

International Business: The New Realities, 3e (Cavusgil)

Chapter 2: Globalization of Markets and the Internationalization of the Firm

1) Nationalization refers to the gradual integration and growing interdependence of national economies.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

2) The initial phase of globalization was triggered by the introduction of the railroads and ocean transport.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

3) The Great Depression marked the beginning of the second phase of globalization.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

4) The third phase of globalization was triggered by the development of personal computers, the Internet, and Web browsers.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

5) Firms expand abroad solely as a reaction to market globalization.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

6) Firms often internationalize proactively, in order to pursue new markets, find lower-cost inputs, or obtain other advantages.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

7) Firms that pursue internationalization as a strategic move tend to approach global competition more aggressively than do firms that internationalize on a purely reactive basis.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

8) Offshoring and the flight of jobs are prime drivers of market globalization.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

9) Globalization of production activities and services is a dimension of market globalization.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

10) Governments have facilitated economic integration by lowering barriers to international trade and investment, harmonizing their monetary and fiscal policies within regional economic integration blocs.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

11) In a "common market," barriers to the cross-border flow of factors of production are removed.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

12) The globalization of capital refers to the aggregate activities of firms that gives rise to economic integration.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

13) Converging tastes of consumers worldwide promote traditional lifestyles and values in individual countries.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

14) Companies strive to drive down prices through economies of scale, by standardizing what they sell.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

15) Falling trade barriers are facilitated by the WTO.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

16) The end of the Cold War in 1989 hindered the forces of market liberalization in Eastern Europe.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

17) Industrialization implies that emerging markets are increasing their dependence on low-cost labor.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

18) Technological advances have helped make internationalization affordable for all sizes of firms.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

19) The Internet has increased the cost of transmitting voices, data, and images.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

20) Mobile phones are the most transformative technology in developing economies.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

21) Today, the cost of transportation, as a proportion of the value of products shipped internationally, has increased dramatically.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

22) In international economics, codetermination refers to the tendency for a financial or monetary crisis in one country to spread rapidly to other countries, due to integrated national economies.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

23) Large multinationals are not constrained by market forces because they can exert considerable influence on governments through lobbying.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

24) To minimize globalization's harm and reap its benefits, governments should strive for nationalized economic regimes.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

25) The first wave of offshoring began in the 1990s with the exodus of service-sector jobs in credit card processing, software code writing, accounting, health care, and banking services.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

26) Countries that liberalize international trade and investment enjoy faster per-capita economic growth.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

27) Environmental destruction diminishes as economies develop, at least in the long run.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

28) "McDonaldization" or "Coca-Colonization" of the world refers to the idea that globalization can alter people's norms, values, and behaviors, which may tend to homogenize over time.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

29) Globalization results in more demanding buyers who shop for the best deals worldwide.

Answer: TRUE

Difficulty: Easy

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

30) Market globalization compels firms to organize their sourcing, manufacturing, marketing, and other value-adding activities on a strictly local scale.

Answer: FALSE

Difficulty: Easy

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

31) Which of the following is characteristic of globalization of markets?

A) lack of skilled labor

B) conservatism

C) declining trade barriers

D) diminishing gap between the rich and the poor

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

32) The first phase of globalization was characterized by the _____.

A) rise of steel production

B) rise of SMEs

C) dominance of MNEs in the agricultural industry

D) growth of railroads

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

33) The _____ phase of globalization began around 1900 and was associated with the rise of electricity and steel production.

A) first

B) second

C) third

D) fourth

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

34) The third phase of globalization was triggered by _____.

- A) the end of World War II
- B) the invention of electricity
- C) the end of World War I
- D) the Great Depression

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

35) Which of the following reflects the major contribution of GATT to globalization?

- A) It instituted strict controls on international currencies.
- B) It simplified patent and copyright laws.
- C) It reduced barriers to international trade and investment.
- D) It eliminated the divide between the rich and the poor.

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

36) The fourth phase of globalization is characterized by _____.

- A) rise of railroads and ocean transport
- B) reduction of barriers to trade by Western industrialized countries
- C) the initiation of the Marshall Plan to reconstruct Europe
- D) enormous growth of cross-border trade and investment

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

Internationalization Conference (Scenario)

At a conference on business internationalization strategies, representatives of three different businesses meet to discuss a joint venture between their companies. Business A is located in a country that internationalized during the second phase of globalization. Business B is based in a country that internationalized during the third phase of globalization. Business C is located in an emerging market country.

