|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. The commonly accepted goal of an MNC is to:

|  |  |  |
| --- | --- | --- |
|   | a.  | maximize short-term earnings. |
|   | b.  | maximize shareholder wealth. |
|   | c.  | minimize risk. |
|   | d.  | maximize short-term earnings AND minimize risk. |
|   | e.  | maximize international sales. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. ​With regard to corporate goals, an MNC is mostly concerned with maximizing \_\_\_\_, and a purely domestic firm is mostly concerned with maximizing \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​shareholder wealth; short-term earnings |
|   | b.  | ​shareholder wealth; shareholder wealth |
|   | c.  | ​short-term earnings; sales volume |
|   | d.  | ​short-term earnings; shareholder wealth |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. For an MNC, agency costs are typically:

|  |  |  |
| --- | --- | --- |
|   | a.  | nonexistent. |
|   | b.  | larger than agency costs of a small purely domestic firm. |
|   | c.  | smaller than agency costs of a small purely domestic firm. |
|   | d.  | the same as agency costs of a small purely domestic firm. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. Which of the following could reduce agency problems for an MNC?

|  |  |  |
| --- | --- | --- |
|   | a.  | stock options as managerial compensation |
|   | b.  | hostile takeover threat |
|   | c.  | investor monitoring |
|   | d.  | All of these are forms of corporate control that could reduce agency problems for an MNC. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. ​The valuation of an MNC should rise when an event causes the expected cash flows from foreign subsidiaries to \_\_\_\_ and when the foreign currencies denominating these cash flows are expectedto \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​decrease; appreciate |
|   | b.  | ​increase; appreciate |
|   | c.  | ​decrease; depreciate |
|   | d.  | ​increase; depreciate |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. Which of the following theories identifies specialization as a reason for international business?

|  |  |  |
| --- | --- | --- |
|   | a.  | theory of comparative advantage |
|   | b.  | imperfect markets theory |
|   | c.  | product cycle theory |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. Which of the following theories identifies the nontransferability of resources as a reason for international business?

|  |  |  |
| --- | --- | --- |
|   | a.  | theory of comparative advantage |
|   | b.  | imperfect markets theory |
|   | c.  | product cycle theory |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. Which of the following theories suggests that firms seek to penetrate new markets over time?

|  |  |  |
| --- | --- | --- |
|   | a.  | theory of comparative advantage |
|   | b.  | imperfect markets theory |
|   | c.  | product cycle theory |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. ​An industry based on which of the following would most likely take advantage of lower costs in some less developed foreign countries?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​assembly line production |
|   | b.  | ​specialized professional services |
|   | c.  | ​nuclear missile programs |
|   | d.  | ​development of more sophisticated computer technology |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. Due to the risks involved in international business, firms should:

|  |  |  |
| --- | --- | --- |
|   | a.  | only consider international business in major countries. |
|   | b.  | maintain international business to no more than 20% of total business. |
|   | c.  | maintain international business to no more than 35% of total business. |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. A product cycle is the process by which a firm provides a specialized sales or service strategy, support assistance, and possibly an initial investment in a franchise in exchange for periodic fees.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. Licensing is the process by which a firm provides its technology (copyrights, patents, trademarks, or trade names) in exchange for fees or some other specified benefits.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. The agency costs of an MNC are likely to be lower if it:

|  |  |  |
| --- | --- | --- |
|   | a.  | scatters its subsidiaries across many foreign countries. |
|   | b.  | increases its volume of international business. |
|   | c.  | uses a centralized management style. |
|   | d.  | scatters its subsidiaries across many foreign countries AND increases its volume of international business. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 14. An MNC may be more exposed to agency problems if most of its shares are held by:

|  |  |  |
| --- | --- | --- |
|   | a.  | a few mutual funds. |
|   | b.  | a widely dispersed set of individual investors. |
|   | c.  | a few pension funds. |
|   | d.  | All of these would prevent agency problems. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. ​The Sarbanes-Oxley Act improved corporate governance of MNCs because it:

|  |  |  |
| --- | --- | --- |
|   | a.  | ​made executives more accountable for verifying financial statements. |
|   | b.  | ​eliminated stock options as a form of compensation. |
|   | c.  | ​tied executive compensation to firm performance. |
|   | d.  | ​placed a limit on the amount of funds that managers can spend. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. MNCs can improve their internal control process by all of the following, except:

