Hill GBT 10e

Chapter 01 Test Bank

**True / False Questions**

1. As a result of globalization, we have been moving toward a world in which national economies are relatively self-contained entities.
**FALSE**

Over the past five decades, a fundamental shift has been occurring in the world economy. We have been moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

2. As a result of globalization, companies rarely need to customize marketing strategies, product features, and operating practices in different countries.
**FALSE**

Significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. These differences frequently require companies to customize marketing strategies, product features, and operating practices to best match conditions in a particular country.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

3. Today, outsourcing efforts are confined to manufacturing activities.

**FALSE**

Early outsourcing efforts were primarily confined to manufacturing activities. Increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

4. The World Trade Organization, the International Monetary Fund and its sister institution the World Bank, and the United Nations were all created by voluntary agreement between individual nation-states.
**TRUE**

Over the past half century, a number of important global institutions have been created to help manage, regulate, and police the global marketplace and to promote the establishment of multinational treaties to govern the global business system. These include the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO); the International Monetary Fund (IMF) and its sister institution, the World Bank; and the United Nations (UN). All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

5. The WTO is seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations.
**FALSE**

The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

6. Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.
**TRUE**

Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

7. After World War II, the advanced industrial nations of the West committed themselves to increasing barriers to the free flow of goods, services, and capital between nations.
**FALSE**

Having learned from past experience, the advanced industrial nations of the West committed themselves after World War II to progressively reducing barriers to the free flow of goods, services, and capital among nations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

8. The Uruguay Round extended GATT to cover services as well as manufactured goods.
**TRUE**

The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

9. One result of the Uruguay Round was the creation of the United Nations.
**FALSE**

The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

10. The lowering of trade and investment barriers allows firms to base production at the optimal location for that activity.
**TRUE**

The lowering of trade and investment barriers allows firms to base production at the optimal location for that activity.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

11. In recent years, the economies of the world's nation-states have become less intertwined as a result of international trade.
**FALSE**

The economies of the world's nation-states are becoming more intertwined. As trade expands, nations are becoming increasingly dependent on each other for important goods and services.

*AACSB: Analytical Thinking
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Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

12. The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding it easier to protect themselves from attack by foreign competitors.
**FALSE**

The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets under attack from foreign competitors.

*AACSB: Analytical Thinking
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Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

13. Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances.
**TRUE**

In economic terms, the most important major innovations in transportation technology are probably the development of commercial jet aircraft and superfreighters and the introduction of containerization, which simplifies transshipment from one mode of transport to another. Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

14. Moore's law predicts, that every 18 months, the power of microprocessor technology decreases, while its cost of production increases.
**FALSE**

The cost of microprocessors continues to fall, while their power increases (a phenomenon known as Moore’s law, which predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months).

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
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Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

15. The United States accounted for a significantly larger share of the world output in 2014 than it did in the 1960s.
**FALSE**

In 1960, the United States accounted for 38.3 percent of world output, measured by gross domestic product (GDP). By 2014, the United States accounted for 22.4 percent of world output, still the world’s largest industrial and commercial power but down significantly in relative size.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

16. The stock of foreign direct investment refers to the total cumulative value of foreign investments.
**TRUE**

The stock of foreign direct investment refers to the total cumulative value of foreign investments.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

17. Throughout the 1990s, the amount of investment directed at both developed and developing nations increased dramatically.
**TRUE**

Throughout the 1990s, the amount of investment directed at both developed and developing nations increased dramatically, a trend that reflects the increasing internationalization of business corporations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

18. A multinational enterprise (MNE) is any business that exports goods or services to consumers in another country.
**FALSE**

A multinational enterprise (MNE) is any business that has productive activities in two or more countries.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

19. Today, many of the former Communist nations of Europe and Asia seem to share a commitment to democratic policies and free market economies.
**TRUE**

Many of the former Communist nations of Europe and Asia seem to share a commitment to democratic policies and free market economies. For half a century, these countries were essentially closed to Western international businesses. Now, they present a host of export and investment opportunities.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

20. The move toward a global economy has strengthened the adoption of conservative economic policies by developing nations.
**FALSE**

The move toward a global economy has been further strengthened by the widespread adoption of liberal economic policies by countries that had firmly opposed them for two generations or more.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

21. According to many influential economists, the increase in international trade and cross-border investment will result in an increase in the prices of goods and services.
**FALSE**

Many influential economists, politicians, and business leaders seem to think that the shift toward a more integrated and interdependent global economy is a good thing. They say increased international trade and cross-border investment will result in lower prices for goods and services.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

22. In general, as countries get richer, they enact tougher environmental and labor regulations.
**TRUE**

Supporters of free trade and greater globalization argue that tougher environmental regulations and stricter labor standards go hand in hand with economic progress. In general, as countries get richer, they enact tougher environmental and labor regulations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

23. A firm has to become a multinational enterprise to engage in international business.
**FALSE**

An international business is any firm that engages in international trade or investment. A firm does not have to become a multinational enterprise, investing directly in operations in other countries, to engage in international business, although multinational enterprises are international businesses.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Challenges and Opportunities Created by Globalization*

24. Despite all the talk about the emerging global village, differences between countries, such as differences in cultures and political systems, can be very profound and enduring.
**TRUE**

Countries differ in their cultures, political systems, economic systems, legal systems, and levels of economic development. Despite all the talk about the emerging global village, and despite the trend toward globalization of markets and production, many of these differences are very profound and enduring.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Challenges and Opportunities Created by Globalization*

