

Chapter 2: An Overview of the International Marketing Environment

TRUE/FALSE

1. A weak dollar makes American goods and services more competitive in foreign markets.

ANS: T

A weak dollar makes American goods and services more competitive in foreign markets, keeps jobs at home, and decreases the trade deficit because America's workers keep more production at home and sell more goods abroad. This is found in "The World Economy" section (2-1a).

PTS: 1 DIF: Hard

2. More than half of the 100 biggest economies in the world are now corporations, not nations.

ANS: T

Multinational companies account for two-thirds of world trade, and many have economic weight: more than half of the 100 biggest economies in the world are now corporations, not nations. This is found in "The World Economy" section (2-1a).

PTS: 1 DIF: Hard

3. The top 100 companies in the world control about 20 percent of foreign assets.

ANS: T

The top 100 companies in the world control about 20 percent of foreign assets, and employ 6 million workers, and account for as much as 7 percent of total world economic activity. This is found in "The World Economy" section (2-1a).

PTS: 1 DIF: Hard

4. Firms from industrialized countries and their representative governments dominate the world economy by allocating resources worldwide based on local population needs.

ANS: F

In the current economic environment, firms from industrialized countries and their representative governments dominate the world economy, allocating resources worldwide based on *market potential*, rather than on local population needs, creating a growing gap between the have countries and have-not countries. This is found in "The Economic Development Disparity" section (2-1b).

PTS: 1 DIF: Hard

5. According to the Rostow model, each stage of economic development is a function of productivity, economic exchange, technological improvements, and income.

ANS: T

The Rostow model of economic development is the Western model. In contrast to the Marxist model, the Rostow model states that each stage of economic development is a function of productivity, economic exchange, technological improvements, and income. This is found in "The Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Easy

6. Countries in the "traditional society" stage of economic development are characterized by an economic structure that is dominated by technology.

ANS: F

Countries in the "traditional society" stage of economic development are characterized by an economic structure that is dominated by *agriculture*. This is found in "The Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Medium

7. During "drive-to-maturity" stage of the Rostow Modernization model, growth becomes the norm and improvements in production lead to the emergence of leading sectors.

ANS: F

During "take-off" stage of the Rostow Modernization model, growth becomes the norm and improvements in production lead to the emergence of leading sectors. Income rises across the board, and a new class of established entrepreneurs emerges. This is found in "The Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Medium

8. Modern technology is fully adopted in all economic activity and new leading sectors emerge in the "drive to maturity" stage of the Rostow Modernization model.

ANS: T

Modern technology is fully adopted in all economic activity and new leading sectors emerge in the "drive to maturity" stage of the Rostow Modernization model. In the "take-off" stage, technology is not fully adopted. In the "high mass consumption" stage, the "leading sectors" have already emerged. This is found in "The Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Medium

9. The Marxist-Leninist model of economic development still constitutes a dominant development philosophy in some developing countries.

ANS: T

Although the Western model (i.e., Rostow model) of economic development is spreading, the Marxist-Leninist model is still prevalent in some developing countries. This is stated in the "Perspectives on Economic Development" section (2-2b).

PTS: 1 DIF: Medium

10. The Rostow model is a competing alternative for developing nations seeking to avoid domination by advanced market capitalist economies.

ANS: F

The Marxist-Leninist (Maoist) model is a competing alternative for developing nations seeking to avoid domination by advanced market capitalist economies. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

11. The Marxist-Leninist (Maoist) model endorses a collective orientation, one adopted by the more traditional developing countries.

ANS: T

The Marxist-Leninist (Maoist) model endorses a collective orientation, one adopted by the more traditional developing countries, and competes with market-oriented capitalism, fueling anticolonial and anti-imperialist sentiments. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

12. The Marxist-Leninist (Maoist) model competes with market-oriented capitalist philosophies.

ANS: T

The Marxist-Leninist (Maoist) model competes with market-oriented capitalist philosophies. It fuels anticolonial and anti-imperialist sentiments. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

13. China is currently in the communist stage of development.

ANS: F

No country has ever claimed to have reached the communist stage. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

14. Under communism, all means of production and private property are under state ownership and/or cooperative ownership.

ANS: T

Under communism, all means of production and private property are under state ownership and/or cooperative ownership. The state is in charge of allocation of resources to sectors as needed and to individuals (goods and services) according to their needs. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

15. Under older Western classification, socialist countries used to be referred to as Second World.

ANS: T

Historically, the informal and frequently used classification in the West has referred to highly industrialized, developed countries as the First World, to socialist countries as the Second World, and to developing countries as the Third World. Of this classification, only the term "the Third World" has been used widely, and it is still being used, even after the fall of communism. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Medium

16. Historically, the informal and frequently used classification in the West has referred to highly industrialized, high-income countries as the First World, to Islamic countries as the Second World, and to developing countries as the Third World.

ANS: F

Historically, the informal and frequently used classification in the West has referred to highly industrialized, developed countries as the First World, to *socialist* countries as the Second World, and to developing countries as the Third World. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Medium

17. High-income countries present challenges to international firms because their markets are the most competitive.

ANS: T

Although these countries present great potential because they have consumers with the highest per capita income, they also present challenges to international firms because their markets are in the maturity stage, consumers have established preferences, and competition is intense. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Easy

18. High-income countries are highly industrialized countries which have well developed industrial and service sectors.

ANS: T

In contrast to emerging countries and developing countries, *high-income* countries are highly industrialized countries which have well developed industrial and service sectors. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Easy

19. In contrast to high-income countries, low-income countries do *not* present opportunities for firms operating in the areas of infrastructure development.

ANS: F

Low-income countries *do* present opportunities for firms operating in the areas of infrastructure development. Moreover, low-income countries are the primary recipients of international development aid, which makes them even more attractive. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Medium

20. Upper middle income countries have rapidly developing economies, and especially in urban areas, they have an infrastructure that is on par with that of developed countries.