|  |  |  |
| --- | --- | --- |
|   | a.  | establishing a centralized database of information. |
|   | b.  | ensuring that all data are reported consistently among subsidiaries. |
|   | c.  | ensuring that the MNC always borrows from countries where interest rates are lowest. |
|   | d.  | using a system that checks internal data for unusual discrepancies. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. Franchising is the process by which national governments sell state-owned operations to corporations and other investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. The parent of an MNC can implement compensation plans that directly reward the subsidiary managers for enhancing the value of the MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. If a publicly traded MNC's managers make poor decisions that reduce its value, that may encourage other firms to acquire the MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. Institutional investors such as mutual funds or pension funds that have large holdings of an MNC's stock do not normally want to take control of it and therefore have no influence over management of the MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. Four MNCs generate the same level of sales. The MNC that \_\_\_\_\_\_\_\_\_\_\_\_\_would likely have the most direct foreign investment.

|  |  |  |
| --- | --- | --- |
|   | a.  | exports all of its products |
|   | b.  | produces and sells its products locally |
|   | c.  | imports products from unrelated firms in other countries and sells them locally |
|   | d.  | acquires a foreign firm that produces most of its products to be sold in that foreign country |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 22. Which of the following is an example of direct foreign investment for a U.S.-based MNC?

|  |  |  |
| --- | --- | --- |
|   | a.  | exporting to a country |
|   | b.  | licensing arrangements that will allow a foreign country to use the MNC’s technology |
|   | c.  | purchasing existing companies in a country |
|   | d.  | investing directly (without brokers) in foreign stocks |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. According to the text,  licensing allows a firm to:

|  |  |  |
| --- | --- | --- |
|   | a.  | import without being subject to government restrictions. |
|   | b.  | provide its technology for a fee. |
|   | c.  | export without government restrictions. |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. Assume that an MNC purchases a foreign building, and then leases the building to another party and allows that party to operate the business in the building for 30 years if the party follows standards set by the MNC. This process is referred to as:

|  |  |  |
| --- | --- | --- |
|   | a.  | a foreign acquisition. |
|   | b.  | franchising. |
|   | c.  | a licensing agreement. |
|   | d.  | exporting. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. Imperfect markets reflect conditions under which factors of production are immobile.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. The Sarbanes-Oxley Act (SOX), which was enacted in 2002, required MNCs and other firms to implement an internal reporting process that could be easily monitored by executives and the board of directors.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. If markets were perfect, then labor and other costs of production would be perfectly stable (no movement across borders).

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. The valuation of an MNC is reduced if the required rate of return on its investments in foreign countries is reduced.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. Which of the following is not mentioned in the text as an additional risk resulting from international business?

|  |  |  |
| --- | --- | --- |
|   | a.  | exchange rate fluctuations |
|   | b.  | political risk |
|   | c.  | interest rate risk |
|   | d.  | exposure to foreign economies |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. Which of the following does not possibly represent a form of direct foreign investment?

|  |  |  |
| --- | --- | --- |
|   | a.  | franchising |
|   | b.  | international trade |
|   | c.  | joint ventures |
|   | d.  | acquisitions of existing operations |
|   | e.  | establishment of new foreign subsidiaries |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. ​Which of the following is not a way in which agency problems can be reduced through corporate control?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​executive compensation |
|   | b.  | ​threat of hostile takeover |
|   | c.  | ​acquisition of a foreign subsidiary |
|   | d.  | ​monitoring by large shareholders |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. The goal of a multinational corporation (MNC) is the maximization of shareholder wealth.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. A centralized management style, where major decisions about a foreign subsidiary are made by the parent company, results in an increase in agency costs.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. If a U.S. firm sets up a plant in Mexico to benefit from low-cost labor, it will likely have a comparative advantage over other firms in Mexico that sell the same product.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. Although MNCs may need to convert currencies occasionally, they do not face any exchange rate risk, as exchange rates are stable over time.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. One of the most prevalent factors conflicting with the realization of the goal of an MNC is the existence of agency problems.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. A centralized management style for an MNC results in relatively high agency costs.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. The imperfect markets theory states that factors of production are somewhat immobile, allowing firms to capitalize on a foreign country's resources.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. If a U.S.-based MNC focused entirely on importing, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. MNCs commonly consider acquiring an existing foreign operation because the cost is less expensive than establishing a new subsidiary of the same size.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. If a U.S.-based MNC focused entirely on exporting, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. If markets were perfect, then labor and other costs of production would be easily transferable.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. International trade:

|  |  |  |
| --- | --- | --- |
|   | a.  | is a relatively conservative approach to foreign market penetration. |
|   | b.  | entails minimal risk.  |
|   | c.  | does not require a large amount of investment. |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. Assume that an American firm wants to engage in international business without making a major investment in the foreign country. Which method is least appropriate in this situation?​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​international trade |
|   | b.  | ​licensing |
|   | c.  | ​franchising |
|   | d.  | ​direct foreign investment |