25. As a result of globalization, international businesses can avoid the haggle of currency exchanges during cross-border transactions.
**FALSE**

Cross-border transactions require that money be converted from the firm's home currency into a foreign currency and vice versa. Because currency exchange rates vary in response to changing economic conditions, managers in an international business must develop policies for dealing with exchange rate movements.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Challenges and Opportunities Created by Globalization*

**Multiple Choice Questions**

26. Which of the following has been reduced as a result of globalization?
A. Volume of goods and services
B. Foreign exchange transactions
C. Environment and labor laws
**D.** Differences in material culture
E. Regulation of markets

We are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic system.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

27. What is the shift toward a more integrated and interdependent world economy called?
A. International trade
B. Foreign direct investment
**C.** Globalization
D. Moore's Law
E. Containerization

Globalization refers to the shift toward a more integrated and interdependent world economy. Globalization has several facets, including the globalization of markets and the globalization of production.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

28. Automobile companies promote different car models in different countries depending on a range of factors such as demographics, local taste, local fuel costs, income levels, traffic congestion, and cultural values. This most likely demonstrates that
**A.** significant differences still exist among national markets.
B. cultural diversity has been replaced by global uniformity.
C. the global market is less complex than national markets.
D. only multinational giants can benefit from the globalization of markets.
E. the social norms in a country do not affect purchase decisions of consumers.

Significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. These differences frequently require companies to customize marketing strategies, product features, and operating practices to best match conditions in a particular country.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

29. Which of the following statements best supports the claim that greater uniformity replaces diversity in the context of global markets?
A. Differences in business systems and legal regulations lead companies to customize their marketing strategies, product features, and operating practices to best match conditions in a particular country.
**B.** As rival global firms follow each other across countries, they bring with them their brand names, products, and marketing strategies from other national markets, thus creating some homogeneity across markets.
C. Truly innovative companies succeed by developing products that serve specific needs of the local markets.
D. The volume of goods, services, and investment crossing national borders has expanded at a slower rate than world output for more than half a century.
E. The most global of markets are not typically markets for consumer products, as significant differences in consumer tastes and preferences still exist among national markets.

As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—including their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

30. Which of the following refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors such as labor, energy, land, and capital?
A. Globalization of markets
B. Containerization of production
C. Dispersal of production
**D.** Globalization of production
E. Industrialization of markets

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

31. Which of the following best illustrates the globalization of production?
**A.** Daily Diamonds, an American jewelry manufacturer, buys diamonds from South Africa and exports them to India for the cutting process.
B. Evan Swan, a U.S.-based fashion designer, is planning to open a flagship store in China to serve the Asian market.
C. Uncle Crab, a U.K. fast food chain, has been serving customers worldwide through its franchises.
D. Silver Unicorn Inc. uses sales personnel from the respective host country to sell its products and services.
E. Pizza Gallery, an Italian pizza chain, customizes its pizzas and pastas to suit the tastes of its American and Australian customers.

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital).

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

32. West Electronic Corporation sources goods and services for its electronics products from different locations around the globe in an attempt to take advantage of differences in the cost and quality of labor and land. This practice demonstrates the
**A.** globalization of production.
B. globalization of markets.
C. dislocation of a developing nation's economy.
D. restriction on foreign direct investment.
E. regulation of the environment.

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital).

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

33. Which of the following services CANNOT be outsourced to foreign nations?
A. debugging software
B. handling consumer queries
C. transcribing medical files
D. interpreting MRI scans
**E.** delivering closing arguments for a lawsuit

Increasingly, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations. However, while corporations can outsource routine legal work to foreign nations to lower costs, they need attorneys to handle their trials and lawsuits—make opening statements and closing arguments, etc.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

34. Which of the following was established to ensure that nation-states adhered to the rules laid down in trade treaties?
A. United Nations
B. International Monetary Fund
C. Group of Twenty
**D.** World Trade Organization
E. World Bank

The World Trade Organization (WTO)  (like the GATT before it) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

35. Why was the World Bank set up?
A. to preserve peace through international cooperation
**B.** to promote economic development
C. to maintain order in the international monetary system
D. to formulate a coordinated policy response to financial crises
E. to police the world trading system

The World Bank was created in 1944 to promote economic development. It has focused on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or roads).

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

36. Which of the following is an argument put forth by critics of the IMF?
A. It only makes agreements with nation-states whose economies are stabilized.
B. It provides assistance only to developing nations and completely ignores the developed nations.
C. It is not powerful enough to ensure that the nation-states adhere to the rules laid down in trade treaties.
D. It promotes the rise of communism across the globe.
**E.** It usurps the sovereignty of nation-states by telling governments what economic policies they must adopt.

IMF loans come with strings attached. In return for loans, the IMF requires nation-states to adopt specific economic policies aimed at returning their troubled economies to stability and growth. These requirements have sparked controversy. Some critics maintain that by telling national governments what economic policies they must adopt, the IMF is usurping the sovereignty of nation-states.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

37. According to the UN Charter, one of the four purposes of the UN is to
**A.** be a center for harmonizing the actions of nations.
B. encourage high tariffs on imports of manufactured goods.
C. provide enhanced protection for patents.
D. promote the establishment of multinational treaties.
E. facilitate globalization of production.

