

***Business Essentials, 9e (Ebert/Griffin)***  
**Chapter 4 The Global Context of Business**

1) An import is a product made or grown abroad but sold domestically.

Answer: TRUE

Explanation: Countries import goods from other countries that are meant to be sold within the home country.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

2) Low-income countries have an annual per capita income of \$2,500 or less.

Answer: FALSE

Explanation: Low-income countries have an annual per capita income of \$905 or less.

Page Ref: 90

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Skill: Concept

3) The World Trade Organization (WTO) was created to encourage international trade.

Answer: TRUE

Explanation: The WTO encourages international trade by encouraging fair trade practices, breaking down trade barriers, and establishing fair procedures for dispute resolution.

Page Ref: 92

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Skill: Concept

4) In a licensing arrangement, firms choose foreign organizations to manufacture their products in another country in return for a fee plus royalties.

Answer: TRUE

Explanation: Franchising is an increasingly popular example of licensing.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

5) Free market economies often establish some system of quotas and/or tariffs.

Answer: TRUE

Explanation: Quotas and tariffs are set up to control the amount of goods being imported so as not to hurt domestic industries.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

6) A subsidy is a tax designed to help companies who import products.

Answer: FALSE

Explanation: Subsidies are government aid to domestic industries to help them compete with imported products.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

7) Local content laws guarantee that products sold in a country are at least partly made there.

Answer: TRUE

Explanation: Under local content laws, firms seeking to do business in a country must leave some of their profits with the host country.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

8) Globalization refers to the process by which countries around the world are becoming more self-sufficient.

Answer: FALSE

Explanation: Globalization refers to the process by which countries are working together interactively to eliminate trade barriers in an attempt to create a larger free market.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

9) NAFTA regulates trade between the United States, Europe, and Japan.

Answer: FALSE

Explanation: The North American Free Trade Agreement regulates trade between the United States, Canada, and Mexico.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

10) The purpose of the General Agreement on Tariffs and Trade is to reduce trade barriers.

Answer: TRUE

Explanation: GATT's purpose is to reduce or eliminate trade barriers, such as tariffs and quotas; it does so by encouraging nations to protect domestic industries within agreed-upon limits and to engage in multilateral negotiations.

Page Ref: 92

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Skill: Concept

11) The primary purpose of the World Trade Organization is to impose tariffs on imported products.

Answer: FALSE

Explanation: The WTO is empowered to promote trade by encouraging members to adopt fair trade practices, to reduce trade barriers by promoting multilateral agreements, and to establish fair procedures for resolving disputes among members.

Page Ref: 92

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Skill: Concept

12) If the United States exports more to the Netherlands than it imports from the Netherlands, the United States has a trade deficit with the Netherlands.

Answer: FALSE

Explanation: This is known as a *trade surplus*, or a favorable balance of trade.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

13) Today, fixed exchange rates are the norm for most major nations of the world.

Answer: FALSE

Explanation: Floating exchange rates are the norm for most major nations of the world.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Skill: Concept

14) South Africa produces diamonds more cheaply and of higher quality than any other country; this is an example of absolute advantage.

Answer: TRUE

Explanation: An absolute advantage is when a country can produce something that is cheaper and/or of higher quality than any other country.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

15) Saudi Arabian oil is an example of an absolute advantage.

Answer: TRUE

Explanation: An absolute advantage exists when a country can produce something that is cheaper and/or of higher quality than any other country.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

16) A comparative advantage exists when a country can produce something more cheaply and/or of higher quality than any other country.

Answer: FALSE

Explanation: A country has a comparative advantage in goods that it can produce more efficiently or better than other goods.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

17) Transportation costs have relatively little impact on a domestic firm's decision to go international, compared to other possible factors.

Answer: FALSE

Explanation: Oftentimes, high transportation costs for certain goods will prevent a firm from deciding to go international.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

18) International firms conduct a good deal of their business abroad and may even maintain overseas manufacturing facilities.

Answer: TRUE

Explanation: This comparison is often made with multinational firms, which are firms that design, produce, and market products in many nations.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

19) If you have given another company in another country the right to produce your company's product, you are engaging in a licensing arrangement.

Answer: TRUE

Explanation: A licensing arrangement is a means whereby a company sells its products in another country by licensing another company to produce that product.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

20) Strategic alliances give firms greater control over foreign activities than do agents and licensees.

Answer: TRUE

Explanation: Because a representative of the company tends to be present, strategic alliances give firms greater control over foreign activities than do agents or licensees.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

21) The ultimate form of a quota is a tariff.

Answer: FALSE

Explanation: The ultimate form of a quota is an embargo.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

22) Revenue tariffs are primarily designed to discourage the importation of foreign products.

Answer: FALSE

Explanation: Revenue tariffs are primarily designed to raise money for governments.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

23) Critics of protectionism charge that it drives up prices by reducing competition.

Answer: TRUE

Explanation: Protectionism aims to keep foreign competitors out, and less competition may cause an increase in prices.

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Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

24) A Chinese steel company cannot charge less for its product in the United States than the cost of production.

Answer: TRUE

Explanation: This is known as "dumping" and is illegal according to U.S. law.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

25) The single largest trading partner of the United States is China.

Answer: FALSE

Explanation: The single largest trading partner of the United States is Canada.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

26) The United States has large trade deficits with Japan, China, and Mexico; this means that the United States has imported more from them than what they have purchased from us.

Answer: TRUE

Explanation: A trade deficit, or an unfavorable balance of trade, occurs when a country's imports exceed its exports.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

27) Currently, a majority of U.S. imports come from Canada, Japan, Mexico, and China.

Answer: TRUE

Explanation: These countries are listed on the U.S. list of top 10 importers.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

28) If 1 euro = \$1.35 on June 4 and \$1.40 on June 5, the value of the dollar has risen.

Answer: FALSE

Explanation: If the value of the dollar had risen, the euro would have been worth less in comparison. Since the value of the dollar has fallen in this example, it would have hypothetically taken more U.S. dollars to buy a "euro's worth" of goods.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

29) A company with high demand for its product in a particular foreign market that is associated with high transportation costs would tend to arrange a strategic alliance over any other international organization structure.

Answer: FALSE

Explanation: A more likely structure would be a licensing arrangement in order to avoid the transportation costs yet still be active in that market.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Skill: Concept

30) The number of strategic alliances among major companies has decreased significantly over the last decade.

Answer: FALSE

Explanation: The number of strategic alliances among major companies has increased over the last decade.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Application

31) What are products that are created abroad and then transported and sold domestically?

A) dumped goods

B) exports

C) imports

D) buy backs

E) domestic goods

Answer: C

Explanation: C) Imports are goods that are brought in from other countries.

Page Ref: 89

Difficulty: Easy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

32) What are products that are created domestically and transported for sale abroad?

- A) dumped goods
- B) exports
- C) imports
- D) buy backs
- E) domestic goods

Answer: B

Explanation: B) Exports are goods that are made in a country and sold in another country.

Page Ref: 89

Difficulty: Easy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

33) Which country is the world's largest marketplace and most stable economy?