37) The representative from Business A is most likely from _____.

- A) China
- B) United Kingdom
- C) Mexico
- D) Brazil

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 2-1

AACSB: Dynamics of the global economy

38) The representative from Business B is most likely from _____.

- A) Panama
- B) Hungary
- C) Uganda
- D) Japan

Answer: D

Difficulty: Moderate

Skill: Application

Objective: 2-1

AACSB: Dynamics of the global economy

39) The representative from Business C is most likely from _____.

- A) Italy
- B) Brazil
- C) the United States
- D) France

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 2-1

AACSB: Dynamics of the global economy

40) Over time, the GATT evolved into the _____.

- A) World Bank
- B) International Monetary Fund
- C) World Trade Organization
- D) World Intellectual Property Organization

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

41) Early multinationals from the third phase of globalization originated in _____.

- A) Japan
- B) China
- C) India
- D) Brazil

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

42) The fourth phase of globalization _____.

- A) is characterized by the rise of electricity and steel production
- B) is characterized by the rise of MNEs from Japan
- C) witnessed the Bretton Woods Conference of twenty-three nations in 1947 that led to the General Agreement on Tariffs and Trade
- D) facilitated the globalization of the service sector in such areas as banking and retailing

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-1

AACSB: Dynamics of the global economy

43) As market globalization intensifies, _____.

- A) the gap between the rich and the poor shrinks rapidly
- B) the distance between consumers worldwide expands
- C) individual firms respond to the challenges and new advantages that it brings
- D) firms internationalize solely as a reaction to it

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

44) Which of the following is a driver of globalization?

- A) greater emphasis on proactive internationalization
- B) internationalization of firm's value chain
- C) integration of world financial markets
- D) globalization of services

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

45) Which of the following is a societal consequence of market globalization?

- A) greater emphasis on proactive internationalization
- B) internationalization of firm's value chain
- C) new risks and instant rivalry from foreign competitors
- D) offshoring and the flight of jobs

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

46) Firms that are more successful at global competition display each of the following qualities EXCEPT _____.

- A) identifying foreign market opportunities aggressively
- B) approaching internationalization from a reactive standpoint
- C) actively pursuing partnerships with foreign firms
- D) focusing intensively on building organizational capacities

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-2

AACSB: Dynamics of the global economy

Global Operations Report (Scenario)

As Vice President of Global Expansion for Pax Telecom, Deva Mikiri is tasked with preparing a comprehensive report on the company's global operations over the past twenty years. Deva assigns three strategists to collaborate on the History portion of the report, which details the rationale behind Pax's decisions to expand operations in particular areas. Rashid Ahl focuses on early expansion to China, which occurred after China began to make its market more accessible to foreign companies. Markus Teller focuses on Pax's expansion to Eastern Europe, which was motivated by increased industry privatization in key countries. Lavonne Jackson focuses on expansion to Japan, which happened when the company's commercial bank expanded its service network to Asia.

47) To which of the following drivers of market globalization is Markus most likely to attribute his company's expansion to Eastern Europe?

- A) advances in technology
- B) integration of world financial markets
- C) market liberalization
- D) industrialization

Answer: C

Difficulty: Moderate

Skill: Application

Objective: 2-2

AACSB: Analytic skills

48) In terms of international business, market globalization can be viewed as a _____.

- A) consequence of a strong emphasis on traditional values worldwide
- B) consequence of the loss of national sovereignty
- C) driver and consequence of firm-level internationalization
- D) prime cause of rising diseconomies of scale in emerging economies

Answer: C

Difficulty: Moderate

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

49) A value chain is _____.

- A) the sequence of administrative policies implemented to promote economic integration by a government
- B) the process of relocating manufacturing and production to valuable and cost-effective locations abroad
- C) the process of integrating national economies during a financial crisis
- D) the sequence of value-adding activities performed by a firm in the course of developing, producing, marketing, and servicing a product

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

50) Regional economic integration blocs _____.