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. The valuation of an MNC accounts for all the cash flows received by the foreign subsidiaries plus all the cash flows remitted by the subsidiaries.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. An MNC's value depends on all of the following, except:

|  |  |  |
| --- | --- | --- |
|   | a.  | the MNC's required rate of return. |
|   | b.  | the amount of the MNC's cash flows in a particular currency. |
|   | c.  | the exchange rate at which cash flows are converted to dollars. |
|   | d.  | all of these are factors. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 47. Which of the following is not an example of political risk?

|  |  |  |
| --- | --- | --- |
|   | a.  | Government may impose taxes on a subsidiary. |
|   | b.  | Government may impose barriers on a subsidiary. |
|   | c.  | Consumers may boycott the MNC. |
|   | d.  | Consumers' income levels may decrease, thus decreasing consumption. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 48. A microeconomic perspective focuses on external forces such as economic conditions that can affect the value of an MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |

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| 49. Assume that an MNC has a subsidiary in Italy, which exports its products to various countries in Europe. Since all of the countries where it exports use the euro as their currency, this MNC is not subject to exchange rate risk.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 50. Compared to other methods of international business, international trade generally results in \_\_\_\_ exposure to international political risk and \_\_\_\_ exposure to international economic conditions. ​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​higher; lower |
|   | b.  | ​higher; higher |
|   | c.  | ​lower; higher |
|   | d.  | ​lower; lower |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 51. Assume that Boca Co. wants to expand its business to Japan and wants complete control over the operations in Japan. Which method of international business is most appropriate for Boca Co?​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​joint venture |
|   | b.  | ​licensing |
|   | c.  | ​partial acquisition of an existing Japanese firm |
|   | d.  | ​establishment of a Japanese subsidiary |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 52. A decentralized management style results in relatively high agency costs for an MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |

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| 53. MNCs commonly consider establishing a new foreign subsidiary to replace their exporting business because it allows them to avoid exchange rate risk.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. Assume that Live Co. has expected cash flows of $200,000 from domestic operations, 200,000 Swiss francs from Swiss operations, and 150,000 euros from Italian operations at the end of the year. The Swiss franc's value and the euro's value are expected to be $.83 and $1.29, respectively, at the end of this year. What are the expected dollar cash flows of Live Co?​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​$200,000 |
|   | b.  | ​$559,500 |
|   | c.  | ​$582,500 |
|   | d.  | ​$393,500 |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 55. Saller Co. has a subsidiary in Mexico. The expected cash flows in pesos to be received in the future from this subsidiary have not changed since last month, but the valuation of Saller Co. has declined since last month. What could have caused this decline in value?

|  |  |  |
| --- | --- | --- |
|   | a.  | a weaker Mexican economy |
|   | b.  | lower Mexican interest rates |
|   | c.  | depreciation of the Mexican peso |
|   | d.  | appreciation of the Mexican peso |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 56. Jensen Co. wants to establish a new subsidiary in Mexico that will sell computers to Mexican customers and remit earnings back to the U.S. parent. The value of this project will be favorably affected if the value of the peso \_\_\_\_ while Jensen establishes the new subsidiary and \_\_\_\_ when the subsidiary starts operations.​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​depreciates; appreciates |
|   | b.  | ​appreciates; appreciates |
|   | c.  | ​appreciates; depreciates |
|   | d.  | ​depreciates; depreciates |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 57. A macroeconomic perspective focuses on the financial management decisions that affect the value of an MNC.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 58. In determining the valuation of foreign projects, an MNC will always use the same required rate of return as it would for its domestic projects.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. Licensing obligates a firm to provide \_\_\_\_\_, while franchising obligates a firm to provide \_\_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | a specialized sales or service strategy; its technology |
|   | b.  | its technology; a specialized sales or service strategy |
|   | c.  | its technology; its technology |
|   | d.  | a specialized sales or service strategy; a specialized sales or service strategy |
|   | e.  | its technology; an initial investment |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 60. A U.S.-based MNC has many foreign subsidiaries in Europe and does not expect to increase its investment there. Its value should increase if the value of the euro weakens over time.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. If managers of foreign subsidiaries make decisions that maximize the values of their respective subsidiaries, they automatically maximize the value of the entire corporation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. A decentralized management style, where subsidiary managers make the relevant decisions regarding their subsidiary, may result in better decision making, as subsidiary managers are generally better informed about their subsidiary's operations.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. U.S.-based MNCs are typically not monitored by mutual funds and pension funds, as these institutions rarely hold stock in MNCs.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. The Sarbanes-Oxley Act ensures a more transparent process for managers to report on the productivity and financial condition of their firm.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. The theory of comparative advantage begins by assuming that a given firm first becomes established in its home country and may subsequently penetrate foreign markets via geographic or product differentiation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 66. Under the imperfect markets theory, it is assumed that factors of production are entirely mobile, so that firms can capitalize on a foreign country's resources.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. Under the product cycle theory, foreign demand can be initially satisfied by exporting.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| 68. Licensing allows firms to use their technology in foreign markets without a major investment in foreign countries.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. International trade is the most common form of direct foreign investment (DFI).

