

Chapter 02

National Differences in Political Economy

True / False Questions

1. The term political economy is used to stress the fact that the political, economic, and legal systems of a country are interdependent.

True False

2. Largely, political systems that emphasize collectivism tend to be democratic, while political systems that place a high value on individualism tend to be totalitarian.

True False

3. Plato did not equate collectivism with equality.

True False

4. In the early twentieth century, the socialist ideology split into two broad camps: the communists and the capitalists.

True False

5. The social democrats believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

True False

6. The American Declaration of Independence embodies the ideals of collectivism.

True False

7. One of the tenets of collectivism is that the welfare of society is best served by letting people pursue their own economic self-interest.

True False

8. In practical terms, individualism translates into an advocacy for democratic political systems and free market economics.

True False

9. The United States practices pure democracy.

True False

10. China, Vietnam, Laos, North Korea, and Cuba are no longer totalitarian states.

True False

11. The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran and Saudi Arabia.

True False

12. Tribal totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles.

True False

13. Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom.

True False

14. The fascist regimes that ruled Germany and Italy in the 1930s and 1940s are examples of theocratic totalitarianism.

True False

15. Most right-wing dictatorships display an affinity towards socialist or communist ideas.

True False

16. In a pure market economy, all productive activities are privately owned, as opposed to being owned by the state.

True False

17. In a pure command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all dictated by the interaction of demand and supply.

True False

18. Command economies are dynamic economic systems that encourage innovation.

True False

19. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

True False

20. A common law system tends to be less adversarial than a civil law system.

True False

21. Many Muslim countries have legal systems that are a blend of Islamic law and a common or civil law system.

True False

22. Contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out.

True False

23. It is more expensive to draw up contracts in a civil law jurisdiction.

True False

24. Property refers to a resource over which an individual or business holds a legal title.

True False

25. In the context of property rights, public action refers to theft, piracy, blackmail, and the like by private individuals or groups.

True False

26. Public action to violate property rights can be done through legal and illegal mechanisms.

True False

27. Economic evidence suggests that high levels of corruption indirectly have a positive effect on foreign direct investment, level of international trade, and economic growth rate in a country.

True False

28. According to the Foreign Corrupt Practices Act, it is illegal to make grease payments to expedite or secure the performance of a routine governmental action.

True False

29. A copyright grants the inventor of a new product or process exclusive rights to manufacture, use, or sale that invention.

True False

30. Protecting intellectual property has become increasingly problematic.
True False

31. Both civil and criminal product liability laws exist.

True False

32. Gross national income (GNI) measures the total annual income received by residents of a nation.

True False

33. GNI per person figures consider differences in the cost of living and allow for a more direct comparison of living standards in different countries.

True False

34. The Nobel Prize-winning economist Amartya Sen has argued that development should be viewed purely as an economic process and not as a political one.

True False

35. Some totalitarian regimes have fostered a market economy and strong property rights protection and have experienced rapid economic growth.

True False

36. Economic freedom does not necessarily equate with political freedom.

True False

37. Social unrest is less likely to be found in countries that contain more than one ethnic nationality.

True False

Multiple Choice Questions

38. Collectively, we refer to the political, economic, and legal systems as constituting the _____ economy of a country, thus reflecting how these systems are interdependent.

- A. domestic
- B. civic
- C. administrative
- D. political

39. The system of government in a nation is referred to as its:

- A. common system.
- B. political system.
- C. domiciliary system.
- D. legal system.

40. Political systems can be assessed according to the degree to which they emphasize _____ and the degree to which they are _____.

- A. equal opportunity and adult franchise; open to free trade versus protectionism
- B. democratic versus individualistic; market oriented as opposed to being production oriented
- C. capitalism over socialism; collectivist or individualistic
- D. collectivism as opposed to individualism; democratic or totalitarian

41. When _____ is practiced in a society, the needs of society as a whole are generally viewed as being more important than individual freedoms.

- A. totalitarianism
- B. collectivism
- C. individualism
- D. capitalism

42. In some cultures it is considered appropriate to give precedence to "the common good" over what may benefit individuals. These cultures can be termed _____.

- A. individualist
- B. totalitarian
- C. collectivist
- D. absolutist

43. _____ is a political philosophy that advocates substantial public involvement through government ownership, in the means of production and distribution.

- A. Socialism
- B. Capitalism
- C. Individualism
- D. Fascism

44. Modern socialism traces its intellectual roots to:

- A. Aristotle.
- B. David Hume.
- C. Karl Marx.
- D. Adam Smith.

45. According to Karl Marx, what is the relationship shared by capitalists and workers in a capitalist society?

- A. Workers have as much opportunity to advance themselves socially as the capitalist owners.
- B. Workers and capitalists are both responsible for improving the economic conditions of the society.
- C. Capitalists discriminate amongst workers on the basis of religion and education.
- D. Capitalists expropriate for their own use the value created by workers, while paying workers only subsistence wages in return.

46. In the early twentieth century, the socialist ideology split into two broad camps. The group that believed socialism could be achieved only through violent revolution and totalitarian dictatorship was referred to as:

- A. communists.
- B. fascists.
- C. political democrats.
- D. social democrats.

47. The socialist who committed themselves to achieving socialism through democratic means was referred to as:

- A. communists.
- B. social democrats.
- C. individualists.
- D. pure democrats.

48. The communist version of socialism reached its high point in:

- A. the 1950s.
- B. the late 1970s.
- C. the period immediately following World War II.
- D. the mid-1990s.

49. Which of the following is a country that has been strongly influenced by social democracy?

- A. Cuba
- B. North Korea
- C. China
- D. India

50. The sale of state-owned enterprises to private investors is referred to as:

- A. privatization.
- B. revitalization.
- C. democratization.
- D. participation.

51. Which of the following can be traced to the ancient Greek philosopher, Aristotle?

- A. Collectivism
- B. Individualism
- C. Socialism
- D. Totalitarianism

52. _____ stresses that the interests of the individual should take precedence over the interests of the state.

- A. Totalitarianism
- B. Socialism
- C. Individualism
- D. Humanism

53. Which of the following individuals argued that private property is more highly productive than communal property and will thus stimulate progress?

- A. Aristotle
- B. Socrates
- C. Plato
- D. Karl Marx

54. Which of the following is NOT a central tenet of individualism?

- A. Guaranteeing individual freedoms.
- B. The government dictates what is in the society's best interest.
- C. Guaranteeing self-expression.
- D. Allowing people to pursue their own economic self-interest.

55. The pro-business and pro-free trade values of _____ create a favorable environment within which international businesses can thrive.

- A. collectivism
- B. socialism
- C. individualism
- D. communism

56. Which of the following is the political system in which government is by the people, exercised either directly or through elected representatives?

- A. Despotism
- B. Democracy
- C. Totalitarianism
- D. Collectivism

57. Democracy, in its purest form, is based on the belief that:

- A. citizens should be directly involved in decision making.
- B. citizens are ill-equipped to make their own decisions and should be governed by a few.
- C. citizens are responsible for their own economic health and thus need no government.
- D. education of citizens is the most important resource of societies.

58. _____ is a form of government in which one person or political party exercises absolute control over all spheres of human life, and opposing political parties are prohibited.

- A. Capitalism
- B. Totalitarianism
- C. Democracy
- D. Collectivism

59. An individual's right to freedom of expression and organization, a free media, and regular elections are the building blocks of what type of political system?

- A. Communism
- B. Representative democracy
- C. Nominative democracy
- D. Capitalism

60. To guarantee that elected representatives can be held accountable for their actions by the electorate, an ideal representative democracy has a number of safeguards. Which of the following is NOT an example of a safeguard in an ideal representative democracy?

- A. A fair court system that is independent from the political system
- B. Universal adult suffrage
- C. An individual's right to freedom of expression, opinion, and organization
- D. Unlimited terms for elected representatives

61. In a totalitarian country:

- A. free and fair elections are denied to the citizens.
- B. the media is usually free and very active.
- C. an individual has basic civil rights.
- D. the right to freedom of expression and organization is usually not curbed.

62. _____ is a form of totalitarianism that advocates achieving socialism through totalitarian dictatorship.

- A. Tribal totalitarianism
- B. Democratic totalitarianism
- C. Communist totalitarianism
- D. Collective totalitarianism

63. A political system in which political power is monopolized by a party, group or individual that governs according to religious principles is referred to as:

- A. theocratic totalitarianism.
- B. communist totalitarianism.
- C. right-wing totalitarianism.
- D. tribal totalitarianism.

64. A totalitarian political system in which a party, group, or individual that represents the interests of a particular ethnic group monopolizes political power is referred to as:

- A. theocratic totalitarianism.
- B. communist totalitarianism.
- C. right-wing totalitarianism.
- D. tribal totalitarianism.

65. _____ totalitarianism generally permits individual economic freedom, but restricts individual political freedom on the grounds that it would lead to the rise of communism.

- A. Theocratic
- B. Right-wing
- C. Capitalist
- D. Tribal

66. The fascist regimes that ruled Germany and Italy in the 1930s and 1940s were states.

- A. right-wing totalitarian
- B. theocratic totalitarian
- C. communist
- D. democratic

67. In which countries are we likely to find free market economies?

- A. Countries where the good of the society has precedence over individual rights
- B. Countries where individual goals are given primacy over collective goals
- C. Countries where the state has taken control over many enterprises
- D. Countries where property laws are weak

68. A _____ economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced.

- A. mixed
- B. command
- C. market
- D. trade

69. Which of the following is an advantage of private ownership?

- A. It protects businesses from volatile economic conditions.
- B. It helps businesses take advantage of state subsidies.
- C. It eliminates competitors and reduces pressure to lower production costs.
- D. It gives entrepreneurs an incentive to search for better ways of serving consumer needs.

70. In a pure _____ economy, the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

- A. command
- B. market
- C. trade
- D. civic

71. In comparison to market-based economies, _____ and _____ are absent from command economies.

- A. price-control; monopoly
- B. dynamism; innovation
- C. complacency; regulation
- D. state control; corruption

72. In a _____ economy, certain sectors of the economy are left to private ownership and free market mechanisms, while in other sectors there is significant state ownership and government planning.

- A. command
- B. combined
- C. mixed
- D. civic

73. In mixed economies, governments sometimes tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. This process is called:

- A. privatization.
- B. revitalization.
- C. unemployment management.
- D. nationalization.

