Test Bank for International Business - The New Realities 6th Cavusgil

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***International Business: The New Realities, 6e* (Cavusgil)**
Chapter 1   Introduction: What Is International Business?

1) International business is defined as the performance of ________ activities by firms across national borders.
A) marketing and fiduciary
B) trade and investment
C) finance and operational
D) accounting and auditing
Answer: B
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

2) International business is also known as which of the following?
A) Born global business
B) Laissez-faire business
C) Cross-border business
D) Multi-hub business
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

3) Which of these is NOT one of the elements of international business?
A) Cross-border labor flows
B) Globalization of markets
C) Foreign market entry strategies
D) International investment
Answer: A
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

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4) From 1960 to the present international trade has grown from $300 billion per year to ________ per year.
A) $750 billion
B) $22 trillion
C) $4.5 trillion
D) $15 trillion
Answer: B
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

5) Ramone purchased 1,000 shares of stock in a foreign company. What type of transaction did Ramone make?
A) Capital investment
B) Foreign direct investment
C) International portfolio investment
D) Greenfield investment
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

6) Which of these countries is NOT in the top three nations when ranked by the total value of exports?
A) China
B) United States
C) Germany
D) Canada
Answer: D
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

7) ________ refers to the transfer of assets to another country or the acquisition of assets in that country.
A) International investment
B) International trade
C) Importing
D) Exporting
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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8) Which of these activities encompasses the widest range of international involvement?
A) Portfolio investment
B) Exporting
C) Foreign direct investment
D) Cross-border trade
Answer: C
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

9) Which of the following would NOT be considered an example of foreign direct investment (FDI)?
A) Cross-border purchase of a textile plant
B) Cross-border purchase of stocks
C) Purchase of capital assets of a foreign company
D) Purchase of foreign land for business operations
Answer: B
Diff: 2: Moderate
Skill: Application
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

10) ________ is the total value of products and services produced in a country over the course of a year.
A) GDP
B) CAD
C) FDI
D) PPP
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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11) Which of the following best explains why export growth has outpaced the growth of domestic production during the last few decades?
A) Both world exports and domestic production have grown significantly over the past 30 years.
B) The cost to import products is generally higher than the cost to produce domestic products.
C) Growth in gross domestic product in most countries has steadily increased since 1970.
D) Advanced economies now source many of their consumable products from low-cost manufacturing nations.
Answer: D
Diff: 3: Challenging
Skill: Critical Thinking
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

12) One new development in the services sector is online peer-to-peer exchange of all types of goods and services. This economic activity has been dubbed the ________.
A) underground economy
B) sharing economy
C) black market
D) intermediate depot
Answer: B
Diff: 2: Moderate
Skill: Application
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

Use the following information to answer the following question(s).
Freehold Investment Corp. (Scenario)
Dan Freehold and his business partner, Bethany Quinn, are successful investors engaged in a variety of domestic enterprises. Recently Dan and Bethany have decided to utilize their collective knowledge and business to expand their foreign investing operations from purchasing stock in foreign companies to investing in real assets. They held a meeting for individuals interested in participating in certain overseas ventures.

13) What type of international investment has Freehold Investment Corp. engaged in up to this time?
A) International portfolio investment
B) Foreign direct investment
C) Cross-border trade
D) Importing
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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14) Dan discusses an investment opportunity that involves buying a 30% ownership stake in a manufacturing facility. This opportunity represents which type of international investment?
A) Indirect production
B) International portfolio
C) Foreign direct
D) Domestic securities
Answer: C
Diff: 2: Moderate
Skill: Application
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

15) Bethany presents another opportunity that involves the purchase of a manufacturing plant in South Korea. She explains that this type of strategy will involve ________ ownership on the part of the firm.
A) indirect
B) passive
C) short-term
D) active
Answer: D
Diff: 2: Moderate
Skill: Application
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

