

## **Chapter 02**

### **National Differences in Political Economy**

#### **True / False Questions**

1. A country's political economy and culture are independent of each other.  
True   False
  
2. It is not possible to have democratic societies that emphasize a mix of collectivism and individualism.  
True   False
  
3. The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.  
True   False
  
4. In an individualist society, the welfare of society is best served by letting people pursue their own economic self-interest.  
True   False
  
5. The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.  
True   False
  
6. There is a global trend of societies shifting from individualism toward collectivism.  
True   False
  
7. It is possible to have a democratic state where collective values predominate.  
True   False

8. It is possible to have a totalitarian state that is hostile to collectivism and where some degree of individualism is encouraged.

True False

9. The most practical form of democracy is direct democracy.

True False

10. Most modern democratic states practice representative democracy.

True False

11. In a market economy, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

True False

12. The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

True False

13. Because international businesses are headquartered in different countries, a nation's legal system is usually of very little interest to international business managers.

True False

14. A country's legal system can affect the attractiveness of a country as an investment site and/or market.

True False

15. Collectivist inclined totalitarian states tend to be pro-private enterprise and pro-consumer.

True False

16. In democratic states where individualism is the dominant political philosophy, states tend to enact laws that severely restrict private enterprise.

True False

17. Judges under a civil law system have less flexibility than those under a common law system.

True False

18. In a common law system, judges have the power to interpret the law.

True False

19. A civil law system tends to be more adversarial than a common law system.

True False

20. Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

True False

21. The United Nations CIGS 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.

True False

22. All of the world's larger trading nations have ratified CIGS.

True False

23. To facilitate international business, property rights are defined in a consistent way across countries.

True False

24. The rule of law minimizes corruption in all countries.

True False

25. High levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country.

True False

26. The Foreign Corrupt Practices Act allows for grease payments.

True False

27. Thanks to the World Intellectual Property Organization, enforcement of intellectual property rights is strong across the globe.

True False

28. GNI and PPP data are useful because they provide a dynamic analysis of economic development.

True False

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

True False

30. In a planned economy, the state owns all means of production.

True False

31. There is a strong relationship between economic freedom and economic growth.

True False

32. The general assertion that nations that invest more in education will have higher growth rates has been proved false.

True False

33. Since the 1980s, the political economy of many nations has seen a shift away from centrally planned and mixed economies toward more free market economic models.

True False

34. One of the reasons for the spread of democracy is the emergence of increasingly prosperous middle and working classes who have pushed for democratic reforms.

True False

35. According to political scientist Samuel Huntington's thesis, global terrorism is a product of the tension between civilizations and the clash of value systems and ideology.

True False

36. Transformation from centrally planned command economies to market-based economies can be attributed to the fact that command and mixed economies failed to deliver the sustained economic performance achieved by countries adopting market-based systems.

True False

37. Economic freedom necessarily equates with political freedom.

True False

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

True False

39. Today, global changes in the political economy are characterized by free markets and democracy, with command economies and totalitarian dictatorships having completely disappeared.

True False

40. With regard to political factors, a company may have to pay off politically powerful entities in a country before the government allows it to do business there.

True False

**Multiple Choice Questions**

41. Interdependent political, economic, and legal systems of a country make up its:

- A. administrative agenda.
- B. socioeconomic fabric.
- C. economic environment.
- D. political economy.

42. Identify the incorrect statement pertaining to a country's political economy.

- A. It is independent of the culture of a nation.
- B. It is a combination of interdependent political, economic, and legal systems.
- C. Its various systems interact and influence each other.
- D. Its interacting systems affect the level of economic well-being.

43. Which of the following statements about political systems and their interrelated dimensions is false?
- A. Systems that emphasize collectivism tend toward totalitarianism.
  - B. Systems that place a high value on individualism tend to be democratic.
  - C. Democratic societies can emphasize a mix of collectivism and individualism.
  - D. It is impossible to have totalitarian societies that are not collectivist.
44. \_\_\_\_\_ is consistent with the notion that an individual's right to do something may be restricted because it runs counter to "the good of society" or "the common good."
- A. Entrepreneurship
  - B. Collectivism
  - C. Free enterprise
  - D. Capitalism
45. Which of the following statements about socialism is false?
- A. Modern socialists' intellectual roots can be traced to Karl Marx.
  - B. Elements of socialist thought can be traced to Plato.
  - C. Socialist ideology is split into two camps—communists and individualists.
  - D. Socialism advocates for state ownership of the means of production.
46. According to \_\_\_\_\_, socialism can only be achieved through violent revolution.
- A. capitalists
  - B. communists
  - C. social democrats
  - D. democrats
47. Social democracy:
- A. as an ideology may prove to be more enduring than communism.
  - B. has perhaps had its greatest influence in a number of democratic Asian countries.
  - C. has had no influence in any democratic Western nation.
  - D. had greatest influence in Eastern European nations like Poland, Czechoslovakia, and Hungary.