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

Answer: A

Explanation: A) The United States is the dominant trading partner in North America.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Application

34) Which country dominates the Pacific Asia region economically?

- A) South Korea
- B) China
- C) Indonesia
- D) Japan
- E) Taiwan

Answer: D

Explanation: D) Japan's large automakers and industry help it dominate the Pacific Asia region.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Application

35) Which organization most likely has the greatest impact on Asian countries?

- A) ASEAN
- B) UAS
- C) EU
- D) NAFTA
- E) ECOWAS

Answer: A

Explanation: A) The Association of South East Asian Nations is the economic association of nations in that region.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Application

36) Which of the following is the name for the economic value of all of the products that a country exports minus the economic value of its imports?

- A) balance of foreign competition
- B) balance of domestic competition
- C) balance of trade
- D) balance of payments
- E) balance of supply and demand

Answer: C

Explanation: C) This is the definition of balance of trade.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

37) Which of the following refers to the situation when a country's imports exceed its exports?

- A) balance of payments
- B) balance of trade
- C) trade deficit
- D) trade surplus
- E) trade advantage

Answer: C

Explanation: C) A country operates a trade deficit if it imports more goods than it exports.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

38) Which of the following is the name for the overall flow of money into or out of a country?

- A) exchange rate
- B) trade rate
- C) balance of exchange
- D) balance of payments
- E) balance of trade

Answer: D

Explanation: D) The balance of payments determines whether a country is running a trade deficit or surplus.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

39) With what type of exchange rate does the value of a country's currency remain constant relative to that of another country?

- A) floating
- B) indexed
- C) fixed
- D) adjusted
- E) deflated

Answer: C

Explanation: C) A fixed exchange rate indexes a country's currency directly to that of another country.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

40) When the value of one country's currency relative to that of another varies with market conditions, which of the following exists?

- A) floating exchange rate
- B) fixed exchange rate
- C) indexed exchange rate
- D) flat exchange rate
- E) balanced exchange rate

Answer: A

Explanation: A) A floating exchange rate is one that varies as a function of market conditions among other countries.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

41) Which of the following organizations is a firm that makes products in one country and then distributes and sells them in others?

- A) importer
- B) exporter
- C) multinational firm
- D) international firm
- E) direct foreign investor

Answer: B

Explanation: B) An exporter sells and ships its products to other countries, who import them.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

42) Which of the following buys products in foreign markets and then sells them for resale in its home country?

- A) importer
- B) exporter
- C) multinational firm
- D) international firm
- E) direct foreign investor

Answer: A

Explanation: A) An importer buys products from companies in other countries to sell in the importer's country.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

43) ABC Company in the United States has given exclusive rights to XYZ Company in Switzerland to manufacture its products. What is this an example of?

- A) a foreign direct investment
- B) a licensing arrangement
- C) a branch office setup
- D) a strategic alliance
- E) an import-export relationship

Answer: B

Explanation: B) A licensing arrangement is one in which a company gives rights to a foreign company to manufacture its products.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Application

44) The ABC Paint Company in the United States has joined forces with the 1-2-3 Plastics Company in Italy to create a nonpeeling, plastics-based paint. Both companies intend to share the research costs and any profits. What is this an example of?

- A) a licensing arrangement
- B) a branch office setup
- C) a strategic alliance
- D) a foreign direct investment
- E) an import-export relationship

Answer: C

Explanation: C) In a strategic alliance, different companies combine resources in an endeavor that can be accomplished more efficiently with them both.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Application

45) What is it called when a company sends some of its own managers overseas to conduct business in a local office?

- A) developing a strategic alliance
- B) outsourcing
- C) licensing products
- D) investing directly in a foreign venture
- E) opening a branch office

Answer: E

Explanation: E) A company doing business overseas will often open a branch office in the host country out of which to do business.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

46) Which of the following denotes the international organization strategy of finding a partner in the country in which a company would like to conduct business?

- A) opening a branch office
- B) developing a strategic alliance
- C) forming an independent agency
- D) outsourcing
- E) investing directly in a foreign venture

Answer: B

Explanation: B) In a strategic alliance, different companies combine resources in an endeavor that can be accomplished more efficiently with them both.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

47) Ford, an American car company, purchased Volvo, which is based in Sweden. What is this an example of?

- A) a multinational firm
- B) a independent agency
- C) a licensing arrangement
- D) a foreign direct investment
- E) a strategic alliance

Answer: D

Explanation: D) In a foreign direct investment, a company in another country invests, by partial or full ownership, in a company in the host country.

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Difficulty: Easy

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Application

48) Which of the following denotes a government order forbidding exportation and/or importation of a particular product from a particular country?

- A) tariff
- B) embargo
- C) subsidy
- D) local content law
- E) business practice law

Answer: B

Explanation: B) An embargo blocks importation or exportation of a particular product.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

49) Which of the following is a government payment to help a domestic business compete with foreign firms?

- A) revenue tariff
- B) protectionist tariff
- C) import buy-back
- D) export rebate
- E) subsidy

Answer: E

Explanation: E) Subsidies are government aid to an industry to help it keep prices competitive.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

50) Which of the following denotes the practice of protecting domestic business at the expense of free market competition?

- A) fair trade
- B) balanced trade
- C) free trade
- D) market liberalism
- E) protectionism

Answer: E

Explanation: E) Protectionism is a policy of discouraging imports from other countries to protect domestic industries from foreign competition.

Page Ref: 104-105

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

51) Many governments require that products sold in their particular country be at least partly made there. This policy involves what type of laws?

- A) quota laws
- B) local content laws
- C) business practice laws
- D) free trade laws
- E) subsidy laws

Answer: B

Explanation: B) Local content laws support local industries by requiring that some products be at least partly made there.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

52) Which of the following refers to associations of producers that control supply and prices?

- A) independent agencies
- B) cartels
- C) trade alliances
- D) multinational firms
- E) trade monopolies

Answer: B

Explanation: B) A cartel is a group of companies that coordinate their production so as to maintain collective control over prices.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

53) Which of the following refers to the practice of selling a product abroad for less than the cost of production?

- A) exporting
- B) importing
- C) dumping
- D) safeguarding
- E) offshoring

Answer: C

Explanation: C) Dumping hurts companies where it occurs because local companies cannot compete with below-cost prices.

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Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

54) Which organization created the classification of countries based on per capita income?

- A) the World Bank
- B) the World Trade Organization
- C) the International Monetary Fund
- D) the European Union
- E) the United Nations Economic and Social Council

Answer: A

Explanation: A) The World Bank, an agency of the United Nations, uses per capita income to make distinctions among countries.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

55) Which of the following nations is NOT contained within a major world economic marketplace?

- A) Canada
- B) Greece
- C) Taiwan
- D) Singapore
- E) Honduras

Answer: E

Explanation: E) Major marketplaces include North America, Europe, and Pacific Asia.

Page Ref: 90-91

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Application

56) Which of the following countries is the world's third largest economy, behind that of the United States and Japan?