16) Phillip Hardy, one of the potential investors, expresses the desire to invest in projects that focus on the services sector. Which of the following investment opportunities would be most suited for Mr. Hardy?
A) A venture that gives investors ownership of the equipment used by multiple South African mining companies
B) An initiative to purchase the technology assets of an Indian consulting firm
C) A stake in a Vietnamese firm that uses a business model similar to Uber
D) An investment in a manufacturing plant that produces solar panels for electricity generation.
Answer: C
Diff: 2: Moderate
Skill: Application
Objective: 1-1: Describe the key concepts in international business
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17) Which of these economies received the largest amount of foreign direct investment in 2022?
A) Developed nations
B) Developing nations
C) South African nations
D) European nations
Answer: B
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

18) Which of these nations has the largest volume of services trade when expressed as a percentage of GDP?
A) United States
B) Greece
C) Ireland
D) South Africa
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

19) Which of these companies is NOT considered to be a part of the sharing economy?
A) Uber
B) Microsoft
C) Airbnb
D) Streetbank
Answer: B
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

20) Which of these entities conducts most of the international banking activities?
A) National banks
B) Small domestic banks
C) Large banks
D) Local banks
Answer: C
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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21) Which of these topics is one of the key elements of international business? .
A) Trend toward protectionism
B) Population growth trends
C) Explosive growth in exports
D) International business risks
Answer: D
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

22) International business today is predominantly the domain of large, multinational companies.
Answer: FALSE
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

23) Exporting is an entry strategy involving the sale of products or services to customers located abroad.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

24) International portfolio investment refers to the active ownership of foreign securities such as stocks and bonds to gain financial returns.
Answer: FALSE
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

25) The two primary types of international investment are portfolio investment and foreign direct investment.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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26) Global sourcing involves buying products in a foreign country for consumption in the domestic country.
Answer: TRUE
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

27) Firms that produce *services* (intangibles) do not have much impact on international business.
Answer: FALSE
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

28) Although services trade is growing rapidly, the value of merchandise trade is still much larger.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

29) In a short essay, explain the four trends that provide evidence for the globalization of markets. Provide an example to illustrate one of the trends.
Answer: In practical terms, the globalization of markets is evident in several related trends. First is the unprecedented growth of international trade. For example, in 1960, cross-border trade was modest–about $300 billion per year. Today, it accounts for a substantial proportion of the world economy, with world exports alone amounting to some $22 trillion annually–that is, $22,000,000,000,000! Second, trade between nations is accompanied by substantial flows of capital, technology, and knowledge. In 2004, total cross-border bandwidth in digital data transfer and communications was practically zero. Today, total cross-border bandwidth flows now exceed 1 million gigabits per second. Virtually every type of international transaction now includes a digital component. The third trend is the development of highly sophisticated global financial systems and mechanisms that facilitate the cross-border flow of products, money, technology, and knowledge. Fourth, globalization has brought about a greater degree of collaboration among nations through such organizations as the World Trade Organization and the International Monetary Fund.
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
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30) In a short essay, explain the main differences between international portfolio investment and foreign direct investment.
Answer:
a. Types of assets purchased-The first main difference between the two types of investments concerns the types of assets purchased. Portfolio investment involves the purchase of foreign securities, such as stocks and bonds, for the purpose of gaining financial returns. Foreign direct investment involves the purchase of productive assets, such as capital, technology, labor, land, plants, and equipment.
b. Types of ownership-The second main difference concerns the level or type of ownership. Portfolio investment refers to passive ownership, with no active management of or control over the assets purchased. Foreign direct investment, on the other hand, gives investors partial or full ownership of a productive enterprise typically dedicated to manufacturing, marketing, or management activities.
c. Interest timeline-The third main difference between the two types of strategies involves the length of interest maintained by investors. In international portfolio investment, investors have a relatively short-term interest in the ownership of their assets. In foreign direct investment, firms usually have a long-term investing interest.
Diff: 2: Moderate
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

31) What is meant by the term "entrepôt economies"? In a short essay, explain the concept and provide an example.
Answer: Entrepôt is from the French for "intermediate depot." Such countries import a large volume of products, some of which they process into higher value-added products and some they simply re-export to other destinations. For example, Singapore is a major entrepôt for Southeast Asia, e.g., for transshipping petroleum products that it receives from the Middle East. Hong Kong is an entrepôt for China. The Netherlands is an entrepôt for the greater European Union.
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

