TRUE/FALSE

1. The process of applying management concepts and techniques in a multinational environment is called international management.

   ANS: T PTS: 1 DIF: Easy REF: p.3
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

2. Offshoring occurs when activities that were once part of a company's internal operation, are performed by other firms outside of the U.S. at a lower cost.

   ANS: F PTS: 1 DIF: Easy REF: p.4
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

3. The number of jobs insourced to the U.S. increased even more than those outsourced in 2000.

   ANS: T PTS: 1 DIF: Moderate REF: p.5
   OBJ: 1 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

4. International business focuses on how individuals manage a global business.

   ANS: F PTS: 1 DIF: Moderate REF: p.6
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

5. Tariffs are defined as taxes on exported goods.

   ANS: F PTS: 1 DIF: Easy REF: p.6
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

6. The Big Unit economy generally produced efficient but rigid, pyramidal organizations and government departments that demanded excellence and accountability in work and educational quality.

   ANS: F PTS: 1 DIF: Moderate REF: p.7
   OBJ: 1 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

7. The change in the amount of information available began with the globalization of television.

   ANS: T PTS: 1 DIF: Moderate REF: p.10
   OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Creation of Value

8. A sustaining innovation is an innovation that changes the economics or technological standard of an industry.

   ANS: F PTS: 1 DIF: Easy REF: p.11
   OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Creation of Value

9. The market for corporate control is beginning to expand worldwide.

   ANS: T PTS: 1 DIF: Easy REF: p.12
   OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

10. The greatest opportunity for the poor around the world is protectionism.

ANS: F PTS: 1 DIF: Moderate REF: p.15
OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

11. China is now the largest recipient of foreign direct investment.

ANS: T PTS: 1 DIF: Moderate REF: p.16
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

12. The original six members of the European Union were Austria, West Germany, Luxembourg, France, Italy, and the Netherlands.

ANS: F PTS: 1 DIF: Moderate REF: p.17
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

13. The countries that are part of the WTO are committed to the promotion of trade.

ANS: T PTS: 1 DIF: Easy REF: p.18
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

14. The Japan-Thailand Trade Agreement went beyond established regional trade agreements and allowed Thailand greater access to rice grown in Japan.

ANS: F PTS: 1 DIF: Moderate REF: p.18
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

15. China was a doctrinaire communist country until 1978.

ANS: T PTS: 1 DIF: Easy REF: p.19
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

16. During the last 30 years China has experienced economic growth averaging about 5 percent annually.

ANS: F PTS: 1 DIF: Moderate REF: p.19
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

17. India has undergone an economic revival in recent years and now has a GDP of $3.7 trillion in purchasing-power parity terms.

ANS: T PTS: 1 DIF: Moderate REF: p.20
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

18. The International Monetary Fund was established in 1944 as part of the Bretton Woods Agreements.

ANS: T PTS: 1 DIF: Easy REF: p.20
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

19. In lending to different nations, the World Bank typically imposes standards of behaviors that require the country to conduct certain reforms.

ANS: F PTS: 1 DIF: Moderate REF: p.21
OBJ: 3 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

20. One of the recent trends in international management has been the growth of multinational and bilateral agreements with the goal of encouraging free trade.

ANS: T PTS: 1 DIF: Easy REF: p.21
OBJ: 3 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

21. Under the Foreign Corrupt Practices Act, ‘‘facilitating payments’’ are not allowed.

ANS: F PTS: 1 DIF: Moderate REF: p.22
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Legal Responsibilities

22. The costs of the Sarbanes-Oxley Act have been quite high, particularly for small firms.

ANS: T PTS: 1 DIF: Moderate REF: p.22
OBJ: 3 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Legal Responsibilities

23. Business ethics is, in part, concerned with understanding the firm’s stakeholders and their needs and desires.

ANS: T PTS: 1 DIF: Easy REF: p.24
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Group Dynamics

24. All firms believe a business should add more to society than just jobs.

ANS: F PTS: 1 DIF: Moderate REF: p.25
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Ethical Responsibilities

25. Ethical choices in international management often mean choosing between either two bad choices where you try to do the least harm, or paradoxically, between two rights.