According to the UN charter, the UN has four purposes: to maintain international peace and security, to develop friendly relations among nations, to cooperate in solving international problems and in promoting respect for human rights, and to be a center for harmonizing the actions of nations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

38. Which of the following is a macro factor underlying the trend toward greater globalization?
A. Rise of communism across the globe
B. Increase in nationalization of private organizations
C. Increase in diversity in consumer tastes and preferences
D. Increase in trade regulations across the globe
**E.** Dramatic developments in information processing and other technologies

Two macro factors underlie the trend toward greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent decades in communication, information processing, and transportation technologies.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

39. Which of the following best exemplifies foreign direct investment (FDI)?
A. Pure Pearls, a jewelry store in the United States, imports harvested pearls from Indonesia, Philippines, and Australia.
**B.** Chivalry, a U.S.-based phone manufacturing company, has set up its own assembly plant in Japan to cater to the needs of the Asian market.
C. Delicate Love, a reputable florist company in Holland, exports tulips and roses throughout the globe.
D. Samantha started an Italian restaurant in her home country, the United States, after she took cooking lessons from a well-known chef in Italy.
E. Yin and Yang Inc., a Chinese firm, supplies buttons and zippers to major denim brands in the United Kingdom.

Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

40. ABC Toys, a U.S.-based toy manufacturer, has set up a manufacturing plant in Hong Kong. This is an example of
**A.** foreign direct investment.
B. international trade.
C. exporting.
D. global rivalry.
E. the globalization of markets.

Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.

*AACSB: Knowledge Application
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Blooms: Apply
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41. Michelle, an Italian fashion designer, sells her merchandise by exporting it to the United States, United Kingdom, and Brazil. According to this information, Michelle is most likely involved in
A. foreign direct investment.
B. globalization of production.
**C.** international trade.
D. multinational enterprise.
E. outsourcing.

International trade refers to the exporting of goods or services to consumers in another country.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

42. For foreign direct investment (FDI) to occur, a firm should primarily
A. conduct cross-border bartering with neighboring countries.
**B.** invest resources in business activities outside its home country.
C. export goods or services to consumers in another country.
D. import goods or services from producers in another country.
E. erect formidable barriers to international trade.

Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
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Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

43. The motive behind the high tariffs imposed by nations on imports of manufactured goods, prior to World War II, was to:
**A.** protect domestic industries from foreign competition.
B. prevent the occurrence of the Great Depression.
C. safeguard patents, copyrights, and trademarks.
D. promote the trade of services over the trade of manufactured goods.
E. deter any possible attempts to promote communism.

During the 1920s and 1930s, many of the world's nation-states erected formidable barriers to international trade and foreign direct investment. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition.

*AACSB: Analytical Thinking
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Blooms: Understand
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Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

44. Which of the following reasons contributed to the Great Depression of the 1930s?
A. Inability to meet the increasing world demand for products
B. Several countries accepting the General Agreement on Tariffs and Trade
C. Increasing attack from foreign competitors on domestic industries
D. Privatization of state-owned organizations
**E.** Countries progressively raising trade barriers against each other

Countries progressively raising trade barriers against each other ultimately depressed world demand and contributed to the Great Depression of the 1930s.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
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Topic: Drivers of Globalization*

45. What was a result of the Uruguay Round?
A. increased trade and investment barriers
B. excluding the trade of services from international trade
C. transforming the World Trade Organization into the GATT
**D.** enhanced protection for patents, trademarks, and copyrights
E. promoting the worldwide rise of communism

The Uruguay Round reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

46. Which of the following characterizes the lowering of trade and investment barriers?
A. protects domestic industries from foreign competition
B. was not an agenda of the Uruguay Round
**C.** allows firms to base production at optimal locations outside their home country
D. creates an unfavorable environment for FDI
E. caused the Great depression of the 1930s

The lowering of trade and investment barriers allows firms to base production at the optimal location for that activity.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

47. While the lowering of trade barriers made globalization of markets and production a theoretical possibility, which of the following has made it a tangible reality?
**A.** the advances in communication, information processing, and transportation technologies
B. the rise of communism and the need for independent economies on a global scale
C. the increasing diversity in consumer tastes and preferences worldwide
D. the increasing differences in the material culture the world over
E. the decreasing significance of the World Trade Organization

The lowering of trade barriers made globalization of markets and production a theoretical possibility. Technological change has made it a tangible reality.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

48. Gerald bought his son, David, a computer two years ago. Recently, he decided to buy his daughter, Julian, a computer of her own. In the context of the two-year gap between the purchase of both the computers and Moore's law, it is most likely that
A. Gerald paid a higher price for Julian's computer.
B. David's computer will have a microprocessor with better power than that of Julian's.
C. both David's and Julian's computers would cost Gerald the same price.
**D.** the microprocessor in Julian's computer will be more advanced in terms of power than that of David's.
E. the power of the microprocessors, in both David and Julian's computers, would be the same.

The cost of microprocessors continues to fall, while their power increases (a phenomenon known as Moore's law, which predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months).

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

49. Richard purchased a computer for $600 in 2015. Compared to the $900 computer that he had purchased back in 2011, the new one seems to be more efficient in terms of the price he has paid and the power of the microprocessor technology. This is best explained by
A. product liability.
B. property rights.
**C.** Moore's law.
D. purchasing power parity.
E. sustainable strategies.

The cost of microprocessors continues to fall, while their power increases (a phenomenon known as Moore's law, which predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months).

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

50. The advent of containerization has
A. made the economies of the world's nation-states less intertwined.
B. made moving goods from one mode of transport to another extremely labor-intensive.
**C.** significantly lowered the costs of shipping goods over long distances.
D. slowed down the globalization of markets and production.
E. increased costs of coordinating and controlling a global organization.

Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

51. Which of the following countries has seen a relative decline in its share of world output between 1960 and 2014?
**A.** United States
B. Brazil
C. Thailand
D. China
E. South Korea

In the early 1960s, the United States was still by far the world's dominant industrial power. In 1960, the United States accounted for 38.3 percent of world output, measured by gross domestic product (GDP). By 2014, the United States accounted for 22.4 percent of world output, still the world’s largest industrial and commercial power but down significantly in relative size. This change in the U.S. position was not an absolute decline because the U.S. economy grew significantly between 1960 and 2014 (the economies of Germany, France, and the United Kingdom also grew during this time).

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

52. Which statement reflects the changing demographics of the global economy?
**A.** U.S. dominance in export markets has waned as Japan, Germany, and a number of newly industrialized countries have taken a larger share of world exports.
B. The change in the position of the United States in terms of the share of world output is the result of the absolute decline in the health of the U.S. economy.
C. From 1960 to 2010, countries that experienced a large decrease in their share of world output include Japan, Thailand, Malaysia, Taiwan, and South Korea.
D. The United States is the only developed nation to see its relative standing in the share of world output slip.
E. Today, roughly half the globe—the centrally planned economies of the communist world—is off-limits to Western international businesses.

Over the past 30 years, U.S. dominance in export markets has waned as Japan, Germany, and a number of newly industrialized countries such as South Korea and China have taken a larger share of world exports.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

53. Which of the following is most likely to be observed in today's global economy?
A. increasing U.S. share of world output
B. large U.S. entrepreneurial firms dominating the international business scene
C. increasing U.S. dominance in the world economy and world trade picture
D. most of the nations being governed by centrally planned economies of the communist world
**E.** continued rise in the share of world output accounted for by developing nations such as China and India

Most forecasts now predict a continued rise in the share of world output accounted for by developing nations such as China, India, Russia, Indonesia, Thailand, South Korea, Mexico, and Brazil, and a commensurate decline in the share enjoyed by rich industrialized countries such as Great Britain, Germany, Japan, and the United States.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

54. Which of the following has seen a positive change from 1960 to 2014?
A. growth of the centrally planned economies of the communist world
B. U.S. position in the world economy and world trade picture
C. the share of world output enjoyed by rich industrialized countries such as Great Britain, Germany, and France
**D.** the share of world output accounted for by developing nations
E. prevalence of independent and self-contained national economies

In 1960, the United States accounted for 38.3 percent of world output, measured by gross domestic product (GDP). By 2014, the United States accounted for 22.4 percent of world output, down significantly in relative size. The United States was not the only developed nation to see its relative standing slip. The same occurred to Germany, France, and the United Kingdom—all nations that were among the first to industrialize. This change in the U.S. position was not an absolute decline. Rather, it was a relative decline, reflecting the faster economic growth of several other economies, particularly in Asia.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

55. Due to the changing economic geography, many of tomorrow's economic opportunities are most likely to be found in the
A. rich industrialized nations of the world like Great Britain and Germany.
B. centrally planned economies of the communist world.
C. United States.
**D.** developing nations of the world such as China, India, and Brazil.
E. countries that are currently not members of the World Trade Organization.

Many of tomorrow's economic opportunities may be found in the developing nations of the world, and many of tomorrow's most capable competitors will probably also emerge from these regions.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

56. Which of the following identifies the motivation for much of the foreign direct investment by non-U.S. firms?
**A.**  desire to disperse production activities to optimal locations
B.  need to suppress emerging economies such as China, India, and Brazil
C.  demand for skilled workers in foreign nations
D.  lack of adequate environmental regulations
E.  establishment of multinational treaties

The motivation for much of the foreign direct investment by non-U.S. firms was the desire to disperse production activities to optimal locations and to build a direct presence in major foreign markets.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

57. Which of the following refers to the total cumulative value of foreign investments?
A. Purchasing power parity
B. Multipoint pricing
**C.** Stock of foreign direct investment
D. Switch trading
E. Bill of lading

The stock of foreign direct investment refers to the total cumulative value of foreign investments.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

58. Silver Fire Electric Inc., a U.S.-based company, has productive activities in more than two countries. As a result, it would be most appropriate to refer to Silver Fire Electric as what type of enterprise?
A. greenfield
B. universal
C. private
**D.** multinational
E. public

A multinational enterprise (MNE) is any business that has productive activities in two or more countries.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

59. ABC Company, which is headquartered in the United States, has production plants in Mexico and Vietnam. According to this information, ABC company is
A. against globalization.
**B.** a multinational enterprise.
C. engaging in the globalization of markets.
D. engaging in international trade.
E. a local company.

A multinational enterprise (MNE) is any business that has productive activities in two or more countries.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

60. What are mini-multinationals?
A. multinational firms from relatively small countries in terms of area
B. multinationals from the developing nations of the world
C. multinational firms that operate in only one foreign country
**D.** medium-sized and small multinationals
E. subsidiaries of large multinationals in foreign countries

Medium-size and small multinationals are called mini-multinationals.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

61. Which of the following statements reflects an important trend in the changing nature of multinational enterprises?
A. Global business activity is increasingly being dominated by large U.S. multinational corporations.
B. The number of medium-size and small multinationals is decreasing continuously.
C. The ranks of the world's largest 100 multinationals are dominated by firms from developing economies.
D. The Internet is increasing the barriers that small firms face in building international sales.
**E.** International business is conducted not just by large firms but also by medium-size and small enterprises.