32) In a short essay, describe how the Covid-19 pandemic affected FDI.
Answer: FDI inflows plunged in 2020 due to Covid-19. Covid-19 had direct and indirect effects on FDI flows. Initially, as large numbers of workers fell ill, the disease disrupted such business activities as manufacturing, logistics, transportation, and marketing. Then, in an effort to slow the spread of Covid-19, governments and local authorities worldwide imposed various restrictions that further slowed normal business operations. In response, many MNEs moderated their foreign investment activities. New FDI projects were put on hold. Global FDI flows fell sharply, especially in 2020. Fortunately, FDI rebounded again in 2021, but a return to normalcy progressed slowly and unevenly since the pandemic.
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

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33) What are the main differences between products and services? In a short essay, explain the difference between the two and provide three examples of each. Which sector has seen the greatest growth in international trade in recent years?
Answer: Products are defined as tangible merchandise, such as clothing, computers, and cars. Services, by contrast, are intangible deeds, performances, or efforts performed directly by people working in firms in the services sector. Some examples of services are creating advertising campaigns, underwriting mortgages, and managing restaurant operations. In recent years, services trade has been growing faster than products trade. International trade in services accounts for about one-quarter of all international trade and is growing rapidly.
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

34) Explain the term "sharing economy" and give examples of how it impacts international business.
Answer: The sharing economy is the term given to the practice in which firms and individuals undertake online peer-to-peer exchange of all types of goods and services. Uber and Airbnb are examples of a growing number of global firms that allow people to borrow or rent assets from others. Uber lets people bypass taxis to go places, and Airbnb allows them to book rooms in private homes around the world. Uber is based in San Francisco and operates in more than 10,000 cities worldwide.
Diff: 1: Easy
Skill: Concept
Objective: 1-1: Describe the key concepts in international business
AACSB: Application of Knowledge

35) In a short essay, explain the meaning of international trade. Describe the two major forms through which international trade takes place.
Answer: International trade describes the exchange of products and services across national borders. Trade involves both products (merchandise) and services (intangibles). Exchange can occur through exporting, an entry strategy involving the sale of products or services to customers located abroad, from a base in the home country or a third country. Exchange also can take the form of importing or global sourcing–the procurement of products or services from suppliers located abroad for consumption in the home country or a third country. While exporting represents the outbound flow of products and services, importing is an inbound activity. Both finished products and intermediate goods (for example, raw materials and components) can be imported and exported.
Diff: 1: Easy
Skill: Synthesis
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

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36) What is international business, and how has it transformed the world economy?
Answer: International business refers to the performance of trade and investment activities by firms across national borders. Because it emphasizes crossing national boundaries, we also refer to international business as cross-border business. Firms organize, source, manufacture, market, and conduct other value-adding activities on an international scale. They seek foreign customers and engage in collaborative relationships with foreign business partners.
International business is transforming the world as never before. In the last 50 years, international trade and investment have experienced unprecedented growth. Since the 1980s, emerging markets have provided new impetus to worldwide economic interconnectedness. These fast-growth developing economies–some thirty countries, including Brazil, Russia, India, and China, the so-called BRICs–are experiencing substantial market liberalization, privatization, and industrialization, which are fueling global economic transformation.
Along with market globalization, *advances in technology* is another megatrend helping to transform the global economy. The rise of information and communication technologies, as well as production and process technologies, has dramatically reduced the cost of conducting business with customers located around the world. E-commerce makes international business increasingly imperative for firms of all sizes and resource levels. Technological advances are allowing globalization to progress more rapidly. Globalization, in turn, is accelerating the development of the latest technologies.
Diff: 2: Moderate
Skill: Synthesis
Objective: 1-1: Describe the key concepts in international business
AACSB: Analytical Thinking

37) Which of these issues is NOT a component of commercial risk?
A) Operational problems
B) Competitive intensity
C) Timing of entry
D) Cultural differences
Answer: D
Diff: 1: Easy
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

38) Which of the following is NOT an example of a cross-cultural risk factor?
A) Negotiation patterns
B) Decision-making styles
C) Costs of production
D) Ethical practices
Answer: C
Diff: 2: Moderate
Skill: Application
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

