

Student name: _____

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

Because Hillsdale Manufacturing is a medium-size business, it would not benefit from globalization.

true

false

By sourcing goods and services from around the globe, companies may lower their overall cost structure or improve the quality or functionality of their product offering.

true

false

Manufacturers of consumer products are more likely to participate in global markets than producers of industrial goods and materials.

true

false

Outsourcing is a process that is limited to manufacturing enterprises.

true

false

The World Bank has focused on policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties.

true

false

Nations faced with a financial crisis can turn to the International Monetary Fund, known as the lender of last resort, to bail it out.

true

false

One of the UN's central mandates is to make sure nation-states adhere to the rules laid down in trade treaties signed by member states.

true

false

As part of the negotiations in the General Agreement on Tariffs and Trade, the Uruguay Round, finalized in December 1993, enhanced protection for patents, trademarks, and copyrights.

true

false

"Beggar thy neighbor" retaliatory trade policies involved countries progressively increasing trade barriers against each other, which contributed to the Great Depression of the 1930s.

true

false

Thera-sure Incorporated, a U.S.-based manufacturer of temperature regulators, sets up a production unit in Korea to take advantage of the lower labor costs there. This is an example of foreign direct investment.

true

false

The value of foreign direct investment has steadily declined over the past few decades due in part to increased barriers placed on companies wanting to invest overseas.

true

false

World events such as the COVID-19 global pandemic have forced companies to open operations in many parts of the world rather than invest in local production to try to offset disruptions in global supply chains.

true

false

One result of the globalization of markets and the resulting growth of world trade, foreign direct investment, and imports is the increasing competition in domestic markets from foreign competitors.

true

false

The cost of microprocessors continues to fall, while their power increases. This statement supports the predictions made by Moore's Law.

true

false

Foreign direct investment by non-U.S. firms increased because they wanted to disperse production activities to optimal locations and to build a direct presence in major foreign markets.

true

false

A current trend in international business is the decline of medium-sized and small multinationals, known as mini-multinationals.

true

false

Because Russia has shown signs of shifting back toward greater state involvement in economic activity and authoritarian government, doing business in Russia is considered riskier.

true

false

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

true

false

Evidence suggests that technological change has had a bigger impact than globalization on the declining share of national income enjoyed by labor.

true

false

According to supporters of free trade, as countries become more integrated into global economy and trade, they are more likely to enforce stricter environmental and labor regulations.

true

false

According to critics of globalization, today's interdependent global economy places more economic power in the hands of national governments.

true

false

According to supporters of debt relief, new democratic governments in poor nations should not be forced to honor debts incurred by corrupt and dictatorial predecessors.

true

false

A firm needs to become a multinational enterprise to engage in international business.

true

false

Managing an international business is quite similar to managing a domestic business.

true

false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

_____ refers to the shift toward a more integrated and interdependent world economy.

Outsourcing

International marketing

Privatization

Globalization

In 2008 and 2009, the _____ became the forum through which major nations attempted to launch a coordinated policy response to the global financial crisis, which started in the United States.

United Nations

Group of Seven (G7)

Group of Twenty (G20)

World Trade Organization

Which factor has contributed to the globalization of markets?

a decrease in foreign direct investment

global convergence of consumer tastes and preferences

an increase in cross-border barriers to trade

the trend to separate a homogeneous market into separate national markets

Globalization has resulted in

less interdependence between national economies.

an increase in the use of outsourcing.

a collective material culture is becoming more diverse.

increasing barriers to cross-border trade.

Which factor hinders globalization of consumer goods market?

national and cultural differences in tastes and preferences

increasing incomes in emerging markets

homogenization of material culture

increased outsourcing of goods and services

Globalization of markets results in markets becoming

less interdependent.

less diverse.

more protected.

less competitive.

A U.S. investment firm set up a customer service call center in India to take advantage of lower labor costs. This is an example of

homogenizing markets.

vertical integration.

outsourcing.

horizontal integration.

Early outsourcing efforts were primarily confined to

health care.

service activities.

technological research.

manufacturing activities.

What impedes firms from achieving the optimal dispersion of their productive activities to locations around the globe?

transportation costs

government deregulations

reduction of barriers to trade between countries

reduction of barriers to foreign direct investment

The General Agreement on Tariffs and Trade (GATT) was responsible for protecting government-owned enterprises.

promoting free trade and reducing trade barriers.

limiting nuclear testing.

promoting environment friendly technology.

The _____ is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by member states.

International Development Association

World Bank

International Court of justice

World Trade Organization

The World Trade Organization promotes

the lowering of barriers to cross-border trade and investment.

the development of poor nations through low-interest loans.

state ownership of major enterprises.

the regulation of national economies.

Which statement is true about the International Monetary Fund (IMF)?

It is primarily responsible for policing the world trading system.

It is seen as the lender of last resort to nation-states whose economies are in turmoil.

It is responsible for establishing multinational treaties to govern the global business system.

It was established to formulate a coordinated policy response to financial crises in developing nations.

The _____ was established on October 24, 1945, by 51 countries committed to preserving peace through international cooperation and collective security.

World Trade Organization

United Nations

G20

World Bank

The G20 was originally established to
preserve peace through international cooperation and collective security.
maintain order in the international monetary system.
formulate a coordinated policy response to financial crises in developing nations.
manage, regulate, and police the global marketplace.

