True / False Questions

1. International business involves the buying, selling, and trading of goods and services across national boundaries.

TRUE

International business refers to the buying, selling, and trading of goods and services across national boundaries.
2. Nations trade with other nations to obtain resources that would otherwise be unavailable to them.

**TRUE**

Nations and businesses engage in international trade to obtain raw materials and goods that are otherwise unavailable to them or are available elsewhere at a lower price than that at which they themselves can produce.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.  
Topic: Trade Strategies Used in Reaching Global Markets
3. Absolute advantage exists when a country is the only source of an item.

**TRUE**

Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or absolute advantage, exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

4. Exporting is the purchase of products from another nation.

**FALSE**

Exporting is the sale of goods and services to foreign markets.

5. When a nation imports more than it exports, it has a positive balance of trade.

**FALSE**

When a nation imports more than it exports, it has a trade deficit.
6. A consistent increase in a country's imports has a favorable impact on its production and employment.

**FALSE**

A consistent increase in a country's imports adversely affects its production and employment. When a country has a trade deficit, more money flows out of the country than into it. If more money flows out of the country than into it from tourism and other sources, the country may experience declining production and higher unemployment, because there is less money available for spending.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 3 Hard
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets

7. The Webb-Pomerene Export Trade Act allows selected U.S. firms willing to enter international trade to form monopolies to compete with foreign monopolistic organizations and also to operate as monopolies within the United States.

**FALSE**

The Webb-Pomerene Export Trade Act of 1918 allows selected U.S. firms to form monopolies to compete with foreign monopolistic organizations but they are not allowed to limit free trade and competition within the United States or to use unfair methods of competition in international trade.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
8. Protective tariffs raise the price of foreign goods to allow expensive domestic goods to compete with foreign ones.

**TRUE**

Import tariffs are more commonly imposed to protect domestic products by raising the price of imported ones. Protective tariffs allow more expensive domestic goods to compete with foreign ones.

**9. A common reason for establishing quotas or tariffs is to encourage dumping.**

**FALSE**

One common reason for setting quotas or tariffs is to prohibit dumping, which occurs when a country or business sells products at less than what it costs to produce them.
10. Political unrest in countries often creates a hostile environment for foreign businesses and can act as a barrier to international trade.

**TRUE**

Businesses engaged in international trade must consider the relative stability of countries. Political unrest in countries may create a hostile or even dangerous environment for foreign businesses.

AACSB: Analytic
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Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade

11. Sociocultural differences, such as variations in body language and personal space, usually have almost negligible impact on international business.

**FALSE**

Sociocultural differences, such as variations in body language and personal space, have an impact on international business. These cultural differences may generate uncomfortable feelings or misunderstandings when business people of different countries negotiate with each other.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
12. The General Agreement on Tariffs and Trade was a precursor to the World Trade Organization and provided a forum for tariff negotiations.

**TRUE**

The General Agreement on Tariffs and Trade was a precursor to the World Trade Organization and provided a forum for tariff negotiations.

13. The World Trade Organization agreements are the optional ground rules for international commerce.

**FALSE**

Key to the World Trade Organization are the WTO agreements, which are the legal ground rules for international commerce.
14. The U.S. set up maquiladoras in China.

**FALSE**

The North American Free Trade Agreement (NAFTA) facilitated the growth of maquiladoras, which are U.S. production facilities in Mexico.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-03 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.
Topic: International Trade Agreements and the Organizations that Facilitate Trade

15. The Association of Southeast Asian Nations (ASEAN) effectively united Singapore, Britain, and Japan into one market.

**FALSE**

The Association of Southeast Asian Nations (ASEAN), established in 1967, promotes trade and economic integration among member nations in Southeast Asia, including Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Indonesia, Myanmar, and Cambodia.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom’s: Remember
Difficulty: 2 Medium
Learning Objective: 03-03 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.
Topic: International Trade Agreements and the Organizations that Facilitate Trade
16. The International Monetary Fund promotes trade among member nations by eliminating trade barriers and fostering financial cooperation.  

TRUE

The International Monetary Fund (IMF) was established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation.

17. In most countries, participation in international business is restricted to large corporations.

FALSE

A business may get involved in exporting when it is called upon to supply a foreign company with a particular product. Such exporting enables enterprises of all sizes to participate in international business.
18. Licensing allows a company to enter the international marketplace without spending large amounts of money abroad.

**TRUE**

Licensing and franchising enable a firm to enter the international marketplace without spending large sums of money abroad or hiring or transferring personnel to handle overseas affairs.

19. A strategic alliance is a partnership formed to create competitive advantage on a worldwide basis.

**TRUE**

A strategic alliance is a partnership formed to create competitive advantage on a worldwide basis.
20. Direct investment gives lesser power and is the least expensive way to participate in foreign trade.

FALSE

Companies that want more control and are willing to invest considerable resources in international business may consider direct investment, the ownership of overseas facilities.

21. Multinational corporations (MNCs) are often criticized on the grounds that they adversely affect production in the host countries and also contribute to higher unemployment.

FALSE

Multinational corporations (MNCs) are criticized on the grounds that they increase the gap between rich and poor nations, misuse and misallocate scarce resources, exploit the labor markets in less-developed countries (LDCs), and harm their natural environments.
22. Companies doing business internationally have traditionally used a globalization strategy.

**FALSE**

Companies doing business internationally have traditionally used a multinational strategy, customizing their marketing mixes according to cultural, technological, regional, and national differences.

23. A multinational strategy involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences.

**TRUE**

A multinational strategy involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences.
24. Even when products are standardized, advertising often has to be modified to adapt to local cultures.