- A) China
- B) India
- C) Brazil
- D) Germany
- E) Russia

Answer: A

Explanation: A) China is the world's most densely populated country and has emerged as the world's third-largest economy.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

57) Under which of the following treaties are Canada, the United States, and Mexico gradually eliminating tariffs and all other trade barriers?

- A) the EURO Agreement
- B) the Pan-American Agreement
- C) the North American Free Trade Agreement
- D) the General Agreement on Tariffs and Trade
- E) the G-3 Free Trade Agreement

Answer: C

Explanation: C) Some barriers came down in 1994; others were removed in 1999, 2004, and 2009.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

58) What organization was founded in Pacific Asia in 1967 for economic, political, social, and cultural cooperation?

- A) SEATO
- B) ASEAN
- C) CENTO
- D) OAS
- E) WTO

Answer: B

Explanation: B) Today, the Association of Southeast Asian Nations (ASEAN) encompasses a population of 500 million and a GDP of \$800 billion.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

59) Which of the following treaties sought to eliminate trade barriers such as tariffs and quotas?

- A) United Nations Development Assistant Plan
- B) Fair Labor Standards Act
- C) General Agreement on Tariffs and Trade
- D) General Agreement on Trade in Services
- E) European Union Stability and Growth Pact

Answer: C

Explanation: C) GATT's purpose is to reduce or eliminate trade barriers by encouraging nations to protect domestic industries within agreed-upon limits and to engage in multilateral negotiations.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Concept

60) Which of the following best describes a positive trade balance?

- A) the economic condition in which a country's exports exceed its imports
- B) the economic condition in which a country's imports exceed its exports
- C) the economic condition in which a country's inflow of money exceeds its outflow
- D) the economic condition in which a country's outflow of money exceeds its inflow
- E) the economic condition in which a country's natural resources exceed its human resources

Answer: A

Explanation: A) This is also known as a trade surplus.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

61) The value of the U.S. dollar relative to the value of the British pound fluctuates with market conditions. What is this type of exchange rate?

- A) floating
- B) fixed
- C) indexed
- D) adjusted
- E) monitored

Answer: A

Explanation: A) Floating exchange rates fluctuate according to changes in the market.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

62) Country Z can produce pig iron more efficiently than any other goods. Which type of advantage in pig iron does Country Z have?

- A) absolute advantage
- B) national competitive advantage
- C) comparative advantage
- D) monopolistic advantage
- E) resource advantage

Answer: C

Explanation: C) When a country can produce a good more efficiently than it can produce any other good, that country is said to have a comparative advantage in that efficiently produced good.

Page Ref: 97-98

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

63) Which of the following exists when a country can produce something more cheaply and/or of higher quality than any other country can?

- A) monopolistic advantage
- B) national competitive advantage
- C) resource advantage
- D) absolute advantage
- E) comparative advantage

Answer: D

Explanation: D) An absolute advantage, though rare, exists when a country can produce something more cheaply and/or of higher quality than any other country can.

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Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

64) National competitive advantage derives from four conditions, one of which is factor conditions. What do factor conditions include?

- A) customers, suppliers, and labor
- B) government quotas and subsidies
- C) product quality, productivity, and profits
- D) labor, capital, entrepreneurs, and physical resources
- E) strategies, structures, and rivalries

Answer: D

Explanation: D) Factor conditions, or factors of production, include labor, capital, and materials.

Page Ref: 98

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

65) Which of the following types of firms design, produce, and manufacture products in many nations?

- A) multinational firms
- B) importing firms
- C) domestic firms
- D) international firms
- E) exporting firms

Answer: A

Explanation: A) Multinational firms design, produce and market products in many countries; in addition, headquarters locations are almost irrelevant.

Page Ref: 100

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

66) Which of the following is NOT considered an international organizational structure?

- A) independent agents
- B) licensing arrangements
- C) foreign direct investments
- D) branch office
- E) exporters

Answer: E

Explanation: E) International organizational structures include independent agents, licensing arrangements, branch offices, strategic alliances, and foreign direct investment.

Page Ref: 100

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

67) Which statement is true regarding independent agents?

- A) They represent one firm at a time.
- B) They usually specialize in a particular product.
- C) They act as sales representatives.
- D) They are usually based at domestic offices.
- E) They do not monitor or address customer satisfaction.

Answer: C

Explanation: C) Independent agents act as sales representatives, representing many exporters in foreign markets.

Page Ref: 101

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

68) To avoid transportation costs and tariffs, Apics Enterprises gave exclusive rights to Svenson AB in Finland to produce its product. What is this an example of?

- A) licensing arrangement
- B) strategic alliance
- C) foreign direct investment
- D) independent agent
- E) branch office

Answer: A

Explanation: A) In licensing arrangements, firms give foreign companies exclusive rights to manufacture or market their products in that market.

Page Ref: 102

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Application

69) Which of the following types of payments are usually received by an exporter as an ongoing payment calculated as a percentage of the license holder's sales?

- A) flat fees
- B) royalties
- C) agent fees
- D) subsidies
- E) direct investments

Answer: B

Explanation: B) The exporter receives a fee plus ongoing payments, or royalties, calculated as a percentage of the license holder's sales.

Page Ref: 102

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

70) In which international organization structure does a firm have greatest control over foreign activities?

- A) exporting arrangements
- B) strategic alliances
- C) branch offices
- D) licensing arrangements
- E) independent agents

Answer: B

Explanation: B) Strategic alliances give firms greater control over foreign activities than agents and licensees.

Page Ref: 102

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

71) U.S. imports of Canadian softwood timber are limited to 14.7 billion board feet per year.

What is this practice called?

- A) tariff
- B) embargo
- C) subsidy
- D) dumping
- E) quota

Answer: E

Explanation: E) A quota restricts the number or amount of certain types of products that can be imported.

Page Ref: 104

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

72) The U.S. government forbids the importation of cigars from Cuba. What is this practice called?

- A) embargo
- B) tariff
- C) subsidy
- D) business practice law
- E) local content law

Answer: A

Explanation: A) An embargo is a government order forbidding exportation/importation of certain products.

Page Ref: 104

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

73) Which of the following refers to tariffs that are imposed strictly to raise money for the government?

- A) revenue tariffs
- B) protectionist tariffs
- C) quota tariffs
- D) subsidy tariffs
- E) labor tariffs

Answer: A

Explanation: A) Revenue tariffs raise money for the government.

Page Ref: 104

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

74) Which of the following types of tariff is meant to discourage the import of particular products?

- A) revenue tariff
- B) quota tariff
- C) labor tariff
- D) subsidy tariff
- E) protectionist tariff

Answer: E

Explanation: E) Protectionist tariffs discourage particular imports.

Page Ref: 104

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

75) Suppose that the United States requires that products sold here be at least 51 percent made here. Which of the following denotes this type of policy?

- A) business practice law
- B) deregulation law
- C) business practice law
- D) strategic alliance
- E) local content law

Answer: E

Explanation: E) Local content laws are requirements that products sold in a country be at least partly made there.