48. Individualism can best be described by which of the following statements?

- A. It as a philosophy suggests that an individual should have freedom over his/her economic and political pursuits.
- B. It is a political system in which government control over all factors of production is in entirety.
- C. It is a political system that stresses the primacy of collective goals over individual goals.
- D. It is a form of government in which one person or political party exercises absolute control over all spheres of human life.

49. Identify the incorrect statement regarding individualism.

- A. It advocates for a socialist political system
- B. It promotes free market economics
- C. It creates a pro-business environment
- D. It translates into an advocacy for democratic political systems

50. The Cold War was essentially a war between \_\_\_\_\_, championed by the now-defunct Soviet Union, and \_\_\_\_\_, championed by the United States.

- A. collectivism; individualism
- B. democracy; socialism
- C. totalitarianism; socialism
- D. individualism; collectivism

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

- A. Totalitarianism
- B. Authoritarianism
- C. Democracy
- D. Dictatorship

52. Totalitarianism:

- A. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
- B. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
- C. is based on a belief that citizens should be directly involved in decision making.
- D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

53. A state where political power is monopolized by a party, group, or individual that governs according to religious principles is best described as following:

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

54. Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

- A. Tribal totalitarianism
- B. Right-wing totalitarianism
- C. Left wing totalitarianism
- D. Theocratic totalitarianism

55. Antitrust laws in the United States are designed to:

- A. encourage business practices designed to monopolize a market.
- B. discourage private ownership.
- C. restrict privatization.
- D. outlaw monopolies.

56. In a pure market economy:

- A. all productive activities are owned by the state.
- B. all productive activities are privately owned.
- C. the government plans the goods and services that a country produces.
- D. resources are allocated for "the good of society."

57. In a pure command economy:

- A. all productive activities are owned by the state.
- B. all productive activities are privately owned.
- C. the goods and services that a country produces are not planned by anyone.
- D. production is determined by the interaction of supply and demand.

58. In a \_\_\_\_\_ 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.

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

59. Which of the following statements about the legal systems of countries is false?

- A. They can affect the attractiveness of a country as an investment site or market.
- B. They are influenced by the prevailing political system of the country.
- C. They are almost the same for all countries.
- D. They are of immense importance to international business.

60. The common law system:

- A. lacks the flexibility that other systems have.
- B. is based on tradition, precedent, and custom.
- C. gives judges the power only to apply the law.
- D. is based on a detailed set of laws organized into codes.

61. A \_\_\_\_\_ system is based on a very detailed set of laws organized into codes.

- A. democratic law
- B. theocratic law
- C. civil law
- D. common law

62. A theocratic law system is:

- A. one in which the law is based on religious teachings.
- B. based on tradition, precedent, and custom.
- C. based on a detailed set of laws organized into codes.
- D. the body of law that governs contract enforcement.

63. A document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved is BEST known as a:

- A. contract.
- B. business letter.
- C. memorandum.
- D. civil code.

64. Identify the United Nations body that 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. IMF
- B. GATT
- C. WTO
- D. CIGS

65. Which of the following refers 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?

- A. Theocratic right
- B. Property right
- C. Trade right
- D. Financial right

66. The law that makes it illegal to bribe a foreign government official in order to maintain business over which that foreign official has authority, and requires all publicly traded companies to keep detailed records that would allow determining whether a violation of the act has occurred is the:

- A. CIGS.
- B. Foreign Corrupt Practices Act.
- C. Economic Cooperation Anti Corruption Act.
- D. Convention on Combating Bribery of Foreign Officials in International Transactions.

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

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

68. Design and names by which merchants or manufacturers designate and differentiate their products are known as:

- A. patents.
- B. copyrights.
- C. trademarks.
- D. licenses.

69. Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

- A. Patents
- B. Copyrights
- C. Trademarks
- D. Licenses

70. Identify the incorrect statement pertaining to intellectual property rights.
- A. Its violation cost personal computer software firms revenues equal to \$48 billion in 2007.
  - B. The protection of intellectual property rights is more or less the same in all countries.
  - C. The enforcement of its regulations has often been lax.
  - D. Its violation has been very bad in China, where the piracy rate in 2007 ran at 82 percent.

71. The TRIPS agreement was designed to:
- A. exclude China from all intellectual property agreements.
  - B. oversee a much stricter enforcement of intellectual property regulations.
  - C. lobby for more lax intellectual property rights for poor countries.
  - D. support traded software and recorded property among developed markets.

