

CHAPTER 1 Introduction

EASY (definitional)

1.1 Historically, the primary motive for U.S. multinationals to produce abroad has been to

- a) lower costs
- b) respond more quickly to the marketplace
- c) avoid trade barriers
- d) gain tax benefits

Ans: b

Section: Evolution of Multinational

Level: Easy

1.2 The primary objective of the multinational corporation is to

- a.) maximize shareholder wealth
- b) maximize world production
- c) minimize debt
- d) minimize the cost of doing business globally

Ans: a

Section: Multinational Financial Management: Theory and Practice

Level: Easy

1.3 _____ is defined as the purchase of assets or commodities on one market for immediate resale on another in order to profit from a price discrepancy.

- a) internationalization
- b) arbitrage
- c) financing
- d) total risk

Ans: b

Section: Evolution of Multinational

Level: Easy

1.4 The value of good financial management is _____ in the global markets because of the much greater probability of market imperfections and multiple tax rates.

- a) minimized
- b) neutralized
- c) enhanced

d) arbitrated away

Ans: c

Section: Role of the financial executive

Level: Easy

1.5 When a firm operates globally it offers advantages such as

- a) greater political power at home
- b) less taxes on its profits
- c) greater negotiating power with foreign minority groups
- d) greater negotiating power with labor unions

Ans: d

Section: Rise of the MNC

Level: Easy

1.6 The prime transmitter of global competitive forces is the

- a) public utility firm
- b) financial management experience of the U.S. markets
- c) the multinational corporation
- d) the Federal Reserve System of the U.S.

Ans: c

Section: Rise of the MNC

Level: Easy

1.7 _____ were the earliest multinationals.

- a) raw-material seekers
- b) market seekers
- c) cost minimizers
- d) oil companies

Ans: a

Section: Raw material seekers

Level: Easy

1.8 The _____ are the archetype of the modern multinational firm that goes overseas to produce and sell in foreign markets.

- a) cost minimizers
- b) market seekers
- c) raw-material seekers
- d) whaling companies

Ans: b

Section: Market seekers

Level: Easy

1.9 _____ are a recent category of multinationals that seek out and invest in lower cost production sites overseas.

- a) Cost minimizers
- b) Market seekers
- c) Raw-material seekers
- d) High tech firms

Ans: a

Section: Cost minimizers

Level: Easy

1.10 Which one of the following is a consequence of increased global competition?

- a) the creation of new steel plants in the old industrial countries
- b) the end of free-trade agreements between governments of the world
- c) increased comfort level of trade unions with the consequences
- d) increased anxiety among workers in the old industrial countries

Ans: d

Section: Consequences of Global Competition

Level: Easy

1.11 The defenders of multinationals believe that _____ are the appropriate reward for efficiently providing the global economy with products and services.

- a) profits
- b) subsidies
- c) tax holidays
- d) low-interest, government-subsidized loans

Ans: a

Section: Criticisms of the Multinational Corporation

Level: Easy

1.12 International _____ can reduce the volatility of an investment portfolio because national financial markets tend to move independently of each other.

- a) arbitrage
- b) centralization of the MNC's cash
- c) diversification

d) investment

Ans: c

Section: The Importance of Total Risk

Level: Easy

MEDIUM (applied)

1.13 Referring to the text, into which category of multinational is IBM most likely to fall?

- a) raw materials seeker
- b) market seeker
- c) cost minimizer
- d) hedge fund

Ans: b

Section: Market seeker

Level: Medium

1.14 Which of the following did NOT accelerate the growth of the global economy in the past twenty years?

- a) the U.S.-Canada-Mexico free-trade pact
- b) the creation of the European Union
- c) China's entrance into the WTO
- d) the first Iraq War

Ans: d

Section: Consequences of Global Competition

Level: Medium

1.15 The multinational financial system does NOT enable companies to

- a) avoid currency controls
- b) reduce taxes
- c) access lower cost financing sources
- d) avoid exchange rate risk

