

c1

Student: _____

1. What major dimension sets apart international finance from domestic finance?
 - A. Foreign exchange and political risks
 - B. Market imperfections
 - C. Expanded opportunity set
 - D. all of these

2. Market imperfections include all of the following except:
 - A. Taxes on imported goods
 - B. Taxes on exported goods
 - C. Stock markets
 - D. Two different classes of shareholders for one company

3. Privatization refers to process of:
 - A. Having government operate businesses for the betterment of the public sector
 - B. Government allowing the operation of privately owned business
 - C. Prohibiting government operated enterprises
 - D. A country divesting itself of the ownership and operation of a business venture by turning it over to the free market system

4. The goal of shareholder wealth maximization
 - A. is not appropriate for non-U.S. business firms
 - B. means that all business decisions and investments that a firm makes are done for the purpose of making the owners of the firm better off financially
 - C. is a sub-objective the firm should attempt to achieve after the objective of customer satisfaction is met
 - D. is in conflict with the privatization process taking place in third-world countries

5. The theory of comparative advantage:
 - A. Claims that economic well-being is enhanced if each country's citizens produce only a single product
 - B. Claims that economic well-being is enhanced when all countries compare commodity prices after adjusting for exchange rate differences in order to standardize the prices charged all countries
 - C. Claims that economic well-being is enhanced if each country's citizens produce that which they have a comparative advantage in producing relative to the citizens of other countries, and then trade production
 - D. Claims that no country has an absolute advantage over another country in the production of any good or service

6. A multinational firm can be defined as:

- A. A firm that invests short-term cash inflows in more than one currency
- B. A firm that has sales affiliates in several countries
- C. A firm that is incorporated in more than one country
- D. A firm that incorporated in one country that has production and sales operations in several other countries

7. An example of a political risk is

- A. Expropriation of assets
- B. Adverse change in tax rules
- C. The opposition party being elected
- D. a and b

8. Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Compute the opportunity cost of producing food instead of textiles.

- A. 1 yard of textiles per 1.67 pounds of food
- B. 1 pound of food per 1.67 yards of textiles
- C. 1 yard of textiles per .6 pounds of food
- D. 1 pound of food per .6 yards of textiles

9. Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Country B can produce 8 yards of textiles and 5 pounds of food per unit of input.

- A. Country A is relatively more efficient than Country B in the production of food
- B. Country B is relatively more efficient than Country A in the production of textiles
- C. Country A has an absolute advantage over Country B in the production of food and textiles
- D. Country B has an absolute advantage over Country A in the production of food and textiles

10. Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Country B can produce 8 yards of textiles and 5 pounds of food per unit of input.

- A. Country A is relatively more efficient than Country B in the production of textiles
- B. Country B is relatively more efficient than Country A in the production of food
- C. Country A has an absolute advantage over Country B in the production of food and textiles
- D. All of these

11. Exchange rate risk refers to

- A. An expected drop in an exchange rate
- B. A highly variable exchange rate
- C. Lower profit due to an expected drop in an exchange rate
- D. Lower profits due to an unexpected change in exchange rates

12. Political risk includes all of the following except:

- A. Expropriation
- B. Unexpected changes in tax rules
- C. Change in government
- D. Unexpected changes in environmental rules

13. Multinational firms gain from their global presence in the following ways EXCEPT:

- A. Rising marginal costs of production
- B. Economies of Scale
- C. Low-cost labour in foreign countries
- D. Spreading R&D expenditures over global sales

14. Recent trends in the globalization of the world economy include all of the following except:

- A. emergence of global financial markets
- B. economic differentiation
- C. advent of the euro
- D. privatization

15. David Ricardo's theory of comparative advantage has the following policy implication:

- A. Liberalization of international trade will enhance the welfare of the world's citizens
- B. International trade is a zero-sum game
- C. One country will benefit from trade at the expense of another country
- D. Restriction of international trade will enhance the welfare of the world's citizens

16. GATT, the General Agreement on Tariffs and Trade, has been successful by:

- A. Reduce import tariffs worldwide by an average of 98%
- B. Reduce import tariffs worldwide by an average of 78%
- C. Reduce import tariffs worldwide by an average of 58%
- D. Reduce import tariffs worldwide by an average of 38%