72. Which of the following statements about the trade-related aspects of intellectual property rights agreement is false?
- A. It was designed to oversee enforcement of much stricter intellectual property regulations, beginning in 1995.
  - B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
  - C. It directed rich countries to comply with its rules of intellectual property protection within five years.
  - D. It provided the very poorest countries 10 years to comply with its rules of intellectual property protection.

73. Safety standards to which a product must adhere are set by:
- A. safety certifications.
  - B. the government standards department.
  - C. product safety laws.
  - D. product liability laws.

74. The HDI is based on all of the following measures except:
- A. political freedom.
  - B. life expectancy at birth.
  - C. educational attainment.
  - D. whether average incomes are sufficient to meet the basic needs of life.

75. Identify the incorrect statement pertaining to innovation and entrepreneurship.

- A. They are the engines of growth
- B. They require state ownership of all means of production
- C. They require a market economy
- D. They require strong property rights

76. The political economy of many of the world's nation-states has changed radically since the late 1980s. All of the following are trends that have been evident except:

- A. a wave of democratic revolutions has swept the world.
- B. totalitarian governments collapsed and have been replaced by democratically elected governments.
- C. there has been a strong move away from centrally planned economies toward free market economic models.
- D. mixed economies are fast replacing market economies.

77. All of the following are reasons that would account for the spread of democracy except:

- A. totalitarian regimes failing to deliver economic progress to the vast bulk of their populations.
- B. the unchallenged pressure of entrepreneurs and other business leaders for less accountable and closed governments.
- C. the economic advances of the past quarter century leading to the emergence of increasingly prosperous middle and working classes pushing for democratic reforms.
- D. new information and communication technologies reducing the state's ability to control access to uncensored information.

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

- A. A product law
- B. Trade certification
- C. Deregulation
- D. A liability law

79. The benefits of doing business in a country are a function of all of the following except:

- A. the size of the market.
- B. its past growth.
- C. its present wealth.
- D. its future growth prospects.

80. In all of the following scenarios, the costs of doing business in a country tend to be greater, except where:

- A. political payoffs are required to gain market access.
- B. supporting infrastructure is lacking.
- C. adhering to local laws and regulations is costly.
- D. there is a highly developed infrastructural support.

#### **Essay Questions**

81. What are state-owned companies? Why do they exist? Why do they usually perform poorly?

82. Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?



83. Discuss individualism. Explain the key positions of the philosophy, its roots, and its role in the modern economy.

84. Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

85. How do countries with representative democracies ensure that their elected officials are held responsible for their actions?

86. Compare and contrast the four forms of totalitarianism.

87. Identify the three types of economic systems. How do the three types of economic systems differ from each? How are they the same?

88. Discuss why there is inefficiency in a monopoly situation.

89. What is a country's legal system? Why is it important to international businesses?

90. What are the three main types of legal systems in use around the world?

91. Explain the differences between common law and civil law systems by the approach of each to contract law.

92. What is the United Nations convention on contracts for the international sale of goods (CIGS)?

93. Discuss the Foreign Corrupt Practices Act.

94. Discuss the different ways to protect intellectual property.

95. What is the philosophy of Amartya Sen?

96. Discuss the three main reasons for the spread of democracy.

97. What is deregulation?

98. Discuss privatization. Why is it important?

99. What are first-mover advantages? What are late-mover advantages? Why are they important to international businesses?

100. How are the long-run benefits of doing business in a country measured?

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

### **True / False Questions**

1. (p. 42) A country's political economy and culture are independent of each other.

**FALSE**

*AACSB: Analytic Skills  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-1*

2. (p. 42) It is not possible to have democratic societies that emphasize a mix of collectivism and individualism.

**FALSE**

*AACSB: Reflective Thinking Skills  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-1*

3. (p. 43) The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.

**FALSE**

*AACSB: Analytic Skills  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-1*

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4. (p. 44) In an individualist society, the welfare of society is best served by letting people pursue their own economic self-interest.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

5. (p. 45) The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.

**FALSE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

6. (p. 45) There is a global trend of societies shifting from individualism toward collectivism.

**FALSE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

7. (p. 45) It is possible to have a democratic state where collective values predominate.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

## Chapter 02 - National Differences in Political Economy

8. (p. 45) It is possible to have a totalitarian state that is hostile to collectivism and where some degree of individualism is encouraged.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

9. (p. 45) The most practical form of democracy is direct democracy.

**FALSE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

10. (p. 45) Most modern democratic states practice representative democracy.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

11. (p. 48) In a market economy, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*



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12. (p. 48) The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

**TRUE**

*AACSB: Analytic Skills  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-2*

13. (p. 49) Because international businesses are headquartered in different countries, a nation's legal system is usually of very little interest to international business managers.