**TRUE**

Even when products are standardized, advertising often has to be modified to adapt to language and cultural differences.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-05 Contrast two basic strategies used in international business.
Topic: Trade Strategies Used in Reaching Global Markets

25. Globalization involves standardizing products for the whole world as if it were a single entity.

**TRUE**

A global strategy or globalization involves standardizing products (and, as much as possible their promotion, and distribution) for the whole world as if it were a single entity.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-05 Contrast two basic strategies used in international business.
Topic: Trade Strategies Used in Reaching Global Markets

Multiple Choice Questions
26. A(n) _____ exists when a country is the only source or producer of an item.
A. comparative advantage
B. comparative disadvantage
C. absolute advantage
D. absolute disadvantage
E. domestic advantage

Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or absolute advantage, exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

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Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Competition

27. The country of Southernberg is the only producer of oil. This gives Southernberg a(n) _____.
A. absolute advantage
B. absolute disadvantage
C. comparative advantage
D. comparative disadvantage
E. domestic advantage

The given situation lets Southernberg have an absolute advantage. Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or absolute advantage, exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Competition
28. A(n) _____ exists when a country is the most efficient producer of an item.
   A. comparative advantage
   B. comparative disadvantage
   C. absolute advantage
   D. absolute disadvantage
   E. domestic advantage

   Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or absolute advantage, exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

   AACSB: Analytic
   Accessibility: Keyboard Navigation
   Bloom’s: Remember
   Difficulty: 1 Easy
   Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
   Topic: Competition

29. When compared to all other countries, the country called Theoria can produce wheat in the most efficient manner. This gives Theoria a(n) _____.
   A. comparative advantage
   B. comparative disadvantage
   C. absolute advantage
   D. absolute disadvantage
   E. domestic advantage

   The given situation lets Theoria have an absolute advantage. Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or absolute advantage, exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

   AACSB: Analytic
   Accessibility: Keyboard Navigation
   Bloom’s: Apply
   Difficulty: 2 Medium
   Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
   Topic: Competition
30. Colombia can produce coffee much more efficiently than it can produce other items; this gives Colombia a(n) _____ advantage.
   A. absolute  
   B. competitive  
   C. domestic  
   D. marginal  
   **E.** comparative

   The given situation lets Colombia have a comparative advantage. Most international trade is based on comparative advantage, which occurs when a country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items.

31. _____ is the transferring of manufacturing or other tasks—such as data processing—to countries where labor and supplies are less expensive.
   A. Importing  
   B. Exporting  
   **C.** Outsourcing  
   D. Dumping  
   E. Insourcing

   Outsourcing is the transferring of manufacturing or other tasks—such as data processing—to countries where labor and supplies are less expensive.
32. Why has outsourcing become a controversial practice in the United States?
A. Many jobs have moved overseas where those tasks can be accomplished for lower costs.
B. Outsourcing empowers the outsourcing company with more managerial control.
C. The losses incurred out of the hidden costs of outsourcing are making companies go bankrupt.
D. Delegation of several processes leaves the outsourcing company with much lesser time to concentrate on its core business process.
E. The outsourced products end up having sub-standard quality because their producers lack expertise.

Outsourcing has become a controversial practice in the United States because many jobs have moved overseas where those tasks can be accomplished for lower costs.

33. _____ is best described as the sale of goods and services to foreign markets.
A. Franchising
B. Offshoring
C. Outsourcing
D. Exporting
E. Importing

To obtain needed goods and services and the funds to pay for them, nations trade by exporting and importing. Exporting is the sale of goods and services to foreign markets.
34. Which of the following terms can be best defined as the purchase of goods and services from foreign sources?
A. Licensing
B. Franchising
C. Dumping
D. Exporting
E. Importing

To obtain needed goods and services and the funds to pay for them, nations trade by exporting and importing. Importing is the purchase of goods and services from foreign sources.

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Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets

35. A nation's _____ can be best defined as the difference in value between its exports and imports.
A. balance of import
B. balance of export
C. balance of trade
D. positive trade surplus
E. negative trade deficit

A nation's balance of trade is the difference in value between its exports and imports.

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Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets
36. A negative balance of trade exists when a country:
A. imports more than it exports.
B. exports more than it imports.
C. has more assets than debt liabilities.
D. spends more than it saves.
E. saves more than it spends.

A nation's balance of trade is the difference in value between its exports and imports. A trade deficit is defined as a nation's negative balance of trade, which exists when that country imports more products than it exports.

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Bloom's: Remember
Difficulty: 1 Easy
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Topic: Trade Strategies Used in Reaching Global Markets

37. Snowland and Pledza are neighboring countries. Pledza imports more products than it exports. Over the last decade, Pledza imports from Snowland have been rapidly increasing but not fast enough to offset the exports to Snowland. As a result, Pledza has a(n) _____.
A. domestic gain
B. trade surplus
C. trade deficit
D. absolute advantage
E. comparative advantage

A nation's balance of trade is the difference in value between its exports and imports. A trade deficit is defined as a nation's negative balance of trade, which exists when that country imports more products than it exports.

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Difficulty: 2 Medium
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets
38. Which is one of the implications of trade deficits?
A. The success of businesses  
B. The import of more products  
C. The loss of jobs  
D. The export of more services  
E. A higher standard of living  

A trade deficit is defined as a nation's negative balance of trade, which exists when that country imports more products than it exports. Trade deficits are harmful because they can mean the failure of businesses, the loss of jobs, and a lowered standard of living.

39. A favorable balance of trade exists when a country:
A. imports more than it exports.  
B. exports more than it imports.  
C. has more debt liabilities than assets.  
D. spends more than it saves.  
E. saves more than it spends.  

When a nation exports more goods than it imports, it has a favorable balance of trade, or trade surplus.
40. Which of the following is most likely to cause a trade deficit?
A. When a country invests more on producing domestic goods than services
B. When a country focuses on increasing the domestic output of one sector over another
C. When a country focuses on long-term benefits than short-term gains
D. When a country reduces taxes on imports
E. When a country increases export of products and services

A trade deficit exists when a country imports more goods and services than it exports. Therefore, when a country reduces taxes on imports it is most likely to cause a trade deficit because it will lead to more imports.

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Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets

41. The difference between the flow of money into and out of a country is called its _____.
A. balance of trade
B. domestic gain
C. balance of payments
D. credit balance
E. exchange rate

The difference between the flow of money into and out of a country is called its balance of payments. A country's balance of trade, foreign investment, foreign aid, loans, military expenditures, and money spent by tourists comprise its balance of payments.