ANS: T PTS: 1 DIF: Moderate REF: p.26
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Ethical Responsibilities

MULTIPLE CHOICE

1. Globalization results from a dramatic increase in all of the following EXCEPT:
   a. protectionism.
   b. international trade.
   c. cultural exchange.
   d. foreign direct investment.

ANS: A PTS: 1 DIF: Easy REF: p.2
OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

2. _____ occurs when activities that were once part of a company’s internal operation, are performed by other firms outside of the U.S. at a lower cost.
   a. Offshoring
   b. Outsourcing
   c. Telecommuting
   d. Open-sourcing

ANS: B PTS: 1 DIF: Easy REF: p.4
OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

3. _____ focuses on how individuals manage a global business.
   a. International business
   b. Global business strategy
   c. International management
   d. Global trade

   ANS: C PTS: 1 DIF: Easy REF: p.5
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

4. Which of the following focuses on the macro approach to operating internationally?
   a. Global trade
   b. International management
   c. Global business strategy
   d. International business

   ANS: D PTS: 1 DIF: Easy REF: p.5-6
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

5. Which of the following statements about Big Unit Capitalism is false?
   a. It is characterized by a low degree of central planning even in many free-market economies.
   b. The period immediately after World War II is referred to as the period of Big Unit capitalism.
   c. Big Unit Capitalism from the end of World War II until 1971 produced a period of unmatched economic growth.
   d. It is characterized by stable economics with large domestic firms.

   ANS: A PTS: 1 DIF: Moderate REF: p.7
   OBJ: 1 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

6. Which of the following was a negotiated monetary order after World War II to govern monetary relations and currency exchange rates among independent states?
   a. World Trade Organization
   b. Bretton Woods system
   c. Big Unit Capitalism
   d. GATT

   ANS: B PTS: 1 DIF: Moderate REF: p.7
   OBJ: 1 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

7. The change in the amount of information available began with the globalization of:
   a. computers.
   b. telephones.
   c. television.
   d. radio broadcasting.

   ANS: C PTS: 1 DIF: Easy REF: p.10
   OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

8. The flow of information about the need to be able to act on specific problems has led to a new invention from Massachusetts Institute of Technology called the:
   a. self-replicating machine.
   b. digital fabricator.
   c. RepRap Project.

d. fab lab.

ANS: D PTS: 1 DIF: Easy REF: p.11
OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Environmental Influence

9. Which of the following statements about the fab lab is false?
   a. It is a collection of commercially available machines that can be used to make anything with features smaller than those of a computer chip.
   b. It includes a laser cutter that makes two-dimensional and three-dimensional structures.
   c. It contains a miniature milling machine that maneuvers a cutting tool in three dimensions to make circuit boards and other precision parts.
   d. The components can machine objects with precision within one-millionth of a meter.

ANS: A PTS: 1 DIF: Moderate REF: p.11
OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Environmental Influence

10. What is the purpose of the fab lab?
   a. To train managers around the world and to ensure that the global managers are using consistent methods.
   b. To give backyard and desktop inventors access to design houses and job shops to produce prototypes.
   c. Creating a Global Production Center to ensure state-of-the-art production methods are used around the world.
   d. Focusing on quality manufacturing and a commitment to innovation, even at the lower end of the marketplace.

ANS: B PTS: 1 DIF: Moderate REF: p.11
OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Creation of Value

11. For much of the post-Cold War era, most large-scale domestic and international lending or underwriting was done by all of the following EXCEPT:
   a. big commercial banks.
   b. investment banks.
   c. credit unions.
   d. insurance companies.

ANS: C PTS: 1 DIF: Easy REF: p.11
OBJ: 2 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

12. A new technological innovation, product, service or business model that overturns the existing dominant innovation or technological standard in the marketplace is called a(n):
   a. de facto innovation.
   b. evolutionary innovation.
   c. sustainable innovation.
   d. disruptive innovation.