**FALSE**

*AACSB: Ethical/Legal Responsibilities  
Bloom's: Comprehension  
Difficulty: Easy  
Learning Objective: 02-3*

14. (p. 49) A country's legal system can affect the attractiveness of a country as an investment site and/or market.

**TRUE**

*AACSB: Ethical/Legal Responsibilities  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-3*

15. (p. 49) Collectivist inclined totalitarian states tend to be pro-private enterprise and pro-consumer.

**FALSE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

16. (p. 49) In democratic states where individualism is the dominant political philosophy, states tend to enact laws that severely restrict private enterprise.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

17. (p. 50) Judges under a civil law system have less flexibility than those under a common law system.

**TRUE**

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

18. (p. 50) In a common law system, judges have the power to interpret the law.

**TRUE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

19. (p. 50) A civil law system tends to be more adversarial than a common law system.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

20. (p. 51) Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

21. (p. 51) The United Nations CIGS 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.

**TRUE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

22. (p. 51) All of the world's larger trading nations have ratified CIGS.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

23. (p. 51) To facilitate international business, property rights are defined in a consistent way across countries.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

24. (p. 52) The rule of law minimizes corruption in all countries.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

25. (p. 52) High levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country.

**TRUE**

*AACSB: Analytic Skills*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

26. (p. 53) The Foreign Corrupt Practices Act allows for grease payments.

**TRUE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

27. (p. 55) Thanks to the World Intellectual Property Organization, enforcement of intellectual property rights is strong across the globe.

**FALSE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-3*

28. (p. 61) GNI and PPP data are useful because they provide a dynamic analysis of economic development.

**FALSE**

*AACSB: Analytic Skills*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

29. (p. 61) The HDI is based on life expectancy at birth, educational attainment, and whether average incomes are sufficient to meet the basic needs of life in a country.

**TRUE**

*AACSB: Analytic Skills*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

30. (p. 64) In a planned economy, the state owns all means of production.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-4*

31. (p. 64) There is a strong relationship between economic freedom and economic growth.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-4*

32. (p. 67) The general assertion that nations that invest more in education will have higher growth rates has been proved false.

**FALSE**

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-4*

33. (p. 68) Since the 1980s, the political economy of many nations has seen a shift away from centrally planned and mixed economies toward more free market economic models.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

34. (p. 70) One of the reasons for the spread of democracy is the emergence of increasingly prosperous middle and working classes who have pushed for democratic reforms.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-5*

35. (p. 71) According to political scientist Samuel Huntington's thesis, global terrorism is a product of the tension between civilizations and the clash of value systems and ideology.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

36. (p. 71) Transformation from centrally planned command economies to market-based economies can be attributed to the fact that command and mixed economies failed to deliver the sustained economic performance achieved by countries adopting market-based systems.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

37. (p. 73) Economic freedom necessarily equates with political freedom.

**FALSE**

*AACSB: Reflective Thinking Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-5*

38. (p. 73) Deregulation involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-6*

39. (p. 75) Today, global changes in the political economy are characterized by free markets and democracy, with command economies and totalitarian dictatorships having completely disappeared.

**FALSE**

*AACSB: Reflective Thinking Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*

40. (p. 77) With regard to political factors, a company may have to pay off politically powerful entities in a country before the government allows it to do business there.

**TRUE**

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*



**Multiple Choice Questions**

41. (p. 42) Interdependent political, economic, and legal systems of a country make up its:

- A. administrative agenda.
- B. socioeconomic fabric.
- C. economic environment.
- D. political economy.**

Political economy stresses 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 Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

42. (p. 42) Identify the incorrect statement pertaining to a country's political economy.

- A. It is independent of the culture of a nation.**
- B. It is a combination of interdependent political, economic, and legal systems.
- C. Its various systems interact and influence each other.
- D. Its interacting systems affect the level of economic well-being.

The political economy and culture of a nation are interdependent.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

43. (p. 42) Which of the following statements about political systems and their interrelated dimensions is false?

- A. Systems that emphasize collectivism tend toward totalitarianism.
- B. Systems that place a high value on individualism tend to be democratic.
- C. Democratic societies can emphasize a mix of collectivism and individualism.
- D.** It is impossible to have totalitarian societies that are not collectivist.

It is possible to have totalitarian societies that are not collectivist.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 02-1*

44. (p. 43) \_\_\_\_\_ is consistent with the notion that an individual's right to do something may be restricted because it runs counter to "the good of society" or "the common good."