Which item is a factor of production?

tariffs

transportation costs

capital

government

Which institution focuses on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments?

WTO

GATT

World Bank

IMF

Which institution was established to maintain order in the international monetary system?

WTO

G20

World Bank

IMF

Which statement is true of the International Monetary Fund (IMF)?

It is often seen as the lender of first choice to nation-states whose economies are in turmoil.

Its loans come with no strings attached.

It is the less controversial of the two sister institutions, the IMF and the World Bank.

It often requires nations that receive loans to adopt specific economic policies.

The volume of world merchandise trade and production is growing faster than world GDP. This implies that

more firms are dispersing their production processes to global locations.

the economies of the world's nation-states are becoming more independent from each other.

the global economy is headed for a large downward correction.

the world is becoming poorer.

_____ occurs when a firm exports goods or services to consumers in another country.

International trade

Foreign direct investment

Inward investment

Outsourcing

The negotiations in the Uruguay Round of GATT led to
an easing of lending restrictions for cash-strapped nation-states.
enhanced protection for patents, trademarks, and copyrights.
increased trade barriers.
reduced coverage of services and manufactured goods.

Moore's Law predicts that the power of microprocessor technology _____ and its cost of
production _____ every 18 months.

falls in half; doubles

doubles; triples

doubles; falls in half

triples; falls in half

Containerization has revolutionized the transportation business by
reducing the time needed to get from one location to another.
simplifying the transportation process and lowering the cost of shipping goods.
providing a means for buyers and sellers to find each other easily in a global economy.
offering enterprises to coordinate and control a globally dispersed production system.

The volume of world trade in merchandise goods has been
growing at the same rate as world GDP.
growing faster than world GDP.
growing slower than world GDP.
declining faster than world GDP.

Smith Global Industries has decided to invest resources in business activities outside its home
country. This is called

foreign direct investment (FDI).

direct international investment (DII).

international trade (IT).

foreign direct production (FDP).

In 2009, the financial crisis in the United States was triggered by

the global hike in the price of crude oil.

the slowdown in U.S. imports, due to political pressure.

liberal lending policies by U.S. banks to homeowners.

the artificial fixing of the currency rate by China.

The relative decline of the United States in the share of world output and world exports reflects

an increase in the barriers to foreign trade in the United States.

the deepening of the global financial crisis.

the reduced industrialization in developing nations.

the growth in the economic development of emerging markets and other industrialized countries.

Why did many Japanese firms invest in North America and Europe in the 1970s?

to avoid a highly competitive domestic market

to exploit high domestic tariff barriers

to provide a hedge against unfavorable currency movements and imposition of trade barriers

to take advantage of the removal of all trade barriers

Throughout the 1990s, the amount of foreign direct investment directed at both developed and developing nations increased dramatically. This trend reflects

a slowdown in global economic activity.

the increasing share of the United States in the total FDI stock.

the decline in cross-border flows of foreign direct investment.

the increasing internationalization of business corporations.

Which country has been the largest recipient of foreign direct investment, receiving about \$181 billion in inflows in 2021?

Brazil

Russia

India

China

Johnson & Johnson is a multinational enterprise (MNE), which is a firm that exports its products to multiple countries.

owns business operations in more than one country.

does most of its business on the Internet.

lists its securities on a public exchange.

Since the 1960s, what has been a notable trend in the demographics of the multinational enterprise?

decreasing numbers of multinational companies in the manufacturing sector

increasing numbers of government-owned multinational enterprises

decreasing numbers of non-U.S. multinationals

increasing numbers of mini-multinationals

In the past two decades, Latin American countries such as Brazil, Mexico, and Chile have embraced communist principles.

promoted government ownership of enterprises.

experienced increasing debt and inflation.

welcomed foreign investment.

What risk, associated with globalization, was demonstrated by the 2008–2009 financial crisis?

restrictions on competition

global financial contagion

excessive market regulation

differentiation of markets

The rise in the number of mini-multinationals means that

small businesses are becoming increasingly involved in international trade and investment.

it is increasingly difficult to enter the large multinational market.

countries are working together to minimize MNE influence.

there is greater state involvement in industry.

The downside of increased globalization is

global financial contagions are less likely.

a severe crisis in one region can affect the entire globe.

one nation may become too powerful.

the potential for increased exploitation of undeveloped nations by developed nations.

During the past two decades, change in Latin America has been characterized by

an increase in debt.

hyperinflation.

the sale of state-owned enterprises to private investors.

protests against foreign investment.

How has China's government changed under the leadership of President Xi Jinping?

It has become reliant on the United States and Japan.

It has begun to allow free market activities for the first time.

It has become more authoritarian and more closely regulates individual liberties and private enterprises.

It has dropped from overseeing the largest to overseeing the third largest economy in the world.

To be classified as an MNE, a company must have productive activities in at least _____ countries.

two

three

ten

twenty

Supporters of globalization maintain that the apparent decline in real wage rates of unskilled workers

is due to technological changes that create greater demand for skilled workers.

is due to the migration of low-wage manufacturing jobs offshore.

can be checked by increasing government ownership of enterprises.

can be checked by limiting free trade and foreign investment.

