monotheistic communism

Theocratic totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran and Saudi Arabia.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

53. Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

- A. Tribal totalitarianism
- B. Right-wing totalitarianism
- C. Democratic totalitarianism
- D. Theocratic totalitarianism

Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism. A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

54. In a pure market economy:

- A. all productive activities are owned by the state.
- B. production is determined by the interaction of supply and demand.
- C. collectivist goals are given priority over individual goals.
- D. the prices at which goods are sold is determined by the government.

In the archetypal pure market economy, all productive activities are privately owned, as opposed to being owned by the state. The goods and services that a country produces are not planned by anyone.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

55. An economy in which the interaction of supply and demand determines the quantity in which goods and services are produced is called a \_\_\_\_.

- A. planned economy
- B. command economy
- C. closed economy
- D. market economy

In the archetypal pure market economy, all productive activities are privately owned, as opposed to being owned by the state. Production is determined by the interaction of supply and demand and signaled to producers through the price system.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

56. Antitrust laws in the United States are designed to:

- A. restrict agricultural subsidies.
- B. increase trade barriers.
- C. outlaw monopolies.
- D. restrict privatization.

Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous free and fair competition between private producers. Governments do this by outlawing restrictive business practices designed to monopolize a market (antitrust laws serve this function in the United States).

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

57. In a(n) \_\_\_\_ economy the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

A. market

B. command

C. open economy

D. laissez-faire

In a pure command economy, the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

58. In a \_\_\_\_ economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

- A. market
- B. private
- C. command
- D. mixed

In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*



59. In which of the following economies would the government be most likely to take into state ownership troubled firms whose continued operation is thought to be vital to national interests?

- A. Market economies
- B. Laissez-faire economies
- C. Liberal economies
- D. Mixed economies

In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

60. Which of the following statements about the legal systems of countries is NOT true?

- A. They can affect the attractiveness of a country as an investment site or market.
- B. They are influenced by the prevailing political system of the country.
- C. They are almost the same for all countries.
- D. They are of immense importance to international business.

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained. The legal environments of countries differ in significant ways.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

61. Under the \_\_\_\_, cases are judged with reference to three characteristics: tradition, precedent, and custom.

- A. theocratic law system
- B. civil law system
- C. contract law system
- D. common law system

Common law is based on tradition, precedent, and custom.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

62. A civil law system tends to be less adversarial than a common law system, since \_\_\_\_\_.

- A. the judges' decisions are based on detailed legal codes
- B. the judges have the freedom to interpret laws based on the situation
- C. the judges' decisions are based on religious teachings
- D. the judges are guided by interpretations made in prior legal cases

A civil law system tends to be less adversarial than a common law system, since the judges rely upon detailed legal codes rather than interpreting tradition, precedent, and custom.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

63. A common law system is different from a civil law system because:

- A. a common law system is based on religious teachings, while a civil law system is based on cultural traditions.
- B. a common law system is very rigid, while a civil law system tends to be more flexible.
- C. in a common law system a judge relies on legal codes to make rulings, while in a civil law system a judge relies on his intuition and moral reasoning to make judgments.
- D. in a common law system a judge has the power to interpret the law, while in a civil law system a judge has the power only to apply the law.

Judges in a common law system have the power to interpret the law, whereas judges in a civil law system have the power only to apply the law.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

64. A \_\_\_\_ system is based on a very detailed set of laws organized into codes.

- A. traditional law
- B. theocratic law
- C. civil law
- D. common law

A civil law system is based on a detailed set of laws organized into codes. When law courts interpret civil law, they do so with regard to these codes.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

65. A theocratic law system is one in which the law is based on:

- A. religious teachings.
- B. tradition, precedent, and custom.
- C. a detailed set of laws organized into codes.
- D. cultural and social norms.

A theocratic law system is one in which the law is based on religious teachings.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

66. \_\_\_\_ is the collective term for the legal rights relating to the use to which a resource is put and over the use made of any income that may be derived from that resource.