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39) Cassandra invested $100,000 in a venture that generated a 15% annual return over the past few years. However, she liquidated her investment and wants to move her funds back to the United States, but the foreign exchange rate will turn her gain into a loss if she repatriates the funds at this time. What type of risk is Cassandra experiencing?
A) Country risk
B) Political risk
C) Currency risk
D) Cross-cultural risk
Answer: C
Diff: 1: Easy
Skill: Application
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

Overseas Expansion (Scenario)
Whittaker Semiconductors has recently decided to expand its operations overseas. Amanda Quan, Vice President of International Business, assigned a team of investigators to analyze the risks faced by the company in making this move. Of particular interest were the risks that might affect the success of a new production plant to be located in one of four potential countries.

40) Philip Baxter reported on the risks associated with establishing the plant in Country A. The most significant risk, in his view, was posed by the government's complex bureaucratic structure. Philip reported the likelihood of significant administrative delays in opening the plant. The risk identified by Philip is an example of which of the following?
A) Country risk
B) Commercial risk
C) Currency risk
D) Cross-cultural risk
Answer: A
Diff: 2: Moderate
Skill: Application
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

41) LeShaun Golding researched the risks linked to establishing the plant in Country B. He cited government intervention, lack of local managerial talent, and unethical business practices as the most prominent risks for this location. LeShaun noted all of the following types of risks EXCEPT ________.
A) currency risk
B) political risk
C) country risk
D) cross-cultural risk
Answer: A
Diff: 2: Moderate
Skill: Application
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Ethical understanding and reasoning

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42) Rosa Suarez reported on her analysis of cross-cultural risks involved with establishing the plant in Country C. Each of the following was most likely discussed in her report EXCEPT ________.
A) language barriers
B) lifestyle differences
C) religious beliefs
D) the level of national debt
Answer: D
Diff: 2: Moderate
Skill: Application
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Diverse and multicultural work environments

43) Ramesh Agarwal focused his analysis on the past fluctuations between the U.S. dollar and Country D's currency. What type of risk does this represent?
A) Financial risk
B) Political risk
C) Country risk
D) Cross-cultural risk
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

44) One aspect of commercial risk is the possibility of having a weak international partner.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

45) For internationalizing firms, the consequences of poor business management decisions are usually more costly when mistakes occur abroad than when they occur at home.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Analytical Thinking

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46) List the major types of country risk a firm might face with international expansion.
Answer: There are numerous types of country risk including;
• Harmful or unstable political system
• Laws and regulations unfavorable to foreign firms
• Inadequate or underdeveloped legal system
• Bureaucracy and red tape
• Corruption and other ethical blunders
• Government intervention, protectionism, and barriers to trade and investment
• Mismanagement or failure of the national economy
Diff: 2: Moderate
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Application of Knowledge

47) In a short essay, discuss how international firms manage the four types of international business risk. Provide an example that illustrates the process of risk management.
Answer: When they undertake international business, companies are routinely exposed to four major types of risk. These include: cross-cultural risk, country risk, currency risk, and commercial risk:
1. Cross-cultural risk: A situation or event in which a cultural misunderstanding puts some human value at stake.
2. Country risk: Potentially adverse effects on company operations and profitability caused by developments in the political, legal, and economic environment in a foreign country.
3. Currency risk: Risk of adverse fluctuations in exchange rates.
4. Commercial risk: Firm's potential loss or failure from poorly developed or executed business strategies, tactics, or procedures.
The four types of international business risks are omnipresent; the firm may encounter them around every corner. Some international risks are extremely challenging. One example is global financial disruptions. The Greek debt crisis has now lingered on for several years and affects not only the European Union but creditors elsewhere.
Although risk cannot be avoided, it can be anticipated and managed. Experienced international firms constantly assess their environments and conduct research to anticipate potential risks, understand their implications, and take proactive action to reduce their effects.
Diff: 1: Easy
Skill: Concept
Objective: 1-2: Understand how international business differs from domestic business
AACSB: Application of Knowledge

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48) Businesses that directly initiate international business transactions are known as ________.
A) focal firms
B) fiscal enterprises
C) fiduciary trusts
D) business affiliates
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

49) Young entrepreneurial companies that initiate international business activity very early in their evolution, and move rapidly into foreign markets are known as ________.
A) born global firms
B) SMEs
C) multinational enterprises
D) NGOs
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