Several studies published by the Organisation for Economic Co-operation and Development (OECD) noted that

the real household income of unskilled workers in the United States increased more in comparison to that of skilled workers.

in almost all countries real income levels declined over the 20-year period studied.

the falling unemployment rates brought gains to low-wage workers and fairly broad-based wage growth.

the gap between the poorest and richest segments of society in some OECD countries had widened.

A number of econometric studies have found consistent evidence of a hump-shaped relationship between income levels and pollution levels. According to this, as an economy grows and income levels rise

initially pollution levels remain low.

after a while, pollution levels decrease.

pollution levels also rise in proportion to the economic growth.

there is increasing industrialization, which leads to greater pollution.

The trade agreement known as NAFTA was passed only after

China agreed to establish a higher minimum wage.

the United States agreed to limit the number of jobs that could be outsourced.

Mexico committed to tougher enforcement of environmental protection regulations.

Canada committed to establish new limits on FDI.

Globalization is criticized because it increases the power of

governments to own enterprises.

unskilled labor to form labor unions.

supranational organizations over nation-states.

nation-states to regulate markets and reduce competition.

The WTO has estimated that the developed nations of the world can raise global economic welfare by \$128 billion by

removing subsidies given to their agricultural producers.

increasing tariff barriers to trade in agriculture.

increasing outsourcing of manufacturing processes.

reducing defense expenditure.

Which factor is viewed by large segments of the population in many countries as a detrimental effect of globalization?

job growth in industries under attack from foreign competitors

upward pressure on the wage rates of unskilled workers

environmental degradation

cultural isolationism of global media and MNEs

While the hump-shaped relationship between income levels and pollution levels seems to hold across a wide range of pollutants, _____ represent an important exception.

sulfur dioxide emissions

lead concentrations

carbon dioxide emissions

water quality standards

Based on several studies, the data suggest that real wages for

unskilled workers have decreased while real wages for skilled workers have increased.

both skilled and unskilled labor have decreased.

both skilled and unskilled labor have increased.

unskilled workers have increased while real wages for skilled workers have decreased.

Why has little progress has been made toward the ambitious goals set at the 1992 Earth Summit in Rio de Janeiro?

China has shown a strong appetite to adopt tighter pollution controls.

Political cooperation in the U.S. Congress promotes domestic action.

There is a culture of denial in the United States.

Trade liberalization efforts have not been rolled back.

The two largest emitters of carbon dioxide are

China and the United States.

China and the United Kingdom.

Canada and the United States.

Mexico and the United States.

How would economists characterize the relationship between globalization and poverty?

Globalization has improved the lot of the world's poorer nations which has led to an overall decrease in poverty.

Globalization has caused the gap between rich and poor nations to shrink and poverty levels to decline.

Globalization has caused an increase in poverty as well as an increase in the gap between rich and poor nations.

The movement of labor to developed nations because of globalization has contributed significantly to the increase in poverty.

Which statement is true of "highly indebted poorer countries" (HIPC's)?

About 100 nations fall in this category.

The average debt burden has never been more than 75 percent of the value of the HIPC's economy.

Servicing heavy debt leaves HIPC's with little left to invest in public infrastructure.

The annual cost of serving debt consumes about 30 percent of HIPC export earnings.

Supporters of debt relief for HIPC's

argue that free trade alone is sufficient to bring HIPC's out of poverty.

argue that new democratic governments should be forced to honor debts incurred by previous corrupt predecessors.

are energized by high-profile endorsements from Bono, the Dalai Lama, and Jeffrey Sachs.

are working against the policies of the IMF and World Bank.

An international business, unlike a multinational enterprise,
needs to have manufacturing units in at least two foreign nations.
needs to manufacture products or provide services that target a global market.
need not customize its products to the requirements of national markets.
need not invest directly in operations in other countries.

Food Fair Enterprises is an international business. As such, it
needs to have manufacturing units in at least two foreign nations.
needs to manufacture products or provide services that target a global market.
need not customize its products to the requirements of national markets.
invests in international trade or investment.

Which statement regarding an international business is true?

An international business needs to invest directly in operations in other countries.
An international business needs to have homogenous practices across countries.
An international business can be managed in the same way that a domestic business is managed.
An international business must find ways to work within the limits imposed by government intervention.

How does managing an international business differ from managing a domestic business?

International managers are more experienced.
Managers must recognize that countries differ in their cultures and systems.
Countries want to do business with their neighbors.
Managers must find ways to successfully export domestic business practices.

Which statement is characteristic of an international businesses?

All MNEs are international businesses.

Only firms that export products are international businesses.

Only firms that invest abroad are international businesses.

All international businesses are MNEs.

Managing an international business is different from managing a purely domestic business because

countries prefer to keep business transactions between domestic partners.

the range of problems confronted is wider and more complex.

international businesses have an added layer of U.N. regulations.

international transactions involve exchanging currencies through each country's treasury.

What was a major effect of the Russian invasion of Ukraine in February 2022?

the end of a multipolar world

a surge of international business investment in Russia

fewer international business opportunities

less risk associated with international investment

What was the result of U.S. backed debt relief efforts for "highly indebted poorer countries" (HIPC's)?

The efforts were blocked by U.S. rivals.