ANS: T

Upper middle income countries have rapidly developing economies, and especially in urban areas, they have an infrastructure that is on par with that of developed countries. Among them are countries in Latin America, such as Argentina, Chile, and Mexico. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Medium

21. Lower middle income countries comprise the transition economies of Central and Eastern Europe: Estonia, Hungary, Latvia, Lithuania, Poland, and the Russian Federation, among others..

ANS: T

Upper middle income countries comprise the countries mentioned above — the transition economies of Central and Eastern Europe, the Russian Federation, as well as countries in Latin America, such as Argentina, Chile, and Mexico. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Medium

22. According to the World Bank, countries considered upper middle income have a GNI per capita of US\$3,466 to US\$10,725.

ANS: F

According to the World Bank, countries considered upper middle income countries have a GNI per capita of US\$3,466 to US\$10,725. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Medium

23. Countries with emerging markets present great potential to international firms due to their technological growth.

ANS: F

Countries with emerging markets present great potential to international firms. Their attractiveness lies primarily in their rate of *economic growth*—7 percent per year, for the past decade, compared to 2.3 percent for Western Europe and North America. This is found in “The Importance of Emerging Markets” section (2-3a).

PTS: 1 DIF: Medium

24. Countries, by permitting international trade and by entering into international agreements, limit their sovereignty.

ANS: T

International trade causes countries to compromise and to adhere to international trade laws. When countries perceive that international firms, governments, or organizations have infringed upon their right to self-determination, they can invoke national sovereignty and take actions that erect barriers to trade which acts to withdraw them from international trade. This is found in "The Political Environment of International Marketing" section (2-4).

PTS: 1 DIF: Hard

25. Ethnic diversity creates an opportunity for international marketers through the promotion of trust and cooperation.

ANS: F

Ethnic diversity and incongruent interests leads to a history of distrust and conflict in a population, which increases the risk for international marketers. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Medium

26. Italy has had the same government since World War II resulting in political stability and lowered risk for international firms.

ANS: F

Although Italy has offered a low-risk environment for international businesses, it has had a *new* government for every year since World War II. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Hard

27. Internal diversity and incongruent interests are elements of political risk within a country.

ANS: T

A number of country risk elements should be monitored on a regular basis to keep track of developments that might ultimately affect the international company. One risk element is internal diversity and incongruent interests. An example of this was when Zimbabwe offered land to squatters on white-owned properties. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Hard

28. The expression of nationalist sentiment in a country where the company is operating could constitute a cause for concern to the international company.

ANS: T

Nationalism can lead to decreased sales of international products. It may also lead to more extreme risks such as vandalism, confiscation, and terrorism. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Easy

29. In more developed countries, substantial ethnic conflict still exists, not just between the established ethnicities but also between the new immigrants and long-established nationals.

ANS: T

In more developed countries, substantial ethnic conflict still exists, not just between the established ethnicities—as in the case of Belgium, where the Flemish (Dutch) and Wallonians (French) often find themselves in opposition—but also between the new immigrants and long-established nationals. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Hard

30. *Consumer ethnocentrism* is the belief that buying foreign goods will put local companies out of business.

ANS: T

Consumer ethnocentrism is the belief that buying foreign goods will put local companies out of business and is, consequently, morally wrong. This poses a special concern for international marketing managers since countries with such beliefs are more likely to erect barriers to international trade. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Easy

31. Political instability can lead to protectionist measures on the part of the host-country government, whereas nationalism and claims to national sovereignty can lead to the failure of the economy.

ANS: F

Nationalism and claims to national sovereignty can lead to protectionist measures on the part of the host-country government, whereas *political instability* can lead to the failure of the economy. This is found in the "Nationalism" section (2-4b).

PTS: 1 DIF: Hard

32. During downturns in the local economy, governments are unlikely to control foreign investment through taxation.

ANS: F

During downturns in the local economy, governments are *likely* to control foreign investment through taxation. Increasing the taxes of international companies can help to cover downturns in the short run. Taxing international firms is often the first step a government takes because taxing its own people is an unpopular decision. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Medium

33. Expropriation refers to the seizing of company assets and/or investors's assets without any compensation.

ANS: F

Confiscation refers to the seizing of company assets and/or investors's assets without any compensation. Expropriation involves some reimbursement for company assets, usually not at their market value. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Medium

34. International law regards nationalization as an illegal activity taken by some governments that force domestication.

ANS: F

International law regards nationalization as legitimate as long as it is in the public interest and it offers fair compensation to the international company and to its investors. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Medium

35. Domestication occurs when the local government requires a gradual transfer of ownership and management to locals.

ANS: T

Domestication occurs when the local government requires a gradual transfer of ownership and management to locals. This is usually done over time, through consecutive government decrees aimed at reducing the presence of multinationals in nonessential local sectors. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Easy

36. The U.S. government, through the Overseas Private Investment Corporation (OPIC) offers insurance policies that protect companies against expropriation, nationalization, or confiscation by foreign governments.

ANS: T

The U.S. government, through the Overseas Private Investment Corporation (OPIC) offers insurance policies that protect companies against expropriation, nationalization, or confiscation by foreign governments. OPIC insures U.S. investments in emerging markets and developing countries against expropriation and political violence, such as revolution and war. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Easy

37. U. S. companies must abide by international trade laws and host country laws when operating in foreign countries, but do *not* need to consider home-country laws.

ANS: F

U. S. companies must abide by international trade laws, host country laws and home-country laws when operating in foreign countries. Anti-trust regulations and corrupt practices regulations apply to U. S. firms both domestically and internationally. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Medium

38. *Common law* refers to comprehensive written laws that specify what constitutes legal behavior.

ANS: F

Code law refers to comprehensive written laws that specify what constitutes legal behavior. Common law is based on prior court rulings. This is found in "The International Legal Environment" section (2-5).

PTS: 1 DIF: Medium

39. It is unnecessary to include a jurisdictional clause in international contracts since jurisdiction is always established in the country of operation.