74. Collectivist-inclined totalitarian states tend to enact laws that severely restrict private enterprise, whereas the laws enacted by governments in democratic states where individualism is the dominant political philosophy tend to be pro-private enterprise and pro-consumer. This indicates how:

- A. the economic system of a country can be undermined by its legal system.
- B. the legal system of a country is influenced by the prevailing political system.
- C. the political system of a country is insulated from its legal system.
- D. the legal system of a country can shape its economic system.

75. The _____ of a country refers to the rules that regulate behavior, along with the processes by which the laws of a country are enforced and through which redress for grievances is obtained.

- A. political system
- B. administrative system
- C. economic system
- D. legal system

76. Identify the legal system that is based on tradition, precedent, and custom.

- A. Common law
- B. Civil law
- C. Theocratic law
- D. Monarchy law

77. In the context of common law, the ways in which laws are applied in specific situations are referred to as:

- A. tradition.
- B. precedent.
- C. custom.
- D. parallel.

78. In the context of common law, tradition refers to:

- A. the religious aspect in the law.
- B. the ways in which laws are applied in specific situations.
- C. the cases that have come before the courts in the past.
- D. a country's legal history.

79. The common law system enjoys a degree of flexibility not found in other systems because:

- A. the common law system is usually found in democratic republics.
- B. the common law system originated from Great Britain and can be found in almost all of its former colonies.
- C. the law courts can interpret common law with regard to tradition, precedent, and custom.
- D. the common law system is based on codified laws that encompass a wide spectrum of cases.

80. A _____ law system is based on a detailed set of laws organized into codes.

- A. civil
- B. theocratic
- C. common
- D. traditional

81. A legal system that is based primarily on religious teachings is referred to as a:

- A. civil law system.
- B. theocratic law system.
- C. common law system.
- D. traditional law system.

82. The most widely practiced theocratic legal system in the modern world is:

- A. Christian law.
- B. Islamic law.
- C. Jewish law.
- D. Hindu law.

83. The parties to an agreement normally resort to _____ when one party feels the other has violated either the letter or the spirit of an agreement.

- A. property law
- B. public action
- C. private action
- D. contract law

84. A _____ is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved.

- A. manuscript
- B. manifesto
- C. contract
- D. treatise

85. Contracts drafted under a common law framework tend to be _____, while those drafted under civil law tend to be _____.

- A. very detailed; less specific
- B. very short; much more detailed
- C. inflexible; more open to interpretation
- D. inexpensive to draft; more adversarial

86. When contract disputes arise in international trade, there is always the question of which country's laws to apply. To resolve this issue, a number of countries, including the United States, have ratified the _____, which establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

- A. United Nations Convention on Contracts for the International Sale of Goods
- B. Foreign Practices Act
- C. Convention on Combating Bribery of Foreign Public Officials
- D. International Court of Mediation

87. When firms do not wish to accept the rules of the CIGS, they usually rely on _____ to settle contract disputes.

- A. UN involvement
- B. arbitration
- C. local codes
- D. U.S. law

88. The bundle of legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource are called _____ rights.

- A. resource
- B. asset
- C. taxable
- D. property

89. Theft, piracy, or blackmail by private individuals or groups violating property rights is referred to as:

- A. extortion.
- B. individual action.
- C. public action.
- D. private action.

90. After the collapse of communism in Russia, successful business owners often had to pay "protection money" to the Mafia or face violent retribution. This is an example of:

- A. rights corruption.
- B. public action.
- C. private action.
- D. property corruption.

91. When government officials such as politicians and bureaucrats extort income or resources from property holders, this can be described as a:

- A. patents violation.
- B. public action.
- C. warrants action.
- D. private action.

92. According to Transparency International, which country is the most corrupt?

- A. New Zealand
- B. Finland
- C. Somalia
- D. India

93. Economic evidence suggests that high levels of corruption _____ the foreign direct investment, level of international trade, and economic growth rate in a country.

- A. can indirectly increase
- B. can significantly reduce
- C. seldom affects
- D. is not a factor in

94. In the United States, the Foreign Corrupt Practices Act was passed during the 1970s following revelations:

- A. from the Watergate scandal.
- B. that foreign companies had bribed U.S. government officials in an attempt to win lucrative contracts.
- C. that U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts.
- D. that U.S. companies were involved in bribing U.S. government officials in cases related to tax evasion.

95. Which of the following does the U.S. law and OECD convention allow as an exception?

- A. Bribing a foreign government official
- B. Failure to keep records that would reveal if a violation of the act has occurred
- C. Grease payments or speed money
- D. Suppressing records that would indicate whether a breach of the act has taken place

96. Products of the mind, such as computer software, a screenplay, a music score, or the chemical formula for a new drug, constitute:

- A. assets which receive no protection under law.
- B. intangible assets.
- C. non-property assets.
- D. intellectual property.

97. Venus Corporation has developed a new type of adhesive tape. Which type of legal protection can grant the company exclusive rights for a defined period to the manufacture, use, or sale of that invention?

- A. Warrant
- B. Patent
- C. Copyright
- D. Trademark

98. A composer is able to protect an original musical score from being copied and sold by someone else by acquiring a _____ for the score.

- A. patent
- B. warrant
- C. trademark
- D. copyright

99. As a result of _____ protection, the Nike "Swoosh" logo is protected from being used by any other shoe manufacturer.

- A. trademark
- B. copyright
- C. patent
- D. warrant

100. Patents, copyrights, and trademarks establish ownership rights over _____ property.

- A. intellectual
- B. non-economic
- C. financial
- D. creative

101. According to Business Software Alliance, which region had the highest piracy rates for computer software in 2008?

- A. Southeast Asia
- B. North America
- C. Central and Eastern Europe
- D. South America

102. The regulations imposed under the _____ agreement, oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

- A. TTPI
- B. TRIPS
- C. TAFTA
- D. TPP

103. _____ laws hold a firm and its officers responsible when a product causes injury, death, or damage.

- A. Product violation
- B. Product safety
- C. Product liability
- D. Contract liability

104. Which country has the most extensive civil and criminal liability laws?

- A. Australia
- B. India
- C. USA
- D. Finland

105. A boom in product liability suits and awards in the United States resulted in a dramatic increase in the cost of liability insurance. Many business executives argue that this:

- A. makes American businesses less competitive in the global marketplace.
- B. offers American businesses protection from foreign competitors.
- C. raises ethical issues in doing business in the country.
- D. makes it cheaper to do business in the country.

106. _____ is regarded as a yardstick for the economic activity of a country, and it measures the total annual income received by residents of a nation.

- A. HDI
- B. GDP
- C. GPI
- D. GNI

107. Which of the following is an adjustment in gross domestic product per capita to reflect differences in the cost of living?

- A. PPP
- B. GNI
- C. GNP
- D. NNP

108. The base for adjustment of purchasing power parity is the cost of living in:

- A. China.
- B. Great Britain.
- C. Australia.
- D. the United States.

109. Which of the following countries achieved the highest GDP growth rate between 1999 and 2008?

- A. Germany
- B. The United States
- C. China
- D. Brazil

110. The Gross National Income (GNI) and Purchasing Power Parity (PPP) of a nation are static indicators of economic development. Which of the following statements best support the above claim?

- A. They are too statistical in approach and lack human perception.
- B. They are ill-defined and can be easily confused with other indicators of economic development.
- C. They tell us if a country is poorer than another, and do not indicate the changing economic dynamics between the two.
- D. They are dependent on factors like geography, natural resources, and population and thereby inconsistent.

111. Economist Amartya Sen emphasizes on basic healthcare and basic education as important factors of economic development. Which of the following statements best substantiate his argument?

- A. Healthcare and education are the fastest growing sectors and it is prudent to concentrate resources on these sectors.
- B. Multinational firms stipulate healthcare and education as key criteria for investment in foreign markets.
- C. People cannot develop their capabilities if they are chronically ill or woefully ignorant.
- D. Healthcare and education are key factors in attracting foreign direct investment in local markets.

112. The United Nations Human Development index is based on_____, literacy rates, and whether average incomes are sufficient to meet the basic needs of life in a country.

- A. life expectancy at birth
- B. maternal mortality rates
- C. health insurance coverage rates
- D. sex-ratio

113. _____ and _____ can be considered as the engines of long-run economic growth.

- A. Regulation; universal education
- B. Regulation; democracy
- C. Innovation; entrepreneurial activity
- D. Capital; subsidies

114. The economic freedom associated with a _____ economy creates greater incentives for innovation.

- A. planned
- B. market
- C. socialist
- D. protected

115. Which of the following is an advantage of a market economy?

- A. Any individual who has an innovative idea is free to try to make money out of that idea by starting a business.
- B. The state owns all means of production.
- C. Commercialization of innovative products is prevented.
- D. It is the state, rather than the individual, that captures most of the gains.

116. A study found that the more _____ a country had between 1975 and 1995, the more economic growth it achieved and the richer its citizens became.

- A. protectionism
- B. economic freedom
- C. economic regulation
- D. trade tariffs

117. Peruvian development economist Hernando de Soto has argued that much of the developing world will fail to reap the benefits of capitalism until:

- A. property rights are better defined and protected.
- B. the basic tenets of communism are also accommodated.
- C. domestic markets are better protected.
- D. intellectual property rights are scrapped.

118. Five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth:

- A. undemocratic governments.
- B. Communist regimes.
- C. colonial masters.
- D. universal suffrage.

119. A representative democracy is not an essential factor for economic development and totalitarian governments have displayed that it is possible to attain high rates of economic growth. Which of the following countries best illustrates the above argument?

- A. North Korea
- B. China
- C. India
- D. Zimbabwe

120. According to economist Jeffrey Sachs, which type of nation-state based on geography, is most likely to support market institutions?

- A. Coastal state
- B. States in the Western hemisphere
- C. States in the Northern hemisphere
- D. Tropical state

121. Since the late 1980s, which of the following trends has emerged in the political economies of many of the world's nation-states?

- A. A wave of communist revolutions has swept the world.
- B. Capitalist ideology has been in retreat.
- C. A wave of democratic revolutions has swept the world.
- D. A strong move toward centrally planned and mixed economies has been in evidence.

122. According to Freedom House _____ of the world's nations can be classified as free in 2009.

- A. about 89 percent
- B. most
- C. less than half
- D. less than 20 percent

123. Which of these is a characteristic of a "partly free" country?

- A. Citizens enjoy a high degree of political freedom, but economic freedom is denied.
- B. A few restrictions on political rights and civil liberties of citizens exist.
- C. The country is foreign-ruled but its citizens have control over local politics.
- D. The country is independent economically, but recognizes a foreign power as its sovereign ruler.