17. Which of the following statements about the EU (European Union) is wrong?

- A. All member countries of the EU have adopted the euro
- B. The EU recently enlarged to include some formerly socialist countries
- C. The EU was established to foster economic integration in Western Europe
- D. The EU is a direct descendent of the European Community

18. The "Big Bang" refers to:

- A. Deregulation of the Japanese stock market
- B. Deregulation of the German stock market
- C. Deregulation of the British stock market
- D. Deregulation of the Mexican stock market

19. Which of the following statements is NOT true about the euro?

- A. Was introduced in 1999
- B. Precipitated the emergence of continent-wide capital markets in Europe
- C. Competes with American dollar
- D. Is used by all European countries

20. The euro zone has

- A. A common fiscal policy
- B. A common monetary policy
- C. A common taxation policy
- D. A common immigration policy

[illegible][illegible]

- A. \$600
B. \$750
C. \$900
D. All of these numbers can be the equilibrium price of tomatoes

24. If the total world production of potatoes is 2000 tons, how much tomatoes will be produced in Russia?

- A. 1000 tons
- B. 500 tons
- C. 666.67 tons
- D. 333.33 tons

25. If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, how much potatoes will be produced in Byelorussia?

- A. None
- B. 333.33 tons
- C. 500 tons
- D. 666.67 tons

26. If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, and the price of potatoes is \$1000 per ton, what is the GDP in Byelorussia?

- A. \$165,000
- B. \$333,333
- C. \$1,000,000
- D. None of these

27. If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, how much tomatoes are CONSUMED in Byelorussia?

- A. Less than 100 tons
- B. At least 100 tons but less than 200 tons
- C. At least 200 tons but less than 400 tons
- D. More than 400 tons

28. What is special about international finance?

29. What is the goal of sound financial management?

30. What are some of major recent trends in globalization?

31. What is the euro?

32. What is the specific Canadian perspective on international finance?

c1 Key

1. (p. 3) What major dimension sets apart international finance from domestic finance?
- A. Foreign exchange and political risks
 - B. Market imperfections
 - C. Expanded opportunity set
 - D. all of these**

Eun - Chapter 001 #1
Level: easy

2. (p. 5) Market imperfections include all of the following except:
- A. Taxes on imported goods
 - B. Taxes on exported goods
 - C. Stock markets**
 - D. Two different classes of shareholders for one company

Eun - Chapter 001 #2
Level: hard

3. (p. 12-13) Privatization refers to process of:
- A. Having government operate businesses for the betterment of the public sector
 - B. Government allowing the operation of privately owned business
 - C. Prohibiting government operated enterprises
 - D. A country divesting itself of the ownership and operation of a business venture by turning it over to the free market system**

Eun - Chapter 001 #3
Level: easy

4. (p. 6) The goal of shareholder wealth maximization
- A. is not appropriate for non-U.S. business firms
 - B. means that all business decisions and investments that a firm makes are done for the purpose of making the owners of the firm better off financially**
 - C. is a sub-objective the firm should attempt to achieve after the objective of customer satisfaction is met
 - D. is in conflict with the privatization process taking place in third-world countries

Eun - Chapter 001 #4
Level: medium

5. (p. 24) The theory of comparative advantage:

- A. Claims that economic well-being is enhanced if each country's citizens produce only a single product
- B. Claims that economic well-being is enhanced when all countries compare commodity prices after adjusting for exchange rate differences in order to standardize the prices charged all countries
- C.** Claims that economic well-being is enhanced if each country's citizens produce that which they have a comparative advantage in producing relative to the citizens of other countries, and then trade production
- D. Claims that no country has an absolute advantage over another country in the production of any good or service

Eun - Chapter 001 #5
Level: medium

6. (p. 13) A multinational firm can be defined as:

- A. A firm that invests short-term cash inflows in more than one currency
- B. A firm that has sales affiliates in several countries
- C. A firm that is incorporated in more than one country
- D.** A firm that incorporated in one country that has production and sales operations in several other countries

Eun - Chapter 001 #6
Level: medium

7. (p. 4) An example of a political risk is

- A. Expropriation of assets
- B. Adverse change in tax rules
- C. The opposition party being elected
- D.** a and b

Eun - Chapter 001 #7
Level: medium

8. (p. 23- 24) Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Compute the opportunity cost of producing food instead of textiles.