ANS: F

Jurisdiction may occur in a variety of places if it is not included in the contract. For this reason, it is necessary to include a jurisdictional clause in international contracts. This is found in "The International Legal Environment" section (2-5).

PTS: 1 DIF: Hard

40. Losses attributed to the violation of intellectual property rights are estimated to be \$60 million a year.

ANS: F

Losses attributed to the violation of intellectual property rights are estimated to be \$60 *billion* a year. This is found in "The International Legal Environment" section (2-6).

PTS: 1 DIF: Hard

41. Design copying, which is illegal, involves using a popular design without the trademark.

ANS: F

Design copying, which is *legal*, involves using a popular design without the trademark, as in shirts with a crocodile or polo player that do not have the respective Lacoste and Ralph Lauren names. On the other hand using the trademark, regardless of design, is illegal. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1 DIF: Hard

42. Trade secrets are not protected by law.

ANS: T

Trade secrets are not registered, and thus are not protected by the law. Registration would compromise the secrecy. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1 DIF: Medium

43. Countries that join the World Trade Organization must also sign on to the TRIPS agreement (Trade-Related Aspects of Intellectual-Property Rights).

ANS: T

Intellectual property rights protection is an important issue to WTO members. For this reason, countries that join the World Trade Organization must also sign on to the TRIPS agreement. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1 DIF: Medium

44. Multinationals seeking TRIPS' (Trade-Related Aspects of Intellectual-Property Rights) protection around the world still depend on each country's patent office to grant those rights and their judicial, customs and police services to enforce them.

ANS: T

TRIPS offers rules describing the protection countries must provide, but multinationals seeking TRIPS' protection around the world still depend on each country's patent office to grant those rights and their judicial, customs and police services to enforce them. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1 DIF: Medium

45. Antitrust laws of home and host countries are designed to prevent international anti-competitive activities, such as the creation of monopolies and cartels.

ANS: F

Even though U. S. Antitrust laws apply to firms domestically and internationally, antitrust laws of home and host countries are designed to prevent *domestic* anti-competitive activities. This is found in the "Home Country Legislation Affecting Multinational Firms Operating Overseas" section (2-5d).

PTS: 1 DIF: Medium

46. The U.S. Foreign Corrupt Practices Act makes it illegal for companies and their representatives to bribe government officials and other politicians or candidate to political office.

ANS: T

The U.S. Foreign Corrupt Practices Act makes it illegal for companies and their representatives to bribe government officials and other politicians or candidate to political office. An amendment to the Act allows for "facilitation" money to be given to low-level officials to complete paperwork, deliver mail etc. This is found in the "Home Country Legislation Affecting Multinational Firms Operating Overseas" section (2-5d).

PTS: 1 DIF: Easy

47. High population growth in spite of limited natural resources has led to famine and precipitated conflict.

ANS: T

High population growth in spite of limited natural resources has led to famine and precipitated conflict in Ethiopia, Somalia, Rwanda, and Burundi in Sub-Saharan Africa. In these markets, the overall infrastructure is insufficient and cannot meet the basic needs of the population. This is found in the "Population" section (2-6d).

PTS: 1

DIF: Easy

MULTIPLE CHOICE

1. Multinational companies
- Account for two thirds of the world trade
 - Have great economic weight: half of the 100 biggest economies are corporations, not nations
 - Control about 20 percent of foreign assets
 - All of the above

ANS: D

Multinational companies account for two-thirds of world trade, and many have economic weight: more than half of the 100 biggest economies in the world are now corporations, not nations. This is found in "The World Economy" section (2-1a).

PTS: 1

DIF: Medium

2. A weak dollar
- Makes American goods and services more competitive in foreign markets
 - Keeps jobs at home in the U.S.
 - Decreases the trade deficit
 - All of the above

ANS: D

A weak dollar makes American goods and services more competitive in foreign markets, keeps jobs at home, and decreases the trade deficit because America's workers keep more production at home and sell more goods abroad. This is found in "The World Economy" section (2-1a).

PTS: 1

DIF: Medium

3. In the Rostow Modernization Model, which stage is characterized by an economic structure that is dominated by agriculture?
- Primitive society
 - Traditional society
 - Take-off
 - Capitalist society

ANS: B

Traditional society is agrarian.

Primitive society is agricultural in nature. However, "primitive society" is a component of the Marxist-Leninist model. The take-off stage is found in the Rostow model, but it is characterized by manufacturing productivity. "Capitalist" society is part of the Marxist-Leninist model. This is found in the "Rostow Modernization Model" section (2-2a).

PTS: 1

DIF: Medium

4. Which stage of the Rostow Modernization model is characterized by increased productivity in agriculture, and modern manufacturing emergence?
- a. Primitive society
 - b. Traditional society
 - c. Transitional society
 - d. High mass consumption

ANS: C

Transitional society is characterized by increased productivity in agriculture, and modern manufacturing emergence.

Primitive and Traditional society are agrarian with no modern manufacturing. High mass consumption is characterized by durable goods production and an increased allocation to social welfare programs. This is found in the "Rostow Modernization Model" section (2-2a).

PTS: 1

DIF: Medium

5. During which stage of the Rostow Modernization model does growth become the norm and improvements in production lead to the emergence of leading sectors?
- a. Traditional society
 - b. Transitional Society
 - c. Take-off
 - d. Drive to maturity

ANS: C

During Take-off, growth becomes the norm and improvements in production lead to the emergence of leading sectors.

Traditional society is agrarian. Transitional society begins the shift toward manufacturing, but growth is not the norm. Leading sectors have already developed by the "drive to maturity" stage. This is found in the "Rostow Modernization Model" section (2-2a).