- A. Entrepreneurship
- B.** Collectivism
- C. Free enterprise
- D. Capitalism

When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

45. (p. 43) Which of the following statements about socialism is false?

- A. Modern socialists' intellectual roots can be traced to Karl Marx.
- B. Elements of socialist thought can be traced to Plato.
- C. Socialist ideology is split into two camps—communists and individualists.**
- D. Socialism advocates for state ownership of the means of production.

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

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

46. (p. 43) According to \_\_\_\_\_, socialism can only be achieved through violent revolution.

- A. capitalists
- B. communists**
- C. social democrats
- D. democrats

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

47. (p. 43) Social democracy:

- A. as an ideology may prove to be more enduring than communism.
- B. has perhaps had its greatest influence in a number of democratic Asian countries.
- C. has had no influence in any democratic Western nation.
- D. had greatest influence in Eastern European nations like Poland, Czechoslovakia, and Hungary.

Social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship. Social democracy seems to have passed a high-water mark, although the ideology may prove to be more enduring than communism.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 02-1*

48. (p. 44) Individualism can best be described by which of the following statements?

- A. It as a philosophy suggests that an individual should have freedom over his/her economic and political pursuits.
- B. It is a political system in which government control over all factors of production is in entirety.
- C. It is a political system that stresses the primacy of collective goals over individual goals.
- D. It is a form of government in which one person or political party exercises absolute control over all spheres of human life.

Individualism refers to the philosophy that an individual should have freedom in his/her economic and political pursuits.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

49. (p. 45) Identify the incorrect statement regarding individualism.

- A. It advocates for a socialist political system
- B. It promotes free market economics
- C. It creates a pro-business environment
- D. It translates into an advocacy for democratic political systems

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.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

50. (p. 45) The Cold War was essentially a war between \_\_\_\_\_, championed by the now-defunct Soviet Union, and \_\_\_\_\_, championed by the United States.

- A. collectivism; individualism
- B. democracy; socialism
- C. totalitarianism; socialism
- D. individualism; collectivism

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.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

51. (p. 45) This refers to a political system in which government is by the people, exercised either directly or through elected representatives.

- A. Totalitarianism
- B. Authoritarianism
- C. Democracy
- D. Dictatorship

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

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

52. (p. 45) Totalitarianism:

- A. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
- B. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
- C. is based on a belief that citizens should be directly involved in decision making.
- D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

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 Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

53. (p. 47) A state where political power is monopolized by a party, group, or individual that governs according to religious principles is best described as following:

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

The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran which limits freedom of political and religious expression with laws based on Islamic principles.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

54. (p. 47) Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

- A. Tribal totalitarianism
- B. Right-wing totalitarianism
- C. Left wing totalitarianism
- D. Theocratic totalitarianism

A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

55. (p. 48) Antitrust laws in the United States are designed to:
- A. encourage business practices designed to monopolize a market.
  - B. discourage private ownership.
  - C. restrict privatization.
  - D.** outlaw monopolies.

Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous free and fair competition between private producers. Governments do this by outlawing monopolies and restrictive business practices designed to monopolize a market (antitrust laws serve this function in the United States).

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

56. (p. 48) In a pure market economy:
- A. all productive activities are owned by the state.
  - B.** all productive activities are privately owned.
  - C. the government plans the goods and services that a country produces.
  - D. resources are allocated for "the good of society."

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

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*



57. (p. 48) In a pure command economy:

- A. all productive activities are owned by the state.
- B. all productive activities are privately owned.
- C. the goods and services that a country produces are not planned by anyone.
- D. production is determined by the interaction of supply and demand.

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.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

58. (p. 49) In a \_\_\_\_\_ 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.

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

Between market economies and command economies can be found mixed economies where 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 Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

59. (p. 49) Which of the following statements about the legal systems of countries is false?

- A. They can affect the attractiveness of a country as an investment site or market.
- B. They are influenced by the prevailing political system of the country.
- C.** They are almost the same for all countries.
- D. They are of immense importance to international business.

The legal environments of countries differ in significant ways.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

60. (p. 50) The common law system:

- A. lacks the flexibility that other systems have.
- B.** is based on tradition, precedent, and custom.
- C. gives judges the power only to apply the law.
- D. is based on a detailed set of laws organized into codes.

Common law is based on tradition, precedent, and custom.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

61. (p. 50) A \_\_\_\_\_ system is based on a very detailed set of laws organized into codes.

- A. democratic law
- B. theocratic law
- C. civil law
- D. common law

A civil law system is based on a detailed set of laws organized into codes. When law courts interpret civil law, they do so with regard to these codes.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

62. (p. 50) A theocratic law system is:

- A. one in which the law is based on religious teachings.
- B. based on tradition, precedent, and custom.
- C. based on a detailed set of laws organized into codes.
- D. the body of law that governs contract enforcement.