Ans: d

Section: Rise of the MNC

Level: Medium

1.16 Given the added risks associated with doing business abroad, companies should

- a) limit their foreign sales to less than 40% of total sales

- b) limit their foreign assets to less than 30% of total assets
- c) avoid foreign markets altogether unless they can earn a return in excess of the return they earn in their domestic market
- d) not limit their foreign sales at all

Ans: d

Section: The Internationalization of business

Level: Medium

1.17 Which of the following is an example of reverse foreign investment?

- a) Honda builds a factory in Ohio
- b) Apple builds a plant in Ireland that exports to the United States
- c) British Telecom issues new stock in the United States
- d) American investors buy shares in Sony

Ans: a

Section: Market seeker

Level: Medium

1.18 Which of the following is NOT a failing of the theory of comparative advantage?

- a. it ignores the role of uncertainty and economies of scale
- b. it assumes that factors of production are immobile
- c. it assumes that there are no differentiated products
- d. it assumes a scarcity of resources

Ans: d

Section: Rise of the MNC

Level: Medium

DIFFICULT (applied)

1.19 Which of the following theories identifies specialization as the main reason for international business activity?

- a) product life cycle theory of international trade
- b) theory of diversification
- c) doctrine of comparative advantage
- d) theory of globalization

Ans: c

Section: Rise of the MNC

Level: Difficult

1.20 Critics of the multinational corporation would not fault its tendency to

- a) shift production from one location to another in search of lower costs
- b) avoid taxes
- c) cause balance of payments difficulties
- d) engage in environmental protection measures

Ans: d

Section: Criticisms of the MNC

Level: Difficult

1.21 Multinational firms

- a) are riskier than purely domestic firms because of the exposures of operating abroad
- b) are less risky than purely domestic firms because of international diversification
- c) may be less risky than domestic firms if the added risks of operating overseas are more than offset by the ability to operate in nations whose economic cycles are not perfectly in phase
- d) invest in developed countries only and avoid developing economies

Ans: c

Section: Importance of total risk

Level: Difficult

1.22 According to the capital asset pricing model

- a) only the systematic component of risk affects the required return
- b) foreign investments whose returns are uncorrelated with the market's return should have a higher required return than comparable domestic investments
- c) total risk of the investment is most relevant for small to medium-sized firms
- d) diversification is secondary to risk levels of the investment

Ans: a

Section: Capital asset pricing

Level: Difficult

1.23 The internationalization process tends to

- a) proceed in a preprogrammed series of steps
- b) begin by licensing foreign producers
- c) inevitably involve foreign production
- d) often begin by accident

Ans: d

Section: Capital asset pricing

Level: Difficult

1.24 According to the efficient market hypothesis, which one of the following is NOT correct?

- a) markets place a premium on the future
- b) today's stock price is the best predictor of tomorrow's stock price
- c) stock prices reflect all available information
- d) today's stock price incorporates the past history of prices

Ans: a

Section: Market efficiency

Level: Difficult

1.25 Which one of the following provides strong evidence that internationalization continues to grow in the world economy?

- a. import restrictions by the Bush Administration on foreign steel
- b. efforts suggested by politicians to restrict the sourcing of foreign products by locally headquartered multinationals
- c. the growing volume of foreign direct investment by U.S. as well as other multinational companies
- d. pressure on governments to embargo unfriendly nations

Ans: c

Section: Evolution of the Multinational Corporation

Level: Difficult

1.26 For the multinational corporation, which one of the following complements to the integration of world wide operations is MOST critical?

- a) flexibility
- b) adaptability
- c) speed
- d) economies of scale of distribution

Ans: c

Section: A Behavioral Definition of the Multinational Corporation

Level: Difficult

1.27 According to Shapiro, if you were the CEO of a multinational corporation, which of the following would be MOST important to you in hiring a manager? One that

- a) Avoids risk at any price
- b) Manages effectively the political environment of the subsidiary country
- c) Anticipates every future disturbance related to the supply chain
- d) Makes decisions that anticipates problems and provides solutions that enhances the firm's prospects for growth

Ans: d

Section: The Global Manager

Level: Difficult