PTS: 1

DIF: Medium

6. During the "take-off" stage of the Rostow Modernization model,
- a. Growth becomes the norm
 - b. Improvements in production lead to emergence of leading sectors
 - c. Income rises across the board
 - d. All of the above

ANS: D

During "take-off" stage of the Rostow Modernization model, growth becomes the norm and improvements in production lead to the emergence of leading sectors. Income rises across the board, and a new class of established entrepreneurs emerges. This is found in "The Rostow Modernization Model" section (2-2a).

PTS: 1

DIF: Medium

7. During which stage of the Rostow Modernization model is modern technology fully adopted in all economic activity?
- a. Traditional society
 - b. Take-off
 - c. Drive to maturity
 - d. Socialist society

ANS: C

Modern technology is fully adopted in all economic activity in the "drive to maturity" stage. Traditional society does not employ modern technology. Modern technology is developing in the take-off stage. Socialist society is not part of the Rostow Modernization model. This is found in the "Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Medium

8. The Rostow model is
- A competing alternative for developing nations seeking to avoid domination by advanced market capitalist economies
 - Endorses a collective orientation
 - Fuels anticolonial and anti-imperialist sentiments
 - Addresses the technology adoption rate in its analysis

ANS: D

The Marxist-Leninist (Maoist) model endorses a collective orientation, one adopted by the more traditional developing countries, and competes with market-oriented capitalism, fueling anticolonial and anti-imperialist sentiments. This is stated in the "Rostow Modernization Model" section (2-2a) and the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

9. The Marxist-Leninist (Maoist) model
- Is a competing alternative for developing nations seeking to avoid domination by advanced economies.
 - Endorses a collective orientation
 - Competes with market-oriented capitalism
 - All of the above

ANS: D

The Marxist-Leninist (Maoist) model is a competing alternative for developing nations seeking to avoid domination by advanced market capitalist economies. It endorses a collective orientation, one adopted by the more traditional developing countries, and competes with market-oriented capitalism, fueling anticolonial and anti-imperialist sentiments. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

10. Under communism
- All means and production are under state ownership
 - All property is under state ownership
 - The state allocates resources to sectors as needed and to individuals according to their needs.
 - All of the above

ANS: D

Under communism, all means of production and private property are under state ownership and/or cooperative ownership. The state is in charge of allocation of resources to sectors as needed and to individuals (goods and services) according to their needs. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Medium

11. Communism

- a. Develops the “new man”
- b. Is characterized by a non-materialistic society
- c. Creates a society where there is no need for private property
- d. All of the above

ANS: D

Communism develops “the new man,” who views work as a need and who will work according to his ability. There is no need for private property, and there is no materialism in society. This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

PTS: 1 DIF: Easy

12. Which of the following is not a trait of a high-income country?
- a. Consumers with the highest per capita income
 - b. Markets are in the maturity stage
 - c. Competition is intense
 - d. Consumers have not established their preferences

ANS: D

Although these countries present great potential because they have consumers with the highest per capita income, they also present challenges to international firms because their markets are in the maturity stage, consumers have established preferences, and competition is intense. This is found in the “Levels of Economic Development” section (2-3).

PTS: 1 DIF: Medium

13. ____ are highly industrialized countries which have strong industrial and service sectors.
- a. High-income countries
 - b. Emerging countries
 - c. Low-income countries
 - d. Second world countries

ANS: A

High-income countries are highly industrialized countries which have strong industrial and service sectors. Emerging countries have strong potential, but their industrial and service sectors are not fully developed. Low-income countries are primarily agrarian. Second world countries are similar to socialist countries. This answer is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Easy

14. Low income countries
- a. Have rapidly developing economies
 - b. Are primarily agrarian
 - c. Have an infrastructure that is on par with that of developed countries
 - d. Have a GNI per capita of US\$3,466 to US\$10,725.

ANS: B

Low-income countries are primarily agrarian. Upper middle income countries have rapidly developing economies, and especially in urban areas, they have an infrastructure that is on par with that of developed countries. According to the World Bank, countries considered upper middle income countries have a GNI per capita of US\$3,466 to US\$10,725. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Easy

15. These countries have a GNI per capita of US\$3,466 to US\$10,725.
- a. High-income countries
 - c. Upper middle-income countries

b. Low-income countries

d. Lower middle-income countries

ANS: C

According to the World Bank, countries considered upper middle income countries have a GNI per capita of US\$3,466 to US\$10,725. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Easy

16. Emerging markets are attractive to international firms due to their:

a. Rapid rate of technological growth

c. Slow rate of inflation

b. Rapid rate of economic growth

d. Rapid population growth

ANS: B

Countries with emerging markets present great potential to international firms. Their attractiveness lies primarily in their rate of economic growth—7 percent per year, for the past decade, compared to 2.3 percent for Western Europe and North America. This is found in the "The Importance of Emerging Markets" section (2-3a).

PTS: 1

DIF: Medium

17. _____ are countries with rapid development and present the greatest potential for international trade and expansion.

a. High-income countries

c. Low-income countries

b. Middle-income

d. Expanding countries

ANS: B

High-income countries are in a mature stage of development. Entrenched competition make expansion into high-income countries difficult. Middle-income countries experience rapid growth and provide a good opportunity for expansion. Low-income countries are mostly agrarian and have limited potential for expansion. "Expanding" countries is not a term used in the text. This answer may be found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Medium

18. Which type of country is characterized as primarily agrarian, with low per capita income levels?

a. High-income countries

c. Low-income countries

b. Emerging countries

d. First world countries

ANS: C

High-income and First world countries are primarily industrial countries. Countries with emerging markets are quickly industrializing. Low-income countries are agrarian, with low per capita income. This answer may be found in the "Levels of Economic Development" section (2-3).