International business is conducted not just by large firms but also by medium-size and small enterprises.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

62. Royal Teas, a U.K.-based company employing just 30 people worldwide, generates $1.5 million in revenues of which 60 percent comes from exports to Asian countries. In this context, Royal Teas is most likely classified as a
A. large domestic firm.
**B.** mini-multinational firm.
C. greenfield firm.
D. foreign firm.
E. multinational giant.

A trend in international business has been the growth of medium-size and small multinationals (mini-multinationals).

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

63. Which of the following conditions is most likely to act as a deterrent for foreign firms willing to do business with former communist nations of Eastern Europe and central Asia?
A.  high levels of economic development in these countries
**B.**  signs of growing unrest and totalitarian tendencies seen in these countries
C. strong commitment to market-based economic systems seen in these countries
D. collapse of communism in these countries
E. low returns involved in doing business in these countries

Disturbing signs of growing unrest and totalitarian tendencies continue to be seen in several Eastern European and Central Asian states. Thus, the risks involved in doing business in such countries are high, but so may be the returns.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

64. In the past two decades, the majority of Latin American countries have
A. experienced a decline in the health of their economies.
**B.** sold state-owned enterprises to private investors.
C. been characterized by low growth, high debt, and hyperinflation.
D. restricted investment by foreign firms.
E. discouraged both democracy and free market reforms.

In the past two decades, much has changed in Latin America. Debt and inflation are down, governments have sold state-owned enterprises to private investors, foreign investment is welcomed, and the region's economies have expanded.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

65. Which of the following statements reflects the nature of the global economy of the twenty-first century?
A. National economies are becoming less integrated into a single and interdependent economic system.
B. The number of nations joining the ranks of the developed world has reduced.
**C.** Countries have extensively adopted liberal economic policies.
D. There are fewer instances of state-owned businesses privatized and markets being opened to more competition.
E. The world is currently moving toward an economic system that is more unfavorable for international business.

The move toward a global economy has been strengthened by the widespread adoption of liberal economic policies by countries that had firmly opposed them for two generations or more.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

66. Which of the following statements is a general implication of globalization?
A. Globalization is inevitable.
B. From a purely economic perspective, globalization is all good.
C. Globalization has no negative impacts on the economies of the developed world.
D. Globalization has reduced the risks associated with global financial contagion.
**E.** As a result of globalization, a severe crisis in one region of the world can affect the entire globe.

During 2008-2009 a crisis that started in the financial sector of America, where banks had been too liberal in their lending policies to homeowners, swept around the world and plunged the global economy into its deepest recession since the early 1980s, illustrating once more that in an interconnected world a severe crisis in one region can affect the entire globe.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

67. An argument in support of the falling barriers to international trade and investment is that the falling barriers
A. prohibit countries from specializing in the production of goods and services.
**B.** drive the global economy toward greater prosperity.
C. reduce the need to export jobs overseas.
D. increase the bargaining power of business firms by decreasing the incomes of consumers.
E. reduce attacks from foreign competitors.

Many influential economists, politicians, and business leaders argue that falling barriers to international trade and investment are the twin engines driving the global economy toward greater prosperity.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

68. Globalization opponents argue that "exporting jobs" to low-wage nations has contributed to
A. higher living standards in those countries that "export" the jobs.
**B.** higher unemployment in wealthy advanced economies such as the United States.
C. an increase in the income levels in those nations that "export" the jobs.
D. lower standards of living in those countries to which the jobs are exported.
E. reduced specialization in the production of goods and services.

The popular feeling is that when corporations outsource service activities to lower-cost foreign suppliers they are "exporting jobs" to low-wage nations and contributing to higher unemployment and lower living standards in their home nations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

69. According to globalization opponents, which of the following has increased in wealthy advanced economies as a result of globalization?
**A.** unemployment
B. price of goods and services
C. demand for unskilled workers
D. standard of living
E. income equality between workers in all sectors

One concern frequently voiced by globalization opponents is that falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies such as the United States and western Europe. In the past few years, the same fears have been applied to services, which have increasingly been outsourced to nations with lower labor costs. The popular feeling is that when corporations such as Dell, IBM, or Citigroup outsource service activities to lower-cost foreign suppliers—as all three have done—they are "exporting jobs" to low-wage nations and contributing to higher unemployment and lower living standards in their home nations (in this case, the United States).

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

70. Supporters of globalization insist that dislocation in the form of lost jobs is a trade-off that will ultimately lead to the economy being better off. Which of the following is being justified in this case?
A. protectionism and retaliatory trade policy
**B.** free trade of goods and services
C. rise of communism
D. high tariff on imports of manufactured goods
E. the need to be a self-contained nation

Supporters of globalization argue that when a country embraces free trade, there is always some dislocation, but the whole economy is better off as a result.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

71. Globalization critics argue that the decline in unskilled wage rates in advanced economies is due to the
**A.** migration of low-wage manufacturing jobs offshore.
B. technology-induced shift toward jobs that require significant education and skills.
C. increased supply of highly skilled workers.
D. increasing demand for unskilled workers.
E. reducing national differences in the cost of labor between developed and developing nations.