A theocratic law system is one in which the law is based on religious teachings.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

63. (p. 51) A document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved is BEST known as a:

- A.** contract.
- B. business letter.
- C. memorandum.
- D. civil code.

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. Some form of contract regulates many business transactions.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

64. (p. 51) Identify the United Nations body that 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. IMF
- B. GATT
- C. WTO
- D.** CIGS

By adopting the CIGS, a nation signals to other adopters that it will treat the convention's rules as part of its law.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-3*

65. (p. 51) Which of the following refers 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?

- A. Theocratic right
- B. Property right**
- C. Trade right
- D. Financial right

The term property refers to a resource over which an individual or business holds a legal title. Resources include land, buildings, equipment, capital, mineral rights, businesses, and intellectual 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: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

66. (p. 53) The law that makes it illegal to bribe a foreign government official in order to maintain business over which that foreign official has authority, and requires all publicly traded companies to keep detailed records that would allow determining whether a violation of the act has occurred is the:

- A. CIGS.
- B. Foreign Corrupt Practices Act.**
- C. Economic Cooperation Anti Corruption Act.
- D. Convention on Combating Bribery of Foreign Officials in International Transactions.

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: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

67. (p. 55) A \_\_\_\_\_ grants the inventor of a new product or process exclusive rights for a defined period of time to the manufacture, use, or sale of that invention.

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

Patents establish ownership rights over intellectual property.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

68. (p. 55) Design and names by which merchants or manufacturers designate and differentiate their products are known as:

- A. patents.
- B. copyrights.
- C. trademarks.**
- D. licenses.

Trademarks establish ownership rights over intellectual property.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

69. (p. 55) Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

- A. Patents
- B. Copyrights**
- C. Trademarks
- D. Licenses

Copyrights establish ownership rights over intellectual property.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-3*

70. (p. 55) Identify the incorrect statement pertaining to intellectual property rights.
- A. Its violation cost personal computer software firms revenues equal to \$48 billion in 2007.
  - B.** The protection of intellectual property rights is more or less the same in all countries.
  - C. The enforcement of its regulations has often been lax.
  - D. Its violation has been very bad in China, where the piracy rate in 2007 ran at 82 percent.

The protection of intellectual property rights differs greatly from country to country.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 02-3*

71. (p. 56) The TRIPS agreement was designed to:
- A. exclude China from all intellectual property agreements.
  - B.** oversee a much stricter enforcement of intellectual property regulations.
  - C. lobby for more lax intellectual property rights for poor countries.
  - D. support traded software and recorded property among developed markets.

Under the Trade Related Aspects of Intellectual Property Rights agreement, as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

72. (p. 56) Which of the following statements about the trade-related aspects of intellectual property rights agreement is false?

- A. It was designed to oversee enforcement of much stricter intellectual property regulations, beginning in 1995.
- B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
- C. It directed rich countries to comply with its rules of intellectual property protection within five years.
- D. It provided the very poorest countries 10 years to comply with its rules of intellectual property protection.

Rich countries had to comply with the rules within a year.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 02-3*

73. (p. 56) Safety standards to which a product must adhere are set by:

- A. safety certifications.
- B. the government standards department.
- C. product safety laws.
- D. product liability laws.

Product safety laws set certain safety standards to which a product must adhere.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*



74. (p. 61) The HDI is based on all of the following measures except:

- A.** political freedom.
- B. life expectancy at birth.
- C. educational attainment.
- D. whether average incomes are sufficient to meet the basic needs of life.

The HDI comes much closer to Amartya Sen's conception of how development should be measured than narrow economic measures such as GNI per capita—although Sen's thesis suggests that political freedoms should also be included in the index, and they are not.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-4*

75. (p. 64-65) Identify the incorrect statement pertaining to innovation and entrepreneurship.

- A. They are the engines of growth
- B.** They require state ownership of all means of production
- C. They require a market economy
- D. They require strong property rights

The lack of economic freedom and incentives for innovation occurred in many mixed economies in those sectors where the state had a monopoly. This stagnation provided the impetus for the widespread privatization of state-owned enterprises that was witnessed in many mixed economies during the mid-1980s and is still going on today.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-4*

76. (p. 68) The political economy of many of the world's nation-states has changed radically since the late 1980s. All of the following are trends that have been evident except:

- A. a wave of democratic revolutions has swept the world.
- B. totalitarian governments collapsed and have been replaced by democratically elected governments.
- C. there has been a strong move away from centrally planned economies toward free market economic models.
- D. mixed economies are fast replacing market economies.**

There has been a strong move away from centrally planned and mixed economies and toward a more free market economic model.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

77. (p. 70) All of the following are reasons that would account for the spread of democracy except:

- A. totalitarian regimes failing to deliver economic progress to the vast bulk of their populations.
- B. the unchallenged pressure of entrepreneurs and other business leaders for less accountable and closed governments.**
- C. the economic advances of the past quarter century leading to the emergence of increasingly prosperous middle and working classes pushing for democratic reforms.
- D. new information and communication technologies reducing the state's ability to control access to uncensored information.