AACSBS: Analytic
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Bloom’s: Remember
Difficulty: 1 Easy
Learning Objective: 03-01 Explore some of the factors within the international trade environment that influence business.
Topic: Trade Strategies Used in Reaching Global Markets
42. Identify the industrialized nation from among the following.
A. Iraq
B. Myanmar
C. Pakistan
D. North Korea
E. Japan

Industrialized nations—economically advanced countries such as the United States, Japan, Great Britain, and Canada. Many countries in Africa, Asia, and South America, for example, are in general poorer and less economically advanced than those in North America and Europe; they are often called less-developed countries (LDCs).

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Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade

43. Identify the less-developed country from among the following.
A. The United States
B. New Zealand
C. Great Britain
D. Somalia
E. Canada

Industrialized nations—economically advanced countries such as the United States, Japan, Great Britain, and Canada. Many countries in Africa, Asia, and South America, for example, are in general poorer and less economically advanced than those in North America and Europe; they are often called less-developed countries (LDCs).

AACSB: Analytic
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Bloom's: Understand
Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
44. Find out the correct statement about less-developed countries (LDCs).
A. Their consumers are more likely to purchase nonessential products.
B. They are characterized by low per-capita income.
C. Although they are called less developed, they are economically advanced.
D. The rising middle class has caused many consumers in India to opt for public transport.
E. Countries like Japan, Great Britain, and Canada fall into this category.

Many countries in Africa, Asia, and South America, for example, are in general poorer and less economically advanced than those in North America and Europe; they are often called less-developed countries (LDCs). LDCs are characterized by low per-capita income (income generated by the nation's production of goods and services divided by the population), which means that consumers are less likely to purchase nonessential products.

45. _____ can be best defined as the ratio at which one nation's currency can be exchanged for another nation's currency.
A. Exchange rate
B. National rate
C. Exchange ratio
D. Value ratio
E. Currency ratio

The ratio at which one nation's currency can be exchanged for another nation's currency is the exchange rate.
46. When a country devalues its currency, it causes an increase in:
A. its imports.
B. its exports.
C. the sale of international goods in the domestic market.
D. the sale of international services in the domestic market.
E. the cost of American goods abroad.

Devaluation decreases the value of currency in relation to other currencies. Devaluation encourages the sale of domestic goods and tourism, causing an increase in exports.

47. Which of the following is likely to be an impact of a decrease in the value of yen in relation to the U.S. dollar?
A. The Japanese imports of U.S. goods would increase.
B. The number of Japanese tourists in the U.S. would increase.
C. Trips to Japan would become more expensive for foreign tourists.
D. Imports would become relatively expensive for Japanese consumers.
E. The cost of Japanese goods abroad would become higher.

When the value of the Japanese yen declines relative to other currencies, such as the U.S. dollar, the price of imports becomes relatively expensive for Japanese consumers. On the other hand, Japanese exports become relatively cheap for international markets—in this example, the U.S. Occasionally, a government may intentionally alter the value of its currency through fiscal policy. Devaluation decreases the value of currency in relation to other currencies. If the Japanese yen is were to be devalued, it would lower the cost of Japanese goods abroad and make trips to Japan less expensive for foreign tourists. Thus, devaluation encourages the sale of domestic goods and tourism.
48. Which of the following is a true statement about barriers to international business?
A. Devaluation discourages the sale of domestic goods and tourism.
B. Revaluations occur daily because of the daily changes in exchange rates.
C. Legal and ethical requirements for successful business are decreasing globally.
D. Many of the legal rights that Americans take for granted do not exist in other countries.
E. The Webb-Pomerene Export Trade Act of 1918 allows selected U.S. firms to limit free trade within the United States.

Many of the legal rights that Americans take for granted do not exist in other countries, and a firm doing business abroad must understand and obey the laws of the host country.

49. A specific amount of money levied on each unit of a product brought into a country is termed as a(n) _____.
A. ad valorem tariff
B. value-added tariff
C. fixed tariff
D. prohibitive tariff
E. zero tariff

A fixed tariff is a specific amount of money levied on each unit of a product brought into a country, while an ad valorem tariff is based on the value of the item. Most countries allow citizens traveling abroad to bring home a certain amount of merchandise without paying an import tariff.
50. A fixed tariff differs from an ad valorem tariff because an ad valorem tariff:
A. is a specific amount of money levied on each unit of a product sold by a country.
B. is a specific amount of money levied on each unit of a product brought into a country.
C. is based on the value of an item.
D. prohibits trade in a particular product.
E. limits the number of units of a particular product that can be imported into a country.

A fixed tariff is a specific amount of money levied on each unit of a product brought into a country, while an ad valorem tariff is based on the value of an item.

AACSB: Analytic
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Difficulty: 2 Medium
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade

51. The country of Thelisia pays a 12 percent duty on imported TV sets which is calculated as a fixed percentage of the value of the imported TV sets. Thelisia is paying a(n) _____.
A. sales tax
B. transactional tax
C. ad valorem tariff
D. fixed tariff
E. export tariff

Thelisia is paying an ad valored tax. An ad valorem tariff is based on the value of an item.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
52. Identify the true statement about tariffs and trade restrictions.
A. Countries are not allowed to levy tariffs for political reasons.
B. Protective tariffs allow more expensive domestic goods to compete with foreign ones.
C. Critics of protective tariffs argue that their use inhibits free trade and competition.
D. Countries cannot allow citizens traveling abroad to bring home merchandise without paying an import tariff.
E. Quotas cannot be established by voluntary agreements.

Protective tariffs allow more expensive domestic goods to compete with foreign ones. For example, the United States has lost a significant number of steelworks over the past few decades to foreign competition in places such as China. Other markets can produce steel more cheaply than the United States. Many people and special interest groups in the United States, such as unions, would like to see tariffs placed on Chinese steel, which is significantly less expensive, in order to protect remaining U.S. steel production.