ANS: D PTS: 1 DIF: Easy REF: p.11
OBJ: 2 NAT: AACSB: Tier 1 Technology; Tier 2 Creation of Value

13. _____ are bonds that corporations issue directly to the public in order to raise capital.
   a. Treasury bills
   b. Equity bonds
   c. Derivatives
   d. Commercial bills

ANS: C PTS: 1 DIF: Easy REF: p.11

OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

14. The _____ of home mortgages occurred in the 1970s, when bonds in dominations as small as $1,000 were created.
    a. commercialization
    b. disruptive innovation
    c. privatization
    d. securitization

ANS: D PTS: 1 DIF: Moderate REF: p.12
OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

15. Which of the following offered an alternative opportunity for financing, while the public could invest in growing firms or firms undergoing turnarounds while enjoying higher interest?
    a. Junk bonds
    b. Municipal bonds
    c. Treasury bonds
    d. Brady bonds

ANS: A PTS: 1 DIF: Difficult REF: p.12
OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

16. In the late 1980s, the then U.S. Treasury Secretary helped to get Latin American debts to the major commercial banks converted into U.S. government-backed bonds. These bonds are called:
    a. High-yield bonds.
    b. Brady bonds.
    c. Junk bonds.
    d. Municipal bonds.

ANS: B PTS: 1 DIF: Moderate REF: p.12
OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

17. The greatest opportunity for the poor around the world is:
    a. tariffs.
    b. subsidies.
    c. free trade.
    d. protectionism.

ANS: C PTS: 1 DIF: Easy REF: p.15
OBJ: 2 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

18. Which of the following was one of the original members of the EU?
    a. Poland
    b. Denmark
    c. Austria
    d. Belgium

ANS: D PTS: 1 DIF: Moderate REF: p.17
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

19. The establishment of rules by the World Trade Organization is an umbrella agreement called the:
    a. OECD.
    b. NAFTA.
    c. GATT.
    d. ITO.

ANS: C PTS: 1 DIF: Easy REF: p.18
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

20. The agreement signed in 1994 between Canada, the U.S., and Mexico, which has created a largely free-trade zone between these three nations with all tariffs eliminated as of 2003, is:
    a. GATT.
    b. NAFTA.
    c. FTAA.
    d. WTO.

ANS: B PTS: 1 DIF: Easy REF: p.18
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Environmental Influence

21. Which country is seen as the greatest market opportunity in the world?
    a. China
    b. India
    c. Japan
    d. Thailand

ANS: A PTS: 1 DIF: Moderate REF: p.20
OBJ: 3 NAT: AACSB: Tier 1 Analytic; Tier 2 Creation of Value

22. What is the IMF's basic function?
    a. To improve the living standards of people in the developing world.
    b. To advise nations on how to establish sound political policies.
    c. To provide a means for the exchange of currencies among different nations.
    d. To fight poverty in all nations.

ANS: C PTS: 1 DIF: Moderate REF: p.20
OBJ: 3 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

23. What is the stated goal of the World Bank?
    a. Lending to different nations if their balance of payments is such that they have shortages that threaten the stability of their monetary system.
    b. Providing additional stability to the economic systems of the various member states of the Bretton Woods Agreements.
    c. Providing a means for the exchange of currencies among different nations.
    d. Fighting poverty and improving the living standards of people in the developing world.

ANS: D PTS: 1 DIF: Difficult REF: p.21
OBJ: 3 NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

24. Which act grew out of revelations that some U.S. firms had paid bribes to obtain contracts overseas?
    a. Sarbanes-Oxley Act
    b. International Anti-Bribery and Fair Competition Act
    c. Foreign Corrupt Practices Act
    d. Contract Disputes Act

ANS: C PTS: 1 DIF: Moderate REF: p.21
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Legal Responsibilities

25. All of the following are major provisions of the Sarbanes-Oxley Act EXCEPT:
    a. CEO and CFO certification of financial reports.
    b. ban on loans to insiders, excepting executive officers and directors.
    c. real-time disclosure of material events.

d. enhancement of criminal and civil penalties for violations of securities law.