- A. Trade rights
- B. Property rights
- C. Positive rights
- D. Common rights

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

67. In Russia in the chaotic period following the collapse of communism, an outdated legal system, coupled with a weak police force and judicial system, allowed the Russian Mafia to demand "protection money" from business owners. Any business owner who rebelled had to face violent retribution. This violation of property rights exemplifies \_\_\_\_.

- A. private action
- B. copyright violation
- C. infrastructural failure
- D. public liability

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*



68. Violation of property rights done through legal mechanisms such as levying excessive taxation and requiring expensive licenses or permits from property holders is called \_\_\_\_\_.

- A. private action
- B. collective action
- C. public action
- D. copyright violation

Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

69. Which of the following areas of international trade is regulated by the Foreign Corrupt Practices Act?

A. Making and performance of commercial contracts in international trade.

B. Preventing bribery and unethical acts in the conduct of international business.

C. Establishing a set of safety standards to which a new product must adhere.

D. Controlling the mafia activity that hinders trade in Russia, Japan, and the U.S.

In the 1970s, the United States passed the Foreign Corrupt Practices Act. This law makes it illegal to bribe a foreign government official to obtain or maintain business over which that foreign official has authority.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

70. Which of the following is NOT an example of intellectual property?

- A. A music score
- B. A video game
- C. A software business
- D. A screenplay

Intellectual property refers to property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

71. A \_\_\_\_ grants the inventor of a new product or process exclusive rights for a defined period of time to the manufacture, use, or sale of that invention.

A. copyright

B. trademark

C. contract

D. patent

A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

72. Design and names by which merchants or manufacturers designate and differentiate their products are known as \_\_\_\_.

- A. trademarks
- B. copyrights
- C. patents
- D. licenses

Trademarks are designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products (e.g., Christian Dior clothes).

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

73. The Research and Development division of a company has recently designed a new coffee vending machine that is likely to sell very well in the market. It is compact, user-friendly, and provides unprecedented efficiency in terms of cost per cup. Consequently, the company fears that its competitors would soon mimic the design of their product and to protect its product, it is now seeking a \_\_\_\_\_ for the same.

- A. copyright
- B. patent**
- C. trademark
- D. certification

A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

74. Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

A. Patents

B. Copyrights

C. Trademarks

D. Licenses

Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

75. The TRIPS agreement was designed to:

- A. exclude China from all intellectual property agreements.
- B. oversee a much stricter enforcement of intellectual property regulations.
- C. hold a firm and its officers responsible when a product causes injury, death, or damage.
- D. support traded software and recorded property among developed markets.

Under the new agreement, known as the Trade Related Aspects of Intellectual Property Rights (or TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*



76. Which of the following statements about the Trade Related Aspects of Intellectual Property Rights (or TRIPS) agreement is NOT true?
- A. It was designed to oversee enforcement of much stricter intellectual property regulations, beginning in 1995.
  - B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
  - C. It directed rich countries to comply with its rules of intellectual property protection within five years.
  - D. It provided the very poorest countries 10 years to comply with its rules of intellectual property protection.

Under the new agreement, known as the Trade Related Aspects of Intellectual Property Rights (or TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations. These regulations oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years. Rich countries had to comply with the rules within a year. Poor countries, in which such protection generally was much weaker, had five years of grace, and the very poorest have 10 years.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

77. Safety standards to which a product must adhere are set by:

- A. safety certifications.
- B. contract laws.
- C. product safety laws.
- D. product liability laws.

Product safety laws set certain safety standards to which a product must adhere.

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

## Essay Questions

78. Why did Karl Marx criticize capitalism? Describe how he planned to correct those shortcomings.

Modern socialists trace their intellectual roots to Karl Marx. Marx argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted. While successful capitalists accumulate considerable wealth, Marx postulated that the wages earned by the majority of workers in a capitalist society would be forced down to subsistence levels. He argued that capitalists expropriate for their own use the value created by workers, while paying workers only subsistence wages in return. According to Marx, the pay of workers does not reflect the full value of their labor. To correct this perceived wrong, Marx advocated state ownership of the basic means of production, distribution, and exchange (i.e., businesses). His logic was that if the state owned the means of production, the state could ensure that workers were fully compensated for their labor. Thus, the idea is to manage state-owned enterprise to benefit society as a whole, rather than individual capitalists.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

79. Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?