124. Which of the following is one of the reasons for the spread of democracy in the world?

- A. Many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations.
- B. The rise of dominant nuclear powers.
- C. The failure of post-communist countries to achieve economic growth.
- D. In many countries, the economic downturn of the past quarter century have led to the decline of prosperous middle and working classes.

125. New information and communication technologies like the Internet have reduced the state's ability to control access to uncensored information. Which of the following is one of the possible political fallouts of this development?

- A. It has undermined democratic ideology.
- B. It has prevented democratic ideals from entering closed societies.
- C. Internet-based businesses are under risk in Communist countries.
- D. It has been a factor in the spread of democracy in the modern world.

126. Which of the following theories was propounded by Fukuyama?

- A. The future is a world dominated by a universal civilization characterized by democratic regimes and free market capitalism.
- B. While many societies may be modernizing, they are not becoming more free.
- C. Modernization in non-Western societies can result in a retreat toward the traditional.
- D. The world will witness a clash of civilizations, each of which has its own value systems and ideology.

127. The rationale behind the economic transformation around the world is:

- A. the failure of capitalism to adequately protect countries from financial downturns.
- B. the failure of globalization and free-trade to insulate economies from recessions in other countries.
- C. the failure of command and mixed economies to match the economic development in market-based economies.
- D. the economic success mixed economies have enjoyed that command and market economies have failed to achieve.

128. Which of the following is the world's freest economy according to the 2009 Heritage Foundation index?

- A. Hong Kong
- B. Japan
- C. France
- D. Australia

129. The two top states in the 2009 Heritage Foundation index of the freest economies in the world, Hong Kong and Singapore, cannot be classified as politically free. This indicates that:

- A. lack of political freedom is a prerequisite for economic freedom.
- B. economic freedom does not necessarily equate with political freedom.
- C. the nations lower on the list should adopt more politically restrictive policies.
- D. political freedom is detrimental to economic freedom.

130. Which of the following involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate?

- A. Privatization
- B. Disinvestment
- C. Deregulation
- D. Subsidization

131. Which of the following can be a step involved in the deregulation of an economy?

- A. Imposing price controls, rendering prices free of the influence of demand and supply.
- B. Relaxing or removing restrictions on direct investment by foreign enterprises and international trade.
- C. Offering government bail-outs to private companies in financial trouble.
- D. Nationalizing private companies that are vital to national interest.

132. How does privatization help stimulate gains in economic efficiency?

- A. By providing subsidies to newly privatized firms to shield them from outside competition and by raising barriers to FDI.
- B. By giving new private owners the reward of profits for searching for increases in productivity, entering new markets, and exiting losing ones.
- C. By allowing newly privatized firms monopoly over a particular industry.
- D. By encouraging the practice of state-controlled price regulation.

133. Which of the following is a way to make privatization work?

- A. By allowing newly privatized firms monopoly over a particular industry
- B. By continuing to give subsidies to newly privatized firms
- C. By protecting it from foreign competition in the form of barriers to international trade and investment
- D. By general deregulation and opening of the economy

134. The absence of a legal system that protects property rights and the machinery to enforce that system usually results in:

- A. the raising of barriers to foreign direct investment and international trade.
- B. a collectivist approach to business and commerce.
- C. a reduction in the incentive to engage in productive economic activity.
- D. deregulation and privatization of the economy.

135. The advantages that accrue to early entrants into a market are referred to as:

- A. early bird advantages.
- B. first-mover advantages.
- C. prime-mover advantages.
- D. first-entrant advantages.

136. Handicaps suffered by late entrants into a market are referred to as:

- A. late-mover disadvantages.
- B. last-class disadvantages.
- C. standard-class disadvantages.
- D. prime-mover disadvantages.

137. Your company has business interests in a country where the President-elect has won on a platform of a return to socialism and protectionism. Consequently, you are concerned about the _____ risks of continuing to do business in that country.

- A. ethical
- B. fiscal
- C. political
- D. operational

138. _____ is the likelihood that economic mismanagement will cause drastic changes in a country's business environment that will adversely affect the profit and other goals of a business enterprise.

- A. Industrial risk
- B. Political risk
- C. Operational risk
- D. Economic risk

139. The likelihood that a trading partner will opportunistically break a contract or expropriate property rights is called:

- A. political risk.
- B. economic risk.
- C. ethical risk.
- D. legal risk.

Essay Questions

140. How has the ideological conflict between collectivism and individualism shaped recent world history? Also, discuss the direction this conflict might take in the future.

141. Describe in brief the different forms of totalitarianism?

142. Briefly describe the three broad types of economic systems.

143. How do common law and civil law systems differ in their approaches to contract law?

144. Describe the two ways in which property rights can be violated.

145. What is intellectual property? What are the different means by which ownership rights can be established over intellectual property?

146. What are the possible courses of action that international businesses can take to counter violations of their intellectual property rights?

147. Describe briefly the broader conceptions of development put forth by the economist Amartya Sen.

148. Why are innovation and entrepreneurial activity identified as the engines of long-run economic growth?

149. "Five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth: undemocratic governments. Thus, it can be concluded that totalitarian governments are better for a functioning market economy than are democratic governments." Do you agree with this statement? Why or why not?

150. The political economy of many of the world's nation-states has changed radically since the late 1980s. Identify the two trends that have emerged during this time.

151. Briefly describe the three main reasons for the spread of democracy across the world.

152. What is deregulation? Explain its role in privatization.

153. What are the various types of risk that a business could face in doing business in a particular country?

154. Alpha Incorporated has sought your opinion about the overall attractiveness of various countries as potential markets and investment sites. What would you tell them?

Chapter 02 National Differences in Political Economy **Answer Key**

True / False Questions

1. (p. 45) The term political economy is used to stress the fact that the political, economic, and legal systems of a country are interdependent.

TRUE

We use the term political economy to stress that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so they affect the level of economic well-being.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems*

2. (p. 45) Largely, political systems that emphasize collectivism tend to be democratic, while political systems that place a high value on individualism tend to be totalitarian.

FALSE

Political systems that emphasize collectivism tend to be totalitarian, while political systems that place a high value on individualism tend to be democratic.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems*

3. (p. 46) Plato did not equate collectivism with equality.

TRUE

Plato did not equate collectivism with equality; he believed that society should be stratified into classes, with those best suited to rule administering society for the benefit of all.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

4. (p. 46) In the early twentieth century, the socialist ideology split into two broad camps: the communists and the capitalists.

FALSE

In the early twentieth century, the socialist ideology split into two broad camps, the communists and the social democrats.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

5. (p. 46) The social democrats believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

FALSE

The social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

6. (p. 47) The American Declaration of Independence embodies the ideals of collectivism.

FALSE

Individualism underlies the ideas expressed in the Declaration of Independence.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

7. (p. 48) One of the tenets of collectivism is that the welfare of society is best served by letting people pursue their own economic self-interest.

FALSE

In collectivist societies, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society" or to "the common good." However, individualism holds that the welfare of society is best served by letting people pursue their own economic self-interest, as opposed to some collective body (such as government) dictating what is in society's best interest.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

8. (p. 48) In practical terms, individualism translates into an advocacy for democratic political systems and free market economics.

TRUE

In practical terms, individualism translates into an advocacy for democratic political systems and free market economics.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

9. (p. 50) The United States practices pure democracy.

FALSE

The pure form of democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making. In complex, advanced societies with populations in the tens or hundreds of millions this is impractical. Most modern democratic states practice representative democracy where, citizens periodically elect individuals to represent them.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-01
Topic: Political Systems

10. (p. 50) China, Vietnam, Laos, North Korea, and Cuba are no longer totalitarian states.

FALSE

Communism is in decline worldwide, and most of the Communist party dictatorships have collapsed since 1989. Exceptions to this trend (so far) are China, Vietnam, Laos, North Korea, and Cuba, although most of these states exhibit clear signs that the Communist Party's monopoly on political power is retreating. They remain, however, totalitarian states that deny many basic civil liberties to their populations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

11. (p. 50) The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran and Saudi Arabia.

TRUE

The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran and Saudi Arabia.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

12. (p. 50) Tribal totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles.

FALSE

Tribal totalitarianism occurs when a political party that represents the interests of a particular tribe (and not always the majority tribe) monopolizes power.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

13. (p. 51) Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom.

TRUE

Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

14. (p. 51) The fascist regimes that ruled Germany and Italy in the 1930s and 1940s are examples of theocratic totalitarianism.

FALSE

The fascist regimes that ruled Germany and Italy in the 1930s and 1940s were right-wing totalitarian states, which generally permit some individual economic freedom but restrict individual political freedom, frequently on the grounds that it would lead to the rise of communism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

15. (p. 51) Most right-wing dictatorships display an affinity towards socialist or communist ideas.

FALSE

One common feature of most right-wing dictatorships is an overt hostility for socialist or communist ideas.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems*

16. (p. 51) In a pure market economy, all productive activities are privately owned, as opposed to being owned by the state.

TRUE

In a pure market economy, all productive activities are privately owned, as opposed to being owned by the state.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems*

17. (p. 52) In a pure command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all dictated by the interaction of demand and supply.

FALSE

In a pure command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems*

18. (p. 52) Command economies are dynamic economic systems that encourage innovation.

FALSE

In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

19. (p. 54) Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

TRUE

Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case, thus offering a certain degree of flexibility to the system.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

20. (p. 54) A common law system tends to be less adversarial than a civil law system.

FALSE

A civil law system tends to be less adversarial than a common law system, since the judges rely upon detailed legal codes rather than interpreting tradition, precedent, and custom.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

21. (p. 54) Many Muslim countries have legal systems that are a blend of Islamic law and a common or civil law system.

TRUE

While the basic foundations of Islamic law cannot be changed, in practice, however, Islamic jurists and scholars are constantly debating the application of Islamic law to the modern world. In reality, many Muslim countries have legal systems that are a blend of Islamic law and a common or civil law system.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

22. (p. 55) Contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out.

TRUE

Because common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

23. (p. 55) It is more expensive to draw up contracts in a civil law jurisdiction.