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Bloom’s: Understand
Difficulty: 2 Medium
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
53. Which is the correct statement regarding tariffs and trade restrictions?
A. Supporters of protective tariffs say they insulate new domestic industries against well-established foreign competitors.
B. Tariffs are part of a country's legal structure, and thus, cannot established or removed for political reasons.
C. Countries cannot control their foreign trade by forcing businesspeople to buy and sell foreign products through central banks.
D. Embargoes are created to encourage the trade of particular products.
E. Items purchased in different countries cannot have different tariffs if the items are identical.

Supporters of protective tariffs say they insulate domestic industries, particularly new ones, against well-established foreign competitors. Once an industry matures, however, its advocates may be reluctant to let go of the tariff that protected it.

54. Which of the following is a measure that does not yield revenue for the government of the United States, but can effectively limit the quantity of a particular good being imported from Japan?
A. Quota
B. Value-added tax
C. Tariff
D. Embargo
E. Subsidy

A quota limits the number of units of a particular product that can be imported into a country.
55. A(n) _____ is best defined as a prohibition on trade in a particular product.
   A. ad valorem  
   B. excise  
   C. cartel  
   D. quota  
   E. embargo

   An embargo is a prohibition on trade in a particular product.

56. Because of an unfavorable political situation between the countries, the country of Thetasia has placed a government order to prohibit the trade of private vehicles with the country of Calibria. Thetasia has maintained a(n) _____ with Calibria.
   A. trade tariff  
   B. trade embargo  
   C. quota limit  
   D. fixed tariff  
   E. ad valorem tariff

   An embargo prohibits trade in a particular product. Embargoes are generally directed at specific goods or countries and may be established for political, economic, health, or religious reasons.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Apply  
Difficulty: 3 Hard  
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.  
Topic: Barriers to International Trade
57. _____ can be best defined as the act of a country or business selling products at less than what it costs to produce them.

A. Dumping  
B. Offshoring  
C. Outsourcing  
D. Exporting  
E. Importing

Dumping is the act of a country or business selling products at less than what it costs to produce them.

58. Muslim generally nations forbid the importation of alcoholic beverages on _____ grounds.

A. religious  
B. political  
C. economic  
D. geographical  
E. technological

An embargo prohibits trade in a particular product. Embargoes are generally directed at specific goods or countries and may be established for political, economic, health, or religious reasons. Muslim nations forbid the importation of alcoholic beverages on religious grounds.
59. _____ can be best defined as the act of a country or business selling products at less than what it costs to produce them.
   A. Franchising
   B. Monopolizing
   C. Outsourcing
   D. Offshoring
   **E. Dumping**

Dumping is the act of a country or business selling products at less than what it costs to produce them.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade

60. Which of the following is one of the most common reasons for setting quotas or tariffs?
   A. To increase licensing
   B. To increase sales
   C. To relax embargoes
   **D. To prohibit dumping**
   E. To encourage franchising

One common reason for setting quotas or tariffs is to prohibit dumping, which occurs when a country or business sells products at less than what it costs to produce them.

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Difficulty: 1 Easy
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
61. Identify the correct statement about dumping.
A. Dumping occurs when the country of origin has products with the latest technologically that are in high demand in overseas markets.
B. Dumping occurs when a business sells products at much more than what it costs to produce them.
C. Dumping occurs when the domestic market for a firm's product is too big for match the level of production.
D. Quotas cannot be imposed based on suspicion of dumping unless proven.
E. Dumping permits quick entry into a market.

Dumping is the act of a country or business selling products at less than what it costs to produce them. Dumping permits quick entry into a market.

AACSB: Analytic
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Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade

62. Agro Corp., based in the country of Arahonia, is a company that produces agricultural products. The domestic market of Arahonia is not sufficient to support Agro Corp.'s large-scale level of production because Arahonia is a small but highly industrialized country. Thus, Agro Corp. decides to sell its products to the agriculture-based country of Petinberg at less than their production cost. This process is termed as _____.
A. dumping
B. offshoring
C. outsourcing
D. monopolizing
E. franchising

The given scenario is an example of the process of dumping. Dumping is the act of a country or business selling products at less than what it costs to produce them. Sometimes dumping occurs when the domestic market for a firm's product is too small to support an efficient level of production.

AACSB: Analytic
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Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
Topic: Barriers to International Trade
63. A(n) _____ can be best defined as a group of nations or companies that agrees to act together as a monopoly and not compete with each other in order to generate a competitive advantage in world market.
A. conglomerate  
B. licensor  
C. cartel  
D. embargo  
E. licensee

A group of nations or companies that agrees to act together as a monopoly and not compete with each other, in order to generate a competitive advantage in world markets is a cartel. Probably the most famous cartel is OPEC, the Organization of Petroleum Exporting Countries, founded in the 1960s to increase the price of petroleum throughout the world and to maintain high prices.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.  
Topic: Barriers to International Trade

64. A sudden change in power can result in a regime that is hostile to foreign investment. This is a primary example of a(n) _____.
A. political barrier  
B. cultural barrier  
C. exchange barrier  
D. language barrier  
E. geographic barrier

A sudden change in power can result in a regime that is hostile to foreign investment. This is a primary example of a political barrier.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.  
Topic: Barriers to International Trade
65. Tiffany & Co. learned that more attentive customer service was necessary in order to succeed in Japan. This is an example of a(n) _____ barrier.
A. technological
B. political
C. legal
D. social
E. economic

The given scenario is an example of how Tiffany & Co. overcame a social barrier. Most businesspeople engaged in international trade underestimate the importance of social and cultural differences; but these differences can derail an important transaction.

66. Understanding that Arab businessmen tend to stand face-to-face when holding a conversation reveals the importance of understanding another culture's use of:
A. language.
B. dialect.
C. religious practices.
D. ethics.
E. body language.

Differences in body language and personal space affect international trade. Body language is nonverbal, usually unconscious communication through gestures, posture, and facial expression. Personal space is the distance at which one person feels comfortable talking to another. Americans tend to stand a moderate distance away from the person with whom they are speaking. Arab businessmen tend to stand face-to-face with the object of their conversation.
67. In which of the following regions is forming a circle with one's fingers to signify the "O.K." sign considered rude or unacceptable?
A. India  
B. Mexico  
C. Germany  
D. Great Britain  
E. The United States

Forming a circle with one's fingers to signify the "O.K." sign considered rude or unacceptable in Brazil and Germany.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.  
Topic: Barriers to International Trade

68. The effective translation of product names can be crucial to the success in foreign markets because of:
A. political barriers.  
B. cultural barriers.  
C. legal barriers.  
D. the presence of export quotas.  
E. the differences in body language.