The HIPC's have remained debt free.

The benefits were temporary.

The United States became classified as a HIPC.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Discuss the characteristics of globalization. Use an example in your discussion.

Explain what is meant by the globalization of markets. Provide an example. What are the most global markets?

Discuss the concept of the globalization of production.

What is the World Trade Organization? What is its role in the world economy?

What is the International Monetary Fund? What is the World Bank? What is their relationship, if any, with each other?

What is the Uruguay Round? List the measures implemented in the Uruguay Round.

Explain the trends in world trade and foreign direct investment since 1960.

Explain how the COVID-19 global pandemic has impacted globalization.

Discuss the impact of technological change and automation on global markets.

Discuss the demographics of world trade since the 1960s. How has the role of the United States changed? How is world trade expected to change in the future?

Why does China represent both opportunities and threats for established international businesses?

Consider whether the shift toward a more integrated and interdependent global economy is a good thing. Discuss the shift from the eyes of the consumer, the worker, the company, and the environmentalist.

Discuss what occurred in Seattle in 1999 at the meeting of the WTO and why the events were important to the future of global trade.

Falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies. Discuss this statement. Do you agree? Why or why not?

Why is managing an international business different from managing a purely domestic business?

What are some of the issues a manager of an international business must confront that a manager of a domestic business never confronts?

Explain how the development of the microprocessor has changed communication technology, including the Internet of Things (IoT).

Describe what forecasts suggest about which countries will have the largest economies and what the major sources of economic activity will be by the year 2035.

Answer Key

Test name: ch1 International e14

FALSE

A company does not have to be the size of multinational giants to facilitate, and benefit from, the globalization of markets. In the United States, for example, according to the International Trade Administration, more than 300,000 small- and medium-sized firms with fewer than 500 employees account for 98 percent of the companies that export.

TRUE

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production. By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

FALSE

The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences are still often important enough to act as a brake on globalization—but markets for industrial goods and materials serve a universal need the world over.

FALSE

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

FALSE

The World Trade Organization is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. The World Bank, on the other hand, was set up to promote economic development.

TRUE

The IMF was established to maintain order in the international monetary system. It is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations.

FALSE

The World Trade Organization is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. The UN is known for its peacekeeping role, but also serves to promote higher standards of living, full employment, and conditions of economic and social progress and development—all issues that are central to the creation of a vibrant global economy.

TRUE

Under the umbrella of GATT, the most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round provided enhanced protection for patents, trademarks, and copyrights.

TRUE

The typical aim of tariffs on imports of manufactured goods was to protect domestic industries from foreign competition. One consequence, however, was retaliatory trade policies, with countries progressively raising trade barriers against each other. Ultimately, this depressed world demand and contributed to the Great Depression of the 1930s.

TRUE

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

FALSE

Foreign direct investment (FDI) has been growing faster than world output for decades, in part due to reductions in barriers limiting FDI between countries. According to UN data, some 80 percent of the more than 2,250 changes made to national laws governing FDI between 2003 and 2020 have created a more favorable environment.

FALSE

The COVID-19 global pandemic had a significant impact upon global supply chains, forcing many companies to rethink their globalization strategy. Some companies are reportedly considering moving production closer to home on the theory that local production is less likely to be disrupted by adverse events such as future pandemics, war, terrorism, trade disputes, and the like.

TRUE

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

TRUE

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

TRUE

As the barriers to the free flow of goods, services, and capital fell, and as other countries increased their shares of world output, non-U.S. firms increasingly began to invest across national borders. The motivation for much of this foreign direct investment by non-U.S. firms was the desire to disperse production activities to optimal locations and to build a direct presence in major foreign markets.

FALSE

In the last 50 years, two notable trends in the demographics of the multinational enterprise have been

1. (1) the rise of non-U.S. multinationals and
2. (2) the growth of mini-multinationals.

TRUE

Disturbing signs of growing unrest and totalitarian tendencies continue to be seen in several Eastern European and Central Asian states, including Russia, which has shown signs of shifting back toward greater state involvement in economic activity and authoritarian government. Thus, the risks involved in doing business in such countries are high, but so may be the returns.

TRUE

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

TRUE

Evidence suggests that technological change has had a bigger impact than globalization on the declining share of national income enjoyed by labor.

TRUE

Supporters of free trade and greater globalization argue that tougher environmental regulations and stricter labor standards go hand in hand with economic progress. In general, as countries become more integrated into global economy and trade, they are more likely to enforce stricter environmental and labor regulations.

FALSE

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

TRUE

Supporters of debt relief argue that new democratic governments in poor nations should not be forced to honor debts that were incurred and mismanaged long ago by their corrupt and dictatorial predecessors.

FALSE

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

FALSE

Managing an international business is different from managing a purely domestic business for at least four reasons:

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

D

This is the definition of globalization.

C

Originally, the G20 was established to formulate a coordinated policy response to financial crises in developing nations. In 2008 and 2009, it became the forum through which major nations attempted to launch a coordinated policy response to the global financial crisis that started in America and then rapidly spread around the world.

B

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade and investment have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping create a global market.

B

Companies that engage in outsourcing hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. A global web of suppliers helps to achieve this goal. Early outsourcing efforts were primarily confined to manufacturing activities. Increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations.