FALSE

Because common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, however, contracts tend to be much shorter and less specific because many of the issues are already covered in a civil code. Thus, it is more expensive to draw up contracts in a common law jurisdiction.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

24. (p. 55) Property refers to a resource over which an individual or business holds a legal title.
TRUE

Property refers to a resource over which an individual or business holds a legal title (a resource that is owned).

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

25. (p. 56) In the context of property rights, public action refers to theft, piracy, blackmail, and the like by private individuals or groups.

FALSE

In the context of property rights, private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Public action refers to the extortion of income or resources of property holders by public officials, such as politicians and government bureaucrats.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

26. (p. 56) Public action to violate property rights can be done through legal and illegal mechanisms.

TRUE

Public action to violate property rights can be done through legal mechanisms such as levying excessive taxation, requiring expensive licenses or permits from property holders, taking assets into state ownership without compensating the owners, or redistributing assets without compensating the prior owners. It can also be done through illegal means, or corruption.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

27. (p. 56) Economic evidence suggests that high levels of corruption indirectly have a positive effect on foreign direct investment, level of international trade, and economic growth rate in a country.

FALSE

Economic evidence suggests that high levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

28. (p. 57) According to the Foreign Corrupt Practices Act, it is illegal to make grease payments to expedite or secure the performance of a routine governmental action.

FALSE

The Foreign Corrupt Practices Act makes it illegal to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, but allows for exceptions known as grease payments or speed money, that merely facilitate performance of duties that the recipients are already obligated to perform.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

29. (p. 59) A copyright grants the inventor of a new product or process exclusive rights to manufacture, use, or sale that invention.

FALSE

Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

30. (p. 59) Protecting intellectual property has become increasingly problematic.

TRUE

Protecting intellectual property has also become increasingly problematic, particularly if it can be rendered in a digital form and then copied and distributed at very low cost via pirated CDs or over the Internet (e.g., computer software, music and video recordings).

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems*

31. (p. 60) Both civil and criminal product liability laws exist.

TRUE

Both civil and criminal product liability laws exist. Civil laws call for payment and monetary damages. Criminal liability laws result in fines or imprisonment.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems*

32. (p. 61) Gross national income (GNI) measures the total annual income received by residents of a nation.

TRUE

GNI is regarded as a yardstick for the economic activity of a country; it measures the total annual income received by residents of a nation.

*AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development*

33. (p. 63) GNI per person figures consider differences in the cost of living and allow for a more direct comparison of living standards in different countries.

FALSE

GNI per person figures can be misleading because they don't consider differences in the cost of living. To account for differences in the cost of living, one can adjust GNI per capita by purchasing power.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

34. (p. 65) The Nobel Prize-winning economist Amartya Sen has argued that development should be viewed purely as an economic process and not as a political one.

FALSE

The Nobel Prize-winning economist Amartya Sen has argued that development should be assessed less by material output measures such as GNI per capita and more by the capabilities and opportunities that people enjoy. In Sen's view, development is not just an economic process, but it is a political one too, and to succeed requires the "democratization" of political communities to give citizens a voice in the important decisions made for the community.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

35. (p. 70) Some totalitarian regimes have fostered a market economy and strong property rights protection and have experienced rapid economic growth.

TRUE

Some totalitarian regimes have fostered a market economy and strong property rights protection and have experienced rapid economic growth. Five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth: undemocratic governments.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

36. (p. 78) Economic freedom does not necessarily equate with political freedom.

TRUE

Economic freedom does not necessarily equate with political freedom. For example, the two top states in the Heritage Foundation index, Hong Kong and Singapore, cannot be classified as politically free.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

37. (p. 82-83) Social unrest is less likely to be found in countries that contain more than one ethnic nationality.

FALSE

Social unrest is more likely to be found in countries that contain more than one ethnic nationality, in countries where competing ideologies are battling for political control, in countries where economic mismanagement has created high inflation and falling living standards, or in countries that straddle the "fault lines" between civilizations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-07
Topic: Implications of Changing Political Economy

Multiple Choice Questions

38. (p. 45) Collectively, we refer to the political, economic, and legal systems as constituting the _____ economy of a country, thus reflecting how these systems are interdependent.

- A. domestic
- B. civic
- C. administrative
- D.** political

Collectively we refer to the political, economic, and legal systems as constituting the political economy of a country. This emphasizes the fact that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so they affect the level of economic well-being.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Introduction

39. (p. 45) The system of government in a nation is referred to as its:

- A. common system.
- B.** political system.
- C. domiciliary system.
- D. legal system.

A country's political system is its system of government.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

40. (p. 45) Political systems can be assessed according to the degree to which they emphasize _____ and the degree to which they are _____.
- A. equal opportunity and adult franchise; open to free trade versus protectionism
 - B. democratic versus individualistic; market oriented as opposed to being production oriented
 - C. capitalism over socialism; collectivist or individualistic
 - D.** collectivism as opposed to individualism; democratic or totalitarian

Political systems can be assessed according to the degree to which they emphasize collectivism as opposed to individualism and the degree to which they are democratic or totalitarian.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-01
Topic: Political Systems

41. (p. 45) When _____ is practiced in a society, the needs of society as a whole are generally viewed as being more important than individual freedoms.
- A. totalitarianism
 - B.** collectivism
 - C. individualism
 - D. capitalism

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

42. (p. 46) In some cultures it is considered appropriate to give precedence to "the common good" over what may benefit individuals. These cultures can be termed _____.

- A. individualist
- B. totalitarian
- C. collectivist**
- D. absolutist

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. In such circumstances, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society" or to "the common good."

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-01
Topic: Political Systems

43. (p. 46) _____ is a political philosophy that advocates substantial public involvement through government ownership, in the means of production and distribution.

- A. Socialism**
- B. Capitalism
- C. Individualism
- D. Fascism

Socialism is a political philosophy advocating substantial public involvement through government ownership, in the means of production and distribution.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

44. (p. 46) Modern socialism traces its intellectual roots to:

- A. Aristotle.
- B. David Hume.
- C. Karl Marx.
- D. Adam Smith.

Modern socialism traces its intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

45. (p. 46) According to Karl Marx, what is the relationship shared by capitalists and workers in a capitalist society?

- A. Workers have as much opportunity to advance themselves socially as the capitalist owners.
- B. Workers and capitalists are both responsible for improving the economic conditions of the society.
- C. Capitalists discriminate amongst workers on the basis of religion and education.
- D. Capitalists expropriate for their own use the value created by workers, while paying workers only subsistence wages in return.

According to Marx, while successful capitalists accumulate considerable wealth, the wages earned by the majority of workers in a capitalist society would be forced down to subsistence levels. The pay of workers does not reflect the full value of their labor.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

46. (p. 46) In the early twentieth century, the socialist ideology split into two broad camps. The group that believed socialism could be achieved only through violent revolution and totalitarian dictatorship was referred to as:

- A. communists.
- B. fascists.
- C. political democrats.
- D. social democrats.

In the early twentieth century, the socialist ideology split into two broad camps.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

47. (p. 46) The socialist who committed themselves to achieving socialism through democratic means was referred to as:

- A. communists.
- B. social democrats.
- C. individualists.
- D. pure democrats.

Social democrats committed themselves to achieving socialism by democratic means.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

48. (p. 46) The communist version of socialism reached its high point in:

- A. the 1950s.
- B. the late 1970s.**
- C. the period immediately following World War II.
- D. the mid-1990s.

The communist version of socialism reached its high point in the late 1970s, when the majority of the world's population lived in communist states.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

49. (p. 46) Which of the following is a country that has been strongly influenced by social democracy?

- A. Cuba
- B. North Korea
- C. China
- D. India**

Social democracy has had perhaps its greatest influence in a number of democratic Western nations and in other countries, including India and Brazil.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

50. (p. 47) The sale of state-owned enterprises to private investors is referred to as:

- A.** privatization.
- B. revitalization.
- C. democratization.
- D. participation.

Privatization involves the sale of state-owned enterprises to private investors.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

51. (p. 47) Which of the following can be traced to the ancient Greek philosopher, Aristotle?

- A. Collectivism
- B.** Individualism
- C. Socialism
- D. Totalitarianism

Individualism can be traced to the ancient Greek philosopher Aristotle.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

52. (p. 47) _____ stresses that the interests of the individual should take precedence over the interests of the state.

- A. Totalitarianism
- B. Socialism
- C. Individualism
- D. Humanism

Individualism stresses that the interests of the individual should take precedence over the interests of the state.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

53. (p. 47) Which of the following individuals argued that private property is more highly productive than communal property and will thus stimulate progress?

- A. Aristotle
- B. Socrates
- C. Plato
- D. Karl Marx

Aristotle advocated the theory that private property is more highly productive than communal property and will thus stimulate progress.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

54. (p. 47, 48) Which of the following is NOT a central tenet of individualism?

- A. Guaranteeing individual freedoms.
- B. The government dictates what is in the society's best interest.**
- C. Guaranteeing self-expression.
- D. Allowing people to pursue their own economic self-interest.

The two central tenets of individualism are an emphasis on the importance of guaranteeing individual freedom and self-expression and that the welfare of society is best served by letting people pursue their own economic self-interest.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

55. (p. 48) The pro-business and pro-free trade values of _____ create a favorable environment within which international businesses can thrive.

- A. collectivism
- B. socialism
- C. individualism**
- D. communism

The pro-business and pro-free trade values of individualism create a favorable environment within which international businesses can thrive.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

56. (p. 48) Which of the following is the political system in which government is by the people, exercised either directly or through elected representatives?

- A. Despotism
- B. Democracy**
- C. Totalitarianism
- D. Collectivism

Democracy refers to a political system in which government is by the people, exercised either directly or through elected representatives.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

57. (p. 50) Democracy, in its purest form, is based on the belief that:

- A. citizens should be directly involved in decision making.**
- B. citizens are ill-equipped to make their own decisions and should be governed by a few.
- C. citizens are responsible for their own economic health and thus need no government.
- D. education of citizens is the most important resource of societies.

The pure form of democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making, which is impractical in modern democratic states with populations in the tens or hundreds of millions.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Legal Systems

58. (p. 48) _____ is a form of government in which one person or political party exercises absolute control over all spheres of human life, and opposing political parties are prohibited.

- A. Capitalism
- B. Totalitarianism**
- C. Democracy
- D. Collectivism

Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

59. (p. 50) An individual's right to freedom of expression and organization, a free media, and regular elections are the building blocks of what type of political system?