- A. 1 yard of textiles per 1.67 pounds of food
- B. 1 pound of food per 1.67 yards of textiles
- C.** 1 yard of textiles per .6 pounds of food
- D. 1 pound of food per .6 yards of textiles

$$6/10 = .6$$

Eun - Chapter 001 #8
Level: medium

9. (p. 24-25) Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Country B can produce 8 yards of textiles and 5 pounds of food per unit of input.

- A. Country A is relatively more efficient than Country B in the production of food
- B. Country B is relatively more efficient than Country A in the production of textiles
- C.** Country A has an absolute advantage over Country B in the production of food and textiles
- D. Country B has an absolute advantage over Country A in the production of food and textiles

Country A has an opportunity cost of 1 yard of textiles per $.6 (= 6/10)$ pounds of food; Country B has an opportunity cost of 1 yard of textiles for $.63 (= 5/8)$ pounds of food. Thus, Country A has an absolute advantage over Country B in the production of textiles.

Eun - Chapter 001 #9
Level: hard

10. (p. 24-25) Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Country B can produce 8 yards of textiles and 5 pounds of food per unit of input.

- A. Country A is relatively more efficient than Country B in the production of textiles
- B. Country B is relatively more efficient than Country A in the production of food
- C. Country A has an absolute advantage over Country B in the production of food and textiles
- D.** All of these

Country A has an opportunity cost of 1 yard of textiles per $.6 (= 6/10)$ pounds of food; Country B has an opportunity cost of 1 yard of textiles for $.63 (= 5/8)$ pounds of food. Country A has an opportunity cost of 1 pound of food per $1.67 (= 10/6)$ yards of textiles; Country B has an opportunity cost of 1 pound of food for $1.60 (= 8/5)$ yards of textiles. Thus, Country A has an absolute advantage and a relative efficiency over Country B in the production of textiles. Country B has a relative efficiency over Country A in the production of food. Country B does not have an absolute advantage over Country A in the production of food or textiles.

Eun - Chapter 001 #10
Level: hard

11. (p. 3) Exchange rate risk refers to

- A. An expected drop in an exchange rate
- B. A highly variable exchange rate
- C. Lower profit due to an expected drop in an exchange rate
- D.** Lower profits due to an unexpected change in exchange rates

Eun - Chapter 001 #11
Level: medium

12. (p. 4) Political risk includes all of the following except:

- A. Expropriation
- B. Unexpected changes in tax rules
- C. Change in government**
- D. Unexpected changes in environmental rules

Eun - Chapter 001 #12

Level: hard

13. (p. 13) Multinational firms gain from their global presence in the following ways EXCEPT:

- A. Rising marginal costs of production**
- B. Economies of Scale
- C. Low-cost labour in foreign countries
- D. Spreading R&D expenditures over global sales

Eun - Chapter 001 #13

Level: medium

14. (p. 11) Recent trends in the globalization of the world economy include all of the following except:

- A. emergence of global financial markets
- B. economic differentiation**
- C. advent of the euro
- D. privatization

Eun - Chapter 001 #14

Level: medium

15. (p. 11-12) David Ricardo's theory of comparative advantage has the following policy implication:

- A. Liberalization of international trade will enhance the welfare of the world's citizens**
- B. International trade is a zero-sum game
- C. One country will benefit from trade at the expense of another country
- D. Restriction of international trade will enhance the welfare of the world's citizens

Eun - Chapter 001 #15

Level: easy

16. (p. 11-12) GATT, the General Agreement on Tariffs and Trade, has been successful by:

- A. Reduce import tariffs worldwide by an average of 98%
- B. Reduce import tariffs worldwide by an average of 78%
- C. Reduce import tariffs worldwide by an average of 58%
- D.** Reduce import tariffs worldwide by an average of 38%

Eun - Chapter 001 #16

Level: easy

17. (p. 12) Which of the following statements about the EU (European Union) is wrong?

- A.** All member countries of the EU have adopted the euro
- B. The EU recently enlarged to include some formerly socialist countries
- C. The EU was established to foster economic integration in Western Europe
- D. The EU is a direct descendent of the European Community

Eun - Chapter 001 #17

Level: easy

18. (p. 8) The "Big Bang" refers to:

- A. Deregulation of the Japanese stock market
- B. Deregulation of the German stock market
- C.** Deregulation of the British stock market
- D. Deregulation of the Mexican stock market

Eun - Chapter 001 #18

Level: easy

19. (p. 12) Which of the following statements is NOT true about the euro?