PTS: 1

DIF: Medium

19. Which type of country is an important opportunity for firms operating in the areas of infrastructure development?

a. High-income countries

c. Upper middle-income countries

b. Low-income countries

d. Lower middle-income countries

ANS: B

Low-income countries are an important opportunity for firms operating in the areas of infrastructure development because they are primary recipients of international development aid. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Medium

20. Highly industrialized countries account for close to _____ of the world's gross national product.
- a. 80%
 - b. 60%
 - c. 40%
 - d. 20%

ANS: A

Highly industrialized countries account for close to 80% of the world's gross national product, while they only account for less than 15% of the population. This is found in the "Levels of Economic Development" section (2-3).

PTS: 1 DIF: Hard

21. Which of the following countries has *not* been identified as an emerging market by *The Economist*?
- a. China
 - b. Poland
 - c. Mexico
 - d. Japan

ANS: D

Unlike the other countries listed in the question, Japan is a "developed" or "first world" country. This is found in "The Importance of Emerging Markets" section (2-3a).

PTS: 1 DIF: Medium

22. Which of the following is not a trait of an emerging market?
- a. High political stability
 - b. A low level of inflation
 - c. A high savings rate
 - d. All of the above are traits of an emerging market.

ANS: D

Emerging markets have a high political stability, a sound currency, low level of inflation, high savings rates, policies that stress regular reporting of earnings and sales figures, and a sound system of corporate law. This is found in "The Importance of Emerging Markets" section (2-3a).

PTS: 1 DIF: Easy

23. Which of the following sources provides a country risk rating on a scale from 1 to 10, and risk perception and collection experience for the previous four months?
- a. *The Economist*
 - b. *The Wall Street Journal*
 - c. the Economist Intelligence Unit
 - d. RUNDT's World Business Intelligence

ANS: D

Each of the sources listed provides periodic information on country risk, but only RUNDT's provides a country risk rating on a scale from 1 to 10, and risk perception and collection experience for the previous four months. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1 DIF: Hard

24. Which of the following is a risk related to government trade policy?
- a. Confiscation
 - b. Expropriation
 - c. Domestication
 - d. None of the above

ANS: D

These are all examples of government economic policy risks. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1

DIF: Easy

25. Which of the following is not a political risk signal?
- a. Congruent interests
 - b. Economic performance
 - c. Political repression
 - d. Nationalism

ANS: A

Incongruent interests is a political risk signal. *Congruent* interests promote stability. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1

DIF: Hard

26. This government agency is used to evaluate a country's political risk:
- a. State Department
 - b. Department of Commerce
 - c. All of the above
 - d. None of the above

ANS: C

A company has several resources at its disposal to evaluate country risk: The Department of State, the Department of Commerce, and other governmental and nongovernmental agencies provide data on country political risk that is current and continually updated. This is found in the "Political Risk: An Overview" section (2-4a).

PTS: 1

DIF: Medium

27. ____ is the belief that buying foreign goods will put local companies out of business.
- a. Creeping consumerism
 - b. Nationalization
 - c. Consumer ethnocentrism
 - d. None of the above

ANS: C

Consumer ethnocentrism is the belief that buying foreign goods will put local companies out of business. Nationalization involves a takeover by the local government with the aim of creating a government-run industry. "Creeping consumerism" is not a term found in the text. This is found in the "Nationalism" section (2-4b).

PTS: 1

DIF: Medium

28. Which of the following is not a form of nationalization?
- a. Confiscation
 - b. Expropriation
 - c. Consumer ethnocentrism
 - d. Domestication

ANS: C

Consumer ethnocentrism is the belief that buying foreign goods will put local companies out of business. Confiscation is an extreme form of nationalization where the country seizes the company's assets. Expropriation also seizes the company's assets, but the company is compensated. Domestication is a gradual form of nationalization. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1

DIF: Medium

29. Which of the following refers to "the seizing of company assets and/or investors' assets without any compensation."

- a. Confiscation
- b. Expropriation
- c. Nationalization
- d. Domestication

ANS: A

Expropriation, nationalization, and domestication all compensate the company for its assets. In confiscation, the government seizes the company's assets and does not compensate the company. This is found in the "Political risks and risk management in international marketing" section (2-4c).

PTS: 1 DIF: Medium

30. ____ involves some reimbursement for company assets, usually not at their market value.
- a. Confiscation
 - b. Expropriation
 - c. Domestication
 - d. None of the above

ANS: B

Expropriation involves some reimbursement for company assets, usually not at their market value. Confiscation does not reimburse the company. Domestication occurs when the local government requires a gradual transfer of ownership and management to locals. This is found in the "Political risks and risk management in international marketing" section (2-4c).

PTS: 1 DIF: Medium

31. ____ refers to a condition characterized as "difficult bureaucracies unreliable judicial systems, shifting regulations, and corrupt operating environments."
- a. Confiscation
 - b. Creeping Expropriation
 - c. Domestication
 - d. Nationalization

ANS: B

Creeping Expropriation refers to a condition characterized as "difficult bureaucracies unreliable judicial systems, shifting regulations, and corrupt operating environments." Confiscation refers to the seizing of the company assets and/or investor's assets without an compensation. Nationalization involves a takeover by the local government with the aim of creating a government-run industry. Domestication occurs when the local government requires a gradual transfer of ownership and management to locals. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Easy

32. Which of the following is not a way to minimize the risk of domestication?
- a. Partnering with local companies
 - b. Creating local expertise in product manufacturing
 - c. Using local suppliers
 - d. All of the above are ways to minimize risks.

ANS: D

A company can minimize its risk by being a model corporate citizen in every country where it operates. A company can also minimize its risk by partnering with local companies, creating local expertise in product manufacturing and management, and/or using local suppliers. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Easy

33. Which of the following offers a policy that insures companies against expropriation, nationalization, or confiscation by foreign governments?
- a. The Federal Reserve Bank

- b. Overseas Private Investment Corporation
- c. OPEC
- d. The Department of Commerce

ANS: B

The U. S. government insures companies against expropriation, nationalization, or confiscation through the Overseas Private Investment Corporation (OPIC). It does not cover the insurance through the Federal Reserve or the Department of Commerce. OPEC is a petroleum cartel and is not related to the topic. This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

PTS: 1 DIF: Hard

34. Which type of law is based on prior court rulings (i.e., legal precedent)?
- a. Common Law
 - b. Code Law
 - c. Islamic Law
 - d. Socialist Law

ANS: A

Common law is based on legal precedent. The U. S. legal system is an example of a common law system. Code law countries use a comprehensive written law that specify what constitutes legal behavior. Japan is an example of a code law system. Islamic law is based on the interpretation of the Koran. Saudi Arabia uses the Islamic legal system. Socialist law relies a lot on Code law. Russia is an example of a socialist legal system. This is found in the "Legal Systems" section (2-5a).