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |

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| 70. When the parent's home currency is weak, remitted funds from foreign subsidiaries will convert to a smaller amount of the home currency.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 71. A purely domestic firm may be affected by exchange rate fluctuations if it faces at least some foreign competition.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. One form of exposure to political risk is terrorism.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| 73. The goal of an MNC is to:​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​minimize taxes on funds remitted from foreign subsidiaries. |
|   | b.  | ​establish subsidiaries in any country where operations would provide a return over and above the cost of capital, even if better projects are available domestically. |
|   | c.  | ​maximize shareholder wealth. |
|   | d.  | ​maximize the social benefits resulting from actions such as the employment of foreign managers. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 74. Agency costs faced by MNCs may be larger than those faced by purely domestic firms because:

|  |  |  |
| --- | --- | --- |
|   | a.  | monitoring of managers located in foreign countries is more difficult. |
|   | b.  | foreign subsidiary managers raised in different cultures may not follow uniform goals. |
|   | c.  | MNCs are relatively large. |
|   | d.  | All of these are correct. |
|   | e.  | monitoring of managers located in foreign countries is more difficult AND foreign subsidiary managers raised in different cultures may not follow uniform goals. |

|  |  |
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| *ANSWER:* | d |

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| 75. Which of the following is not one of the more common methods used by MNCs to improve their internal control process?

|  |  |  |
| --- | --- | --- |
|   | a.  | establishing a centralized database of information |
|   | b.  | ensuring that all data are reported consistently among subsidiaries |
|   | c.  | speeding the process by which all departments and all subsidiaries have access to the data that they need |
|   | d.  | making executives more accountable for financial statements by personally verifying their accuracy |
|   | e.  | All of these are common methods used by MNCs to improve their internal control process. |

|  |  |
| --- | --- |
| *ANSWER:* | e |

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| 76. Which of the following is not mentioned in the text as a theory of international business?

|  |  |  |
| --- | --- | --- |
|   | a.  | theory of comparative advantage |
|   | b.  | imperfect markets theory |
|   | c.  | product cycle theory |
|   | d.  | All of these are mentioned in the text as theories of international business. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 77. When conducting international business, firms generally face the most risk when they:

|  |  |  |
| --- | --- | --- |
|   | a.  | engage in franchising. |
|   | b.  | make acquisitions of existing operations. |
|   | c.  | establish new subsidiaries. |
|   | d.  | engage of international trade. |
|   | e.  | make acquisitions of existing operations AND establish new subsidiaries. |

|  |  |
| --- | --- |
| *ANSWER:* | e |

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| 78. The least risky method by which firms conduct international business is:

|  |  |  |
| --- | --- | --- |
|   | a.  | franchising. |
|   | b.  | acquisitions of existing operations. |
|   | c.  | international trade. |
|   | d.  | the establishment of new subsidiaries. |
|   | e.  | licensing. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 79. Livingston Co. has a subsidiary in Korea. The subsidiary reinvests half of its net cash flows into operations and remits half to the parent. Livingston's expected cash flows from domestic business are $100,000, and the Korean subsidiary is expected to generate 100 million Korean won at the end of the year. The expected value of the won is $.0012. What are the expected dollar cash flows of Livingston Co.?

|  |  |  |
| --- | --- | --- |
|   | a.  | $100,000 |
|   | b.  | $200,000 |
|   | c.  | $160,000 |
|   | d.  | $60,000 |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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