- A. Was introduced in 1999
- B. Precipitated the emergence of continent-wide capital markets in Europe
- C. Competes with American dollar
- D.** Is used by all European countries

Eun - Chapter 001 #19

Level: medium

20. (p. 9) The euro zone has
- A. A common fiscal policy
 - B. A common monetary policy**
 - C. A common taxation policy
 - D. A common immigration policy

Eun - Chapter 001 #20
Level: medium

[illegible][illegible]

Eun - Chapter 001

A. Russia
B. Byelorussia
C. Both countries
D. Neither country

A. Russia
B. Byelorussia
C. Both countries
D. Neither country

Eun - Chapter 001 #22
Level: easy

23. (p. 24-25) If the price of potatoes is \$300 per ton, with free trade the price of tomatoes can be any of the numbers below EXCEPT

- A. \$600
- B. \$750
- C. \$900
- D.** All of these numbers can be the equilibrium price of tomatoes

Eun - Chapter 001 #23
Level: medium

24. (p. 24-25) If the total world production of potatoes is 2000 tons, how much tomatoes will be produced in Russia?

- A. 1000 tons
- B. 500 tons
- C. 666.67 tons
- D.** 333.33 tons

Eun - Chapter 001 #24
Level: medium

25. (p. 24-25) If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, how much potatoes will be produced in Byelorussia?

- A. None
- B. 333.33 tons
- C.** 500 tons
- D. 666.67 tons

Eun - Chapter 001 #25
Level: hard

26. (p. 24-25) If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, and the price of potatoes is \$1000 per ton, what is the GDP in Byelorussia?

- A. \$165,000
- B. \$333,333
- C.** \$1,000,000
- D. None of these

Eun - Chapter 001 #26
Level: hard

27. (p. 24-25) If people in both countries eat the same dish that requires 0.1kg of tomatoes and 1.4kg of potatoes to prepare, how much tomatoes are CONSUMED in Byelorussia?

- A.** Less than 100 tons
- B. At least 100 tons but less than 200 tons
- C. At least 200 tons but less than 400 tons
- D. More than 400 tons

Eun - Chapter 001 #27
Level: hard

28. (p. 3) What is special about international finance?

The three major dimensions that set international finance apart from domestic finance are (1) foreign exchange risk and political risk, (2) differences in regulations, tax law and government policies and (3) the greater set of business opportunities for production and investment.

Eun - Chapter 001 #28

29. (p. 6) What is the goal of sound financial management?

The goal of financial management is shareholder wealth maximization in domestic and international finance. This goal is generally accepted in the "Anglo-Saxon" countries but less so in other parts of the world where other stakeholders are also considered important.

Eun - Chapter 001 #29

30. (p. 8) What are some of major recent trends in globalization?

The major trends are (1) the emergence of globalized financial markets, (2) the advent of the euro, (3) trade liberalization and economic integration, and (4) privatization.

Eun - Chapter 001 #30

31. (p. 9) What is the euro?

The Euro is the common currency of 12 of the 25 member countries of the EU. Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain, exchanged their local currencies for the Euro in 2002. The Euro is an important currency on the world stage and may challenge the role of the US dollar in the future.

Eun - Chapter 001 #31

32. (p. 3) What is the specific Canadian perspective on international finance?

Canada has very close commercial ties to the United States. Ninety percent of Canadians live within 100km of the US border, Canada and the US generate the largest bilateral volume of trade in the world. Eighty-five percent of exports are shipped to the United States. Money and capital flows freely back and forth across the Canada-US border, leading to highly integrated stock and bond markets. Both countries, together with Mexico, are part of NAFTA (the North American FreeTrade Agreement). Thus, international transactions by Canadian firms are largely transactions with the US. Nevertheless, Canada maintains its independence, own currency, central bank and the like, and therefore has its unique perspective on international finance.

c1 Summary

<u>Category</u>	<u># of Questions</u>
Eun - Chapter 001	33
Level: easy	8
Level: hard	7
Level: medium	12