ANS: B PTS: 1 DIF: Moderate REF: p.22
OBJ: 3 NAT: AACSB: Tier 1 Ethics; Tier 2 Legal Responsibilities

ESSAY

1. What is outsourcing and what is its impact on the U.S.?

   ANS:
   Outsourcing occurs when activities, such as computer programming, that were once part of a company's internal operation, are performed by other firms outside of the U.S. at a lower cost. As a result of outsourcing, the Bureau of Labor Statistics estimated that the number of outsourced jobs in the U.S., or jobs taken from Americans and moved to other countries, increased from 6.5 million in 1983 to 10 million in 2000. However, less reported is the fact that the flow of jobs is not one way—the number of jobs insourced to the U.S. increased even more than those outsourced in the same period, growing from 2.5 million to 6.5 million over about the same period. These facts are likely of little consolation to the person losing a job because of outsourcing. Economics and trade theory would highlight the fact that free trade in this situation is allowing countries to specialize in services that they perform better than other countries in the world. Thus, in the U.S. it is more expensive to produce garments, such as t-shirts than to have them produced and imported from China. This in turn allows for the U.S. to spend more time and resources on what it does best, such as developing technology and other intellectual property, including books, music, games, and films; exporting retail services; and growing wheat, corn, and soybeans for the world's population. However, it should be recognized that some people argue that the pain of outsourcing may become greater in the U.S. It has typically been thought that outsourcing applied mostly to low-skilled jobs. It has been argued that in the future as many as 40 million jobs may be lost as increasingly high-skill jobs, such as accounting, financial analysis, and computer programming, which do not have to be done locally, are outsourced to lower-cost environments. These high-skill jobs can occur in any location with the resulting data shipped to any location in the world.

   PTS: 1 DIF: Difficult REF: p.4-5 OBJ: 1
   NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

2. Write a detailed note on Big Unit Capitalism.

   ANS:
   A Big Unit Economy is dominated by Big Business, Big Government and Big Labor. The Big Unit Economy generally produces efficient but rigid, pyramidal organizations and government departments that are full of soft niches that relaxed standards and did not demand excellence and accountability in work and educational quality. The period immediately after World War II is often referred to as the period of "Big Unit" capitalism. Big Unit Capitalism is characterized by stable economics with large domestic firms, a high degree of central planning—even in many free-market economies, government ownership, and powerful trade unions. Taxes were very high in nearly all countries.

   PTS: 1 DIF: Moderate REF: p.7 OBJ: 1
   NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Environmental Influence

3. Explain the Bretton Woods System in detail.

   ANS:

The Bretton Woods System was a negotiated monetary order after World War II to govern monetary relations and currency exchange rates among independent states.The start of the second period of globalization can be traced to 1971. In that year President Richard Nixon announced that the U.S. would no longer redeem international dollar holdings at the rate of $35 per ounce of gold. This commitment had formed a central foundation of the international financial system set in place around the end of World War II. This financial system was referred to as the Bretton Woods System. This system established the value of all the major world currencies with respect to each other. The ability to have convertible currencies prevented the practice of economically strong nations paying for their imports in their own currency, which at that time would not have been easily convertible. With payment in a non-convertible currency, the outcome was that the other country typically then had to spend that money to also buy their imports. Bretton Woods also created mechanisms to support countries that ran into balance-of-payments difficulties. Specifically, the agreement led to the creation of two international agencies: 1) the international bank for reconstruction and development to finance rebuilding from the war; this bank is referred to as the World Bank, and 2) the international monetary fund (IMF). The outcome of this agreement was to help tame the wild economic fluctuations that occurred between World War I and World War II. However, the system became confining to member states and their economic flexibility so that by 1971 President Nixon and other world leaders felt it was time to loosen those controls.

