

MULTIPLE CHOICE

1. The commonly accepted goal of the MNC is to:
- a. maximize short-term earnings.
 - b. maximize shareholder wealth.
 - c. minimize risk.
 - d. A and C.
 - e. maximize international sales.

ANS: B PTS: 1

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

ANS: B PTS: 1

3. For the MNC, agency costs are typically:
- a. non-existent.
 - 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.

ANS: B PTS: 1

4. Which of the following is not a form of corporate control that could reduce agency problems for an MNC?
- a. stock options
 - b. hostile takeover threat
 - c. investor monitoring
 - d. all of the above are forms of corporate control that could reduce agency problems for an MNC

ANS: D PTS: 1

5. A recent study by McKinsey & Co. found that investors assign a higher value to firms that exhibit ____ corporate governance standards and are likely to ____ ethical constraints.
- a. high; not obey
 - b. high; obey
 - c. low; not obey
 - d. low; obey

ANS: B PTS: 1

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 the above

ANS: A PTS: 1

7. Which of the following theories identifies the non-transferability of resources as a reason for international business?
- a. theory of comparative advantage
 - b. imperfect markets theory
 - c. product cycle theory
 - d. none of the above

ANS: B PTS: 1

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 the above

ANS: C PTS: 1

9. Which of the following industries 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 planning
 - d. planning for more sophisticated computer technology

ANS: A PTS: 1

10. Due to the risks involved in international business, firms should:
- only consider international business in major countries.
 - maintain international business to no more than 20% of total business.
 - maintain international business to no more than 35% of total business.
 - none of the above
- ANS: D PTS: 1
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 the franchise in exchange for periodic fees.
- true.
 - false.
- ANS: B PTS: 1
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.
- true.
 - false.
- ANS: A PTS: 1
13. The agency costs of an MNC are likely to be lower if it:
- scatters its subsidiaries across many foreign countries.
 - increases its volume of international business.
 - uses a centralized management style.
 - A and B.
- ANS: C PTS: 1
14. An indirect benefit to the MNC of following a worldwide code of ethics is:
- it allows them to receive special tax breaks in less developed countries.
 - it puts them at a competitive advantage in foreign markets.
 - the worldwide credibility associated with maintaining such standards can increase global demand for the MNC's products.
 - A and B.
- ANS: C PTS: 1
15. The term privatization is typically used to describe:
- firms that are purchased by their managers.
 - firms that are purchased by the government.
 - firms that are bought out by other firms.
 - government operations that are purchased by corporations and other investors.
- ANS: D PTS: 1
16. According to the text, products and services are generally becoming ____ standardized across countries, which tends to ____ the globalization of business.
- more; encourage
 - more; discourage
 - less; discourage
 - less; encourage
- ANS: A PTS: 1
17. Franchising is the process by which national governments sell state owned operations to corporations and other investors.
- true.
 - false.
- ANS: B PTS: 1
18. Which of the following is not a major event that increased international business opportunities in Europe?
- the Single European Act.
 - the removal of the Berlin Wall.
 - the inception of the euro.
 - the reduction in the number of countries participating in the European Union.
- ANS: D PTS: 1
19. The Single European Act of 1987 was primarily intended to:
- create more trade barriers between European countries.
 - unify East Germany and West Germany.
 - provide financial support for Eastern Europe.
 - make regulations more uniform across industrialized countries in Europe.
- ANS: D PTS: 1
20. The Single European Act of 1987:
- reduced competition in most industries.
 - eliminated competition in many industries.
 - reduced efficiency in most industries.
 - increased competition in most industries.
- ANS: D PTS: 1