- A. Communism
- B. Representative democracy**
- C. Nominative democracy
- D. Capitalism

A representative democracy is built upon the ideals of an individual's right to freedom of expression and organization, a free media, and regular elections.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

60. (p. 50) To guarantee that elected representatives can be held accountable for their actions by the electorate, an ideal representative democracy has a number of safeguards. Which of the following is NOT an example of a safeguard in an ideal representative democracy?

- A. A fair court system that is independent from the political system
- B. Universal adult suffrage
- C. An individual's right to freedom of expression, opinion, and organization
- D.** Unlimited terms for elected representatives

Limited terms for elected representatives is one of the safeguards for an ideal representative democracy.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

61. (p. 50) In a totalitarian country:

- A.** free and fair elections are denied to the citizens.
- B. the media is usually free and very active.
- C. an individual has basic civil rights.
- D. the right to freedom of expression and organization is usually not curbed.

In a totalitarian country, all the constitutional guarantees on which representative democracies are built—an individual's right to freedom of expression and organization, a free media, and regular elections—are denied to the citizens.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

62. (p. 50) _____ is a form of totalitarianism that advocates achieving socialism through totalitarian dictatorship.

- A. Tribal totalitarianism
- B. Democratic totalitarianism
- C. Communist totalitarianism
- D. Collective totalitarianism

Communist totalitarianism is a form of totalitarianism that advocates achieving socialism through totalitarian dictatorship.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

63. (p. 50) A political system in which political power is monopolized by a party, group or individual that governs according to religious principles is referred to as:

- A. theocratic totalitarianism.
- B. communist totalitarianism.
- C. right-wing totalitarianism.
- D. tribal totalitarianism.

A political system in which political power is monopolized by a party, group or individual that governs according to religious principles is referred to as theocratic totalitarianism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

64. (p. 50) A totalitarian political system in which a party, group, or individual that represents the interests of a particular ethnic group monopolizes political power is referred to as:

- A. theocratic totalitarianism.
- B. communist totalitarianism.
- C. right-wing totalitarianism.
- D.** tribal totalitarianism.

Tribal totalitarianism refers to a political system in which a party, group, or individual that represents the interests of a particular tribe (ethnic group) monopolizes political power. Tribal totalitarianism has arisen from time to time in African countries such as Zimbabwe, Tanzania, Uganda, and Kenya.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

65. (p. 51) _____ totalitarianism generally permits individual economic freedom, but restricts individual political freedom on the grounds that it would lead to the rise of communism.

- A. Theocratic
- B.** Right-wing
- C. Capitalist
- D. Tribal

Right-wing totalitarianism generally permits individual economic freedom, but restricts individual political freedom on the grounds that it would lead to the rise of communism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

66. (p. 51) The fascist regimes that ruled Germany and Italy in the 1930s and 1940s were states.

- A.** right-wing totalitarian
- B. theocratic totalitarian
- C. communist
- D. democratic

The fascist regimes that ruled Germany and Italy in the 1930s and 1940s were right-wing totalitarian states.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

67. (p. 51) In which countries are we likely to find free market economies?

- A. Countries where the good of the society has precedence over individual rights
- B.** Countries where individual goals are given primacy over collective goals
- C. Countries where the state has taken control over many enterprises
- D. Countries where property laws are weak

In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

68. (p. 51) A _____ economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced.

- A. mixed
- B. command
- C. market**
- D. trade

A market economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

69. (p. 52) Which of the following is an advantage of private ownership?

- A. It protects businesses from volatile economic conditions.
- B. It helps businesses take advantage of state subsidies.
- C. It eliminates competitors and reduces pressure to lower production costs.
- D. It gives entrepreneurs an incentive to search for better ways of serving consumer needs.**

Private ownership ensures that entrepreneurs have a right to the profits generated by their own efforts. This gives entrepreneurs an incentive to search for better ways of serving consumer needs.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

70. (p. 52) In a pure _____ economy, the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

- A. command
- B. market
- C. trade
- D. civic

In a pure command economy, the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold. Consistent with the collectivist ideology, the objective of a command economy is for government to allocate resources for "the good of society."

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

71. (p. 52) In comparison to market-based economies, _____ and _____ are absent from command economies.

- A. price-control; monopoly
- B. dynamism; innovation
- C. complacency; regulation
- D. state control; corruption

In a command economy, state-owned enterprises have little incentive to control costs and be efficient, as they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

72. (p. 52) In a _____ economy, certain sectors of the economy are left to private ownership and free market mechanisms, while in other sectors there is significant state ownership and government planning.

- A. command
- B. combined
- C. mixed
- D. civic

In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

73. (p. 53) In mixed economies, governments sometimes tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. This process is called:

- A. privatization.
- B. revitalization.
- C. unemployment management.
- D. nationalization.

In mixed economies, governments sometimes tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. This process is called nationalization.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-02
Topic: Economic Systems

74. (p. 53) Collectivist-inclined totalitarian states tend to enact laws that severely restrict private enterprise, whereas the laws enacted by governments in democratic states where individualism is the dominant political philosophy tend to be pro-private enterprise and pro-consumer. This indicates how:

- A. the economic system of a country can be undermined by its legal system.
- B. the legal system of a country is influenced by the prevailing political system.**
- C. the political system of a country is insulated from its legal system.
- D. the legal system of a country can shape its economic system.

The legal system is influenced by the prevailing political system. The government of a country defines the legal framework within which firms do business, and often the laws that regulate business reflect the rulers' dominant political ideology.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

75. (p. 53) The _____ of a country refers to the rules that regulate behavior, along with the processes by which the laws of a country are enforced and through which redress for grievances is obtained.

- A. political system
- B. administrative system
- C. economic system
- D. legal system**

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

76. (p. 54) Identify the legal system that is based on tradition, precedent, and custom.

- A. Common law
- B. Civil law
- C. Theocratic law
- D. Monarchy law

Common law is based on tradition (a country's legal history), precedent (cases that have come before the courts in the past), and custom (the ways in which laws are applied in specific situations).

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

77. (p. 54) In the context of common law, the ways in which laws are applied in specific situations are referred to as:

- A. tradition.
- B. precedent.
- C. custom.
- D. parallel.

Common law is based on tradition, precedent, and custom, where custom refers to the ways in which laws are applied in specific situations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

78. (p. 54) In the context of common law, tradition refers to:

- A. the religious aspect in the law.
- B. the ways in which laws are applied in specific situations.
- C. the cases that have come before the courts in the past.
- D.** a country's legal history.

Common law is based on tradition, precedent, and custom. Tradition refers to a country's legal history.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

79. (p. 54) The common law system enjoys a degree of flexibility not found in other systems because:

- A. the common law system is usually found in democratic republics.
- B. the common law system originated from Great Britain and can be found in almost all of its former colonies.
- C.** the law courts can interpret common law with regard to tradition, precedent, and custom.
- D. the common law system is based on codified laws that encompass a wide spectrum of cases.

Common law is based on tradition, precedent, and custom. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case. In turn, each new interpretation sets a precedent that may be followed in future cases. As new precedents arise, laws may be altered, clarified, or amended to deal with new situations.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

80. (p. 54) A _____ law system is based on a detailed set of laws organized into codes.

- A.** civil
- B. theocratic
- C. common
- D. traditional

A civil law system is based on a detailed set of laws organized into codes.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Economic Systems

81. (p. 54) A legal system that is based primarily on religious teachings is referred to as a:

- A. civil law system.
- B.** theocratic law system.
- C. common law system.
- D. traditional law system.

A legal system that is based primarily on religious teachings is referred to as a theocratic law system.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

82. (p. 54) The most widely practiced theocratic legal system in the modern world is:

- A. Christian law.
- B.** Islamic law.
- C. Jewish law.
- D. Hindu law.

Islamic law is the most widely practiced theocratic legal system in the modern world.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

83. (p. 55) The parties to an agreement normally resort to _____ when one party feels the other has violated either the letter or the spirit of an agreement.

- A. property law
- B. public action
- C. private action
- D.** contract law

Contract law is the body of law that governs contract enforcement. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

84. (p. 55) A _____ is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved.

- A. manuscript
- B. manifesto
- C.** contract
- D. treatise

A contract is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved. Many business transactions are regulated by some form of contract.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

85. (p. 55) Contracts drafted under a common law framework tend to be _____, while those drafted under civil law tend to be _____.

- A. very detailed; less specific
- B. very short; much more detailed
- C. inflexible; more open to interpretation
- D. inexpensive to draft; more adversarial

Contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, however, contracts tend to be much shorter and less specific because many of the issues are already covered in a civil code.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

86. (p. 55) When contract disputes arise in international trade, there is always the question of which country's laws to apply. To resolve this issue, a number of countries, including the United States, have ratified the _____, which establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

- A. United Nations Convention on Contracts for the International Sale of Goods
- B. Foreign Practices Act
- C. Convention on Combating Bribery of Foreign Public Officials
- D. International Court of Mediation

When contract disputes arise in international trade, there is always the question of which country's laws to apply. To resolve this issue, a number of countries have ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS) which establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

87. (p. 55) When firms do not wish to accept the rules of the CIGS, they usually rely on _____ to settle contract disputes.

- A. UN involvement
- B. arbitration**
- C. local codes
- D. U.S. law

When firms do not wish to accept the CIGS, they often opt for arbitration by a recognized arbitration court, like the International Court of Arbitration of the International Chamber of Commerce in Paris, to settle disputes.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

88. (p. 55) The bundle of legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource are called _____ rights.

- A. resource
- B. asset
- C. taxable
- D. property**

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

89. (p. 56) Theft, piracy, or blackmail by private individuals or groups violating property rights is referred to as:

- A. extortion.
- B. individual action.
- C. public action.
- D.** private action.

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

90. (p. 56) After the collapse of communism in Russia, successful business owners often had to pay "protection money" to the Mafia or face violent retribution. This is an example of:

- A. rights corruption.
- B. public action.
- C.** private action.
- D. property corruption.

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

91. (p. 56) When government officials such as politicians and bureaucrats extort income or resources from property holders, this can be described as a:

- A. patents violation.
- B.** public action.
- C. warrants action.
- D. private action.

Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

92. (p. 56) According to Transparency International, which country is the most corrupt?

- A. New Zealand
- B. Finland
- C.** Somalia
- D. India

Somalia ranks last of the 180 countries surveyed by Transparency International for corruption among public officials.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

93. (p. 56) Economic evidence suggests that high levels of corruption _____ the foreign direct investment, level of international trade, and economic growth rate in a country.