50) Due to their smaller size and ability to adapt quickly to changing conditions, SMEs often target specialized products and focus on market niches that are ________.
A) only in developed countries
B) larger than their domestic markets
C) too risky for large businesses
D) too small for MNEs to serve
Answer: D
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

51) Each of the following types of organizations is active in international business EXCEPT ________.
A) MNE
B) SME
C) GSK
D) NGO
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

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52) According to the Global 500 data a nation other than the United States reached the top of the ranks of global business for the first time since WWII. Which nation accomplished this feat?
A) China
B) Germany
C) Canada
D) The United Kingdom
Answer: A
Diff: 2: Moderate
Skill: Application
Objective: 1-3: Identify major participants in international business
AACSB: Application of Knowledge

53) Calexor is a telecommunications SME that has been highly successful despite its limited resources. Stakeholders attribute Calexor's success to its ability to serve niche markets. Which of the following, if TRUE, would most strongly support the claim that Calexor's growth can be attributed to niche market sales?
A) Calexor developed an interest in serving niche markets through an R & D experiment.
B) Most of Calexor's sales are in specialty markets that larger competitors do not serve.
C) Calexor's sales in mainstream telecommunications markets have always been strong.
D) Calexor's growth soared after it entered its first overseas market and has continued to climb.
Answer: B
Diff: 1: Easy
Skill: Critical Thinking
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

54) The world's largest MNEs are concentrated in emerging economies.
Answer: FALSE
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

55) New global challenger firms from emerging markets are fast becoming key contenders in world markets. For example, the Mexican firm Cemex is one of the world's largest cement producers.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

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56) SMEs usually choose exporting as their main strategy for entering foreign markets.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

57) What distinguishes an MNE from an SME? In a short essay, describe the major differences between the two types of firms.
Answer: A multinational enterprise (MNE) is a large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries. Examples include Sony, Citibank, Unilever, Nokia, Ford, Barclays, DHL, Four Seasons Hotels, and Shell Oil.
Although MNEs employ a range of foreign market entry strategies, they are best known for their foreign direct investment (FDI) activities. They operate in multiple countries, especially in Asia, Europe, and North America, by setting up production plants, marketing subsidiaries, and regional headquarters.
Small and medium-sized enterprises (SMEs) are manufacturers or service providers with fewer than 500 employees (in the European Union and numerous other countries, they are defined as having fewer than 250 employees). SMEs now make up the majority of companies active in international business. Compared to large multinationals, SMEs can be more flexible and quicker to respond to global business opportunities. They are usually less bureaucratic, more adaptable, and more entrepreneurial, and often sustain entrepreneurship and innovation in national economies.
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Application of Knowledge

58) In a short essay, explain why nonprofit organizations might conduct cross-border activities.
Answer: In addition to profit-seeking focal firms in international business, there are numerous *nonprofit organizations* that conduct cross-border activities. These include charitable groups and *non-governmental organizations (NGOs)*. They work on behalf of special causes, such as education, research, health care, human development, and the natural environment, operating internationally either to conduct their activities or to raise funds.
Diff: 1: Easy
Skill: Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

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59) What is a born global firm? Explain one strategic or reactive reason why an SME might choose to start as a born global.
Answer: A born global firm is a young entrepreneurial company that initiates international business activity very early in its evolution, moving rapidly into foreign markets. Despite the scarce resources typical of most small businesses, born globals usually internationalize within three years of their founding and may export to 20 or more countries, generating over 25 percent of their sales from abroad. In countries like Australia, Denmark, Ireland, and the United States, born globals account for a substantial proportion of national exports. In many cases, born globals offer leading-edge products with strong potential to generate international sales. They leverage the Internet and communications technologies to facilitate early and efficient international operations.
An SME might start as a born global to lower its production costs by establishing manufacturing bases in foreign countries. Alternatively, the company might benefit from establishing international operations as a way to confront its industry competitors.
Diff: 2: Moderate
Skill: Synthesis; Concept
Objective: 1-3: Identify major participants in international business
AACSB: Analytical Thinking