A collectivist political system is one that stresses the primacy of collective goals over individual goals. In that sense, the needs of the society as a whole are viewed as being more important than individual freedoms. Collectivism can trace its roots to the ancient Greek philosopher Plato who suggested that individual rights be sacrificed for the good of the majority. Today, collectivism is reflected in the socialist movement started by Karl Marx who argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted. Marx advocated state ownership of the basic means of production, distribution, and exchange. Supporters of Marx's ideals were divided into two camps in the early 20<sup>th</sup> century: communists, who believed that socialism could only be achieved through violent revolution and totalitarian dictatorship; and social democrats, who committed themselves to achieving socialism by democratic means. Today, both versions of socialism are losing followers.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

80. What are state-owned companies? Why do they usually perform poorly?

A state-owned company is a company that is owned by a nation's government. After World War II, many social democratic governments nationalized private companies that were to be run for the public good rather than private profit. Great Britain, for example, nationalized so many companies that by the end of the 1970s, state-owned monopolies existed in telecommunications, electricity, gas, coal, and several other industries. However, because state-run companies such as the ones that existed in Great Britain are protected from competition by their monopoly position and guaranteed financial support, they become inefficient.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

81. Discuss individualism. Explain the key positions of the philosophy, its roots, and its role in the modern economy.

Individualism refers to a philosophy that an individual should have freedom in his/her economic and political pursuits. Accordingly, the philosophy stresses that the interests of the individual should take precedence over the interests of the state. Individualism can be traced to the ancient Greek philosopher Aristotle who argued that individual diversity and private ownership are desirable. Aristotle's philosophy was refined by David Hume, Adam Smith, and John Stuart Mill in the 1700s and 1800s, and more recently by Milton Friedman, Friedrich von Hayek, and James Buchanan. Today, individualism translates into an advocacy for democratic political systems and free market economies.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

82. Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

The pure form of democracy is based on a belief that citizens should be directly involved in decision making. In contrast, in a representative democracy, citizens periodically elect individuals to represent them. The elected individuals form a government and make decisions on behalf of the electorate. Because a pure democracy is impractical in advanced societies with tens or hundreds of millions of people, representative democracies are far more common in today's world.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

83. How do countries with representative democracies ensure that their elected officials are held responsible for their actions?

To guarantee that elected representatives are being held accountable for their actions by the electorate, an ideal representative democracy incorporates safeguards that are enshrined in constitutional law. These safeguards include an individual's right to freedom of expression, opinion, and organization; a free media; regular elections in which all eligible citizens are allowed to vote; universal adult suffrage; limited terms for elected representatives; a fair court system that is separate for the political system; a nonpolitical state bureaucracy; a nonpolitical police force and armed service; and relatively free access to state information.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*



84. Compare and contrast the four forms of totalitarianism.

In a totalitarian country, an individual's right to freedom of expression and organization, a free media, and regular elections are denied to the citizens. There are four forms of totalitarianism. Communist totalitarianism was until recently the most widespread form of totalitarianism. This form of totalitarianism advocates that socialism can only be achieved through totalitarian dictatorship. Theocratic totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. Tribal totalitarianism occurs when a political party that represents the interests of a particular tribe monopolizes power. Right-wing totalitarianism permits some individual economic freedoms but restricts individual political freedom.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Understand how the political systems of countries differ.*

*Topic: Political Systems*

85. Identify the three types of economic systems. How do these three types of economic systems differ from each other? How are they the same?

In a pure market economy, all productive activities are privately owned. Production is determined by supply and demand, and signaled to producers through the price system. The role of the government in a pure market economy is to encourage vigorous free and fair competition between private producers. In a command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government. The government's role is to allocate resources for the good of the society. In addition, all businesses are state owned. A mixed economy is a combination of the other economic systems in which certain sectors of the economy are left to private ownership and free market mechanisms, while other sectors have significant state ownership and government planning.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

86. Discuss why there is inefficiency in a monopoly situation. What is the role of the government in such a situation?

In a monopoly situation, a firm has no competitors, and therefore it has no incentive to search for ways to lower production costs. Rather, cost increases are simply passed on to consumers in the form of higher prices. The net result is that the monopolist is likely to become increasingly inefficient, producing high-priced, low-quality goods. Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous free and fair competition between private producers. Governments do this by outlawing restrictive business practices designed to monopolize a market (antitrust laws serve this function in the United States).