Page Ref: 105

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

76) In some South American countries, it is sometimes legal to bribe other businesses and government officials, while this practice is illegal in the United States. Which of the following refers to this type of policy?

- A) protectionism
- B) business practice laws
- C) free trade agreements
- D) fair trade agreements
- E) local content laws

Answer: B

Explanation: B) Every country has its own business practice laws by which they govern business practices.

Page Ref: 105

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

77) Which of the following goals is a primary purpose of tariffs on imports?

- A) maintain domestic competitiveness
- B) decrease exports
- C) increase imports
- D) subsidize domestic industry
- E) promote free trade

Answer: A

Explanation: A) Most tariffs are meant to discourage particular imports in order that domestic businesses may remain competitive.

Page Ref: 104

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

78) China and India require that when foreign firms enter into joint ventures with local firms, the local partners must have the controlling ownership stake. What is this an example of?

- A) local content laws
- B) business practice laws
- C) fair trade agreements
- D) quotas
- E) subsidies

Answer: A

Explanation: A) Local content laws are requirements that products sold in a country be at least partly made there. Firms seeking to do business in a country must either invest there directly or take on a domestic partner.

Page Ref: 105

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

79) In Germany, Wal-Mart has been required to buy existing retailers rather than open brand-new stores. What does this illustrate?

- A) local content laws
- B) fair trade agreements
- C) free trade agreements
- D) licensing arrangements
- E) business practice laws

Answer: E

Explanation: E) Host countries govern business practices within their jurisdictions through various business practice laws.

Page Ref: 105

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

80) Which of the following is illegal in the United States?

- A) dumping but not cartels
- B) cartels but not dumping
- C) only certain kinds of dumping and cartels
- D) neither dumping nor cartels
- E) both dumping and cartels

Answer: E

Explanation: E) Dumping and cartels are both illegal in the United States.

Page Ref: 105

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

81) Which of the following resulted from NAFTA?

- A) Companies from other countries, such as Japan, have made fewer business investments in North America.
- B) U.S. exports to Mexico have decreased.
- C) U.S. exports to Mexico have increased.
- D) More jobs have been created than what was originally predicted.
- E) More U.S. jobs were eliminated than what was originally predicted.

Answer: C

Explanation: C) Many positive predictions regarding what would result from NAFTA have materialized, including the increase in U.S. exports to Mexico.

Page Ref: 91

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Synthesis

82) Bridget wants to buy some English tea priced at 10 pounds from an online seller. The current exchange rate is 1.5 dollars to the pound. How much she will pay for the tea (excluding any upfront exchange fees)?

- A) \$15.00
- B) \$12.50
- C) \$11.50
- D) \$8.50
- E) \$6.67

Answer: A

Explanation: A)  $1.50 \times 10 \text{ pounds} = \$15.00$ .

Page Ref: 96

Difficulty: Moderate

AACSB: Analytic skills

Objective: 4.2

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

83) What typically happens to a country's balance of trade as the value of its currency falls?

- A) It improves.
- B) It declines.
- C) It remains the same.
- D) It fluctuates drastically.
- E) It fluctuates moderately.

Answer: A

Explanation: A) As the value of its currency falls relative to that of other countries, other countries are more likely to buy goods from that country.

Page Ref: 97

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

84) What is a difference between an international firm and a multinational firm?

- A) Multinational firms design, produce, and market products in many nations, whereas international firms are based primarily in one nation.
- B) International firms design, produce, and market products in many nations, whereas multinational firms are based primarily in one nation.
- C) International and multinational firms are the same thing.
- D) Multinational firms are concerned primarily with foreign markets, whereas international firms are concerned primarily with the domestic market.
- E) International firms are concerned primarily with foreign markets, whereas multinational firms are concerned primarily with the domestic market.

Answer: A

Explanation: A) International firms conduct much of their business abroad and may maintain overseas manufacturing facilities; multinational firms design, produce, and market products in many nations.

Page Ref: 100

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

85) Which of the following statements best describes the effects of subsidies?

- A) A subsidy essentially lowers the prices of foreign goods rather than raising the prices of domestic goods.
- B) A subsidy essentially raises the prices of domestic goods rather than lowering the prices of foreign goods.
- C) A subsidy essentially lowers the prices of domestic goods rather than raising the prices of foreign goods.
- D) A subsidy essentially raises the prices of foreign goods while also raising the prices of domestic goods.
- E) A subsidy essentially lowers the prices of foreign goods while also lowering the prices of domestic goods.

Answer: C

Explanation: C) A subsidy is a government payment to help a domestic business compete with foreign firms; the subsidy lowers the prices of domestic goods rather than raising the prices of foreign goods.

Page Ref: 104

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

86) What countries comprise NAFTA?

Answer: NAFTA, the North American Free Trade Agreement, is a trade agreement between Mexico, the United States, and Canada.

Explanation: NAFTA seeks to eliminate all trade barriers between the three countries so that products can be traded freely without tariffs or other restrictions.

Page Ref: 91

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

87) How has NAFTA influenced international trade?

Answer: NAFTA seeks to remove virtually all barriers to trade among the three countries. As a result of NAFTA, several hundred thousand new jobs have been created.

Explanation: The North American Free Trade Agreement is a free trade agreement between the United States, Canada, and Mexico.

Page Ref: 91

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Synthesis

88) What are the three goals of the World Trade Organization (WTO)?

Answer: The three goals are 1) to encourage members to adopt fair trade practices; 2) to reduce trade barriers; and 3) to establish fair procedures for resolving disputes among members.

Explanation: The World Trade Organization began in 1995 and has 152 member countries.

Page Ref: 92

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

89) What is the difference between balance of trade and balance of payments?

Answer: Balance of trade is the difference between the economic value of exports and the economic value of imports. Balance of payments refers to the flow of money into and out of a country, mostly attributed to the country's balance of trade.

Explanation: The money that a country pays for imports and receives for exports—its balance of trade—accounts for much of its balance of payments. Other financial exchanges are also factors.

Page Ref: 93-94

Difficulty: Moderate

AACSB: Analytic skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

90) In assessing a country's national competitive advantage, what is meant by factor conditions?

Answer: Factor conditions, also known as factors of production, include labor, capital, entrepreneurs, physical resources, and information resources.

Explanation: The three other conditions used to assess national competitive advantage are demand conditions, related and supporting industries, and strategies, structures, and rivalries.

Page Ref: 98

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

91) What are three basic levels of involvement available for a firm that decides to conduct business internationally?

Answer: The firm may act as an exporter or importer, organize as an international firm, or operate as a multinational firm.

Explanation: Most of the world's largest industrial firms operate as multinational firms—firms that design, produce, and market products in many nations.

Page Ref: 100

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

92) Explain how a firm may have more direct control with a branch office than it does over agents or license holders.

Answer: In a branch office, a firm sends its own managers overseas where there is more visible public presence.

Explanation: Branch offices also furnish a more visible public presence in foreign countries, and foreign customers tend to feel more secure when there's a local branch office.

Page Ref: 101-102

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

93) What is a cartel? Use an example to clarify your response.