- A) reduce trade and investment barriers
- B) reduce private investments
- C) adopt a hostile stance toward the private sector
- D) hinder the cross-border flow of factors of production

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

51) Which of the following is an example of a supranational institution?

- A) the World Intellectual Property Organization
- B) the UNICEF
- C) the Red Cross
- D) the World Trade Organization

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

52) Governments have facilitated economic integration by _____.

- A) increasing barriers to international trade and investment
- B) developing supranational institutions to further reduce trade barriers
- C) adopting different monetary and fiscal policies within the same regional economic integration blocs
- D) standardizing consumer lifestyles and preferences

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

53) The free movement of capital around the world is also known as _____.

- A) bond-based debt financing
- B) contagion
- C) the globalization of capital
- D) common market arrangement

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

54) _____ refers to the sequence of value-adding activities performed by the firm in the course of developing, producing, marketing, and servicing a product.

- A) A value chain
- B) A supply chain
- C) Value gap
- D) Value migration

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

55) Companies strive to drive down prices _____.

- A) by centralizing manufacturing and procurement to a single source
- B) by standardizing what they sell
- C) by thwarting the growth of supranational institutions
- D) by discouraging competition

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

56) Convergence of consumer preferences has led to an enhanced emphasis on standardization which implies that _____.

- A) the consistently rising prices of consumer goods have led to a demand vacuum in the market
- B) the distance between consumers worldwide has increased with the advent of technology
- C) the raw materials, parts, and components sourced by professional buyers are very similar in design and structure
- D) the globalization of services has adversely affected the quality of service worldwide

Answer: C

Difficulty: Moderate

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

57) Reduction in trade barriers is associated with the emergence of _____.

- A) fragmentary monetary and fiscal policies across the borders
- B) regional economic integration blocs
- C) widespread violation of intellectual property rights law
- D) violation of GATT provisions

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

Global Operations Report (Scenario)

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58) In describing the main driver behind Pax's expansion to China, Rashid is most likely to emphasize _____.

- A) high rate of employee attrition in China
- B) advances in technology
- C) reduction of barriers to trade
- D) integration of world financial markets

Answer: C

Difficulty: Moderate

Skill: Concept

Objective: 2-4

AACSB: Analytic skills

59) Which of the following drivers of market globalization is Lavonne's research most likely to recognize as the factor responsible for the company's expansion to Japan?

- A) integration of world financial markets
- B) the highly conservative nature of the Japanese economy
- C) the rise of monopoly markets in Japan
- D) reduction of barriers to investment

Answer: A

Difficulty: Moderate

Skill: Concept

Objective: 2-4

AACSB: Analytic skills

60) _____ marked the end of the 50-year Cold War and smoothed the integration of former command economies into the global economy.

- A) The end of the World War II
- B) The Bolshevik Revolution in Russia
- C) China's free-market reforms
- D) China's move to join the WTO

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

61) Financial market integration makes it possible for internationally active firms to _____.

- A) nationalize manufacturing industries
- B) minimize offshoring
- C) increase tariffs on the import of automobiles and industrial machinery
- D) engage in foreign currency transactions

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

62) The globalization of finance _____.

- A) enables companies to minimize offshoring
- B) contributes to firms' abilities to develop and operate world-scale production and marketing
- C) discourages innovation
- D) discourages free international exchange of goods and services

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

63) Which of the following statements is true of technological advances?

- A) It provides a means for globalization to happen.
- B) It discourages internationalization.
- C) It inhibits the growth of new products and services.
- D) It helps consolidate traditional values among consumers worldwide.

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

64) Technological leapfrogging is defined as _____.

- A) adopting new technology late in the hype cycle
- B) adopting new technology as soon as it is released
- C) bypassing certain stages of technology to come up with a radical innovation when upgrading to new products
- D) boosting demand artificially by postponing the sale of new technology in the market

Answer: C

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

65) The science and process of creating and using information resources is known as _____.

- A) information design
- B) information technology
- C) psychographics
- D) demographics

Answer: B

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

66) Which of the following benefits of IT is specific to smaller firms?

- A) It mitigates organizational anarchy.
- B) It creates competitive advantages by encouraging organizational learning.
- C) It aids in the consolidation of market monopolies.
- D) It allows firms to design and produce customized products they can target to narrow, cross-national market niches.