PTS: 1 DIF: Medium

35. Which of the following systems of law is utilized by the largest number of countries?
- a. Common Law
 - b. Code Law
 - c. Islamic Law
 - d. Socialist Law

ANS: B

This system of law is shared by most of the countries in the world, including most of Europe, Latin America, China, Taiwan, Japan, and South Korea. This is found in the "Legal Systems" section (2-5a).

PTS: 1 DIF: Easy

36. Which of the following legal systems is based on comprehensive written laws that specify what constitutes legal behavior?
- a. Common law
 - b. Code law
 - c. Precedent law
 - d. None of the above

ANS: B

Common law is based on legal precedent. The U. S. legal system is an example of a common law system. Code law countries use a comprehensive written law that specify what constitutes legal behavior. Japan is an example of a code law system. Islamic law is based on the interpretation of the Koran. Saudi Arabia uses the Islamic legal system. Socialist law relies a lot on Code law. Russia is an example of a socialist legal system. This is found in the "Legal Systems" section (2-5a).

PTS: 1 DIF: Medium

37. Legal disputes that arise between governments are usually handled by the ____.
- a. International Court of Justice
 - b. Supreme Court
 - c. European Court of Justice
 - d. Global Court of Commerce

ANS: A

The International Court of justice handles disputes that arise between governments. If *both* of the governments are located in Europe, then the European Court of Justice may handle the case but the better answer in this case is the International Court of Justice. The Supreme Court is unlikely to settle a dispute between countries. However, it may settle a dispute between international companies if the jurisdiction is written into the contract. The Global Court of Commerce does not exist. This is found in the "Jurisdiction" section (2-5b).

PTS: 1 DIF: Medium

38. The following is a nonbonding procedure that involves an independent third party:
- a. Arbitration
 - b. Litigation
 - c. Mediation
 - d. None of the above

ANS: C

Mediation *is* a nonbinding procedure that involves an independent third party. This is found in the "Jurisdiction" section (2-5b).

PTS: 1 DIF: Easy

39. Protection of the rights of the inventor or of the firm employing the inventor to use and sell the invention for a specified period of time is known as a ____.
- a. copyright
 - b. patent
 - c. trademark
 - d. trade secret

ANS: B

Copyrights and trademarks are forms of intellectual property protections, but only the patent is used to protect "inventions" and "inventors". Trade secrets are not protected by law. This is found in the "Intellectual Property Rights Protection" section 2-5c).

PTS: 1 DIF: Easy

40. Which of the following is an organization dedicated to fighting copyright infringement?
- a. International Intellectual Property Alliance (IIPA)
 - b. Global Trade Protection Agency (GTPA)
 - c. World Wide Trade Association (WWTA)
 - d. Society for Intellectual Property Rights (SIPR)

ANS: A

The IIPA is a U. S. organization actively fighting copyright infringement. The other organizations are fictitious. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1 DIF: Hard

41. According to TRIPS, patents can be granted for any new technological process or product, and the protection lasts ____ years from the date of application.
- a. 7
 - b. 15
 - c. 20
 - d. 37

ANS: C

The TRIPS agreement (Trade-Related Aspects of Intellectual-Property Rights) is an international agreement that sets a minimum standard for the legal protection of intellectual property. According to TRIPS, patents can be granted for any new technological process or product and the protection lasts 20 years from the date of application. This is found in the "Intellectual Property Rights Protection" section (2-5c).

PTS: 1

DIF: Hard

42. Which of the following statements is not true regarding the U. S. Foreign Corrupt Practices Act?
- a. The Act makes it illegal for companies to bribe government officials.
 - b. The Act prohibits payment to third parties when the company has good reason to assume that part of the payment is being used for bribery purposes.
 - c. Companies can be forced to pay fines if they are found guilty of violating the Act.
 - d. All of the above are true statements.

ANS: D

The U.S. Foreign Corrupt Practices Act makes it illegal for companies and their representatives to bribe government officials and other politicians or candidates to political office. The Act also prohibits payment to third parties when the company has good reason to assume that part of that payment is being used for bribery purposes. Seventeen companies have been charged under the FCPA, with fines ranging from \$10,000 to \$21.8 million. This is found in the "Home-Country Laws Affecting Multinational Firms Operations Overseas" section (2-5d).

PTS: 1

DIF: Easy

43. ____ determines access to the market and affects distribution decisions.
- a. geology
 - b. topography
 - c. climate
 - d. population

ANS: B

Topography determines access to the market and affects distribution decisions. This is found in the "Topography and Access to Markets" section (2-6b).

PTS: 1

DIF: Medium

44. ____ determines access to the market and affects distribution decisions.
- a. geology
 - b. hydrology
 - c. climate
 - d. population

ANS: B

Hydrology determines access to the market and affects distribution decisions. This is found in the "Hydrology and Economic Development" section (2-6c).

PTS: 1

DIF: Medium

45. Its growth can lead to famine and conflict.
- a. geology
 - b. topography
 - c. climate
 - d. population

ANS: D

High population growth in spite of limited natural resources has led to famine and precipitated conflict in Ethiopia, Somalia, Rwanda, and Burundi in Sub-Saharan Africa. In these markets, the overall infrastructure is insufficient and cannot meet the basic needs of the population. This is found in the "Population" section (2-6d).