Cultural differences include differences in spoken and written language. Although it is certainly possible to translate words from one language to another, the true meaning is sometimes misinterpreted or lost.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 03-02 Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.  
Topic: Barriers to International Trade
69. Many countries do not allow children to be used in advertising. This is an example of a(n) _____ barrier.
   A. political
   B. cultural
   C. economic
   D. political
   E. religious

   Cultural differences include differences in spoken and written language, body language, personal space, family roles, perceptions of time, national and religious holidays, local customs, and measurement systems. Family roles also influence marketing activities. Many countries do not allow children to be used in advertising, for example.

70. A forum to discuss trade problems and negotiate a reduction of trade barriers was first provided by the:
   A. General Agreement on Tariffs and Trade (GATT).
   C. World Bank.
   D. Exim bank.
   E. International Monetary Fund (IMF).

   The General Agreement on Tariffs and Trade (GATT), originally signed by 23 nations in 1947, provided a forum for tariff negotiations and a place where international trade problems could be discussed and resolved. More than 100 nations abided by its rules.
71. Choose the international organization based in Geneva, Switzerland, that was created in 1995 by the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which deals with the rules of trade between nations.
A. The European Union  
**B. The World Trade Organization**  
C. The World Bank  
D. The Association of Southeast Asian Nations  
E. The Asia-Pacific Economic Cooperation

The World Trade Organization (WTO), an international organization dealing with the rules of trade between nations, was created in 1995 by the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Based in Geneva, Switzerland, the WTO has also adopted a leadership role in negotiating trade disputes among nations.

**AACSB: Analytic**  
**Accessibility: Keyboard Navigation**  
**Bloom's: Remember**  
**Difficulty: 1 Easy**  
**Learning Objective: 03-03 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.**  
**Topic: International Trade Agreements and the Organizations that Facilitate Trade**

72. Which of the following were merged into one market by the North American Free Trade Agreement (NAFTA)?
A. Canada and Alaska  
B. Brazil, Mexico, and the United States  
C. Chile, Brazil, and the United States  
**D. Canada, Mexico, and the United States**  
E. Canada and Chile

The North American Free Trade Agreement (NAFTA) merged Canada, the United States, and Mexico into one market. NAFTA virtually eliminated all tariffs on goods produced and traded among Canada, Mexico, and the United States to create a free trade area.

**AACSB: Analytic**  
**Accessibility: Keyboard Navigation**  
**Bloom's: Remember**  
**Difficulty: 1 Easy**  
**Learning Objective: 03-03 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.**  
**Topic: International Trade Agreements and the Organizations that Facilitate Trade**
73. _____ is the single largest trading partner of the United States.
A. Mexico
B. India
C. China
D. Japan
E. Canada

Canada's nearly 35 million consumers are relatively affluent, with a per capita GDP of $43,100.43. Trade between the United States and Canada totals approximately $680 billion. About 79 percent of Canada's exports go to the United States, including mineral fuel and oil, vehicles, machinery, and plastic. In fact, Canada is the single largest trading partner of the United States.

74. Which of the following is a true statement about the European Union?
A. It is trying to create opportunities to trade with South America.
B. It is working toward the creation of a standardized currency.
C. It is striving to impose customs checks within Europe.
D. It is working toward the abolition of import duties.
E. It is trying to increase value-added taxes.

The European Union (EU) is an economic and political union of 28 member nations located primarily in Europe. To facilitate free trade among members, the EU is working toward standardization of business regulations and requirements, import duties, and value-added taxes; the elimination of customs checks; and the creation of a standardized currency for use by all members.
75. Which of the following is an international trade alliance between 21 nations that promotes open trade and economic and technical cooperation among its member nations?
A. General Agreement on Tariffs and Trade (GATT)
B. Asia-Pacific Economic Cooperation (APEC)
C. North American Free Trade Agreement (NAFTA)
D. European Union (EU)
E. Association of Southeast Asian Nations (ASEAN)

The Asia-Pacific Economic Cooperation (APEC), established in 1989, promotes open trade and economic and technical cooperation among member nations. The 21-member alliance represents approximately 40 percent of the world's population, 44 percent of world trade, and 55 percent of world GDP.

76. Which of the following countries was a member nation of Asia-Pacific Economic Cooperation (APEC) when it was established in 1989?
A. Vietnam
B. Japan
C. China
D. Hong Kong
E. Chile

The initial member nations of APEC included Japan, Korea, Malaysia, New Zealand, Singapore, the Philippines, Indonesia, Canada, Australia, Brunei Darussalam, Thailand, and the United States. Since then, the alliance has grown to include China, Hong Kong, Chinese Taipei, Mexico, Papua New Guinea, Chile, Peru, Russia, and Vietnam.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 03-03 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.
Topic: International Trade Agreements and the Organizations that Facilitate Trade
77. Identify the statement that is true about the Association of Southeast Asian Nations (ASEAN).
A. It will not have fully free labor flows between member-nations.
B. In 1993, it began to increase tariffs among countries.
C. It will have a common currency.
D. It has a 21-member alliance.
E. It was established in 1989.

The Association of Southeast Asian Nations (ASEAN) plans to increase economic integration by 2015, but unlike the European Union, it will not have a common currency or fully free labor flows between member-nations. In this way, ASEAN plans to avoid some of the pitfalls that occurred among nations in the EU during the latest worldwide recession.

78. Which of the following makes short-term loans to member countries with trade deficits and provides foreign currencies to member nations?
A. Foreign Credit Insurance Association
B. Exim Bank
C. World Bank
D. World Trade Organization
E. International Monetary Fund

The International Monetary Fund (IMF) was established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation. The IMF makes short-term loans to member countries that have balance-of-payment deficits and provides foreign currencies to member nations.
79. The _____ is the closest thing the world has to an international central bank.
A. International Monetary Fund
B. World Bank
C. Citicorp Bank
D. Organization for Economic Cooperation and Development
E. World Trade Organization

The International Monetary Fund (IMF) is the closest thing the world has to an international central bank. It makes short-term loans to member countries that have balance-of-payment deficits and provides foreign currencies to member nations.