A

The most global of markets currently are not markets for consumer products—where national differences in tastes and preferences are still often important enough to act as a brake on globalization—but markets for industrial goods and materials serve a universal need the world over.

B

As markets become global, greater uniformity replaces diversity. In an increasing number of industries, it is no longer meaningful to talk about “the German market,” “the American market,” “the Brazilian market,” or “the Japanese market”; for many firms, there is only the global market.

C

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

D

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

A

Substantial impediments make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, and issues associated with economic and political risk.

B

As markets globalize and an increasing proportion of business activity transcends national borders, institutions are needed to help manage, regulate, and police the global marketplace, and to promote the establishment of multinational treaties to govern the global business system. The General Agreement on Tariffs and Trade (GATT) is an international treaty that committed signatories to lowering the barriers to the free flow of goods across national borders and led to the WTO.

D

The World Trade Organization is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. As of 2024, 164 nations that collectively accounted for 98 percent of world trade were WTO members, thereby giving the organization substantial scope and influence.

A

Part of the responsibility of the WTO is to facilitate the establishment of additional multinational agreements between WTO member states. Over its entire history, and that of the GATT before it, the WTO has promoted the lowering of barriers to cross-border trade and investment.

B

The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations. In the post-Cold War era, for example, the IMF has lent money to the governments of troubled states, including Argentina, Egypt, Indonesia, Mexico, Russia, South Korea, Thailand, and Turkey.

B

The United Nations was established on October 24, 1945, by 51 countries committed to preserving peace through international cooperation and collective security. Today nearly every nation in the world belongs to the United Nations; membership now totals 193 countries.

C

The G20 was established in 1999 to formulate a coordinated policy response to financial crises in developing nations. The G20 comprises the finance ministers and central bank governors of the 19 largest economies in the world, plus representatives from the European Union and the European Central Bank.

C

The factors of production are labor, energy, land, and capital.

C

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

D

The IMF was established to maintain order in the international monetary system.

D

The IMF was established to maintain order in the international monetary system and has emerged as a significant player in the global economy. The World Bank is the less controversial of the two sister institutions. The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations. In return for loans, the IMF requires nation-states to adopt specific economic policies.

A

The fact that the volume of world trade has been growing faster than world GDP implies several things. First, more firms are dispersing parts of their production process to different locations around the globe. Second, the economies of the world's nation-states are becoming ever more intertwined. As trade expands, nations are becoming increasingly dependent on each other for important goods and services. Third, the world has become significantly wealthier in the last two decades. The implication is that rising trade is the engine that has helped pull the global economy along.

A

International trade occurs when a firm exports goods or services to consumers in another country.

B

Under the umbrella of GATT, the most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round reduced trade barriers, extended GATT to cover services as well as manufactured goods, and provided enhanced protection for patents, trademarks, and copyrights.

C

Moore's Law predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months.

B

Containerization has revolutionized the transportation business, significantly lowering the cost of shipping goods over long distances. Before the advent of containerization, moving goods from one mode of transport to another was very labor intensive, lengthy, and costly.

B

According to WTO, between 1960 and 2023 the value of the world economy (adjusted for inflation) increased 9.8 times, while the value of international trade in merchandise goods increased 23.1 times. This actually underestimates the growth in trade, because trade in services has also been growing rapidly in recent decades.

A

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

C

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

D

The relative decline of the United States reflects the growing economic development and industrialization of emerging markets and other industrialized countries, as opposed to any absolute decline in the health of the U.S. economy.

C

Beginning in the 1970s, European and Japanese firms began to shift labor-intensive manufacturing operations from their home markets to developing nations where labor costs were lower. In addition, many Japanese firms invested in North America and Europe—often as a hedge against unfavorable currency movements and the possible imposition of trade barriers.

D

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

D

Among developing nations, the largest recipient of foreign direct investment has been China, which received about \$181 billion in inflows in 2021 despite disruptions due to the COVID-19 pandemic and the ongoing trade war between the United States and China.

B

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

D

Since the 1960s, two notable trends in the demographics of the multinational enterprise have been

1. (1) the rise of non-U.S. multinationals and
2. (2) the growth of mini-multinationals.

D

In the past two decades, throughout most of Latin America, debt and inflation are down, governments have sold state-owned enterprises to private investors, foreign investment is welcomed, and the region's economies have expanded. Brazil, Mexico, and Chile have led the way.

B

Greater globalization brings with it risks of its own. The opportunities for doing business in a global economy may be significantly enhanced; however, the risks associated with global financial contagion are also greater. Indeed, during 2008–2009, a crisis that started in the financial sector of the United States, where banks had been too liberal in their lending policies to homeowners, swept around the world and plunged the global economy into its deepest recession since the early 1980s, illustrating once more that, in an interconnected world, a severe crisis in one region can affect the entire globe.

A

Although most international trade and investment are still conducted by large firms, many medium-size and small businesses are becoming increasingly involved in international trade and investment.

B

Greater globalization brings with it risks of its own. This was starkly demonstrated in 1997 and 1998 when a financial crisis in Thailand spread first to other East Asian nations and then to Russia and Brazil. Ultimately, the crisis threatened to plunge the economies of the developed world, including the United States, into a recession. Similarly, the spread of the COVID-19 pandemic seriously disrupted global supply chains around the world.