- A. can indirectly increase
- B. can significantly reduce**
- C. seldom affects
- D. is not a factor in

Economic evidence suggests that high levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

94. (p. 57) In the United States, the Foreign Corrupt Practices Act was passed during the 1970s following revelations:

- A. from the Watergate scandal.
- B. that foreign companies had bribed U.S. government officials in an attempt to win lucrative contracts.
- C. that U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts.**
- D. that U.S. companies were involved in bribing U.S. government officials in cases related to tax evasion.

In the 1970s, the United States passed the Foreign Corrupt Practices Act following revelations that U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

95. (p. 57) Which of the following does the U.S. law and OECD convention allow as an exception?

- A. Bribing a foreign government official
- B. Failure to keep records that would reveal if a violation of the act has occurred
- C. Grease payments or speed money**
- D. Suppressing records that would indicate whether a breach of the act has taken place

Both the U.S. law and OECD convention include language that allows for exceptions known as facilitating or expediting payments (also called grease payments or speed money), the purpose of which is to expedite or to secure the performance of a routine governmental action.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

96. (p. 59) Products of the mind, such as computer software, a screenplay, a music score, or the chemical formula for a new drug, constitute:

- A. assets which receive no protection under law.
- B. intangible assets.
- C. non-property assets.
- D. intellectual property.**

Intellectual property refers to property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

97. (p. 59) Venus Corporation has developed a new type of adhesive tape. Which type of legal protection can grant the company exclusive rights for a defined period to the manufacture, use, or sale of that invention?

- A. Warrant
- B. Patent**
- C. Copyright
- D. Trademark

A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention.

AACSB: Reflective Thinking
Bloom's: Apply
Difficulty: Hard
Learning Objective: 02-03
Topic: Legal Systems

98. (p. 59) A composer is able to protect an original musical score from being copied and sold by someone else by acquiring a _____ for the score.

- A. patent
- B. warrant
- C. trademark
- D. copyright**

Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.

AACSB: Reflective Thinking
Bloom's: Apply
Difficulty: Hard
Learning Objective: 02-03
Topic: Legal Systems

99. (p. 59) As a result of _____ protection, the Nike "Swoosh" logo is protected from being used by any other shoe manufacturer.

- A. trademark
- B. copyright
- C. patent
- D. warrant

Trademarks are designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products.

AACSB: Reflective Thinking
Bloom's: Apply
Difficulty: Hard
Learning Objective: 02-03
Topic: Legal Systems

100. (p. 59) Patents, copyrights, and trademarks establish ownership rights over _____ property.

- A. intellectual
- B. non-economic
- C. financial
- D. creative

Intellectual property refers to property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

101. (p. 59) According to Business Software Alliance, which region had the highest piracy rates for computer software in 2008?

- A. Southeast Asia
- B. North America
- C. Central and Eastern Europe**
- D. South America

According to the Business Software Alliance, a software industry association, in 2008 some 41 percent of all software applications used in the world were pirated. The worst region was Central and Eastern Europe where the piracy rate was 66 percent.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

102. (p. 60) The regulations imposed under the _____ agreement, oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

- A. TTPI
- B. TRIPS**
- C. TAFTA
- D. TPP

Under the Trade Related Aspects of Intellectual Property Rights (TRIPS), a World Trade Organization council oversees enforcement of much stricter intellectual property regulations. These regulations oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

103. (p. 60) _____ laws hold a firm and its officers responsible when a product causes injury, death, or damage.

- A. Product violation
- B. Product safety
- C. Product liability
- D. Contract liability

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Both civil and criminal product liability laws exist.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

104. (p. 60) Which country has the most extensive civil and criminal liability laws?

- A. Australia
- B. India
- C. USA
- D. Finland

The USA has the most extensive civil and criminal liability laws. Liability laws are typically least extensive in less developed nations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

105. (p. 60, 61) A boom in product liability suits and awards in the United States resulted in a dramatic increase in the cost of liability insurance. Many business executives argue that this:
- A. makes American businesses less competitive in the global marketplace.
 - B. offers American businesses protection from foreign competitors.
 - C. raises ethical issues in doing business in the country.
 - D. makes it cheaper to do business in the country.

A boom in product liability suits and awards in the United States resulted in a dramatic increase in the cost of liability insurance. Many business executives argue that the high costs of liability insurance make American businesses less competitive in the global marketplace.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

106. (p. 61) _____ is regarded as a yardstick for the economic activity of a country, and it measures the total annual income received by residents of a nation.
- A. HDI
 - B. GDP
 - C. GPI
 - D. GNI

Gross National income (GNI) is regarded as a yardstick for the economic activity of a country and it measures the total annual income received by residents of a nation.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

107. (p. 63) Which of the following is an adjustment in gross domestic product per capita to reflect differences in the cost of living?

- A. PPP
- B. GNI
- C. GNP
- D. NNP

To account for differences in the cost of living, the GNI per capita can be adjusted by purchasing power. Referred to as a purchasing power parity (PPP) adjustment, it allows for a more direct comparison of living standards in different countries.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

108. (p. 63) The base for adjustment of purchasing power parity is the cost of living in:

- A. China.
- B. Great Britain.
- C. Australia.
- D. the United States.

The base for adjustment of purchasing power parity is the cost of living in the United States. The PPP for different countries is then adjusted (up or down) depending upon whether the cost of living is lower or higher than in the United States.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

109. (p. 63) Which of the following countries achieved the highest GDP growth rate between 1999 and 2008?

- A. Germany
- B. The United States
- C. China
- D. Brazil

At 9.75%, China achieved the highest GDP growth rate between 1999 and 2008.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

110. (p. 65) The Gross National Income (GNI) and Purchasing Power Parity (PPP) of a nation are static indicators of economic development. Which of the following statements best support the above claim?

- A. They are too statistical in approach and lack human perception.
- B. They are ill-defined and can be easily confused with other indicators of economic development.
- C. They tell us if a country is poorer than another, and do not indicate the changing economic dynamics between the two.
- D. They are dependent on factors like geography, natural resources, and population and thereby inconsistent.

The GNI and PPP data give a static picture of development as they tell us, for example, that China is much poorer than the United States, but they do not tell us if China is closing the gap. To assess this, we have to look at the economic growth rates achieved by countries.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Hard
Learning Objective: 02-04
Topic: The Determinants of Economic Development

111. (p. 65) Economist Amartya Sen emphasizes on basic healthcare and basic education as important factors of economic development. Which of the following statements best substantiate his argument?

- A. Healthcare and education are the fastest growing sectors and it is prudent to concentrate resources on these sectors.
- B. Multinational firms stipulate healthcare and education as key criteria for investment in foreign markets.
- C. People cannot develop their capabilities if they are chronically ill or woefully ignorant.
- D. Healthcare and education are key factors in attracting foreign direct investment in local markets.

The Nobel Prize-winning economist Amartya Sen emphasizes basic health care, especially for children, and basic education, especially for women. Not only are these factors desirable for their instrumental value in helping to achieve higher income levels, but they are also beneficial in their own right. People cannot develop their capabilities if they are chronically ill or woefully ignorant.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Hard
Learning Objective: 02-04
Topic: The Determinants of Economic Development

112. (p. 65) The United Nations Human Development index is based on _____, literacy rates, and whether average incomes are sufficient to meet the basic needs of life in a country.

- A. life expectancy at birth
- B. maternal mortality rates
- C. health insurance coverage rates
- D. sex-ratio

The HDI is based on three measures: life expectancy at birth, educational attainment, and whether average incomes, based on PPP estimates, are sufficient to meet the basic needs of life in a country.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

113. (p. 68) _____ and _____ can be considered as the engines of long-run economic growth.

- A. Regulation; universal education
- B. Regulation; democracy
- C. Innovation; entrepreneurial activity**
- D. Capital; subsidies

It is widely agreed that innovation and entrepreneurial activity are the engines of long-run economic growth.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

114. (p. 68) The economic freedom associated with a _____ economy creates greater incentives for innovation.

- A. planned
- B. market**
- C. socialist
- D. protected

It has been argued that the economic freedom associated with a market economy creates greater incentives for innovation and entrepreneurship.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-04
Topic: The Determinants of Economic Development

115. (p. 68) Which of the following is an advantage of a market economy?

- A.** Any individual who has an innovative idea is free to try to make money out of that idea by starting a business.
- B. The state owns all means of production.
- C. Commercialization of innovative products is prevented.
- D. It is the state, rather than the individual, that captures most of the gains.

In a market economy, any individual who has an innovative idea is free to try to make money out of that idea by starting a business by engaging in entrepreneurial activity.

AACSB: Reflective Thinking

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-04

Topic: The Determinants of Economic Development

116. (p. 69) A study found that the more _____ a country had between 1975 and 1995, the more economic growth it achieved and the richer its citizens became.

- A. protectionism
- B.** economic freedom
- C. economic regulation
- D. trade tariffs

A study of 102 countries over a 20-year period found that the more economic freedom a country had between 1975 and 1995, the more economic growth it achieved and the richer its citizens became.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-04

Topic: The Determinants of Economic Development

117. (p. 69) Peruvian development economist Hernando de Soto has argued that much of the developing world will fail to reap the benefits of capitalism until:

- A. property rights are better defined and protected.
- B. the basic tenets of communism are also accommodated.
- C. domestic markets are better protected.
- D. intellectual property rights are scrapped.

The influential Peruvian economist Hernando de Soto has argued that much of the developing world will fail to reap the benefits of capitalism until property rights are better defined and protected.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

118. (p. 70) Five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth:

- A. undemocratic governments.
- B. Communist regimes.
- C. colonial masters.
- D. universal suffrage.

Some totalitarian regimes have fostered a market economy and strong property rights protection and have experienced rapid economic growth. This is borne out by the fact that five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth: undemocratic governments.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-04
Topic: The Determinants of Economic Development

119. (p. 70) A representative democracy is not an essential factor for economic development and totalitarian governments have displayed that it is possible to attain high rates of economic growth. Which of the following countries best illustrates the above argument?

- A. North Korea
- B. China**
- C. India
- D. Zimbabwe

Five of the fastest-growing economies of the past 30 years-China, South Korea, Taiwan, Singapore, and Hong Kong-were ruled by undemocratic governments at the start of their economic growth. At the same time, countries with stable democratic governments, such as India, experienced sluggish economic growth for long periods.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-04
Topic: The Determinants of Economic Development

120. (p. 71) According to economist Jeffrey Sachs, which type of nation-state based on geography, is most likely to support market institutions?