PTS: 1

DIF: Easy

46. ____ determines the natural resources available in the country and its potential for prosperity.
- a. Geology
 - b. Topography
 - c. Climate
 - d. Population

ANS: A

Geology determines the natural resources available in the country and its potential for prosperity. This is found in the “Geology and the Shortage of Natural Resources” section (2-6a).

PTS: 1

DIF: Easy

47. _____ concerns have led to the active regulation of business, especially in industrialized countries.
- Geology
 - Topography
 - Climate
 - Environmental

ANS: D

Environmental quality concerns have led to the active regulation of business, especially in industrialized countries. This is found in the “Environmental Quality” section (2-6f).

PTS: 1

DIF: Easy

48. Successful industries are emerging aimed at creating alternative energy sources and reducing the cost of electricity consumption in an effort to improve _____.
- geology
 - topography
 - climate quality
 - environmental quality

ANS: D

Successful industries are emerging aimed at creating alternative energy sources and reducing the cost of electricity consumption in an effort to improve environmental quality. This is found in the “Environmental Quality” section (2-6f).

PTS: 1

DIF: Easy

49. Which of the following countries has the highest Internet penetration?
- Italy and France
 - Japan and Korea
 - United States and the Netherlands
 - United Kingdom

ANS: C

The United States and the Netherlands have the highest penetration of active home users. This is found in the “Technological Environment” section (2-7).

PTS: 1

DIF: Medium

50. Which continent has 56.4 percent of the world population and 10.6 Internet penetration?
- Africa
 - North America
 - Asia
 - Europe

ANS: C

Asia has 56.4 percent of the world population and 10.6 Internet penetration. This is found in the “Technological Environment” section (2-7).

PTS: 1

DIF: Medium

COMPLETION

1. Rather than rising and falling separately, national economies increasingly respond to the same forces. _____ has become the leading principle of globalization.

ANS: Interdependence

PTS: 1 DIF: Easy

NOT: This is found in the "The World Economy" section (2-1a).

2. The top 100 companies in the world control about _____ percent of foreign assets, employ 6 million workers, and account for as much as 7 percent of total world economic activity.

ANS:

20

twenty

PTS: 1 DIF: Medium

NOT: This is found in the "The World Economy" section (2-1a).

3. A _____ dollar makes American goods and services more competitive in foreign markets, keeps jobs at home, and decreases the trade deficit because America's workers keep more production at home and sell more goods abroad.

ANS: weak

PTS: 1 DIF: Easy

NOT: This is found in the "The World Economy" section (2-1a).

4. There are two models of economic development that have gained acceptance in the world: a Western model, best articulated by _____, and the Marxist-Leninist model.

ANS: Rostow

PTS: 1 DIF: Easy

NOT: This is found in the "Perspectives on Economic Development" section (2-2).

5. The fall of communism in Europe and the recent structural changes in China and Vietnam have reduced considerably the areas dominated by the _____ philosophy on economic development.

ANS:

Marxist-Leninist

Marxist Leninist

PTS: 1 DIF: Easy

NOT: This is found in the "Perspectives on Economic Development" section (2-2).

6. During the _____ stage of the Rostow Modernization Model, growth becomes the norm and improvements in production lead the emergence of leading sectors.

ANS:

take-off

take off

PTS: 1 DIF: Medium

NOT: This is found in "The Rostow Modernization Model" section (2-2a).

7. During the _____ stage of the Rostow Modernization Model, income rises across the board, and a new class of established entrepreneurs emerges.

ANS:
take-off
take off

PTS: 1 DIF: Medium

NOT: This is found in "The Rostow Modernization Model" section (2-2a).

8. The _____ model is a competing alternative for developing nations seeking to avoid domination by advanced market capitalist economies.

ANS: Marxist-Leninist (Maoist) Model

PTS: 1 DIF: Medium

NOT: This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

9. The Marxist-Leninist (Maoist) model fuels anticolonial and _____ sentiments.

ANS:
anti-imperialist
anti imperialist

PTS: 1 DIF: Medium

NOT: This is stated in the "Alternative Models of Economic Development: The Marxist-Leninist (Maoist) Model" section (2-2b).

10. Under _____, all means of production and private property are under state ownership and/or cooperative ownership.

ANS: communism

PTS: 1 DIF: Medium

NOT: This is found in "Alternative Models of Economic Development" section (2-2b).

11. _____ countries are highly industrialized countries which have strong industrial and service sectors.

ANS:
High-income
High income

PTS: 1 DIF: Hard

NOT: This is found in the "Levels of Economic Development" section (2-3).

12. _____ have rapidly developing economies, and especially in urban areas, they have an infrastructure that is on par with that of developed countries.

ANS:
Upper middle-income countries
Countries with emerging markets

PTS: 1 DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

13. According to the World Bank, countries considered upper middle income countries have a GNI per capita of _____.

ANS:

US\$3,466 to US\$10,725

US\$3,466 - US\$10,725

PTS: 1

DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

14. _____ countries have a GNI per capita of above US\$10,725.

ANS:

High-income

High income

PTS: 1

DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

15. The new European Union member countries that have rapidly privatized state-owned industries and adopted market reforms are classified as _____ by the World Bank.

ANS:

Upper middle-income

Upper middle income

PTS: 1

DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

16. A country with a GNI per capita of US\$3,200 is classified by the World Bank as _____ country.

ANS:

Lower middle-income

Lower middle income

PTS: 1

DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

17. Argentina, Chile, and Mexico are examples of _____ countries, according to the World Bank.

ANS:

Upper middle-income

Upper middle income

PTS: 1

DIF: Medium

NOT: This is found in the "Levels of Economic Development" section (2-3).

18. Commercial payment terms and collection experience indicate the availability of _____ reserves.

ANS: hard currency

PTS: 1 DIF: Hard

NOT: This is found in the "Political Risk: An Overview" section (2-4a).