Globalization critics argue that the decline in unskilled wage rates is due to the migration of low-wage manufacturing jobs offshore and a corresponding reduction in demand for unskilled workers.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

72. Growing income inequality between the skilled and unskilled workers in advanced nations, such as the United States, is a result of the
**A.** wages for skilled workers being bid up by the labor market and the wages for unskilled workers being discounted.
B. decrease in the outsourcing of low-wage manufacturing jobs offshore and a corresponding increase in demand for unskilled workers.
C. shift within advanced economies toward jobs where the only qualification is the willingness to turn up for work every day.
D. increasing wage gap between developing and developed nations.
E. shortage of unskilled workers and an excess supply of highly skilled workers.

Growing income inequality is a result of the wages for skilled workers being bid up by the labor market and the wages for unskilled workers being discounted.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

73. In the context of the environment, globalization critics argue that
A. free trade discourages firms from advanced nations to move manufacturing facilities to less developed countries.
**B.** adhering to labor and environmental regulations significantly increases the costs of manufacturing enterprises.
C. manufacturing enterprises are put at a competitive disadvantage by moving their production facilities to nations that do not have burdensome regulations.
D. as countries get richer, they relax their environmental and labor regulations.
E. while pollution levels are rising in the world's richer countries, they have been falling in developing nations.

Globalization critics often argue that adhering to labor and environmental regulations significantly increases the costs of manufacturing enterprises and puts them at a competitive disadvantage in the global marketplace vis-à-vis firms based in developing nations that do not have to comply with such regulations.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

74. The North American Free Trade Agreement (NAFTA) was formed in 1994 among
**A.** Canada, Mexico, and the United States.
B. the United States, Brazil, and Argentina.
C. Canada, Argentina, and Mexico.
D. Colombia, Venezuela, and Brazil.
E. Uruguay, Colombia, and Costa Rica.

The North American Free Trade Agreement (NAFTA) was formed in 1994 among Canada, Mexico, and the United States.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

75. Which of the following is the most appropriate solution to the problem of rising carbon dioxide emissions in developed economies?
A. Roll back the trade liberalization efforts that have fostered economic growth and globalization.
B. Tie free trade agreements to the implementation of fewer environmental and labor laws in less developed countries.
**C.** Get the nations of the world to agree to policies designed to limit pollutant emissions.
D. Increase the export of low-wage manufacturing jobs to developing nations.
E. Restrict international trade and investment only to services.

The solution to the problem of increasing carbon dioxide emissions with higher income levels is probably not to roll back the trade liberalization efforts that have fostered economic growth and globalization, but to get the nations of the world to agree to policies designed to limit carbon emissions.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

76. Econometric studies show a hump-shaped relationship between income levels and pollution levels. Which of these statements reflects that relationship?
**A**. As an economy grows and income levels rise, initially pollution levels also rise.
B. Decreasing income levels lead to an increase in pollution levels.
C**.** As an economy grows, pollution levels show a constant increase.
D. Economies that are in turmoil reflect pollution levels that are diminishing.
E. Income levels do not have any correlation with pollution levels.

As an economy grows and income levels rise, initially pollution levels also rise. However, past some point, rising income levels lead to demands for greater environmental protection, and pollution levels then fall.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

77. A concern voiced by critics of globalization is that today's increasingly interdependent global economy shifts economic power toward
**A.** supranational organizations such as the World Trade Organization.
B. the communist states of eastern Europe and central Asia.
C. the medium-size and small U.S. multinationals.
D. the national governments of the countries participating in globalization.
E. nations that have authoritarian forms of government.

A concern voiced by critics of globalization is that today's increasingly interdependent global economy shifts economic power away from national governments and toward supranational organizations such as the World Trade Organization, the European Union, and the United Nations.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

78. Which of the following is a power of the WTO?
A. It can restrict the membership of nations in other supranational organizations such as the United Nations.
B. It can grant loans to cash-strapped governments in poor nations.
C. It supersedes IMF and has complete authority over IMF's actions.
**D.** It can issue a ruling instructing a member-state to change trade policies that violate GATT regulations.
E. It can make decisions related to international trade without considering the collective interests of member-states.

The WTO arbitrates trade disputes between its 162 member states. The arbitration panel of the WTO can issue a ruling instructing a member state to change trade policies that violate GATT regulations. If the violator refuses to comply with the ruling, the WTO allows other states to impose appropriate trade sanctions on the transgressor.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

79. Which of the following statements supports the claim that the gap between the rich and poor nations of the world has gotten wider because of globalization?
A. There are many countries that suffer from totalitarian governments.
**B.** A quarter of the countries with a GDP per capita of less than $1,000 in 1960 had growth rates of less than zero from 1960 to 1995.
C. There is a rapidly growing population in many developing nations.
D. Unelected bureaucrats limit a nation's ability to control its own destiny.
E. Endemic corruption has long been a problem in the national governments of developing nations.

While recent history has shown that some of the world's poorer nations are capable of rapid periods of economic growth—witness the transformation that has occurred in some Southeast Asian nations such as South Korea, Thailand, and Malaysia—there appear to be strong forces for stagnation among the world's poorest nations. A quarter of the countries with a GDP per capita of less than $1,000 in 1960 had growth rates of less than zero from 1960 to 1995, and a third had growth rates of less than 0.05 percent. Critics argue that if globalization is such a positive development, the divergence between the rich and poor should not have occurred.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

80. Free trade alone, some argue, is a necessary but not sufficient prerequisite to help “highly indebted poorer countries” (HIPCs) bootstrap themselves out of poverty. They also recommend implementing
A. a highly regulated command economy.
B. weaker property rights laws.
C. weaker labor regulations.
**D.** large-scale debt relief.
E. rapid expansion in population.