Entrepreneurs and other business leaders, eager to protect their property rights and ensure the dispassionate enforcement of contracts, are pressing for more accountable and open governments.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 02-5*

78. (p. 73) \_\_\_\_\_ involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate.

- A. A product law
- B. Trade certification
- C. Deregulation**
- D. A liability law

In most command economies, deregulation involves removing price controls, thereby allowing prices to be set by the interplay between demand and supply; abolishing laws regulating the establishment and operation of private enterprises; and relaxing or removing restrictions on direct investment by foreign enterprises and international trade.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-6*

79. (p. 76) The benefits of doing business in a country are a function of all of the following except:

- A. the size of the market.
- B. its past growth.**
- C. its present wealth.
- D. its future growth prospects.

In the most general sense, the long-run monetary benefits of doing business in a country are a function of the size of the market, the present wealth of consumers in that market, and the likely future wealth of consumers.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*

80. (p. 77) In all of the following scenarios, the costs of doing business in a country tend to be greater, except where:

- A. political payoffs are required to gain market access.
- B. supporting infrastructure is lacking.
- C. adhering to local laws and regulations is costly.
- D.** there is a highly developed infrastructural support.

The costs of doing business in a country tend to be greater where political payoffs are required to gain market access, where supporting infrastructure is lacking or underdeveloped, and where adhering to local laws and regulations is costly.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

#### **Essay Questions**

81. (p. 44) What are state-owned companies? Why do they exist? Why do they usually perform poorly?

A state-owned company is a company that is owned by a nation's government. After World War II, many social democratic governments nationalized private companies that were to be run for the public good rather than private profit. Great Britain, for example, nationalized so many companies that by the end of the 1970s, state-owned monopolies existed in telecommunications, electricity, gas, coal, and several other industries. However, because state-run companies such as the ones that existed in Great Britain are protected from competition by their monopoly position and guaranteed financial support, they become inefficient.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

82. (p. 43-44) Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?

A collectivist political system is one that stresses the primacy of collective goals over individual goals. In that sense, the needs of the society as a whole are viewed as being more important than individual freedoms. Collectivism can trace its roots to the ancient Greek philosopher Plato who suggested that individual rights be sacrificed for the good of the majority. Today, collectivism is reflected in the socialist movement started by Karl Marx who argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted. Marx advocated state ownership of the basic means of production, distribution, and exchange. Supporters of Marx's ideals divided into two camps in the early 20<sup>th</sup> century: communists, who believed that socialism could only be achieved through violent revolution and totalitarian dictatorship; and social democrats, who committed themselves to achieving socialism by democratic means. Today, both versions of socialism are losing followers.

*AACSB: Reflective Thinking Skills*  
*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 02-1*

83. (p. 44-45) Discuss individualism. Explain the key positions of the philosophy, its roots, and its role in the modern economy.

Individualism refers to a philosophy that an individual should have freedom in his/her economic and political pursuits. Accordingly, the philosophy stresses that the interests of the individual should take precedence over the interests of the state. Individualism can be traced to the ancient Greek philosopher Aristotle who argued that individual diversity and private ownership are desirable. Aristotle's philosophy was refined by David Hume, Adam Smith, and John Stuart Mill in the 1700s and 1800s, and more recently by Milton Friedman, Friedrich von Hayek, and James Buchanan. Today, individualism translates into an advocacy for democratic political systems and free market economies.

*AACSB: Reflective Thinking Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

84. (p. 45) Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

The pure form of democracy is based on a belief that citizens should be directly involved in decision making. In contrast, in a representative democracy, citizens periodically elect individuals to represent them. The elected individuals form a government and make decisions on behalf of the electorate. Because a pure democracy is impractical in advanced societies with tens or hundreds of millions of people, representative democracies are far more common in today's world.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

85. (p. 47) How do countries with representative democracies ensure that their elected officials are held responsible for their actions?