Answer: D

Difficulty: Moderate

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Reflective thinking skills

67) _____ are the most transformative technology in developing economies.

- A) Mobile phones
- B) Televisions
- C) Intranets
- D) E-mails

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

68) Technological advances have contributed to manufacturing by _____.

- A) promoting traditional lifestyles and values
- B) reducing cross-border flow of factors of production
- C) promoting nationalization
- D) reducing production costs

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

69) Stella manages the production team at Camden Inc., a manufacturer of heavy industry machinery in the United States. She needs to decide if her firm should export finished products or manufacture abroad. Which of the following would most likely help her evaluate the best alternative in this instance?

- A) What is the gross national income of the United States?
- B) What are the costs of transporting raw materials, components, and finished products?
- C) Is employee empowerment culturally favored in the United States?
- D) What is the average annual rate of employee turnover in the manufacturing industry?

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 2-5

AACSB: Analytic skills

70) _____ refers to the tendency of a financial or monetary crisis in one country to spread rapidly to other countries, due to the ongoing integration of national economies.

- A) Contagion
- B) Nationalization
- C) Internationalization
- D) Codetermination

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

71) The ability of a nation to govern its own affairs is known as _____.

- A) sovereignty
- B) liberalization
- C) interdependence
- D) homogenization

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

72) The relocation of manufacturing and other value-chain activities to cost-effective locations abroad is known as _____.

- A) insourcing
- B) cultural imperialism
- C) contagion
- D) offshoring

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

73) Which of the following is an example of offshoring?

- A) Fahad, a resident of the UAE can share his views—data and information—about the country's construction industry with his friends in the U.S.
- B) The IT support services for customers of Mayfair Inc., a U.S. based consumer electronics manufacturer, are based in India.
- C) Treat Corp. is a food and beverage manufacturer based in Texas. It decided to move from Houston to Fort Worth in Texas to cut production costs.
- D) Lin, a Chinese citizen, decides to move to the U.K. after her application for scholarship is accepted by a leading university in London.

Answer: B

Difficulty: Moderate

Skill: Application

Objective: 2-6

AACSB: Dynamics of the global economy

74) An underground economy _____.

- A) refers to the informal economic sector
- B) refers to the formal economic sector
- C) is characterized by dominantly legal transactions
- D) is regulated and monitored by public authorities

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

75) While a degree of cultural imperialism may be at work, it is offset by the countertrend of _____.

- A) offshoring
- B) McDonaldization
- C) privatization
- D) local nationalism

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

Globalization Debate (Scenario)

In his international business class, Professor Jang organizes a debate on the societal effects of market globalization. Juan Prince takes a position that highlights the negative effects of market globalization. He emphasizes how multinational enterprises can wield so much influence that they threaten national sovereignty. He also notes the prevalence of low wages and sweatshop conditions as firms utilize low-cost labor abroad. Juan then describes the detrimental effects of corporate pollution on the environment, and he ends his argument by explaining how market globalization helps homogenize national cultures. Rina Taylor is assigned to counter Juan's position.

76) Which of the following is Rina most likely to cite as a counter example to Juan's argument regarding the influence of MNEs on national sovereignty?

- A) the dominating influence of market forces on the global economy
- B) technological advances in computer-aided design of products
- C) the political influence of large firms such as Walmart
- D) the actual GDPs of underdeveloped economies

Answer: A

Difficulty: Moderate

Skill: Critical Thinking

Objective: 2-6

AACSB: Dynamics of the global economy; Reflective thinking skills

77) Which of the following most likely supports Rina's argument over Juan's concerning wages and working conditions in developing countries?

- A) Most African countries today still suffer from low or negative GDP growth.
- B) Vietnam has experienced a five-fold increase in wages as a result of the growth of the footwear industry there.
- C) The move of Electrolux to Mexico cost Michigan 2,700 jobs.
- D) Minimum wages should be established at set levels, regardless of the impact on the number of jobs.

Answer: B

Difficulty: Moderate

Skill: Critical Thinking

Objective: 2-6

AACSB: Dynamics of the global economy; Reflective thinking skills

78) Rina is most likely to counter Juan's claim regarding environmental effects by pointing out which of the following?