- A. Coastal state**
- B. States in the Western hemisphere
- C. States in the Northern hemisphere
- D. Tropical state

Economist Jeffrey Sachs argues that throughout history, coastal states, with their long engagements in international trade, have been more supportive of market institutions.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

121. (p. 72) Since the late 1980s, which of the following trends has emerged in the political economies of many of the world's nation-states?

- A. A wave of communist revolutions has swept the world.
- B. Capitalist ideology has been in retreat.
- C. A wave of democratic revolutions has swept the world.
- D. A strong move toward centrally planned and mixed economies has been in evidence.

During the late 1980s and early 1990s, a wave of democratic revolutions has swept the world.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

122. (p. 72) According to Freedom House _____ of the world's nations can be classified as free in 2009.

- A. about 89 percent
- B. most
- C. less than half
- D. less than 20 percent

Freedom House classified 89 countries as free in 2009, accounting for some 46 percent of the world's nations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

123. (p. 72) Which of these is a characteristic of a "partly free" country?

- A. Citizens enjoy a high degree of political freedom, but economic freedom is denied.
- B. A few restrictions on political rights and civil liberties of citizens exist.**
- C. The country is foreign-ruled but its citizens have control over local politics.
- D. The country is independent economically, but recognizes a foreign power as its sovereign ruler.

"Partly free" countries are characterized by some restrictions on political rights and civil liberties, often in the context of corruption, weak rule of law, ethnic strife, or civil war.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

124. (p. 74) Which of the following is one of the reasons for the spread of democracy in the world?

- A. Many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations.**
- B. The rise of dominant nuclear powers.
- C. The failure of post-communist countries to achieve economic growth.
- D. In many countries, the economic downturn of the past quarter century have led to the decline of prosperous middle and working classes.

One of the main reasons that account for the spread of democracy in the past couple of decades has been that many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations.

AACSB: Analytic
Bloom's: Remember
Difficulty: Medium
Learning Objective: 02-05
Topic: States in Transition

125. (p. 74) New information and communication technologies like the Internet have reduced the state's ability to control access to uncensored information. Which of the following is one of the possible political fallouts of this development?

- A. It has undermined democratic ideology.
- B. It has prevented democratic ideals from entering closed societies.
- C. Internet-based businesses are under risk in Communist countries.
- D. It has been a factor in the spread of democracy in the modern world.**

New information and communication technologies have reduced the state's ability to control access to uncensored information. These technologies have created new conduits for the spread of democratic ideals and information from free societies.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-05
Topic: States in Transition

126. (p. 75) Which of the following theories was propounded by Fukuyama?

- A. The future is a world dominated by a universal civilization characterized by democratic regimes and free market capitalism.**
- B. While many societies may be modernizing, they are not becoming more free.
- C. Modernization in non-Western societies can result in a retreat toward the traditional.
- D. The world will witness a clash of civilizations, each of which has its own value systems and ideology.

Author Francis Fukuyama envisions the future as a world dominated by a universal civilization characterized by democratic regimes and free market capitalism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

127. (p. 76) The rationale behind the economic transformation around the world is:
- A. the failure of capitalism to adequately protect countries from financial downturns.
 - B. the failure of globalization and free-trade to insulate economies from recessions in other countries.
 - C. the failure of command and mixed economies to match the economic development in market-based economies.
 - D. the economic success mixed economies have enjoyed that command and market economies have failed to achieve.

The rationale for economic transformation has been the same the world over. In general, command and mixed economies failed to deliver the kind of sustained economic performance that was achieved by countries adopting market-based systems. As a consequence, even more states have gravitated toward the market-based model.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-05
Topic: States in Transition

128. (p. 76) Which of the following is the world's freest economy according to the 2009 Heritage Foundation index?
- A. Hong Kong
 - B. Japan
 - C. France
 - D. Australia

According to the 2009 Heritage Foundation index, Hong Kong tops the list of the freest economies of the world.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

129. (p. 78) The two top states in the 2009 Heritage Foundation index of the freest economies in the world, Hong Kong and Singapore, cannot be classified as politically free. This indicates that:

- A. lack of political freedom is a prerequisite for economic freedom.
- B. economic freedom does not necessarily equate with political freedom.**
- C. the nations lower on the list should adopt more politically restrictive policies.
- D. political freedom is detrimental to economic freedom.

The two top states in the 2009 Heritage Foundation index, Hong Kong and Singapore, cannot be classified as politically free. This indicates how economic freedom does not necessarily equate with political freedom.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-05
Topic: States in Transition

130. (p. 78) Which of the following involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate?

- A. Privatization
- B. Disinvestment
- C. Deregulation**
- D. Subsidization

Deregulation involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-06
Topic: The Nature of Economic Transformation

131. (p. 78) Which of the following can be a step involved in the deregulation of an economy?

- A. Imposing price controls, rendering prices free of the influence of demand and supply.
- B. Relaxing or removing restrictions on direct investment by foreign enterprises and international trade.**
- C. Offering government bail-outs to private companies in financial trouble.
- D. Nationalizing private companies that are vital to national interest.

Deregulation can involve relaxing or removing restrictions on direct investment by foreign enterprises and international trade.

AACSB: Reflective Thinking

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-06

Topic: The Nature of Economic Transformation

132. (p. 78) How does privatization help stimulate gains in economic efficiency?

- A. By providing subsidies to newly privatized firms to shield them from outside competition and by raising barriers to FDI.
- B. By giving new private owners the reward of profits for searching for increases in productivity, entering new markets, and exiting losing ones.**
- C. By allowing newly privatized firms monopoly over a particular industry.
- D. By encouraging the practice of state-controlled price regulation.

Privatization is seen as a way to stimulate gains in economic efficiency by giving new private owners a powerful incentive—the reward of greater profits—to search for increases in productivity, to enter new markets, and to exit losing ones.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-06

Topic: The Nature of Economic Transformation

133. (p. 79) Which of the following is a way to make privatization work?

- A. By allowing newly privatized firms monopoly over a particular industry
- B. By continuing to give subsidies to newly privatized firms
- C. By protecting it from foreign competition in the form of barriers to international trade and investment
- D.** By general deregulation and opening of the economy

For privatization to work, it must also be accompanied by a more general deregulation and opening of the economy.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-06

Topic: The Nature of Economic Transformation

134. (p. 79) The absence of a legal system that protects property rights and the machinery to enforce that system usually results in:

- A. the raising of barriers to foreign direct investment and international trade.
- B. a collectivist approach to business and commerce.
- C.** a reduction in the incentive to engage in productive economic activity.
- D. deregulation and privatization of the economy.

Without a legal system that protects property rights, and without the machinery to enforce that system, the incentive to engage in economic activity can be reduced substantially by private and public entities, including organized crime, that expropriate the profits generated by the efforts of private-sector entrepreneurs.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-06

Topic: The Nature of Economic Transformation

135. (p. 81) The advantages that accrue to early entrants into a market are referred to as:

- A. early bird advantages.
- B. first-mover advantages.**
- C. prime-mover advantages.
- D. first-entrant advantages.

First-mover advantages are the advantages that accrue to early entrants into a market.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-07
Topic: Implications of Changing Political Economy

136. (p. 81) Handicaps suffered by late entrants into a market are referred to as:

- A. late-mover disadvantages.**
- B. last-class disadvantages.
- C. standard-class disadvantages.
- D. prime-mover disadvantages.

Late-mover disadvantages are the handicaps that late entrants to a market might suffer.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-07
Topic: Implications of Changing Political Economy

137. (p. 82) Your company has business interests in a country where the President-elect has won on a platform of a return to socialism and protectionism. Consequently, you are concerned about the _____ risks of continuing to do business in that country.

- A. ethical
- B. fiscal
- C. political**
- D. operational

Political risk is defined as the likelihood that political forces will cause drastic changes in a country's business environment that adversely affect the profit and other goals of a business enterprise. A change in political regime can result in the enactment of laws that are less favorable to international business.

AACSB: Reflective Thinking

Bloom's: Apply

Difficulty: Hard

Learning Objective: 02-07

Topic: Implications of Changing Political Economy

138. (p. 83) _____ is the likelihood that economic mismanagement will cause drastic changes in a country's business environment that will adversely affect the profit and other goals of a business enterprise.

- A. Industrial risk
- B. Political risk
- C. Operational risk
- D. Economic risk**

An economic risk is the likelihood that economic mismanagement will cause drastic changes in a country's business environment that hurt the profit and other goals of a particular business enterprise.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-07

Topic: Implications of Changing Political Economy

139. (p. 83, 84) The likelihood that a trading partner will opportunistically break a contract or expropriate property rights is called:

- A. political risk.
- B. economic risk.
- C. ethical risk.
- D. legal risk.**

A legal risk is the likelihood that a trading partner will opportunistically break a contract or expropriate property rights.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-07

Topic: Implications of Changing Political Economy

Essay Questions

140. (p. 45-48) How has the ideological conflict between collectivism and individualism shaped recent world history? Also, discuss the direction this conflict might take in the future.

Collectivism asserts the primacy of the collective over the individual; individualism asserts the opposite. This underlying ideological conflict shaped much of the recent history of the world. The Cold War, for example, was in many respects a war between collectivism, championed by the former Soviet Union, and individualism, championed by the United States. In practical terms, individualism translates into an advocacy for democratic political systems and free market economics, which in general creates a more favorable environment for international businesses to operate in. From the late 1980s until around 2005, the waning of collectivism was matched by the ascendancy of individualism. Democratic ideals and free market economics swept away socialism and communism in many states. However, from 2005 onward there have been signs of a swing back toward left-leaning socialist ideas in several countries, including several Latin America nations and Russia. The global financial crisis of 2008-2009 might cause some to reevaluate the trends of the past two decades, and perhaps the pendulum will tilt back the other way for a while.

AACSB: Reflective Thinking

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-01

Topic: Political Systems

141. (p. 50-51) Describe in brief the different forms of totalitarianism?