Answer: A cartel is an association of producers that controls both supply and prices. OPEC (Organization of Petroleum Exporting Countries) is an example of a cartel.

Explanation: The existence of cartels gives tremendous power to some nations, such as those belonging to OPEC, which is one of the reasons that U.S. law forbids cartels.

Page Ref: 105

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

94) Explain a floating exchange rate.

Answer: A floating exchange rate allows the value of one country's currency relative to the value of another country's currency to fluctuate according to market conditions.

Explanation: On a daily basis, exchange rates fluctuate very little. Significant variations usually occur over longer time spans.

Page Ref: 96

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

95) Why should companies conducting international operations be concerned about exchange rate fluctuations?

Answer: Changes in exchange rates affect overseas demand for their products and can be a major factor in international competition. Exchange rate fluctuations can also affect the companies' profitability.

Explanation: In general, when the value of a country's currency rises—becomes stronger—companies based there find it harder to export products to foreign markets and easier for foreign companies to enter local markets. It also makes it more cost-efficient for domestic companies to move operations to lower—cost foreign sites. When the value of a currency declines—becomes weaker—the opposite occurs.

Page Ref: 97

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

96) Explain why fluctuations in exchange rates have significant influence on the balance of trade.

Answer: When the value of a country's currency rises, companies based there find it harder to export products to foreign markets and easier for foreign companies to enter local markets.

Explanation: As the value of a country's currency falls, its balance of trade usually improves because domestic companies should experience a boost in exports. There should also be less reason for foreign companies to ship products into the domestic market and less reason to establish operations in other countries.

Page Ref: 97

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

97) Discuss the differences between absolute advantage and comparative advantage.

Answer: An absolute advantage exists when a country can produce something more cheaply and/or of higher quality than any other country. Absolute advantages are relatively rare. A country has a comparative advantage in goods that it can produce more efficiently than other goods.

Explanation: Economists traditionally focused on absolute and comparative advantage to explain international trade. But because this approach focuses narrowly on such factors as natural resources and labor costs, a more contemporary view of national competitive advantage has emerged.

Page Ref: 97-98

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

98) What are the four components of national competitive advantage?

Answer: The four components of national competitive advantage are factor conditions; demand conditions; related and supporting industries; and strategies, structures, and rivalries.

Explanation: When all attributes of national competitive advantage exist, a nation is likely to be heavily involved in international business.

Page Ref: 98

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

99) What are two specific reasons why a company might decide NOT to conduct business internationally?

Answer: Each of the following reasons is acceptable (among others): (1) the company's product(s) may be unsuitable for international shipping due to storage and/or transportation costs, if made domestically; (2) there may be a very low demand for the company's product(s) in foreign markets; (3) the business climate of a given country may be unsuitable for the company.

Explanation: A fourth potential reason is that the company may not have or be able to obtain the necessary skills and knowledge to do international business.

Page Ref: 100

Difficulty: Difficult

AACSB: Analytic skills

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Synthesis

100) Under U.S. antidumping legislation, what conditions must be met to prove that dumping is being practiced?

Answer: Dumping is the practice of selling a product abroad for less than the cost of production. U.S. antidumping legislation sets two conditions for determining that dumping is being practiced: products are being priced at "less than fair value," and the result unfairly harms a domestic industry.

Explanation: The U.S. government has been known to impose significant tariffs on imports as a means to combat dumping.

Page Ref: 105

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

101) Describe the relationship of exports and imports in a country's balance of trade and its balance of payments.

Answer: Exports are products created domestically and then transported and sold abroad, whereas imports are products created abroad and then transported and sold domestically. A nation's balance of trade is determined through the relationship of its exports to its imports. A positive balance of trade, also known as a trade surplus, occurs when a country exports more than it imports. A negative balance of trade, or a trade deficit, occurs when a country imports more than it exports. A country's balance of payments results from the inflow and outflow of money into and out of the country as a result of the country's trade balance.

Page Ref: 93-94

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Concept

102) Define licensing arrangement and strategic alliance and discuss their relative merits.

Answer: With a licensing arrangement, a firm gives foreign entities exclusive rights to manufacture or market their products in that market. With such arrangements, the licensing firm is not often present to monitor that production and quality control standards are consistently being met. Such arrangements, which include franchising, might benefit the licensing firm in that the local people likely know the local market best; therefore, a licensing arrangement would allow the licensing firm to tap into a foreign market via the use of employees who share cultural similarities with that particular market. In a strategic alliance, a firm comes together in a form of a partnership with a firm in a country in which it wants to do business. Both sides agree to invest resources and capital into a new business or toward a common purpose. This type of partnership represents a type of "marriage" between two firms; both sides are present while major decisions are being made and both sides work toward their common purpose.

Page Ref: 101-103

Difficulty: Difficult

AACSB: Analytic skills

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Synthesis

103) How can a local content law in Japan act as a barrier to a U.S.-based automobile manufacturing company that is interested in setting up a branch office in Tokyo?

Answer: Success in international trade will depend largely upon social, economic, legal, and political barriers. Any firm planning to conduct business abroad must understand social and cultural differences between the host country and home country. Economic differences include the extent of government involvement in a given industry and the level of competition. There are many legal and political barriers to international trade, including quotas, tariffs, subsidies, local content laws, and business practice laws.

Explanation: Many countries, including the United States, have local content laws—requirements that products sold in a country be at least partly made there. Firms seeking to do business in a country must either invest there directly or take on a domestic partner.

Page Ref: 105

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Concept

104) What are the advantages and disadvantages of globalization?

Answer: Globalization has increased the standard of living for billions of people and has helped to create enormous wealth in many different parts of the globe. However, many people have not shared in this wealth and some critics believe that globalization has hurt less developed countries and destroyed or damaged the unique cultures that exist in different parts of the world.

Explanation: In recent years governments and businesses have become more aware of the benefits of globalization to businesses and shareholders, while critics have been more willing to protest or demonstrate at international gatherings of global economic leaders.

Page Ref: 89

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Compare and contrast different economic systems

Skill: Synthesis

105) How has globalization affected the potential for higher standards of living within the world?

Answer: By bringing new jobs and hence more monetary resources into various regions of the world, globalization has given several nations more opportunities to improve the lives of its citizens. However, in many cases, it has also served to provide additional control to those who already were in power.

Explanation: It is important to note that globalization has impacts other than purely positive ones on various people in the world.

Page Ref: 89

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Synthesis

106) How might the international market specifically affect the success of a local coffee shop in Cleveland, Ohio?

Answer: The price and availability of coffee beans will vary according to the international coffee market. This would affect the price of coffee charged by the coffee shop, which could in turn affect the success of the business.

Explanation: It is important to realize that even very local businesses will always be affected by the global economy.

Page Ref: 89

Difficulty: Difficult

AACSB: Dynamics of the global economy

Objective: 4.1

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

Nokia Corporation, headquartered in Finland, is a world leader in the cell phone industry. Because much of Finland is heavily forested and sparsely populated, it is difficult and expensive to develop a land-based communication network. Nokia created Europe's first digital telephone network in 1982. Today, Nokia has 27 percent of the world market in cell phones, well ahead of its competition.