- A) The intensity of environmental pollution is far greater in emerging economies than in undeveloped ones.
- B) China's landscape was permanently altered by the construction of the Three Gorges Dam.
- C) Environmental destruction tends to diminish in the long run, as economies develop.
- D) Attempts at foreign cultural imperialism are often blocked by national governments.

Answer: C

Difficulty: Moderate

Skill: Critical Thinking

Objective: 2-6

AACSB: Dynamics of the global economy; Reflective thinking skills

79) Which of the following statements most likely to counters Juan's argument concerning the homogenization of national cultures?

- A) As globalization standardizes superficial aspects of life across national cultures, people resist these forces by insisting on their national identity and taking steps to protect it.
- B) Foreign values tend to shift not just superficial aspects of culture, but deeply held beliefs as well.
- C) Material goods such as cell phones and computers are found in most homes throughout the world.
- D) In most industries, domestic operation alone cannot sustain competitive business growth.

Answer: A

Difficulty: Moderate

Skill: Critical Thinking

Objective: 2-6

AACSB: Dynamics of the global economy; Reflective thinking skills

80) The most direct implication of market globalization is on the firm's _____.

- A) value chain
- B) supply chain
- C) internal stakeholders
- D) top management

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

- 81) Which of the following statements is true about value chain and international business?
- A) Exporting firms perform most of the downstream value chain activities in the home market.
 - B) Exporting firms perform most of the upstream value chain activities in the home market.
 - C) Exporting firms perform most of the upstream value chain activities abroad.
 - D) Exporting firms perform most of the research and product development and production abroad.

Answer: B

Difficulty: Moderate

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

- 82) In a typical value chain, the firm _____.
- A) rarely conducts research and development
 - B) performs most upstream value-chain activities abroad, when exporting
 - C) performs marketing activities such as pricing, promotion, and selling
 - D) performs most downstream activities in the home market, when exporting

Answer: C

Difficulty: Moderate

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

- 83) Which of the following statements is true about the firm-level consequences of market globalization?
- A) The globalization of markets has narrowed down new business opportunities for internationalizing firms.
 - B) Globalization drives firms to relocate key value-adding activities to the most advantageous locations around the world.
 - C) A firm's value chain is not subject to internationalization.
 - D) Through offshoring, a firm relocates a major value-chain activity by establishing a factory or subsidiary in the home market.

Answer: B

Difficulty: Moderate

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

84) Which of the following stages comes before procurement in a firm's value chain?

- A) research & development
- B) marketing
- C) manufacturing
- D) distribution

Answer: A

Difficulty: Easy

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

85) Which of the following represents the final stage in a firm's value chain?

- A) marketing
- B) procurement
- C) research & development
- D) sales and service

Answer: D

Difficulty: Easy

Skill: Concept

Objective: 2-7

AACSB: Dynamics of the global economy

Acme Software (Scenario)

Acme Software is a U.S.-based maker of software products for the health care industry. Recently Acme has been investigating whether it would be beneficial to internationalize some of its value-chain activities. Acme hires a consulting group to help determine which, if any, value-chain activities could be conducted abroad to promote business growth. The consulting group identifies two health care software development companies in India that could provide programming services at a lower cost than Acme's current expenditures for programming. In addition, the consultants conduct international market research which shows that German health care companies have a strong demand for the type of software that Acme offers.

86) Which of the following activities in Acme's value chain would be internationalized if Acme decides to establish a development contract with one of the Indian software firms?

- A) sales
- B) distribution
- C) marketing
- D) procurement

Answer: D

Difficulty: Easy

Skill: Application

Objective: 2-7

AACSB: Dynamics of the global economy

87) Which of the following would be most important for the consulting group to consider when deciding whether to recommend that Acme internationalize its sales efforts to Germany?

- A) Will Acme save money on advertising by targeting small rather than large companies?
- B) How intense is the competition from German companies offering similar products?
- C) What type of training is received by programmers in software firms abroad?
- D) Is employee empowerment culturally favored in Germany?

Answer: B

Difficulty: Easy

Skill: Critical Thinking

Objective: 2-7

AACSB: Dynamics of the global economy; Reflective thinking skills

88) Which of the following would be most important for Acme to determine before outsourcing its programming services to India?