To guarantee that elected representatives are being held accountable for their actions by the electorate, an ideal representative democracy incorporates safeguards that are enshrined in constitutional law. These safeguards include an individual's right to freedom of expression, opinion, and organization; a free media; regular elections in which all eligible citizens are allowed to vote; universal adult suffrage; limited terms for elected representatives; a fair court system that is separate for the political system; a nonpolitical state bureaucracy; a nonpolitical police force and armed service; and relatively free access to state information.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

86. (p. 47) Compare and contrast the four forms of totalitarianism.

In a totalitarian country, an individual's right to freedom of expression and organization, a free media, and regular elections are denied to the citizens. There are four forms of totalitarianism. Communist totalitarianism was until recently the most widespread form of totalitarianism. This form of totalitarianism advocates that socialism can only be achieved through totalitarian dictatorship. Theocratic totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. Tribal totalitarianism occurs when a political party that represents the interests of a particular tribe monopolizes power. Right-wing totalitarianism permits some individual economic freedoms but restricts individual political freedom.

*AACSB: Analytic Skills*  
*Bloom's: Comprehension*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

87. (p. 48-49) Identify the three types of economic systems. How do the three types of economic systems differ from each? How are they the same?

In a pure market economy, all productive activities are privately owned. Production is determined by supply and demand, and signaled to producers through the price system. The role of the government in a pure market economy is to encourage vigorous free and fair competition between private producers. In a 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. The government's role is to allocate resources for the good of the society. In addition, all businesses are state owned. A mixed economy is a combination of the other economic systems in which 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: Reflective Thinking Skills*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

88. (p. 48) Discuss why there is inefficiency in a monopoly situation.

In a monopoly situation, a firm has no competitors, and therefore it has no incentive to search for ways to lower production costs. Rather, cost increases are simply passed on to consumers in the form of higher prices. The net result is that the monopolist is likely to become increasingly inefficient, producing high-priced, low-quality goods.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

89. (p. 49) What is a country's legal system? Why is it important to international businesses?

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which laws are enforced through which redress for grievances are obtained. It is critical that international companies understand a country's legal system because the legal system regulates business practice, defines the manner in which business transactions are to be executed, and sets down the rights and obligations of those involved in business transactions.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

90. (p. 50) What are the three main types of legal systems in use around the world?

The three types of legal systems in use around the world are common law, civil law, and theocratic law. Common law is based on tradition, precedent, and custom. Civil law is based on a very detailed set of laws organized into codes. Theocratic law is based on religious teachings.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*



91. (p. 51) Explain the differences between common law and civil law systems by the approach of each to contract law.

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

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

92. (p. 51) What is the United Nations convention on contracts for the international sale of goods (CIGS)?

CIGS establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between buyers and sellers who have their places of business in different nations. By adopting CIGS, a nation signals to other adopters that it will treat the convention's rules as part of its law.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

93. (p. 53) Discuss the Foreign Corrupt Practices Act.

The Foreign Corrupt Practices Act was passed during the 1970s by the United States making it illegal for American companies to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, and requires all public trade companies to keep detailed records that would allow determining whether a violation of the act has occurred.

*AACSB: Ethical/Legal Responsibilities*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

94. (p. 55) Discuss the different ways to protect intellectual property.

Ownership rights over intellectual property are established through patents, copyrights, and trademarks. 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 by which merchants or manufacturers designate and differentiate their products.

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-3*

95. (p. 61) What is the philosophy of Amartya Sen?

Amartya Sen is a Nobel Prize-winning economist who has argued that economic development should be assessed less by material output measures such as 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.

*AACSB: Analytic Skills*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

96. (p. 68-70) Discuss the three main reasons for the spread of democracy.

There are three main reasons for the spread of democracy. First, many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations. Second, new information and communication technologies have broken down the ability of the state to control access to uncensored information. 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.

*AACSB: Analytic Skills*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-5*

97. (p. 73) What is deregulation?

Deregulation is one step in the shift toward a market-based economy. 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 Skills*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-6*

98. (p. 73-74) Discuss privatization. Why is it important?

Privatization transfers the ownership of state property into the hands of private individuals. It is seen as a way to unlock gains in economic efficiency by giving new private owners a powerful incentive, greater profit potential, to enter new markets, and to exit losing ones.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-6*

99. (p. 76) What are first-mover advantages? What are late-mover advantages? Why are they important to international businesses?

First-mover advantages are the advantages that accrue to early entrants into a market. Late-mover advantages are the handicap that late entrants might suffer from. For companies, early entrants into potential future economic stars may be able to reap substantial first-mover advantages, while late entrants may fall victim to late-mover advantages.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*

100. (p. 76-77) How are the long-run benefits of doing business in a country measured?

The long-run monetary benefits of doing business in a country are a function of the size of the market, the present wealth of consumers in that market, and the likely future wealth of consumers.

*AACSB: Analytic Skills*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*