PTS: 1 DIF: Moderate REF: p.7 OBJ: 1
NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

4. What is a fab lab and how is it useful?

ANS:
The flow of information about the need to be able to act on specific problems has led to a new invention from Massachusetts Institute of Technology (MIT) called the "fab lab." This product is a collection of commercially available machines that can be used to make just about anything with features bigger than those of a computer chip. Among other tools, it includes a laser cutter that makes two-dimensional and three-dimensional structures, a device that uses a computer-controlled knife to carve antennas and flexible electrical connections, a miniature milling machine that maneuvers a cutting tool in three dimensions to make circuit boards and other precision parts, a set of software for programming cheap computer chips known as microcontrollers, and a jigsaw (a narrow-bladed cutting device, not a picture puzzle). Together, these can machine objects with precision within one-millionth of a meter. The fab lab's purpose is to give backyard and desktop inventors—particularly those in poor countries who lack a formal education— access to design houses and job shops to produce prototypes. Thus, the fab lab can provide the resources necessary for entrepreneurs in poor countries to implement their ideas to create usable products. As a result, the fab lab allows those in poor and remote locations the ability to solve their problems. Within the next few years the fab lab will allow individuals and small businesses to customize products to their needs. At $20,000 each—not a trivial amount of money in a poor country, but within range of a village or local government—the fab lab will release an outpouring of entrepreneurial talent. This new production capability, coupled with the flow of information now possible allows one to imagine the great range of options available.

PTS: 1 DIF: Moderate REF: p.11 OBJ: 2
NAT: AACSB: Tier 1 Technology; Tier 2 Creation of Value

5. What are junk bonds?

ANS:

In the 1980s, financier Michael Milken noticed that firms with financial problems, or those with little capital or operating history, were being asked to pay interest rates at 3 to 10 percentage points higher than normal—if they could get any loans at all. However, these companies went bankrupt only slightly more often than the top-rated blue-chip companies, whose bonds offered much lower rates of return. This spurred Milken and others to create high yield or "junk" bonds, which carried higher interests rates with only slightly higher risk. These high-yield bonds offered an alternative opportunity for financing, while the public could invest in growing firms or firms undergoing turnarounds while enjoying higher interest. Firms, such as telecommunications firm MCI, were founded with high yield bonds, and when properly issued, these bonds can be an important financing vehicle.

PTS: 1 DIF: Moderate REF: p.12 OBJ: 2
NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

6. Write a note on the World Trade Organization and GATT.

ANS:
The World Trade Organization, or WTO, was established in 1995 and is composed of 148 countries from around the world. The countries that are part of the agreement are committed to the promotion of trade. As signatory to the agreement, the member nations agree to abide by the rules of trade that the group develops. The establishment of rules is an umbrella agreement called the General Agreement on Trade and Tariffs (GATT), which was established in 1948. The WTO provides the ability to evaluate disputes when they arise and reach a solution, which could be difficult under the GATT alone. Thus, the WTO did not eliminate GATT—their agreements still exist. Instead, the WTO simply created a structure to solve problems that arise under the GATT agreements and encourage the further promotion of trade. One of the key elements of the WTO is that it has the equivalent of a legal system to evaluate the case of both sides and decide who is right. The WTO even has the ability to impose penalties on those nations that do not act in the manner in which the WTO determines they should. The GATT agreement is not a document that does not change and adapt as the environment changes. Instead it is a document that undergoes regular change as dictated in part by the outcomes of regular meetings on the nature of the agreements. The level of tariffs and barriers to trade continue to fall around the world.

PTS: 1 DIF: Moderate REF: p.18 OBJ: 3
NAT: AACSB: Tier 1 Reflective Thinking; Tier 2 Creation of Value

7. List some of the major provisions of the Sarbanes-Oxley Act.

ANS:
The Sarbanes-Oxley Act's major provisions include:
1. CEO and CFO certification of financial reports.
2. Real-time disclosure of material events.
3. Requirement of audit-committee independence.
4. Accelerated reporting of trades by insiders.
5. Ban on loans to any insiders, including executive officers and directors.
6. Prohibition on insider trades during pension fund blackout periods.
7. Required reporting if business has a code of ethics for senior management.
8. Auditor independence assured by restricting non-audit services and rotation of audit partners.
9. Enhancement of criminal and civil penalties for violations of securities law.
10. Enhanced civil sanctions.

PTS: 1 DIF: Moderate REF: p.22 OBJ: 3
NAT: AACSB: Tier 1 Ethics; Tier 2 Legal Responsibilities