- A) What benefits have Indian companies gained historically from internationalizing their value-chain activities?
- B) Do Indian businesses outsource value-chain activities to Europe?
- C) Would the lower cost of outsourcing allow Acme to sustain a competitive advantage in its business operations?
- D) Is either of the Indian health care companies interested in moving their operations abroad?

Answer: C

Difficulty: Easy

Skill: Critical Thinking

Objective: 2-7

AACSB: Dynamics of the global economy; Reflective thinking skills

89) Describe the role of GATT and the WTO in reducing barriers to trade and investment worldwide, and explain how this reduction has led to the integration and interdependence of national economies.

Answer: The Bretton Woods Conference of twenty-three nations in 1947 led to the General Agreement on Tariffs and Trade (GATT) and a series of negotiations that, over time, reduced barriers to international trade and investment. Participating governments recognized that liberalized trade would stimulate industrialization, modernization, and better living standards. The GATT eventually transformed into the World Trade Organization, a multilateral governing body that grew to include 149 member nations. The WTO aims to regulate and ensure fairness and efficiency in global trade and investment. Global cooperation in the post-war era gave birth to other international organizations such as the International Monetary Fund and the World Bank.

Internationally active firms devise multicountry operations through trade, investment, geographic dispersal of company resources, and integration and coordination of value-chain activities. Governments have facilitated this integration by lowering barriers to international trade and investment, harmonizing their monetary and fiscal policies within regional economic integration blocs (also known as trade blocs), and developing supranational institutions—the World Bank, International Monetary Fund, World Trade Organization, and others—that seek further reductions in trade and investment barriers.

Difficulty: Moderate

Skill: Synthesis

Objective: 2-1, 2-3

AACSB: Dynamics of the global economy

90) In a short essay, discuss the impact of market globalization on consumer lifestyles and preferences around the world. Provide examples to illustrate your answer.

Answer: Around the world, consumers spend their money and time in increasingly similar ways. Lifestyles and preferences are converging. Shoppers in Tokyo, New York, and Paris demand similar household goods, clothing, automobiles, and electronics. Teenagers everywhere are attracted to iPods, Levi's jeans, and BlackBerry cell phones. Major brands have gained a global following, encouraged by greater international travel, movies, global media, and the Internet, which expose people to products, services, and living patterns from around the world. Movies such as Transformers and The Twilight Saga receive much attention from a global audience. Convergence of preferences is also occurring in industrial markets, where professional buyers source raw materials, parts, and components that are increasingly standardized—that is, very similar in design and structure. Yet, even as converging tastes facilitate the marketing of highly standardized products and services to buyers worldwide, they also promote the loss of traditional lifestyles and values in individual countries.

Difficulty: Moderate

Skill: Concept

Objective: 2-3

AACSB: Dynamics of the global economy

91) How has the adoption of free markets worldwide served as a driver of market globalization? Provide three examples to support your answer.

Answer: The collapse of the Soviet Union's economy in 1989 and China's free-market reforms marked the end of the 50-year Cold War and smoothed the integration of former command economies into the global economy. Numerous East Asian economies, stretching from South Korea to Malaysia and Indonesia, had already embarked on ambitious market-based reforms. India joined the trend in 1991. These events opened roughly one-third of the world to freer international trade and investment. China, India, and Eastern Europe have become some of the most cost-effective locations for producing goods and services worldwide. Privatization of previously state-owned industries in these countries has encouraged economic efficiency and attracted massive foreign capital into their national economies.

Difficulty: Moderate

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy

92) What is implied by industrialization? How does it bring about economic development? What is modernization?

Answer: Industrialization implies that emerging markets—rapidly developing economies in Asia, Latin America, and Eastern Europe—are moving from being low value-adding commodity producers, dependent on low-cost labor, to sophisticated competitive producers and exporters of premium products such as electronics, computers, and aircraft. For example, Brazil is now a leading producer of private aircraft, and the Czech Republic excels in the manufacture of automobiles. As highlighted in the opening story, India has become a leading supplier of computer software. Economic development is enhancing standards of living and discretionary income in emerging markets. Perhaps the most important measure of economic development is gross national income (GNI) per head. Modernization is increasing the attractiveness of emerging markets as investment targets and facilitating the spread of ideas, products, and services across the globe.