80. Which of the following is formally called the International Bank for Reconstruction and Development?
A. World Bank
B. International Monetary Fund
C. International Trade Bank
D. Organization for Economic Cooperation and Development
E. World Trade Organization

The World Bank, more formally known as the International Bank for Reconstruction and Development, was established by the industrialized nations, including the United States, in 1946 to loan money to underdeveloped and developing countries.
81. Which of the following is the primary reason for establishing the World Bank?
   A. To fund the member nations of the NAFTA and EU
   B. To aid developed economies during financial crisis
   C. To act as a global policing service
   D. To loan money to underdeveloped and developing countries
   E. To help developed nations obtain money to start businesses

The World Bank, more formally known as the International Bank for Reconstruction and Development, was established by the industrialized nations, including the United States, in 1946 to loan money to underdeveloped and developing countries.

82. The usefulness of the International Monetary Fund (IMF) for developed countries is limited because:
   A. these countries rely extensively on the public market.
   B. the IMF does not provide short-term loans.
   C. the IMF does not aid countries with balance-of-payment deficits.
   D. the IMF was forced to decrease its funds to emerging economies.
   E. these countries use private markets as a major source of capital.

The usefulness of the International Monetary Fund (IMF) for developed countries is limited because these countries use private markets as a major source of capital. The global economic crisis created many challenges for the IMF as it was forced to significantly increase its loans to both emerging economies and more developed nations.
83. An intermediary who handles international transactions for other firms is acting as a(n):
A. licensing agent.
B. franchising agent.
C. export agent.
D. contract manufacturer.
E. direct investor.

Export agents seldom produce goods themselves; instead, they usually handle international transactions for other firms. Export agents either purchase products outright or take them on consignment.

84. Which of the following is an advantage of using an export agent?
A. The firm does not have to deal with a middleman.
B. The firm is not responsible for the procurement and storage of raw materials.
C. The firm does not have to deal with the red tape of international business.
D. The firm does not need to worry about product pricing.
E. The firm does not need to invest in research and development.

An advantage of trading through an agent instead of directly is that the company does not have to deal with foreign currencies or the red tape (paying tariffs and handling paperwork) of international business.
85. Exporting may occur through _____, which involve bartering products for other products rather than currency.
A. export agencies  
B. free-trade agreements  
C. direct selling contracts  
D. countertrade agreements  
E. outsourcing agreements

Exporting sometimes takes place through countertrade agreements, which involve bartering products for other products instead of for currency.

86. Identify the correct statement regarding trading companies.
A. They handle manufacturing activities.  
B. They handle marketing research for other companies.  
C. They rarely offer warehousing facilities.  
D. Their activities do not encompass advertising for other companies.  
E. They refrain from handling consulting activities.

A trading company buys goods in one country and sells them to buyers in another country. Trading companies handle all activities required to move products from one country to another, including consulting, marketing research, advertising, insurance, product research and design, warehousing, and foreign exchange services to companies interested in selling their products in foreign markets.
87. Which of the following can be best defined as a trade agreement in which one company allows another company to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty?

A. Direct investment
B. Strategic alliance
C. Joint venture
D. Outsourcing
E. Licensing

Licensing is a trade agreement in which one company—the licensor—allows another company—the licensee—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty.

88. If the Coca-Cola Company allows a Mexican firm to use its name, formula, and brands in return for a royalty, then this arrangement would be known as:

A. exporting.
B. licensing.
C. direct investment.
D. contract manufacturing.
E. a joint venture.

Licensing is a trade arrangement in which one company—the licensor—allows another company—the licensee—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty. The Coca-Cola Company and PepsiCo frequently use licensing as a means to market their soft drinks, apparel, and other merchandise in other countries.
89. Which of the following can be best defined as a form of licensing in which a company agrees to provide another company a name, logo, methods of operation, advertising, products, and other elements associated with a business in return for a financial commitment and the agreement to conduct business in accordance with their standard of operations?

A. **Franchising**  
B. **Outsourcing**  
C. **Joint venture**  
D. **Strategic alliance**  
E. **Direct investment**

Franchising is a form of licensing in which a company—the franchiser—agrees to provide a franchisee a name, logo, methods of operation, advertising, products, and other elements associated with a franchiser's business in return for a financial commitment and the agreement to conduct business in accordance with the franchiser's standard of operations.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.  
Topic: Trade Strategies Used in Reaching Global Markets

90. Apple Inc., an American company, hires Taiwan's Foxconn Technology Group to produce its products, whose subsidiary assembles Apple devices in factories in China. Which of the following refers to the business arrangement between Apple and Foxconn?

A. **Exporting**  
B. **Licensing**  
C. **Direct investment**  
D. **Contract manufacturing**  
E. **Joint venture**

Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. Therefore, the business arrangement between Apple Inc. and Foxconn is an example of contract manufacturing.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Bloom's: Apply  
Difficulty: 2 Medium  
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.  
Topic: Trade Strategies Used in Reaching Global Markets
91. Spalding hires an Asian company to produce a specified volume of sports equipment that still carries Spalding's name. This is an example of _____.
A. contract manufacturing
B. licensing
C. direct investment
D. exporting
E. importing

Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. Spalding, for example, relies on contract manufacturing for its sports equipment.

92. Offshoring is different from outsourcing because:
A. in offshoring, the company subcontracts to a different company.
B. in offshoring, the company retains control of the process.
C. in offshoring, a subsidiary cannot relocate a business process to another country.
D. in outsourcing, tasks cannot be transferred to countries where supplies are less expensive.
E. outsourced jobs cannot be brought back for concerns like foreign workers not adding enough value.