Four major forms of totalitarianism exist in the world today. Until recently, the most widespread was communist totalitarianism—a version of collectivism advocating that socialism can be achieved only through a totalitarian dictatorship. A second form of totalitarianism might be labeled theocratic totalitarianism, which is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. Iran and Saudi Arabia are examples of theocratic totalitarianism. A third form of totalitarianism might be referred to as tribal totalitarianism, a political system in which a party, group, or individual that represents the interests of a particular tribe (ethnic group) monopolizes political power. It has arisen from time to time in some African countries. A fourth major form of totalitarianism might be described as right-wing totalitarianism, a political system in which political power is monopolized by a party, group, or individual that generally permits individual economic freedom but restricts individual political freedom, including free speech, frequently on the grounds that it would lead to the rise of communism.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-01
Topic: Political Systems

142. (p. 51-53) Briefly describe the three broad types of economic systems.

Three broad types of economic systems can be identified—a market economy, a command economy, and a mixed economy. A market economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced. In a pure market economy, all productive activities are privately owned, as opposed to being owned by the state. A command economy is an economic system in which the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold. In a pure command economy, all businesses are state owned. Historically, command economies were found in Communist countries. Between market economies and command economies can be found mixed economies. In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-02
Topic: Economic Systems

143. (p. 55) How do common law and civil law systems differ in their approaches to contract law?

Since common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, however, contracts tend to be much shorter and less specific because many of the issues are already covered in a civil code. Thus, it is more expensive to draw up contracts in a common law jurisdiction, and resolving contract disputes can be very adversarial in common law systems. But common law systems have the advantage of greater flexibility and allow for judges to interpret a contract dispute in light of the prevailing situation. International businesses need to be sensitive to these differences; approaching a contract dispute in a state with a civil law system as if it had a common law system may backfire, and vice versa.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

144. (p. 55, 56) Describe the two ways in which property rights can be violated.

Property rights can be violated in two ways—through private action and through public action. In this context, private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others. Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders. This can be done through legal mechanisms such as levying excessive taxation, requiring expensive licenses or permits from property holders, taking assets into state ownership without compensating the owners, or redistributing assets without compensating the prior owners. It can also be done through illegal means, or corruption, by demanding bribes from businesses in return for the rights to operate in a country, industry, or location.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

145. (p. 59) What is intellectual property? What are the different means by which ownership rights can be established over intellectual property?

Intellectual property refers to property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug. Patents, copyrights, and trademarks establish ownership rights over intellectual property. A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention. Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit. Trademarks are designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-03
Topic: Legal Systems

146. (p. 60) What are the possible courses of action that international businesses can take to counter violations of their intellectual property rights?

International businesses have a number of possible responses to violations of their intellectual property. They can lobby their respective governments to push for international agreements to ensure that intellectual property rights are protected and that the law is enforced. In addition to lobbying governments, firms can file lawsuits on their own behalf. Firms may also choose to stay out of countries where intellectual property laws are lax, rather than risk having their ideas stolen by local entrepreneurs. Firms also need to be on the alert to ensure that pirated copies of their products produced in countries with weak intellectual property laws don't turn up in their home market or in third countries.

AACSB: Reflective Thinking
Bloom's: Understand
Difficulty: Medium
Learning Objective: 02-03
Topic: Legal Systems

147. (p. 65) Describe briefly the broader conceptions of development put forth by the economist Amartya Sen.

The Nobel Prize-winning economist Amartya Sen has argued that development should be assessed less by material output measures such as Gross National Income (GNI) per capita and more by the capabilities and opportunities that people enjoy. According to Sen, development should be seen as a process of expanding the real freedoms that people experience. Hence, development requires the removal of major impediments to freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as the intolerance of repressive states. In Sen's view, development is not just an economic process, but it is a political one too, and to succeed requires the "democratization" of political communities to give citizens a voice in the important decisions made for the community. This perspective leads Sen to emphasize basic health care, especially for children, and basic education, especially for women. Not only are these factors desirable for their instrumental value in helping to achieve higher income levels, but they are also beneficial in their own right. People cannot develop their capabilities if they are chronically ill or woefully ignorant.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

148. (p. 68) Why are innovation and entrepreneurial activity identified as the engines of long-run economic growth?

There is substantial agreement among economists that innovation and entrepreneurial activity are the engines of long-run economic growth. Those who make this argument define innovation broadly to include not just new products but also new processes, new organizations, new management practices, and new strategies. Innovation and entrepreneurial activity help to increase economic activity by creating new products and markets that did not previously exist. Plus, innovations in production and business processes lead to an increase in the productivity of labor and capital, which further boosts economic growth rates. Innovation is also seen as the product of entrepreneurial activity. Often, entrepreneurs first commercialize innovative new products and processes, and entrepreneurial activity provides much of the dynamism in an economy. Thus, one can conclude that if a country's economy is to sustain long-run economic growth, the business environment must be conducive to the consistent production of product and process innovations and to entrepreneurial activity.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-04
Topic: The Determinants of Economic Development

149. (p. 70, 71) "Five of the fastest-growing economies of the past 30 years—China, South Korea, Taiwan, Singapore, and Hong Kong—had one thing in common at the start of their economic growth: undemocratic governments. Thus, it can be concluded that totalitarian governments are better for a functioning market economy than are democratic governments." Do you agree with this statement? Why or why not?

People in the West tend to associate a representative democracy with a market economic system, strong property rights protection, and economic progress. Thus, we tend to argue that democracy is good for growth. However, some totalitarian regimes have fostered a market economy and strong property rights protection and have experienced rapid economic growth. At the same time, countries with stable democratic governments, such as India, experienced sluggish economic growth for long periods. In 1992, Lee Kuan Yew, Singapore's leader for many years, told an audience, "I do not believe that democracy necessarily leads to development. I believe that a country needs to develop discipline more than democracy. The exuberance of democracy leads to undisciplined and disorderly conduct which is inimical to development." However, those who argue for the value of a totalitarian regime miss an important point: Only a totalitarian regime that is committed to a market system and strong protection of property rights is capable of promoting economic growth. Also, there is no guarantee that a dictatorship will continue to pursue such progressive policies. Many are tempted to use the apparatus of the state to further their own private ends, violating property rights and stalling economic growth. Given this, it seems likely that democratic regimes are far more conducive to long-term economic growth than are dictatorships, even benevolent ones. Only in a well-functioning, mature democracy are property rights truly secure. Also, totalitarian states, by limiting human freedom, also suppress human development and therefore are detrimental to progress.

AACSB: Reflective Thinking

Bloom's: Analyze

Difficulty: Hard

Learning Objective: 02-04

Topic: The Determinants of Economic Development

150. (p. 72) The political economy of many of the world's nation-states has changed radically since the late 1980s. Identify the two trends that have emerged during this time.

Two trends have been evident in the changes in the political economies of states since the late 1980s. First, during the late 1980s and early 1990s, a wave of democratic revolutions swept the world. Totalitarian governments collapsed and were replaced by democratically elected governments that were typically more committed to free market capitalism than their predecessors had been. Second, there has been a strong move away from centrally planned and mixed economies and toward a more free market economic model.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

151. (p. 74) Briefly describe the three main reasons for the spread of democracy across the world.

Three main reasons account for the spread of democracy. First, many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations. In looking for alternatives to the socialist model, the populations of these countries could not have failed to notice that most of the world's strongest economies were governed by representative democracies. Second, new information and communication technologies, including shortwave radio, satellite television, fax machines, desktop publishing, and, most important, the Internet, have reduced the state's ability to control access to uncensored information. These technologies have created new conduits for the spread of democratic ideals and information from free societies. Third, in many countries the economic advances of the past quarter century have led to the emergence of increasingly prosperous middle and working classes who have pushed for democratic reforms. Entrepreneurs and other business leaders, eager to protect their property rights and ensure the dispassionate enforcement of contracts, are another force pressing for more accountable and open government.

AACSB: Analytic
Bloom's: Remember
Difficulty: Easy
Learning Objective: 02-05
Topic: States in Transition

152. (p. 78, 79) What is deregulation? Explain its role in privatization.

Deregulation involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate. Privatization transfers the ownership of state property into the hands of private individuals, frequently by the sale of state assets through an auction. Privatization is seen as a way to stimulate gains in economic efficiency by giving new private owners a powerful incentive—the reward of greater profits—to search for increases in productivity, to enter new markets, and to exit losing ones. However, for privatization to work, and for it to not simply replace state monopolies with private monopolies it must also be accompanied by a more general deregulation and opening of the economy.

AACSB: Reflective Thinking

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-06

Topic: The Nature of Economic Transformation

153. (p. 82-83) What are the various types of risk that a business could face in doing business in a particular country?

As with costs, the risks of doing business in a country are determined by a number of political, economic, and legal factors. Political risk has been defined as the likelihood that political forces will cause drastic changes in a country's business environment that adversely affect the profit and other goals of a business enterprise. So defined, political risk tends to be greater in countries experiencing social unrest and disorder or in countries where the underlying nature of a society increases the likelihood of social unrest. Other risks may arise from a country's mismanagement of its economy. An economic risk can be defined as the likelihood that economic mismanagement will cause drastic changes in a country's business environment that hurt the profit and other goals of a particular business enterprise. Economic risks are not independent of political risk as economic mismanagement may give rise to significant social unrest and hence political risk. On the legal front, risks arise when a country's legal system fails to provide adequate safeguards in the case of contract violations or to protect property rights. When legal safeguards are weak, firms are more likely to break contracts or steal intellectual property if they perceive it as being in their interests to do so. Thus, a legal risk can be defined as the likelihood that a trading partner will opportunistically break a contract or expropriate property rights.

AACSB: Analytic

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-07

Topic: Implications of Changing Political Economy

154. (p. 84) Alpha Incorporated has sought your opinion about the overall attractiveness of various countries as potential markets and investment sites. What would you tell them?

The overall attractiveness of a country as a potential market or investment site for an international business depends on balancing the benefits, costs, and risks associated with doing business in that country. Generally, the costs and risks associated with doing business in a foreign country are typically lower in economically advanced and politically stable democratic nations and greater in less developed and politically unstable nations. The calculus is complicated, however, because the potential long-run benefits are dependent not only upon a nation's current stage of economic development or political stability but also on likely future economic growth rates. Economic growth appears to be a function of a free market system and a country's capacity for growth (which may be greater in less developed nations). This leads one to conclude that, other things being equal, the benefit-cost-risk trade-off is likely to be most favorable in politically stable developed and developing nations that have free market systems and no dramatic upsurge in either inflation rates or private-sector debt. It is likely to be least favorable in politically unstable developing nations that operate with a mixed or command economy or in developing nations where speculative financial bubbles have led to excess borrowing.

AACSB: Reflective Thinking

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-07

Topic: Implications of Changing Political Economy