107) Should telephone technology be considered an absolute advantage in Finland? Explain.

Answer: An absolute advantage exists when a country can produce something that is cheaper and/or of higher quality than any other country. Nokia has 27 percent of the world market in cell phones, well ahead of their competition; this may indicate an absolute advantage. However, absolute advantages are always relative.

Explanation: In general, both absolute and comparative advantages translate into competitive advantage.

Page Ref: 97

Difficulty: Easy

AACSB: Analytic skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

108) Under what circumstances would telephone technology be considered a comparative advantage in Finland?

Answer: A country enjoys a comparative advantage when no other country can produce something as efficiently. If no other country could produce cell phones and cell phone technology as efficiently as Finland, then Finland would enjoy a comparative advantage.

Explanation: Economists traditionally focused on absolute and comparative advantage to explain international trade. But because this approach focuses narrowly on such factors as natural resources and labor costs, a more contemporary view of national competitive advantage has emerged.

Page Ref: 89

Difficulty: Easy

AACSB: Analytic skills

Objective: 4.2

Learning Outcome: Explain how economic performance is monitored

Skill: Application

109) Nokia is a dominant market player in its industry. What are some risks that Nokia might face if it engages in a strategic alliance with a foreign company?

Answer: If it engages in a strategic alliance to either produce a superior or different type of phone or to improve communication technology, Nokia may run the risk of having to share trade secrets as well as alter the company's image in the market.

Explanation: In many countries, laws make strategic alliances virtually the only way to do international business.

Page Ref: 102

Difficulty: Moderate

AACSB: Analytic skills

Objective: 4.3

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Critical Thinking

110) How might sociocultural differences affect sales of Nokia phones outside Finland?

Answer: Any firm planning to conduct business in another country must understand the sociocultural differences between the host country and the home country. One of the most obvious barriers is language. The packaging, instructions, and menu must be translated into the language of users in other countries. Nokia must also consider cultural differences in cell phone usage in each country to which they wish to export. For example, is it culturally acceptable to speak on a cell phone while walking down the street? Is face-to-face communication preferred over phone communication?

Explanation: Some social and cultural differences are obvious, but a wide range of subtle value differences can also affect operations.

Page Ref: 103

Difficulty: Difficult

AACSB: Analytic skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

111) How might the imposition of a quota on cell phones impact Nokia's exportation of cell phones to the United States?

Answer: A quota is a restriction on the number of products of a given type that can be imported into a country. If the United States were to impose a quota on the number of cell phones, Nokia might find that they were limited in the number of phones they could ship to the United States. By reducing supply, prices for their phones would tend to increase.

Explanation: Even free market economies, such as the United States, have some quotas and/or tariffs, both of which affect prices and quantities of foreign-made products.

Page Ref: 104

Difficulty: Difficult

AACSB: Analytic skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

112) How might the imposition of a tariff on cell phones impact Nokia's exportation of cell phones to the United States?

Answer: A tariff is a tax on imported products. Therefore, the imposition of a tariff on cell phones would result in increased prices on Nokia products sold in the United States. If there were not a substitute brand of comparable quality, however, demand for Nokia's phones in the United States would likely not decrease much.

Explanation: Tariffs raise the prices of imports by making consumers pay not only for the products but also for tariff fees. Most tariffs, called protectionist tariffs, are meant to discourage particular imports.

Page Ref: 104

Difficulty: Difficult

AACSB: Analytic skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

113) Other than a quota, embargo, or tariff, what legal barriers might the United States use to discourage the importation of cell phones?

Answer: Congress might consider a subsidy program for domestic manufacturers or enact local content laws. If the U.S. government were to subsidize domestically produced cell phones, the price would go down. With lower prices, the sales of domestically produced cell phones would likely increase and sales of foreign produced cell phones would likely decrease. Local content laws require that products sold in a particular country be at least partly made there. Nokia could meet this requirement by taking on a domestic partner. Yet, Nokia will experience higher costs by being required to buy components of its phones from U.S. firms or by setting up a production facility in the United States to complete assembly.

Explanation: A subsidy is a government payment to help a domestic business compete with foreign firms. They're actually indirect tariffs that lower the prices of domestic goods rather than raise the prices of foreign goods.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Synthesis

114) The Trade Agreements Act of 1979 forbids "dumping." Because of its low prices, is it possible that Nokia could be accused of "dumping" their phones in the United States?

Answer: "Dumping" is the practice of selling a product abroad for less than the cost of production. To prove dumping, products must be priced at "less than fair value" and the "dumping" must have resulted in harm to the domestic industry.

Explanation: If the United States thought that Nokia was guilty of dumping, to protect local manufacturers, the U.S. government might impose a significant tariff on imported Nokia phones.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Application

Fembooks is a feminist bookstore that sells books only over the Internet. It has established an excellent reputation for finding out-of-print and hard-to-find books of interest to women. The CEO of Fembooks is considering going global with the business, since it is already established on the Internet.

115) The vice president of Fembooks argues that they will encounter too many difficulties in taking the business global via the Internet. The president argues that the benefits would be worth the problems encountered. Which of the following statements, if true, would support the argument of the vice president against going global?

- A) While English is the dominant language of the Internet, more local traffic would be generated by Web pages in the local language.
- B) Being a niche business, going global over the Internet would not put a huge strain on existing personnel.
- C) Shipping books overseas could easily be handled by UPS, FedEx, or airmail.
- D) Sales predictions for overseas expansion anticipate an initial 30 percent increase, then tapering off to a 20 percent increase annually.
- E) Increased Internet advertising costs would be a fairly inexpensive investment to increase business on a global basis.

Answer: A

Explanation: A) Choice A would support the vice president's argument against going global in that generating Web pages in a variety of languages would be a disadvantage. While there are software packages that do literal translations, many terms do not translate literally, and back translation would be needed to ensure accuracy. Choices B, C, D, and E would all support the president's argument for expanding globally. Not having to hire additional personnel and not having shipping concerns would be advantages for an Internet business. Increasing sales while not greatly increasing advertising costs would also be an advantage.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

116) Which of the following statements, if true, would support the president's argument for the global expansion of Fembooks through the Internet?

- A) Payment preferences vary from country to country. Europeans prefer using debit cards over using credit cards due to the high rate of credit card theft.
- B) Demographic targeting is more easily accomplished on the Internet than in other forms of advertising.
- C) The exchange rate for different currencies can be an issue for global businesses. The use of local currency may increase rates of purchase, but presents challenges for exchange and shipping.
- D) Advertising and sales laws (and accompanying taxes) vary from country to country.
- E) Local import and export laws would need to be researched and followed.

Answer: B

Explanation: B) Choice B, the ability to demographically target more accurately, would support the president's argument for global expansion through the Internet. Choices A, C, D, and E would all support the vice president's concerns and argument against global expansion of Fembooks through the Internet. Payment preferences and currency exchange rates would definitely need to be addressed before expansion. Laws regarding advertising, sales, imports and exports would require legal advice to make sure they were accurately followed, which would be a further expense.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

117) The vice president further argues that more reasons exist for not expanding Fembooks on a global basis. Which of the following statements, if true, would NOT support the vice president's argument?