Offshoring is the relocation of a business process by a company, or a subsidiary, to another country. Offshoring is different than outsourcing: the company retains control of the process because it is not subcontracting to a different company.
93. The relocation of business processes by a company or subsidiary to another country, in which the company retains control of the process, is called _____.
A. contract manufacturing  
B. licensing  
C. direct investment  
D. offshoring  
E. outsourcing

The relocation of business processes by a company or subsidiary to another country is called offshoring. Offshoring is different than outsourcing: the company retains control of the process because it is not subcontracting to a different company.

94. Highlanders Co., based in Chicago, USA, is a manufacturer of sports equipment. Highlanders Co. relocates its data processing service to a company based in Mexico, while retaining control over the process. This process is known as _____.
A. offshoring  
B. outsourcing  
C. insourcing  
D. dumping  
E. franchising

Offshoring is the relocation of a business process by a company, or a subsidiary, to another country. Offshoring is different than outsourcing: the company retains control of the process because it is not subcontracting to a different company.
95. DMC Inc., headquartered in California, USA, was looking for a cost-effective company that could perform its tax services. It has completely transferred its tax services to Apex Corp. in India because there are many well-educated workers and lower labor costs. This process is known as _____.
A. joint venture  
B. alliance  
C. offshoring  
D. insourcing  
E. outsourcing

The given process is known as outsourcing. Outsourcing is the transfer of manufacturing or other tasks (such as information technology operations) to companies in countries where labor and supplies are less expensive. Many U.S. firms have outsourced tasks to India, Ireland, Mexico, and the Philippines, where there are many well-educated workers and significantly lower labor costs. Services, such as taxes or customer service, can also be outsourced.

96. Which of the following is likely to be a reason for some U.S. companies to bring their outsourced production processes back to the United States?
A. Increasing labor unionization in the United States  
B. Increased government regulation of business in the United States  
C. Increasingly strict enforcement of intellectual property rights in Asian countries  
D. High cost of transporting products to the home country  
E. Increase in labor turnover rates in the United States

Companies such as General Electric and Caterpillar are bringing outsourced processes back to the United States due to increasing labor costs in places such as China, the expense of shipping products across the ocean, and fears of fraud or intellectual property theft.
97. _____ can be best defined as the sharing of the costs and operations of a business between a foreign company and a local partner.
A. Exporting
B. Licensing
C. A direct investment
D. Contract manufacturing
**E. A joint venture**

The sharing of the costs and operation of a business between a foreign company and a local partner is called a joint venture.

**AACSB: Analytic**
**Accessibility: Keyboard Navigation**
**Bloom's: Remember**
**Difficulty: 1 Easy**
**Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.**
**Topic: Trade Strategies Used in Reaching Global Markets**

98. Many countries do not permit foreign companies to purchase and operate facilities in their country. A company that wants to do business in such a country may share the business costs with a firm from the host country by forming a:
A. direct investment.
B. greenfield venture.
C. corporation.
**D. joint venture.**
E. sole proprietorship.

Many countries do not permit direct investment by foreign companies or individuals. A company may also lack sufficient resources or expertise to operate in another country. In such cases, a company that wants to do business in another country may set up a joint venture by finding a local partner (occasionally, the host nation itself) to share the costs and operation of the business.

**AACSB: Analytic**
**Accessibility: Keyboard Navigation**
**Bloom's: Remember**
**Difficulty: 1 Easy**
**Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.**
**Topic: Trade Strategies Used in Reaching Global Markets**
99. _____ can be best defined as a partnership formed to create competitive advantage on a worldwide basis.
   A. A joint venture
   B. Licensing
   C. A direct investment
   D. Contract manufacturing
   E. A strategic alliance

   A strategic alliance is a partnership formed to create competitive advantage on a worldwide basis. In such industries, international competition is so fierce and the costs of competing on a global basis are so high that few firms have the resources to go it alone, so they collaborate with other companies.

   AACSB: Analytic
   Accessibility: Keyboard Navigation
   Bloom's: Remember
   Difficulty: 1 Easy
   Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.
   Topic: Trade Strategies Used in Reaching Global Markets

100. In industries where international competition is so fierce and the costs of competing on a global basis are so high that only a few firms have the resources to do it alone, they collaborate with other companies to form a _____.
   A. direct investment
   B. greenfield venture
   C. franchise
   D. joint venture
   E. strategic alliance

   In industries where international competition is so fierce and the costs of competing on a global basis are so high that only a few firms have the resources to do it alone, they collaborate with other companies to form a strategic alliance. A strategic alliance is a partnership formed to create a competitive advantage based on a worldwide basis.

   AACSB: Analytic
   Accessibility: Keyboard Navigation
   Bloom's: Remember
   Difficulty: 1 Easy
   Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.
   Topic: Trade Strategies Used in Reaching Global Markets
101. The purchase of overseas production and marketing facilities is an example of _____.
A. licensing  
B. contract manufacturing  
C. using an export agent  
D. direct investment  
E. exporting

Companies that want more control and are willing to invest considerable resources in international business may consider direct investment, the ownership of overseas facilities. Direct investment may involve the development and operation of new facilities.

AACSB: Analytic  
Accessibility: Keyboard Navigation  
Bloom’s: Remember  
Difficulty: 1 Easy  
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.  
Topic: Trade Strategies Used in Reaching Global Markets

102. A U.S. company, 3M Inc., owns a film-manufacturing facility in Italy. This is an example of:
A. strategic alliance.  
B. a direct investment.  
C. a joint venture.  
D. licensing.  
E. exporting.

Companies that want more control and are willing to invest considerable resources in international business may consider direct investment, the ownership of overseas facilities. Direct investment may involve the development and operation of new facilities.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Bloom’s: Apply  
Difficulty: 2 Medium  
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.  
Topic: Trade Strategies Used in Reaching Global Markets
103. Which of the following can be best defined as a corporation that operates in several countries but without significant ties to any of them?
A. A licensor
B. An exporter
C. A monopolist corporation
D. A multinational corporation
E. A contract manufacturing corporation

A multinational corporation (MNC) is a corporation that operates on a worldwide scale and has no direct ties to any one country or region. MNCs are more than simple corporations.