Free trade alone is a necessary, but not sufficient prerequisite to help HIPCs bootstrap themselves out of poverty. Instead, large-scale debt relief is needed for the world's poorest nations to give them the opportunity to restructure their economies and start the long climb toward prosperity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

81. Which of the following is NOT a concern for managers in international businesses?
A. Fundamental differences in culture
**B.** Perceived distance between home country and operating nations
C. Government restrictions on international trade
D. Cross-border transactions involving currency exchange
E. Ethical adherence to environmental standards

In sum, managing an international business is different from managing a purely domestic business for at least four reasons: (1) countries are different, (2) the range of problems confronted by a manager in an international business is wider and the problems themselves more complex than those confronted by a manager in a domestic business, (3) an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system, and (4) international transactions involve converting money into different currencies.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Understanding the Differences Between International and Domestic Business*

82. The minimum that a firm has to do to engage in international business is to
**A.** export or import products from other countries.
B. invest directly in operations in another country.
C. establish joint ventures or strategic alliances with companies in other countries.
D. export low-wage manufacturing jobs to companies in other countries.
E. develop franchises and subsidiaries in other countries.

All a firm has to do to engage in international business is export or import products from other countries.

*AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Challenges and Opportunities Created by Globalization*

83. Ryan is the executive general manager of a U.S.-based multinational corporation. Veronica is a manager in a similar position, but works for an American company that operates only in the U.S. and does not engage in international business. In this context, which of the following business functions will be most typically exclusive to Ryan?
A. Marketing a product or service
B. Maintaining healthy relations with the U.S. government
C. Developing a business strategy
D. Adhering to labor and environmental standards
**E.** Choosing an appropriate mode for entering a particular foreign country

The managers in an international business must decide which foreign markets to enter and which to avoid. They must choose the appropriate mode for entering a particular foreign country.

*AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Understanding the Differences Between International and Domestic Business*

**Essay Questions**

84. What is globalization? Explain, with examples, how global companies can facilitate the creation of a global market.

Globalization refers to the shift toward a more integrated and interdependent world economy. One facet, the globalization of markets, refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market. Consumer products such as Citigroup credit cards, Coca-Cola soft drinks, Sony PlayStation video games, McDonald's hamburgers, Starbucks coffee, IKEA furniture, and Apple iPhones are frequently held up as prototypical examples of this trend; they are also facilitators of it. By offering the same basic product worldwide, they help to create a global market.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

85. Explain the concepts of "globalization of markets" and "globalization of production."

Globalization has several facets, including the globalization of markets and the globalization of production.
The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market.
The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: What is Globalization?*

86. What are the roles of the International Monetary Fund (IMF) and the World Bank? Which of these institutions is more controversial? Why?

The International Monetary Fund (IMF) and the World Bank were both created in 1944 by 44 nations that met at Bretton Woods, New Hampshire. The IMF was established to maintain order in the international monetary system; the World Bank was set up to promote economic development. The IMF is the more controversial of the two sister institutions. The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations. IMF loans come with strings attached, however; in return for loans, the IMF requires nation-states to adopt specific economic policies aimed at returning their troubled economies to stability and growth. These requirements have sparked controversy. Some critics charge that the IMF’s policy recommendations are often inappropriate; others maintain that by telling national governments what economic policies they must adopt, the IMF is usurping the sovereignty of nation-states. On the other hand, the World Bank has focused on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or roads).

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

87. Briefly trace the history of the G20 and describe its current role in international business.

Established in 1999, the G20 comprises the finance ministers and central bank governors of the 19 largest economies in the world, plus representatives from the European Union and the European Central Bank. Originally established to formulate a coordinated policy response to financial crises in developing nations, in 2008 and 2009 it became the forum through which major nations attempted to launch a coordinated policy response to the global financial crisis that started in America and then rapidly spread around the world, ushering in the first serious global economic recession since 1981.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-01 Understand what is meant by the term globalization.
Topic: Various Types of Institutions in Global Business*

88. Explain the factors that led to the Great Depression of the 1930s.

During the 1920s and 1930s, many of the world’s nation-states erected formidable barriers to international trade and foreign direct investment. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition. One consequence, however, was "beggar thy neighbor" retaliatory trade policies, with countries progressively raising trade barriers against each other. Ultimately, this depressed world demand and contributed to the Great Depression of the 1930s.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

89. What were the results of the Uruguay Round? What are the implications of these results for international business?

Under the umbrella of GATT, eight rounds of negotiations among member states worked to lower barriers to the free flow of goods and services. The most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system. This has contributed to both the globalization of markets and the globalization of production. The lowering of barriers to international trade enables firms to view the world, rather than a single country, as their market. At the same time, it helps companies source goods and services from optimal locations.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

90. Briefly discuss the ways in which technological change has affected globalization.

The lowering of trade barriers made globalization of markets and production a theoretical possibility. Technological change has made it a tangible reality. Since the end of World War II, the world has seen major advances in communication, information processing, and transportation technology, including the explosive emergence of the Internet.
Over the past 30 years, global communications have been revolutionized by developments in satellite, optical fiber, wireless technologies, and the Internet. These technologies rely on the microprocessor to encode, transmit, and decode the vast amount of information that flows along these electronic highways.
Viewed globally, the Internet has emerged as an equalizer. It rolls back some of the constraints of location, scale, and time zones. The Internet makes it much easier for buyers and sellers to find each other, wherever they may be located and whatever their size. It allows businesses, both small and large, to expand their global presence at a lower cost than ever before. Just as important, it enables enterprises to coordinate and control a globally dispersed production system in a way that was not possible 25 years ago.
In economic terms, the most important are probably the development of commercial jet aircraft and superfreighters and the introduction of containerization, which simplifies transshipment from one mode of transport to another. Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances.

