

TEST BANK
(1073 Questions)

CHAPTER 1
INTRODUCTION TO INTERNATIONAL BUSINESS TRANSACTIONS

TRUE/FALSE

1. Globalization in trade is likely to be accelerated through increased regionalization.

ANSWER: True

2. Direct foreign investment measures the degree of trade in goods between two nations.

ANSWER: False

3. Private individuals may use the International Court of Justice to settle commercial disputes.

ANSWER: False

4. Under U.S. law, treaties are not binding on state and local governments.

ANSWER: False

5. *Lex Mercatoria* refers to the process by which day-to-day practices become codified into international customary law.

ANSWER: True

6. International harmonization in the area of contract law will have the effect of increasing costs in international contract formation.

ANSWER: False

7. The United Nations Convention on Contracts for the International Sale of Goods (CISG) requires a written document as proof that a contract has been formed.

ANSWER: False

8. An Export Trading Company (ETC) is a type of Export Management Company (EMC) that takes title to a product.

ANSWER: True

9. Soft currency refers to the currency of a country that may be exchanged for the currency of another country without restriction.

ANSWER: False

10. Some countries block the repatriation of money earned or invested in their countries.

ANSWER: True

11. A forward contract gives a party the right, but not the obligation, to buy or sell a currency at a fixed rate in the future.

ANSWER: False

12. In the area of sale of goods, the civil law concept of *Nachfrist Notice* dictates that contractual delivery dates should not be strictly enforced unless the non-breaching party can give a commercially viable reason for not granting the extension.

ANSWER: True

13. Evergreen statutes limit an employer's ability to terminate an employee or agent.

ANSWER: True

14. Import quotas are a type of non-tariff trade barrier.

ANSWER: True

15. The threat of foreign governments nationalizing industries or expropriating a foreign company's assets has been the dominant trend over the past few decades.

ANSWER: False

16. Political risk assessment is difficult because of the scarcity of research materials.

ANSWER: False

17. Countertrade often is used to overcome currency convertibility or repatriation problems.

ANSWER: True

18. Customs brokers act as the seller's or exporter's agent.

ANSWER: False

19. Non-tariff barriers do not significantly influence a firm's trade and investment decision-making.

ANSWER: False

20. The four types of international business transactions are importing, exporting, trade in services, and countertrade.

ANSWER: False

21. Trade in goods and direct foreign investment are good measures of globalization.

ANSWER: True

22. Currency exchange risk cannot be minimized because of the unpredictability of currency fluctuations.

ANSWER: False

23. There are no United Nations Agencies that are active in issues pertaining to international business transactions.

ANSWER: False

24. Copyrights, patents, and real estate are all forms of intellectual property.

ANSWER: False

25. Protection of domestic industries is often a reason by countries in imposing trade barriers.

ANSWER: True

MULTIPLE CHOICE

26. Which of the following geographic regions has not significantly contributed to an increase in world direct foreign investment.

- A. The Americas
- B. Africa
- C. East Asia
- D. Europe

ANSWER: B

27. In order of superiority, the sources of law that guide the International Court of Justice's decisions are:

- A. (1) International custom or general practice, (2) general principles of law recognized by civilized nations, (3) judicial decisions and scholarly writings, (4) international conventions and treaties.
- B. (1) International conventions and treaties, (2) international custom or general practice, (3) judicial decisions and scholarly writings, (4) general principles of law recognized by civilized nations.
- C. (1) International conventions and treaties, (2) international custom or general practice, (3) general principles of law recognized by civilized nations, (4) judicial decisions and scholarly writings.
- D. (1) General principles of law recognized by civilized nations, (2) international conventions and treaties, (3) general principles of law recognized by civilized nations, (4) judicial decisions and scholarly writings.

ANSWER: C

28. Which of the following is not a service of the International Chamber of Commerce:

- A. International Court of Arbitration
- B. UCP 600
- C. Incoterms 2020
- D. Convention on Contracts for the International Sale of Goods (CISG)

ANSWER: D

29. _____ is a form of exporting used to overcome local restrictions against the repatriation of capital, profits, or hard currency.

- A. Franchising
- B. Countertrade
- C. Direct exporting
- D. Direct foreign investment

ANSWER: B

30. The advantage of indirect exporting as opposed to direct exporting is:

- A. Higher profits
- B. More control over the export process
- C. Minimized risk
- D. None of the above

ANSWER: C

31. Management consulting would generally fall under which category for conducting international business:

- A. Sale of services
- B. Licensing
- C. Direct foreign investment
- D. Exporting/Importing

ANSWER: A

32. In general, _____ is the riskiest of international business transactions:

- A. Indirect exporting
- B. Licensing
- C. Direct foreign investment
- D. Sale of services

ANSWER: C

33. Convertibility, repatriation, and rate fluctuation are all types of:

- A. Currency risk
- B. Legal risk
- C. Economic risk
- D. Political risk

ANSWER: A

34. Two types of countertrade include:

- A. Repatriation; convertibility
- B. Barter; counterpurchase
- C. Joint venture; technology transfer
- D. None of the above

ANSWER: B

35. Local participation requirements refer to:

- A. The host country restricts currency repatriation
- B. Local employees must be host country nationals.
- C. The host country retains all intellectual property of a foreign investment.
- D. Limits on the amount of foreign equity ownership in a host country firm.

ANSWER: D

36. Trade barriers, expropriation, and nationalization are all forms of:

- A. Political risk
- B. Legal risk
- C. Economic risk
- D. Currency risk

ANSWER: A

37. _____ is a complicated form of barter, comprising a chain of buyers and sellers in different markets:

- A. Counterpurchase
- B. Buy-back
- C. Protocol agreement
- D. Switch trading

ANSWER: D

38. In order to reduce the political risk of expropriation or non-repatriation of currency, countries have entered into:

- A. Reciprocal trade agreements
- B. Agreements on technical barriers
- C. Agreements on import licensing
- D. Bilateral investment treaties

ANSWER: D

39. The method by which a firm can move profits and costs from a high tax to a low tax country is:

- A. Transfer pricing
- B. Offset agreements
- C. Competitive trade
- D. Barter

ANSWER: A

40. Technology or intellectual property transfer is characterized as which type of international business transaction:

- A. Exporting and importing
- B. Sale of services
- C. Direct foreign investment
- D. None of the above

ANSWER: D

41. Import quotas, customs charges, export subsidies, and discriminatory labeling are all examples of:

- A. Value-added taxes
- B. Non-tariff barriers
- C. Local participation requirements
- D. Indemnity charges

ANSWER: B

42. The process of purchasing goods from a foreign supplier and shipping them to the firm's home country is known as:

- A. Foreign exchange
- B. Exporting
- C. Importing
- D. None of the above

ANSWER: C

43. A government corporation that assists U.S. investments in developing countries by providing loans, investment services, and political risk insurance is:

- A. OPIC
- B. MIGA