104. Which of the following is an example of foreign direct investment?
A. A software development company in the United States investing in shares of an American computer manufacturing firm
B. A U.S. investor buying stocks of a German automobile manufacturing company
C. A Canadian firm purchasing a majority stake in a Japanese company
D. A U.S. cell phone manufacturer hiring an Indian firm to provide customer support services and troubleshooting
E. A Chinese steel manufacturing firm exporting 60 percent of its output to European nations

A Canadian firm purchasing a majority stake in a company in Japan is an example of foreign direct investment.
105. Which of the following is true of franchising?
A. Franchising is a form of foreign direct investment.
B. The franchisee uses its own logo in the business.
C. A firm has to spend a huge sum of money to enter the international marketplace through franchising.
D. Franchising is especially advantageous for large manufacturers.
E. Franchising minimizes problems associated with shipping costs, tariffs, and trade restrictions.

Licensing and franchising enable a company to enter the international marketplace without spending large sums of money abroad or hiring or transferring personnel to handle overseas affairs. They also minimize problems associated with shipping costs, tariffs, and trade restrictions, and they allow the firm to establish goodwill for its products in a foreign market, which will help the company if it decides to produce or market its products directly in the foreign country at some future date.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.
Topic: Franchising

106. Which of the following is true of multinational corporations (MNCs)?
A. They are the highest level of international business involvement.
B. They decrease the gap between rich and poor nations.
C. They have significant ties to specific nations or regions.
D. They usually have lesser assets than the countries in which they operate.
E. They are less complicated than corporations.

The highest level of international business involvement is the multinational corporation (MNC), which operates on a worldwide scale, without significant ties to any one nation or region. MNCs are more than simple corporations.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.
Topic: Trade Strategies Used in Reaching Global Markets
107. On which of the following grounds are multinational corporations (MNCs) often criticized by antiglobalization activists?
A. They increase unemployment in the host country.
B. They bring in technology that is unknown to the host country.
C. They use capital-intensive mode of production.
D. They are liable to pay the taxes levied by the government of the host country.
E. They increase the gap between rich and poor nations.

Many multinational corporations (MNCs) have been targeted by antiglobalization activists at global business forums, and some protests have turned violent. The activists contend that MNCs increase the gap between rich and poor nations, misuse and misallocate scarce resources, exploit the labor markets in LDCs, and harm their natural environments.

108. A _____ strategy can be best defined as a plan, used by international companies, that involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences.
A. global
B. standardization
C. normalization
D. multinational
E. domestic

A multinational strategy is defined as a plan, used by international companies, that involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences.
109. While offering its usual menu, McDonald's in Vietnam is specifically adapting its menu because:
A. Vietnamese people do not like hamburgers.
B. all Vietnamese people are vegetarians.
C. Vietnamese people prefer a low-fat diet.
D. it recognizes that Vietnamese consumers have their own preferences.
E. McDonald's had a bad reputation before opening franchises in Vietnam.

McDonald's recently opened its first restaurant in Vietnam. While it will offer its usual menu, McDonald's also recognizes that Vietnamese consumers have their own preferences. In addition to its usual offerings, McDonald's Vietnam is also offering McPork sandwiches specifically targeted toward Vietnam consumers.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 03-05 Contrast two basic strategies used in international business.
Topic: Trade Strategies Used in Reaching Global Markets

110. With respect to multinational strategies, companies are beginning to move away from the _____ strategy.
A. globalization
B. customization
C. standardization
D. normalization
E. generalization

More and more companies are moving from this customization strategy to a global strategy (globalization), which involves standardizing products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity. Examples of globalized products are American clothing, movies, music, and cosmetics.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 03-05 Contrast two basic strategies used in international business.
Topic: Trade Strategies Used in Reaching Global Markets
111. Lever Brothers changed the formula of its bar soap to match different countries' water conditions and washing habits. This exemplifies a(n):
A. globalization strategy.
B. outsourcing strategy.
C. strategic alliance.
D. multinational strategy.
E. joint venture.

A multinational strategy customizes products, promotion, and distribution according to cultural, technological and national differences.

112. When a firm's products are standardized in all countries, _____.
A. advertising cannot be used
B. only publicity can be used for promotion
C. using different advertisement content is illegal
D. distribution is more expensive
E. advertising may still need modification

Even when products are standardized, advertising may have to be modified to adapt to language and cultural differences.
113. Standardizing products for the whole world as if it were a single entity is a characteristic of a(n) _____.
A. global strategy
B. individualized strategy
C. domestic strategy
D. customization strategy
E. national strategy

A global strategy or globalization involves standardizing products, promotion, and distribution for the whole world as if it were a single entity. Examples of globalized products are American clothing, movies, music, and cosmetics.

114. Commercial Service is the global business solutions unit of the U.S. Department of _____.
A. Business
B. Trade
C. Commerce
D. Justice
E. Security

Commercial Service is the global business solutions unit of the U.S. Department of Commerce that offers U.S. firms wide and deep practical knowledge of international markets and industries, a unique global network, inventive use of information technology, and a focus on small and mid-sized businesses.
115. Which is the true statement about managing the challenges of global business?

A. The network of CIBERs consist of a wide variety of US firms, especially for small and medium-sized firms.

B. The network of CIBERs can provide small-sized firms knowledge of the internationalization process.

C. The Commercial Service conducts its work through leading business schools in the United States.

D. More and more companies are moving from this global strategy to a multinational strategy.

E. Companies doing business internationally have traditionally used a standardized strategy.

The network of CIBERs (Centers for International Business Education and Research) conducts the benchmarking the best international practices that benefits U.S. firms, which is conducted at leading business schools in the United States. These CIBERs are funded by the U.S. government to help U.S. firms become more competitive globally. A major element of the assistance that these governmental organizations can provide firms (especially for small and medium-sized firms) is knowledge of the internationalization process.

AACSB: Analytic
Accessibility: Keyboard Navigation
Bloom’s: Understand
Difficulty: 2 Medium
Learning Objective: 03-04 Summarize the different levels of organizational involvement in international trade.
Topic: Trade Strategies Used in Reaching Global Markets

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