21. In comparing exporting to direct foreign investment (FDI), an exporting operation will likely incur ____ fixed production costs and ____ transportation costs than DFI.
- higher; higher
 - higher; lower
 - lower; lower
 - lower; higher
- ANS: D PTS: 1
22. Which of the following is an example of direct foreign investment?
- exporting to a country.
 - establishing licensing arrangements in a country.
 - purchasing existing companies in a country.
 - investing directly (without brokers) in foreign stocks.
- ANS: C PTS: 1
23. According to the text, a disadvantage of licensing is that:
- it prevents a firm from importing.
 - it is difficult to ensure quality control of the production process.
 - it prevents a firm from exporting.
 - none of the above
- ANS: B PTS: 1
24. ____ are most commonly classified as a direct foreign investment.
- Foreign acquisitions
 - Purchases of international stocks
 - Licensing agreements
 - Exporting transactions
- ANS: A PTS: 1
25. Imperfect markets represent conditions under which factors of production are immobile.
- true.
 - false.
- ANS: B PTS: 1
26. Privatization is a venture that is jointly owned and operated by two or more firms.
- true.
 - false.
- ANS: B PTS: 1
27. The main provision of the North American Free Trade Agreement (NAFTA) was that:
- the Mexican peso's value be tied to the Canadian dollar.
 - Mexico be allowed to privatize its business.
 - Mexico must impose a minimum wage that is similar to the minimum wage in the U.S.
 - none of the above
- ANS: D PTS: 1
28. Which of the following is not mentioned in the text as a constraint interfering with the MNC goal?
- economic constraints.
 - environmental constraints.
 - regulatory constraints.
 - ethical constraints.
- ANS: A PTS: 1
29. Which of the following is not a provision or result of the Single European Act of 1987?
- increased regulatory uniformity among European countries.
 - the phasing in of a common currency for all European countries by 1992.
 - the removal of many taxes on goods traded between European countries.
 - firms' ability to achieve economies of scale.
 - all of the above
- ANS: B PTS: 1
30. Which of the following is not mentioned in the text as an additional risk resulting from international business?
- exchange rate fluctuations.
 - political risk.
 - interest rate risk.
 - exposure to foreign economies.
- ANS: C PTS: 1
31. Licensing obliges a firm to provide ____, while franchising obligates a firm to provide ____.
- a specialized sales or service strategy; its technology
 - its technology; a specialized sales or service strategy
 - its technology; its technology
 - a specialized sales or service strategy; a specialized sales or service strategy
 - its technology; an initial investment
- ANS: B PTS: 1

32. Which of the following is not a way in which agency problems can be reduced through corporate control?
- executive compensation.
 - threat of hostile takeover.
 - acquisition of a foreign subsidiary.
 - monitoring by large shareholders.
- ANS: C PTS: 1
33. The goal of a multinational corporation (MNC) is the maximization of shareholder wealth.
- true.
 - false.
- ANS: A PTS: 1
34. A centralized management style, where major decisions about a foreign subsidiary are made by the parent company, results in an increase in agency costs.
- true.
 - false.
- ANS: B PTS: 1
35. In some countries, bribes are commonplace. If a MNC decides to adhere to a strict code of ethics and not pay bribes, its subsidiary may be at a competitive disadvantage in the foreign country.
- true.
 - false.
- ANS: A PTS: 1
36. Due to the larger opportunity set of funding sources around the world from which an MNC can choose, an MNC may be able to obtain capital at a lower cost than a purely domestic firm.
- true.
 - false.
- ANS: A PTS: 1
37. The Single European Act of 1987 made regulations more uniform among European countries. However, the cost of achieving this goal resulted in the imposition of additional taxes on goods traded between these countries.
- true.
 - false.
- ANS: B PTS: 1
38. The North American Free Trade Agreement (NAFTA) of 1993 eliminated trade barriers between the United States and Mexico.
- true.
 - false.
- ANS: A PTS: 1
39. Although MNCs may need to convert currencies occasionally, they do not face any exchange rate risk, as exchange rates are stable over time.
- true.
 - false.
- ANS: B PTS: 1
40. One of the most prevalent factors conflicting with the realization of the goal of an MNC is the existence of agency problems.
- true.
 - false.
- ANS: A PTS: 1
41. A centralized management style for an MNC results in relatively high agency costs.
- true.
 - false.
- ANS: B PTS: 1
42. The imperfect markets theory states that factors of production are somewhat immobile, allowing firms to capitalize on a foreign country's resources.
- true.
 - false.
- ANS: A PTS: 1