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

87. Discuss the effects of private ownership of production in a market economy.

Private ownership encourages vigorous competition and economic efficiency. Private ownership ensures that entrepreneurs have a right to the profits generated by their own efforts. This gives entrepreneurs an incentive to search for better ways of serving consumer needs. That may be through introducing new products, by developing more efficient production processes, by pursuing better marketing and after-sale service, or simply through managing their businesses more efficiently than their competitors. In turn, the constant improvement in product and process that results from such an incentive has been argued to have a major positive impact on economic growth and development.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

88. Why do command economies tend to stagnate?

The objective of a command economy is to mobilize economic resources for the public good, however the opposite usually occurs. In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies. Instead of growing and becoming more prosperous, such economies tend to stagnate.

*AACSB: Analytic*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize how the economic systems of countries differ.*

*Topic: Economic Systems*

89. What is a country's legal system? Why is it important to international businesses?

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which laws are enforced through which redress for grievances are obtained. It is critical that international companies understand a country's legal system because the legal system regulates business practice, defines the manner in which business transactions are to be executed, and sets down the rights and obligations of those involved in business transactions.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

90. Explain the differences between common law and civil law systems by the approach of each to contract law.

Contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In contrast, contracts in a civil law system tend to be much shorter and less specific because many of the issues typically covered in a common law contract are already covered in civil law.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

91. What is the United Nations Convention on Contracts for the International Sale of Goods (CIGS)?

When contract disputes arise in international trade, there is always the question of which country's laws to apply. To resolve this issue, a number of countries, including the

United States, have ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS). The CIGS establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations. By adopting the CIGS, a nation signals to other adopters that it will treat the convention's rules as part of its law. The CIGS applies automatically to all contracts for the sale of goods between different firms based in countries that have ratified the convention, unless the parties to the contract explicitly opt out.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

92. What is private action?

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others. For example, in Russia in the chaotic period following the collapse of communism, an outdated legal system, coupled with a weak police force and judicial system, offered both domestic and foreign businesses scant protection from blackmail by the "Russian Mafia." Successful business owners in Russia often had to pay "protection money" to the Mafia or face violent retribution, including bombings and assassinations.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*



93. Discuss the ways in which public action to violate property rights can occur.

Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders. This can be done through legal mechanisms such as levying excessive taxation, requiring expensive licenses or permits from property holders, taking assets into state ownership without compensating the owners, or redistributing assets without compensating the prior owners. It can also be done through illegal means, or corruption, by demanding bribes from businesses in return for the rights to operate in a country, industry, or location.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

94. Discuss the Foreign Corrupt Practices Act.

The Foreign Corrupt Practices Act was passed during the 1970s by the United States. The Law makes it illegal for American companies to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, and requires all publicly trade companies to keep detailed records that would allow determining whether a violation of the act has occurred.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

95. Discuss the different ways to protect intellectual property.

Ownership rights over intellectual property are established through patents, copyrights, and trademarks. A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention. Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit. Trademarks are designs and names by which merchants or manufacturers designate and differentiate their products.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

96. What is product liability?

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Product liability can be much greater if a product does not conform to required safety standards. Both civil and criminal product liability laws exist. Civil laws call for payment and monetary damages. Criminal liability laws result in fines or imprisonment. Both civil and criminal liability laws are probably more extensive in the United States than in any other country, although many other Western nations also have comprehensive liability laws. Liability laws are typically least extensive in less developed nations.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Understand how the legal systems of countries differ.*

*Topic: Legal Systems*

97. What are the factors that contribute to the attractiveness of a country as a market or investment site?

The political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems. The overall attractiveness of a country as a market or investment site depends on balancing the likely long-term benefits of doing business in that country against the likely costs and risks.

*AACSB: Analytic*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*

*Topic: Implications For Managers*