C

Throughout most of Latin America, debt and inflation are down, governments have sold state-owned enterprises to private investors, foreign investment is welcomed, and the region's economies have expanded. Brazil, Mexico, and Chile have led the way.

C

Under the rule of President Xi Jinping, China has become more authoritarian.

A

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

A

Supporters of globalization maintain that the weak growth rate in real wage rates for unskilled workers owes far more to a technology-induced shift within advanced economies away from jobs where the only qualification was a willingness to turn up for work every day and toward jobs that require significant education and skills.

D

In one study, the OECD found that real household income (adjusted for inflation) increased by 1.7 percent annually among its member states. The real income level of the poorest 10 percent of the population increased at 1.4 percent annually on average, while that of the richest 10 percent increased by 2 percent annually (i.e., while everyone got richer, the gap between the most affluent and the poorest sectors of society widened).

B

A number of econometric studies have found consistent evidence of a hump-shaped relationship between income levels and pollution levels. As an economy grows and income levels rise, initially pollution levels also rise. However, past some point, rising income levels lead to demands for greater environmental protection, and pollution levels then fall.

C

NAFTA was passed only after side agreements had been negotiated that committed Mexico to tougher enforcement of environmental protection regulations. Thus, supporters of free trade argue that factories based in Mexico are now cleaner than they would have been without the passage of NAFTA.

C

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

A

The WTO has estimated that if the developed nations of the world eradicated subsidies to agricultural producers and removed tariff barriers to trade in agriculture, this would raise global economic welfare by \$128 billion, with \$30 billion of that going to developing nations, many of which are highly indebted.

C

Large segments of the population in many countries believe that globalization has detrimental effects on living standards, wage rates, and the environment. Demonstrators have protested against a wide range of issues, including job losses in industries under attack from foreign competitors, downward pressure on the wage rates of unskilled workers, environmental degradation, and the cultural imperialism of global media and multinational enterprises, which was seen as being dominated by what some protesters called the “culturally impoverished” interests and values of the United States.

C

While the hump-shaped relationship depicted in Figure 1.5 in the text seems to hold across a wide range of pollutants—from sulfur dioxide to lead concentrations and water quality—carbon dioxide emissions are an important exception, rising steadily with higher income levels.

A

The data suggest that over the past two decades, the share of labor in national income has declined. However, detailed analysis suggests the share of national income enjoyed by skilled labor has actually increased, suggesting that the fall in labor's share has been due to a fall in the share taken by unskilled labor.

C

There has been little success in moving toward the ambitious goals for reducing carbon emissions laid down in the Earth Summit. In part, this is because the largest emitters of carbon dioxide, the United States and China, have failed to reach agreements about how to proceed. China, a country whose carbon emissions are increasing at a rapid rate, has shown little appetite to adopt tighter pollution controls. As for the United States, political divisions in Congress and a culture of denial have made it difficult for the country to even acknowledge, never mind move forward with, legislation designed to tackle climate change.

A

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A

Despite the large gap between rich and poor nations, there is evidence of substantial progress. According to data from the World Bank, the percentage of the world's population living in poverty has declined substantially over the last three decades. The world is getting better, and many economists would argue that globalization, and the opportunities it offers to the world's poorer nations to improve their lot, has much to do with this.

C

Many of the world's poorer nations are being held back by large debt burdens. Of particular concern are the 40 or so "highly indebted poorer countries" (HIPCs), which are home to some 700 million people. Among these countries, the average government debt burden has been as high as 85 percent of the value of the economy, as measured by gross domestic product, and the annual costs of serving government debt consumed 15 percent of the countries' export earnings. Servicing such a heavy debt load leaves the governments of these countries with little left to invest in important public infrastructure projects, such as education, health care, roads, and power. The result is the HIPCs are trapped in a cycle of poverty and debt that inhibits economic development.

C

Free trade alone, some argue, is a necessary but not sufficient prerequisite to help HIPCs out of poverty. Instead, large-scale debt relief is needed for the world's poorest nations to give them the opportunity to restructure their economies and start the long climb toward prosperity. Supporters of debt relief also argue that new democratic governments in poor nations should not be forced to honor debts that were incurred and mismanaged long ago by their corrupt and dictatorial predecessors. In the late 1990s, a debt relief movement began to gain ground among the political establishment in the world's richer nations. Fueled by high-profile endorsements from Irish rock star Bono, the Dalai Lama, and influential Harvard economist Jeffrey Sachs, the debt relief movement was instrumental in persuading the United States to enact legislation in 2000 that provided \$435 million in debt relief for HIPCs. The IMF and World Bank have picked up the banner and have embarked on a systematic debt relief program.

D

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

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D

Conducting business transactions across national borders requires understanding the rules governing the international trading and investment system. Managers in an international business must also deal with government restrictions on international trade and investment.

B

As their organizations increasingly engage in cross-border trade and investment, managers need to recognize that the task of managing an international business differs from that of managing a purely domestic business in many ways. At the most fundamental level, the differences arise from the simple fact that countries are different.

A

A firm does not have to become a multinational enterprise, investing directly in operations in other countries, to engage in international business, although multinational enterprises are international businesses. All a firm has to do is export or import products from other countries.