- A) Bandwidth variability can cause technical problems with ordering through the Internet.
- B) Some countries require Internet users to pay by the minute, which further necessitates a rapid ordering and payment procedure.
- C) Web censoring, which could impact feminist books, occurs in China, Saudi Arabia, Iran, and Malaysia.
- D) The rate of access to computers is increasing on a global basis and now stands at 15 percent, with estimates of increasing to 25 percent in the next two years.
- E) Local Internet Web page writers would need to ensure that all offensive colors, words and images were removed to ensure cultural adaptation.

Answer: D

Explanation: D) Choice D, the growing access to computers on a global basis, would not support the vice president's argument against Fembooks' global expansion through the Internet. Choices A, B, C, and E would all support the vice president's ongoing argument. Bandwidth variability can be a real business concern for Internet businesses. Payment by the minute, such as in Internet cafes, means that the ability to order and pay for Internet products needs to be accomplished rapidly. Web censoring by at least seven countries would certainly have an impact on a feminist bookstore, and quite a few other countries where women still hold subservient roles could cause concerns. Local technical support personnel with knowledge of cultural mores would need to be hired to ensure cultural adaptation is appropriate, or sales would be negatively impacted.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.2

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

Citronel is a French company that markets a range of fashionable clothing to French consumers under its widely known brand name. The company wants to begin marketing its products worldwide and needs to decide on the most effective and profitable strategy.

118) Citronel's CEO thinks that a market segment already exists worldwide that will be receptive to Citronel's product line. Which of the following, if true, would strengthen the CEO's position?

- A) People in different parts of the world tend to embrace their own clothing fashions.
- B) Consumers in different parts of the world have varied spending power.
- C) Clothing fashions that originate in France tend to appeal to different places in the world.
- D) Citronel has accumulated extensive market data on French consumers.
- E) Citronel has been in business for only a few years.

Answer: C

Explanation: C) If French fashions appeal to consumers in different parts of the world, then Citronel likely has a ready-made global market segment that it could target. On the other hand, if clothing fashions are generally specific to a culture (Choice A), it's unlikely that Citronel could sell to a global market segment. Choice B: We don't know how price-related factors such as spending power would affect Citronel's efforts to appeal to consumers in various parts of the world. Choice D tells us only that Citronel has information about the French consumer market, and not about consumers worldwide. Choice E might weaken the case that there is already a global market segment worldwide for Citronel's products, since it would mean that the company is not as likely to be known outside of France.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

119) Citronel's Chief Operating Officer thinks that the company should adopt a standardized marketing approach throughout the world. Which of the following, if true, would strengthen her position?

- A) Long production runs of the same items would allow the company to save money.
- B) Different cultures vary in how they perceive French clothing.
- C) The company has had only limited success establishing a consistent marketing strategy throughout France.
- D) The company will have strong competition from various brands throughout the world.
- E) The company has a substantial marketing budget.

Answer: A

Explanation: A) Standardizing its marketing to different parts of the world would allow the company to sell the same clothes throughout the world, and if this saves the company money, it would be a sound strategy. If French clothing is perceived differently in various places in the world (Choice B), Citronel's marketing would need to be adjusted for that. Choice C: If Citronel is having trouble coming up with a consistent marketing strategy in France, it's likely to face an even greater challenge developing a standardized marketing strategy worldwide. And even if the strategy succeeded in France, there's no guarantee that it would work as well in other countries. Choice D would weaken the case for a standardized marketing strategy, because Citronel would probably need to customize its marketing to compete with various brands in different countries. Choice E would mean that the company could probably afford a customized marketing approach, so it does not strengthen the case for a standardized marketing approach.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

Derrido is an American firm that has produced several successful animated TV series in the United States. It is considering contracting with one or more international companies as a way to market its products overseas.

120) An executive at Derrido suggests that a contractual relationship will provide the company with a fair amount of control over how the foreign partner markets Derrido's product. Which of the following, if true, would strengthen this case?

- A) Contractual relationships typically include limits and stipulations on the foreign partner.
- B) Contractual relationships typically limit the responsibility of the originating firm.
- C) Contractual relationships can be complicated by international law.
- D) Foreign companies often have considerable familiarity with American culture.
- E) Foreign companies usually expect to be given latitude with how they market U.S.-made products.

Answer: A

Explanation: A) Limits and stipulations on the foreign partner would give the originating firm, Derrido in this case, a certain amount of control over the contractee's business operations.

Choices B and E would suggest that a contractual relationship would limit Derrido's control.

Choices C and D are not relevant to the amount of control that the company would have over how the foreign partner would market Derrido's product.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

121) One of Derrido's sales executives suggests that Derrido's particular type of business enables a contractual relationship to be an especially suitable way for the company to market its products internationally. Which of the following, if true, would strengthen this position?

- A) Contractual relationships allow an originating firm to make the most use of local talent.
- B) Contractual relationships cannot capture unpredictable future contingencies.
- C) Contractual relationships are often cross-culturally contentious.
- D) Derrido would not be undertaking large-scale production or shipping operations.
- E) Derrido is a large company with ample staff and resources at its disposal.

Answer: D

Explanation: D) Unlike producers of consumer products, Derrido would not be shipping large amounts of products overseas, but rather licensing intellectual property for marketing by other companies overseas. Choice A does not describe a situation that would be particularly advantageous to Derrido, since the company would rely mostly on its existing talent and production. The potential for uncertainty (Choice B) and infighting (Choice C) are factors that would weaken the case for the company entering into a contractual relationship with a foreign company. Choice E might strengthen the case that the company could handle international marketing of its products by itself instead of entering into a contractual relationship.

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Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

122) Derrido's marketing director thinks that the company should craft a contractual agreement as an initial entry strategy, because the company might want to choose a more advanced entry strategy later. Which of the following, if true, would strengthen this position?

- A) Foreign partners usually want to enter into contractual agreements with American companies for a long-term period.
- B) A contractual agreement should spell out as many expectations of the foreign partner as possible.
- C) Contractual agreements should be entered into only if the foreign partner is extremely reliable.
- D) Contractual agreements require approval by legal specialists from all countries involved.
- E) Contractual agreements allow a company to provide for open, flexible terms of operation.

Answer: E

Explanation: E) If the company can enter the international market with flexible terms, that will allow it to change to a more advanced strategy later. If foreign companies usually want to enter into long-term contracts (Choice A), the marketing director faces difficulties getting them to sign a short-term one that allows Derrido the flexibility to pursue a new strategy later. Choices B, C, and D stipulate items of caution for a company entering into a contractual agreement with a foreign partner, but they do not strengthen the case for a short-term contractual agreement.

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Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

123) Another marketing executive points out that a contractual agreement will allow Derrido to blend in with the local market, and goes on to argue that this will be advantageous to the company. Which of the following, if true, would strengthen this argument?