Difficulty: Moderate

Skill: Concept

Objective: 2-4

AACSB: Dynamics of the global economy; Use of information technology

93) In a short essay, identify the four areas in which technological advances had their greatest impact on business. Describe the impact of each area on business today.

Answer: Perhaps the most important driver of market globalization has been technological advances in information, communications, manufacturing, and transportation. While globalization makes internationalization imperative, technological advances provide the means for it to happen.

a. Information technology: Information technology (IT) is the science and process of creating and using information resources. Its effect on business has been revolutionary. The cost of computer processing fell by 30 percent per year during the past two decades and continues to fall. IT creates competitive advantages by giving companies new ways to outperform rivals. IT benefits smaller firms too, allowing them to design and produce customized products they can target to narrow, cross-national market niches.

b. Communications: The Internet, and Internet-dependent systems such as intranets, extranets, and e-mail, connect millions of people worldwide. Today, the widest range of products and services—from auto parts to bank loans—is marketed online. Transmitting voices, data, and images is essentially costless, making Seoul, Stockholm, and San Jose next-door neighbors, instantly.

c. Manufacturing: Computer-aided-design (CAD) of products, robotics, and production lines managed and monitored by microprocessor-based controls are transforming manufacturing, mainly by reducing the costs of production. Revolutionary developments now permit low-scale and low-cost manufacturing. Firms can produce products in short production runs cost-effectively. These developments benefit international business by allowing firms to more efficiently adapt products to individual foreign markets, profitably target small national markets, and compete more effectively with foreign competitors who already have cost advantages.

d. Transportation: The development of fuel-efficient jumbo jets, giant ocean-going freighters, and low-cost shipping, often through the use of high-tech composites, have revolutionized international transportation. The "death of distance" refers to the shrinkage of the geographic and cultural distances that long separated nations.

Difficulty: Moderate

Skill: Concept

Objective: 2-5

AACSB: Dynamics of the global economy; Use of information technology

94) Describe the fourth phase of globalization. What is contagion?

Answer: The fourth phase of globalization began in the early 1980s, which saw enormous growth in cross-border trade and investment. The phase was triggered by the development of personal computers, the Internet, and Web browsers; the collapse of the Soviet Union and ensuing market liberalization in Central and Eastern Europe; and industrialization and modernization in East Asian economies, including China.

Contagion refers to the tendency of a financial or monetary crisis in one country to spread rapidly to other countries, due to the ongoing integration of national economies. Starting in 2008, the world economy experienced a severe financial crisis and global recession, the worst in decades. The crisis began in the United States and, like a contagious disease, spread around the world.

Difficulty: Moderate

Skill: Synthesis

Objective: 2-1, 2-6

AACSB: Dynamics of the global economy

95) In a short essay, explain the concept of sovereignty. How does globalization affect sovereignty?

Answer: Sovereignty, the ability of a nation to govern its own affairs, is a fundamental principle that underlies global relations. One country's laws cannot be applied or enforced in another country. Globalization can threaten national sovereignty in various ways. MNE activities can interfere with the sovereign ability of governments to control their own economies, social structures, and political systems. Some corporations are bigger than the economies of many nations. Indeed, Walmart's internal economy—its total revenues—is larger than the GDP of most of the world's nations, such as Greece, Peru, and Thailand. Large multinationals can exert considerable influence on governments through lobbying or campaign contributions. They often lobby their government for, say, devaluation of the home currency, which gives them greater price competitiveness in export markets. MNEs influence the legislative process and extract special favors from government agencies. Gradual integration of the global economy and increased global competition, combined with privatization of industries in various nations, are making some companies less powerful within their national markets. Today, globalization and the spread of financial crises compel governments to pursue sound economic policies and managers to manage their firms more effectively. To minimize globalization's harm and reap its benefits, governments should strive for open and liberalized economic regimes. Specifically, governments should ensure the freedom to enter and compete in markets, protect private and intellectual property, enforce the rule of law, and support voluntary exchange through markets rather than through political processes. Banks and financial institutions should be regulated appropriately. Transparency in the affairs of business and regulatory agencies is critical.

Difficulty: Moderate

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

96) Discuss the effect of globalization on national culture.