B

Managing an international business is different from managing a purely domestic business for at least four reasons:

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

C

Russia's invasion of Ukraine in February 2022 signaled a sharp break in the world order as it had existed since the early 1990s, raising the specter of a multipolar world in which conflict will again start to limit cross-border business opportunities. Indeed, following the Russian invasion of Ukraine, many international businesses pulled out of Russia, and decades of investment worth billions of dollars were written off in the process. Thus, while the opportunities to be had by doing business in developing nations are significant, the risks associated with growing totalitarian tendencies can no longer be ignored.

C

The United States enacted legislation in 2000 that provided \$435 million in debt relief for HIPC's. More important perhaps, the United States also backed an IMF plan to sell some of its gold reserves and use the proceeds to help with debt relief. Unfortunately, the beneficial impact of these efforts was only temporary. By 2021, the external debt stocks of developing nations reached \$11.1 trillion, the highest level on record, more than twice the \$4.1 trillion recorded in 2009, and a fivefold increase from 2000. For debt reduction programs to have a lasting effect, debt relief must be matched by wise investment in public projects that boost economic growth (such as education) and by the adoption of economic policies that facilitate investment and trade. This does not seem to have occurred in many of the world's poorest nations.

Essay

Globalization refers to a fundamental shift in the world economy in which national economies are no longer relatively self-contained entities. Instead, nations are moving toward a more integrated and interdependent world economy. Within this new global economy, an American might drive to work in a car designed in Germany that was assembled in Mexico from components made in the United States and Japan that were fabricated from Korean steel and Malaysian rubber. A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets. Note: Examples will vary.

Essay

The globalization of markets refers to the idea that historically distinct and separate national markets are merging into a single, huge global marketplace. For example, consumer product firms such as Coca-Cola, Starbucks, and McDonald's offer the same basic product worldwide and are, in fact, not only a part of the trend, but facilitators of the trend as well. The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences can still be important enough to act as a brake on globalization—but markets for industrial goods and materials that serve universal needs the world over. Note: Examples will vary.

Essay

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

Essay

The World Trade Organization (WTO) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO members. As of 2024, 164 nations that collectively accounted for 98 percent of world trade were WTO members, thereby giving the organization substantial scope and influence. The WTO is also responsible for facilitating the establishment of additional multinational agreements among WTO member states. Recently, its influence has diminished as political actors in many nations push back against what they see as overreach by the institution.

Essay

The International Monetary Fund (IMF) and the World Bank were both created in 1944 by 44 nations that met at Bretton Woods, New Hampshire. The IMF was established to maintain order in the international monetary system; the World Bank was set up to promote economic development. In the eight decades since their creation, both institutions have emerged as significant players in the global economy. The World Bank is the less controversial of the two sister institutions. It has focused on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or roads).

Essay

Under the umbrella of GATT, eight rounds of negotiations among member states worked to lower barriers to the free flow of goods and services. The first round of negotiations went into effect in 1948. The most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the WTO to police the international trading system.

Essay

Between 1960 and 2023, the value of the world economy (adjusted for inflation) increased 9.8 times, while the value of international trade in merchandised goods increased 23.1 times. Not only has trade in goods and services been growing faster than world output for decades, so has the value of foreign direct investment, in part due to reductions in barriers limiting trade between countries. This trade and investment pattern implies that firms are dispersing parts of their production to different locations around the world to drive down production costs and increase product quality, that the economies of the world's nation-states are becoming more intertwined, that foreign direct investment is playing an increasing role in the global economy as firms increase their cross-border investments, and that the world has become significantly wealthier since 1990. The implication is that rising trade is the engine that has helped pull the global economy along. Evidence also suggests that foreign direct investment is playing an increasing role in the global economy as firms increase their cross-border investments.

Essay

The growth in the value of world merchandise trade and world production has been growing since 1960. However, in 2020, the impact of the COVID-19 global pandemic caused a decline in global trade and output. Likewise, the pandemic caused decreases in foreign investment in 2020 as well. Trade flows recovered in 2021 and 2022, although they dipped again in 2023 due to a sluggish global economy. Additionally, the COVID-19 global pandemic had a significant impact upon global supply chains, forcing many companies to rethink their globalization strategy. Some companies are reportedly considering moving production closer to home on the theory that local production is less likely to be disrupted adverse events such as future pandemics, war, terrorism, trade disputes, and the like. If this becomes a trend, it too will put a brake upon the globalization process.

Essay

Major advances in communication, information processing, and transportation technology have facilitated the globalization of markets and production. The microprocessor and the Internet have been central to the technology explosion. The development of the microprocessor has vastly increased the amount of information that can be processed by individuals and firms, and the growth of the Internet, including the IoT, has allowed companies to expand their global presence at a fraction of the cost of more traditional methods of business. Jet air travel, by shrinking travel time, has also helped to link the worldwide operations of international businesses. These changes have enabled firms to achieve tight coordination of their worldwide operations and to view the world as a single market.