- A) Consumers in many countries have limited resources with which they can purchase entertainment.
- B) Consumers in many countries are wary of what they perceive as American cultural imperialism.
- C) Contractual agreements usually require the foreign partner to display the originating firm's brand as prominently as possible.
- D) Contractual agreements initiated by an American company often make for contentious relationships with the foreign partner.
- E) Foreign consumers briefly resist cultural imperialism but then quickly embrace American cultural products.

Answer: B

Explanation: B) If consumers are wary of cultural imperialism by American companies marketing entertainment in their country, it will be an advantage for Derrido to blend in with the local market. By the same token, if their wariness is short-lived (Choice E) and followed up by a buying frenzy, the argument for blending in is weakened. Choice A: It won't matter if Derrido blends in or not if nobody can afford to buy its products. Choice C: If this is the case Derrido will have a hard time blending in. Choice D: It won't be advantageous to Derrido to contract with a foreign company if the result is endless arguments and lawsuits between the partners.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

124) Derrido's chief financial officer thinks that the company should enter into a contractual agreement because it will give Derrido an immediate and steady stream of revenue. Which of the following, if true, would strengthen this argument?

- A) Contractual relationships with foreign companies usually involve many rounds of negotiations.
- B) Contractual relationships are less expensive to enter into than direct investment.
- C) Compared to direct investment, contractual relationships make business less subject to unpredictable changes.
- D) Compared to other forms of entry into international markets, contractual relationships tend to be risky.
- E) Foreign companies in contractual relationships may behave unpredictably at future points in time.

Answer: C

Explanation: C) If business is less subject to unpredictable changes, this makes it more likely to be a source of a predictable stream of revenue over a long period. Choice A: If negotiations are typically lengthy, the revenue may be steady but won't be immediate. Choice B strengthens the case that contractual relationships involve less expense in the short term, but not that they give a company a steady stream of revenue for the long term. Choices D and E weaken the case that a contractual relationship would give Derrido a predictable source of revenue over time.

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Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 4.3

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

Lite Foods is a producer of breakfast cereals such as oatmeal and cornflakes, and its products can be found in nearly all supermarkets across the United States. Lite Foods now has its sights set on international shores, specifically the large Chinese consumer market. Company executives are currently debating the optimal route for the firm to enter the market.

125) Which of the following, if true, would strengthen the argument for venturing into the Chinese market?

- A) The affluent Chinese middle class is large and is quick to adopt western lifestyles and product preferences.
- B) Growth in the United States cereal market continues to be strong.
- C) The Chinese fixed exchange rate regime may change, which could mean a stronger Yuan that would affect Chinese exports.
- D) Chinese food preferences are very slow to evolve.
- E) China recently signed a free-trade agreement with the Association of Southeast Asian Nations (ASEAN).

Answer: A

Explanation: A) Entering a foreign market entails risk, so first a company wants to determine if there will be a demand for its products in the new market. Choice A tells us that members of the Chinese middle class are quick to try and use American products. This bodes well for Lite Foods, suggesting that an appealing market exists and that few product and marketing adaptations will be needed. Choice B suggests that Lite Foods has room to grow in the United States, which makes the risk of entering the Chinese market less attractive. Choice C talks about Chinese exports, which are not under consideration in this scenario. Lite Foods would be concerned with economic changes affecting imports into China. Choice D weakens the argument for entering the Chinese market, as it suggests that the Chinese would be slow to adapt the product. Choice E isn't clearly relevant to Lite Foods' decision to enter the Chinese market. It would only be relevant if Lite Foods had an operation based in the ASEAN region, information that we don't have.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

126) Which of the following, if true, would most weaken the argument for venturing into the Chinese market?

- A) The Chinese government provides subsidies and tax incentives to local manufacturers who export their products.
- B) The Chinese breakfast menu is typically made up of steamed dough, noodles, fruits, and eggs.
- C) It would take a few months to establish operations in China because of regulatory hurdles.
- D) Several international companies have failed in China because of their inability to understand local requirements.
- E) Penetrating the Chinese market requires extensive use of local employees.

Answer: B

Explanation: B) Are the breakfast products marketed by Lite Foods a logical fit for the Chinese market? We know that Lite Foods makes oatmeal and corn flakes, but Choice B indicates that these types of cereals are *not* part of the typical Chinese breakfast. This definitely makes entering the Chinese market riskier for Lite Foods. Choice A isn't relevant to Lite Foods' situation; it only applies to local Chinese manufacturers who export, a description that doesn't currently fit Lite Foods. Choice C describes a very reasonable time period to wait to clear regulatory hurdles. In and of itself, this is not a reason to move away from international investments. Choice D suggests that it is difficult to understand the local Chinese requirements. However, this does not mean that Lite Foods will follow the failures of other companies. In fact, Lite Foods can possibly learn some lessons from these failures. Choice E isn't necessarily a disadvantage. Local employees may be much more productive or less expensive than Lite Foods' American employees.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

127) Which of the following, if true, would strengthen the argument for exporting the company's products to China?

- A) Lite Foods has a large budget set aside for foreign direct investments.
- B) Lite Foods wants to have strict control over its international operations.
- C) Lite Foods has to modify its product line to suit Chinese tastes and preferences.
- D) Lite Foods' products do not have a "healthy" reputation in the United States.
- E) Lite Foods has significant excess capacity that results in production overruns.

Answer: E

Explanation: E) Companies may passively export their surpluses from time to time, or they may make an active commitment to expand exports to a particular market. In this case, the excess capacity acts as a trigger for Lite Foods. Choice E strengthens the argument. Choices A and B favor foreign direct investment over exporting. Choices C and D do not tell us anything about exporting or any other form of market entry. The need for product modifications is expected and doesn't favor exporting over other types of market entry. The unhealthy reputation of the cereals in the United States would have little bearing on how those products are perceived in China.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking

128) Which of the following, if true, would weaken the argument for exporting the company's products to China?

- A) Lite Foods will have to make significant investments if it decides to enter a joint venture in China.
- B) Lite Foods would have to hire sales personnel from the host country if it opts for direct export.
- C) Lite Foods is a risk-averse organization.
- D) Lite Foods lacks Chinese market expertise and has not found reliable intermediaries with expertise in the market.
- E) Lite Foods will export its products as is, as more and more Chinese consumers are adopting breakfast cereals.

Answer: D

Explanation: D) Though exporting involves less risk than other methods of market entry, an exporting company needs to have some knowledge of the market or to work with a partner who knows the market. Choice D suggests that Lite Foods knows little about the Chinese market and hasn't found a knowledgeable partner the company can trust. As such, Choice D dampens the attractiveness of exporting. Choice A is not relevant to exporting. Choice B merely states a fact about exporting. It neither strengthens nor weakens the case for exporting. Choice C actually supports market entry through exporting, as exporting presents the lowest level of risk for a company. Choice E does nothing to weaken the argument. Rather, it supports a push to enter the Chinese market.

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Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 4.4

Learning Outcome: Explain the benefits and challenges of engaging in international business

Skill: Critical Thinking