Answer: Globalization exerts strong pressures on national culture. Market liberalization opens the door to foreign companies, global brands, unfamiliar products, and new values. Consumers increasingly wear similar clothing, drive similar cars, watch the same movies, and listen to the same recording stars. Advertising leads to the emergence of societal values modeled on Western countries, especially the United States. Hollywood dominates the global entertainment industry. In this way, globalization can alter people's norms, values, and behaviors, which may tend to homogenize over time. Critics call these trends the "McDonaldization" or the "Coca-Colonization" of the world. To combat such trends, some governments try to block cultural imperialism and prevent the erosion of local traditions. In Canada, France, and Germany, the public sector attempts to prevent U.S. ideals from diluting local traditions. Hollywood, McDonald's, and Disneyland are seen as Trojan horses that permanently alter food preferences, lifestyles, and other aspects of traditional life. For better or worse, however, such trends are probably inevitable in a globalizing world.

Difficulty: Moderate

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

97) In a short essay, discuss the impact of globalization on Africa.

Answer: Africa is home to the poorest countries. The majority of its 1 billion people live on less than \$2 a day. It is the area least integrated into the world economy and accounts for less than 3 percent of world trade. Although it has abundant natural resources, Africa remains underdeveloped due to such factors as inadequate commercial infrastructure, lack of access to foreign capital, high illiteracy, government corruption, wars, and the spread of AIDS. In recent years, experts have suggested that the most effective way to alleviate African poverty is to employ business-based models. After decades of stagnation, several sub-Saharan African countries have experienced significant economic growth thanks to increasing international trade in commodities. For example, Africa is a major supplier of petroleum to Europe and the United States. Angola is among the top oil suppliers to China. There is a ripple effect to economic development. As certain sectors in Africa have boomed in recent years, foreign banks, retailers, and MNEs have set up operations in the continent. In formerly war-torn Rwanda, countless business opportunities have emerged in sectors as diverse as mining, tourism, telecommunications, and real estate. China and India are beating out U.S. firms and quickly increasing their business dealings in Africa. Chinese companies are investing billions of dollars in the continent. International trade and investment are helping to address many of Africa's most pressing development needs. It will take many more years before Africa achieves a critical mass of infrastructure and business culture sufficient to substantially raise average incomes across the continent.

Difficulty: Moderate

Skill: Concept

Objective: 2-6

AACSB: Dynamics of the global economy

98) What is meant by the internationalization of a firm's value chain? How do advances in technology contribute to internationalization of firms' value chains?

Answer: The most direct implication of market globalization is on the firm's value chain. Market globalization compels firms to organize their sourcing, manufacturing, marketing, and other value-adding activities on a global scale. In a typical value chain, the firm conducts research and product development (R&D), purchases production inputs, and assembles or manufactures a product or service. Next, the firm performs marketing activities such as pricing, promotion, and selling, followed by distribution of the product in targeted markets and after-sales service.

The value-chain concept is useful in international business because it helps clarify what activities are performed where in the world. For instance, exporting firms perform most "upstream" value-chain activities (R&D and production) in the home market and most "downstream" activities (marketing and after-sales service) abroad. Each value-adding activity in the firm's value chain is subject to internationalization; that is, it can be performed abroad instead of at home. Companies have considerable latitude regarding where in the world they locate or configure key value-adding activities. The most typical reasons for locating value-chain activities in particular countries are to reduce the costs of R&D and production or to gain closer access to customers. Through offshoring, the firm relocates a major value-chain activity by establishing a factory or other subsidiary abroad. A related trend is global outsourcing, in which the firm delegates performance of a value-adding activity to an external supplier or contractor located abroad. Globalization allows firms to relocate key value-adding activities to the most advantageous locations around the world.

While globalization makes internationalization imperative, technological advances provide the means for it to happen. Firms interact more efficiently with foreign partners and value-chain members than ever before. They transmit all kinds of data, information, and vital communications that help ensure the smooth running of their operations worldwide. They use information technology to improve the productivity of their operations, which provides substantial competitive advantages. For example, information technology allows firms to more efficiently adapt products for international markets or produce goods in smaller lots to target international niche markets.

Difficulty: Easy

Skill: Synthesis

Objective: 2-5, 2-7

AACSB: Dynamics of the global economy