Essay

In the 1960s, global business activity was dominated by large U.S. multinational corporations. With U.S. firms accounting for about two-thirds of foreign direct investment during the 1960s, one would expect most multinationals to be U.S. enterprises. In addition, British, Dutch, and French enterprises figured prominently on lists of the world's largest multinational enterprises. By 2003, when Forbes magazine started to compile its annual ranking of the world's top 2,000 multinational enterprises, 776 of the 2,000 firms, or 38.8 percent, were U.S. enterprises. The second-largest source country was Japan with 16.6 percent of the largest multinationals. The United Kingdom accounted for another 6.6 percent. By 2023 the U.S. share had fallen to 31 percent, or 611 firms, and the Japanese share had declined to under 10 percent, while Chinese enterprises had emerged to comprise 346 of the total, or 17 percent. Multinationals from India and South Korea have also increased significantly since 2000. These shifts in the distribution of the top 2000 multinational corporations amongst different nations seem likely to continue. Specifically, we expect that even more firms from developing nations will emerge as important competitors in global markets, further shifting the axis of the world economy away from North America and western Europe and challenging the long dominance of companies from the so-called developed world.

Essay

China represents both a source for goods and a huge market opportunity. On the other hand, new firms from China are proving to be very capable competitors, and in some markets, they have been taking global market share away from Western and Japanese enterprises. Thus, the changes in China have created both opportunities and threats for established international businesses. Complicating matters in China, under the rule of President Xi Jinping the country has become more authoritarian. In addition to limiting individual liberties, the CCP has started to tighten its grip on private enterprises, placing CCP cells in them, nominally to protect the interests of workers, but also, many analysts suspect, to make sure that private businesses act in a manner that the CCP sees as consistent with the goals of the state. If China continues down this road, some of the gains of the last 40 years may be put at risk.

Essay

There are many advantages of globalization. From a broad perspective, globalization creates economic activity (which stimulates economic growth), creates jobs, raises income levels, and provides consumers with more choices in regard to the products and services that are available to them. From the perspective of an individual firm, globalization has the potential to increase revenues (through expanded market potential), drive down costs (through additional economies of scale), and boost profits. However, critics argue that globalization destroys manufacturing jobs in wealthy countries and contributes to pollution. Critics argue that falling trade barriers allow firms in industrialized countries to move their manufacturing activities offshore to countries where wage rates are much lower. Critics also argue that globalization encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries to avoid the more stringent pollution controls in place in their home countries.

Essay

In December 1999, more than 40,000 protesters blocked the streets of Seattle in an effort to shut down a WTO meeting being held in the city. The issues included job losses in industries under attack from foreign competitors, falling wage rates of unskilled workers, environmental degradations, and cultural imperialism of global media and MNEs. Protesters believed that all these issues were the result of globalization, and felt that the WTO, as a promoter of globalization, was a legitimate target for blame. The protest was a violent one, and emboldened by the experience, antiglobalization protesters now turn up at almost every major meeting of a global institution.

Essay

Critics argue that falling trade barriers allow firms to move manufacturing activities to countries where wage rates are much lower. As a result of such moves, they argue that the wage rates of poorer Americans have fallen significantly over the past quarter of a century. Supporters of globalization reply that critics of these trends miss the essential point about free trade—the benefits outweigh the costs. They argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently. Note: Opinions will vary.

Essay

Managing an international business is different from managing a purely domestic business for at least four reasons:

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

Essay

In addition to the problems that arise from the differences between countries, managers of an international business must decide where in the world to site production activities to minimize costs and to maximize value added. They must decide whether it is ethical to adhere to the lower labor and environmental standards found in many less developed nations. Then they must decide how best to coordinate and control globally dispersed production activities, which is not a trivial problem. Managers in an international business must also decide which foreign markets to enter and which ones to avoid.

Essay

Perhaps the single most important innovation since World War II has been the development of the microprocessor, which enabled the explosive growth of high-power, low-cost computing, vastly increasing the amount of information that can be processed by individuals and firms. The microprocessor also underlies many recent advances in telecommunications technology. Over the past 30 years, global communications have been revolutionized by developments in satellite, optical fiber, wireless technologies, and, of course, the Internet, including the IoT. The “Internet of Things” is commonly referred to as IoT. This refers to the fact that microprocessor and communications chips are now found in a vast array of devices, from computers to vehicles, machinery, and phones—all of which are linked by persistent wired and wireless connections to the vast network of computer server farms commonly referred to as “the cloud.” These technologies rely on the microprocessor to encode, transmit, and decode the vast amount of information that flows along these electronic highways. The cost of microprocessors continues to fall, while their power increases (a phenomenon known as Moore’s law, which predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months).

Essay

Given differential growth rates, forecasts have suggested that the Chinese economy could be larger than that of the United States by 2035, while the economy of India could become the third largest by 2035. However, China’s growth rate has slowed significantly in the last few years, while America’s has remained steady. With China’s population now projected to shrink due to low birth rates, it will be a struggle for China to continue to grow its economy, and the country may not supplant the United States as the world’s largest economy anytime soon. On the other hand, India seems set for decades of growth. Overall, the World Bank has estimated that today’s developing nations may account for more than 60 percent of world economic activity by 2035, while today’s wealthier nations, which currently account for more than 55 percent of world economic activity, may account for only about 38 percent. Forecasts are not always correct, but these suggest that a shift in the economic geography of the world is now underway, although the magnitude of that shift is not totally evident.