*AACSB: Analytical Thinking
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-02 Recognize the main drivers of globalization.
Topic: Drivers of Globalization*

91. What is a multinational enterprise? What have been the two most notable trends in the demographics of the multinational enterprise since the 1960s?

A multinational enterprise is any business that has productive activities in two or more countries. The two most notable trends in multinational enterprises since the 1960s have been (1) the rise of non-U.S. multinationals and (2) the growth of mini-multinationals. The globalization of the world economy has resulted in a relative decline in the dominance of U.S. firms in the global marketplace. Another trend in international business has been the growth of medium-size and small multinationals (mini-multinationals). Although most international trade and investment is still conducted by large firms, many medium-size and small businesses are becoming increasingly involved in international trade and investment.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

92. In the context of international trade and investment, describe how the former communist nations of Europe and Asia have been changing.

Many of the former communist nations of Europe and Asia seem to share a commitment to democratic politics and free market economics. For half a century, these countries were essentially closed to Western international businesses. Now, they present a host of export and investment opportunities. The economies of many of the former communist states are still relatively undeveloped, and their continued commitment to democracy and free market economics cannot be taken for granted. Disturbing signs of growing unrest and totalitarian tendencies continue to be seen in several Eastern European and Central Asian states, including Russia, which has shown signs of shifting back toward greater state involvement in economic activity and authoritarian government. Thus, the risks involved in doing business in such countries are high, but so may be the returns.

*AACSB: Analytical Thinking
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

93. Elaborate on why globalization is not inevitable.

The world may be moving toward a more global economic system, but globalization is not inevitable. Countries may pull back from the recent commitment to liberal economic ideology if their experiences do not match their expectations. There are clear signs, for example, of a retreat from liberal economic ideology in Russia. If Russia's hesitation were to become more permanent and widespread, the liberal vision of a more prosperous global economy based on free market principles might not occur as quickly as many hope. Clearly, this would be a tougher world for international businesses.

*AACSB: Reflective Thinking
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-03 Describe the changing nature of the global economy.
Topic: The Changing Nature of the Global Economy*

94. Discuss the arguments for and against globalization regarding jobs and income.

Globalization opponents argue that falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies such as the United States and Western Europe. Falling barriers allow firms to move manufacturing activities to countries where wage rates are much lower. Because of this, wage rates of poorer Americans have fallen significantly over the past quarter of a century. Supporters of globalization argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

95. Why are supranational organizations, such as the World Trade Organization and the United Nations, criticized?

A concern voiced by critics of globalization is that today's increasingly interdependent global economy shifts economic power away from national governments and toward supranational organizations such as the World Trade Organization, the European Union, and the United Nations. As perceived by critics, unelected bureaucrats now impose policies on the democratically elected governments of nation-states, thereby undermining the sovereignty of those states and limiting the nation's ability to control its own destiny.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

96. Discuss the concerns voiced by critics of globalization regarding labor policies and the environment.

A source of concern for critics of globalization is that free trade encourages firms from advanced nations to move manufacturing facilities to less developed countries that lack adequate regulations to protect labor and the environment from abuse by the unscrupulous. Globalization critics often argue that adhering to labor and environmental regulations significantly increases the costs of manufacturing enterprises and puts them at a competitive disadvantage in the global marketplace vis-à-vis firms based in developing nations that do not have to comply with such regulations. Firms deal with this cost disadvantage, the theory goes, by moving their production facilities to nations that do not have such burdensome regulations or that fail to enforce the regulations they have.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

97. What are the various reasons for economic stagnation in many of the world's poorest countries?

Many of the world's poorest countries have suffered from totalitarian governments, economic policies that destroyed wealth rather than facilitated its creation, endemic corruption, scant protection for property rights, and prolonged civil war. Such factors help explain why countries such as Afghanistan, Cuba, Haiti, Iraq, Libya, Nigeria, Sudan, and North Korea have failed to improve the economic lot of their citizens during recent decades. A complicating factor is the rapidly expanding populations in many of these countries. Without a major change in government, population growth may exacerbate their problems.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.
Topic: The Globalization Debate*

98. What are some of the challenges faced by managers of an international business?

Managing an international business is challenging in many ways and involves a great deal of complexity. The managers of an international business must decide where in the world to site production activities to minimize costs and to maximize value added. They must decide whether it is ethical to adhere to the lower labor and environmental standards found in many less developed nations. Then they must decide how best to coordinate and control globally dispersed production activities. The managers in an international business also must decide which foreign markets to enter and which to avoid. They must choose the appropriate mode for entering a particular foreign country. These managers must also deal with government restrictions on international trade and investment. They must find ways to work within the limits imposed by specific governmental interventions.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Challenges and Opportunities Created by Globalization*

99. How is managing an international business different from managing a purely domestic business?

Managing an international business is different from managing a purely domestic business for at least four reasons: (1) countries are different, (2) the range of problems confronted by a manager in an international business is wider and the problems themselves are more complex than those confronted by a manager in a domestic business, (3) an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system, and (4) international transactions involve converting money into different currencies.

*AACSB: Analytical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.
Topic: Understanding the Differences Between International and Domestic Business*

Chapter 01 Test Bank Summary

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