19. General repression by the elite - especially if the elite's position is not considered legitimate - is always a signal of _____.

ANS: political instability

PTS: 1 DIF: Hard

NOT: This is found in the "Political Risk: An Overview" section (2-4a).

20. _____ is the belief that buying foreign goods will put local companies out of business and is, consequently, morally wrong.

ANS: Consumer ethnocentrism

PTS: 1 DIF: Medium NOT: This is found in the "Nationalism" section (2-4b).

21. There are three types of _____, all of which are aimed to transfer company ownership from the company to local owners.

ANS: nationalization

PTS: 1 DIF: Medium

NOT: This is found in the "Political Risks and Risk Management" section (2-4c).

22. _____ refers to the seizing of company assets and/or investors' assets without any compensation.

ANS: Confiscation

PTS: 1 DIF: Medium

NOT: This is found in the "Political Risks and Risk Management in International Marketing" section (2-4c).

23. In the aftermath of the Asian crisis, governments have been nationalizing ailing banks across the region: in _____, the government controls nearly all of the country's biggest banks and has taken over around 75% of all bank assets.

ANS: Indonesia

PTS: 1 DIF: Hard

NOT: This is found in the "Political Risk and Risk Management" section (2-4c).

24. _____ occurs when the local government requires a gradual transfer of ownership and management to locals.

ANS: Domestication

PTS: 1 DIF: Medium

NOT: This is found in the "Political Risks and Risk Management" section (2-4c).

25. _____ is based on prior court rulings (legal precedent).

ANS: Common law

PTS: 1 DIF: Medium

NOT: This is found in the "Legal Systems" section (2-5a).

26. _____ refers to comprehensive written laws that specify what constitutes legal behavior.

ANS:

Code law

Civil law

PTS: 1 DIF: Medium

NOT: This is found in the "Legal Systems" section (2-5a).

27. _____ is a non-binding procedure that involves an independent third party.

ANS: Mediation

PTS: 1 DIF: Medium NOT: This is found in the "Jurisdiction" section (2-5b).

28. _____ is a procedure that involves an independent third party binding decision - instead of litigation.

ANS: Arbitration

PTS: 1 DIF: Medium NOT: This is found in the "Jurisdiction" section (2-5b).

29. Protection of the rights of the inventor of the firm employing the inventor to use and sell the invention for a specified period of time is a type of intellectual property known as a(n) _____.

ANS: patent

PTS: 1 DIF: Easy

NOT: This is found in the "Intellectual Property Rights Protection" section (2-5c).

30. Protection of the rights to an original work of art (literature, music, film, design, and other works), allowing the owner the right to reproduce, sell, perform, or film the work is known as a(n) _____.

ANS: copyright

PTS: 1 DIF: Easy

NOT: This is found in the "Intellectual Property Rights" section (2-5c).

ESSAY

1. Describe the stages of the Rostow Modernization model of economic development.

ANS:

The stages of the Rostow model are traditional society, transitional society, take-off, the drive to maturity, and high mass consumption. In traditional society, the economic structure is dominated by agriculture. In transitional society, productivity in agriculture increases and modern manufacturing begins to emerge. In take-off, growth becomes the norm and improvements in production lead to the emergence of leading sectors. Modern technology is fully adopted in the drive to maturity phase and new leading sectors emerge. Finally, in high mass consumption, leading sectors shift toward durable goods. There is also an increased allocation to social welfare programs. This is Found in "The Rostow Modernization Model" section (2-2a).

PTS: 1 DIF: Medium

2. Describe the stages of the Marxist-Leninist model of economic development.

ANS:

The stages of the Marxist-Leninist model are the primitive society, the slavery-based society, feudalism, the capitalist society, the socialist society, and communism. In the primitive society, there is tribal ownership of the means of production, which are minimal, primitive, and centered on agricultural tasks. The slavery-based society emerges as a result of tribes taking over other tribes. Under feudal society, feudal lords own the land and the dwellers of the land. Guilds begin to emerge as a production unit. The bourgeoisie create a lucrative means of production in the capitalist society. Multinational imperialism also evolves from capitalism. The socialist society leads to the disappearance of private property. Under communism, all means of production and private property are under state ownership. The state is in charge of allocation of resources to sectors as needed and to individuals according to their needs. This is found in the "Alternative Models of Economic Development" section (2-2b).

PTS: 1 DIF: Medium

3. What traits are characteristic of emerging markets?

ANS:

Emerging markets have high political stability, sound currencies, low inflation, and privatization policies. Emerging markets also have policies that facilitate repatriation of dividends and capital, policies that are aligned with international accounting standards, and open disclosure of director's interests. Other traits include a sound and comprehensive system of corporate law, a liquid and well traded securities market, a high savings rate, and strong government support for internationalization. This is found in the "The Importance of Emerging Markets" section (2-3a).

PTS: 1 DIF: Medium

4. How can companies protect themselves against political instability?

ANS:

Companies need to understand the structure of the government, the political parties, and the ideologies of the ruling party as well as the competing ideologies of the opposition. Companies should practice good corporate citizenship in each country. Partnering with local companies helps to minimize risk. It is also possible to obtain insurance coverage against nationalization from private insurance sources. This is found in the "Political Risk and Risk Management" section (2-4c).

PTS: 1 DIF: Easy

5. Describe the factors influencing intellectual property rights violations.

ANS:

Market factors that influence intellectual property rights violations include: lack of appropriate legislation, lax enforcement, unavailability of the authentic products or high prices for authentic products. Cultural factors that influence intellectual property rights violations include: values that perceive imitation as a high form of flattery, a culture characterized by interpersonal distrust and feelings of not getting a fair deal, a culture characterized by an emphasis on acquisition of material wealth at the expense of caring for others, and beliefs that technology is in the common domain and that use of others' intellectual property is appropriate. This is found in the "Factors Influencing Intellectual Property Rights" section (2-5c).

PTS: 1

DIF: Hard