60) The process of targeting and serving markets outside the home country is known as ________.
A) market diversification
B) competition intensity
C) reactive internationalization
D) trade protectionism
Answer: A
Diff: 1: Easy
Skill: Concept
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

61) A U.S. shoe manufacturer is considering internationalizing to promote growth by diversifying its markets. Which of the following, if TRUE, would most strongly support the claim that moving to France would help the company grow through market diversification?
A) Doing business in France would likely expose the company to new ideas for product innovation.
B) French women tend to purchase shoes more frequently than do French men.
C) French consumers represent a sizeable market that could significantly boost the company's sales.
D) Many of the company's U.S. customers have moved overseas to Europe.
Answer: C
Diff: 2: Moderate
Skill: Critical Thinking
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

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62) Which of the following contributes LEAST to increasing a company's profit margins?
A) Increasing demand
B) Increasing global competition
C) High-growth markets
D) Underserved economies
Answer: B
Diff: 2: Moderate
Skill: Application
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

63) Which of these is NOT a motivation for international expansion?
A) To seek new opportunities for growth through market diversification
B) To limit the negative impact of high taxes in the domestic country
C) To earn higher margins and profits
D) To gain access to lower cost inputs or factors of production
Answer: B
Diff: 1: Easy
Skill: Application
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

64) A firm can benefit from producing more units and spreading fixed costs over the increased production volume. This practice is known as ________.
A) developing economies of scale
B) seeking low-cost labor
C) gaining greater access to raw materials
D) limiting variable costs
Answer: A
Diff: 2: Moderate
Skill: Application
Objective: 1-4: Explain why firms internationalize
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Sterling Auto International (Scenario)
Sterling Auto International is a successful car manufacturing company headquartered in Detroit, Michigan. Over the past year, the company implemented multiple efforts to expand its overseas operations. At a recent shareholder's meeting, attendees questioned the CEO's motivations for authorizing certain aspects of the expansion efforts.

65) One shareholder questioned the CEO's rationale for beginning an exploratory effort to establish a new manufacturing plant in India. The CEO responded by explaining that India was an untapped market with a high demand for products such as those produced by Sterling. His rationale represented an example of which of the following reasons for international expansion?
A) Investing in a potentially rewarding relationship with a foreign partner
B) Gaining access to lower-cost or better-value factors of production
C) Seeking opportunities for growth through market diversification
D) Better serving key customers that have relocated abroad
Answer: C
Diff: 2: Moderate
Skill: Critical Thinking
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

66) The CEO introduced another overseas effort by noting that it represented an attempt to confront an international competitor. The CEO was most likely referring to which of the following efforts?
A) A new plant established in Vietnam to benefit from low-cost labor
B) A sales outlet established in Indonesia, where Sterling could charge more for its products
C) A marketing and advertising partnership established with a successful French car retailer
D) A distribution center established in London to preempt the growth of a British car manufacturer
Answer: D
Diff: 2: Moderate
Skill: Application
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

67) One shareholder wanted clarification about a research effort that investigated the possibility of setting up a plant in China. The CEO explained that serving China's rapidly growing middle class population would enable Sterling to increase the size of its customer base dramatically. In China, the CEO was most likely interested in ________.
A) avoiding government intervention
B) challenging Chinese competitors
C) gaining access to innovative ideas
D) developing economies of scale
Answer: D
Diff: 2: Moderate
Skill: Application
Objective: 1-4: Explain why firms internationalize
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68) The CEO justified one of the company's moves by pointing out that it not only enabled Sterling to benefit from global sourcing advantages, but it also provided access to new ideas about business methods. The shareholders viewed this justification positively most likely because they understood which of the following?
A) Sourcing advantages are usually more important to growth than obtaining new business ideas.
B) International firms may have more than one motive for international expansion.
C) The most compelling motive for international expansion is to gain new ideas from other markets.
D) This expansion strategy would enable the company to better manage cross-cultural risk.
Answer: B
Diff: 2: Moderate
Skill: Application
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

69) In discussing the expansion effort to India, the CEO reminded shareholders of Black and Decker's move to partner with the Indian auto retailer Bajaj. The CEO was most likely attempting to justify which of the following?
A) A joint venture that would position Sterling for long-term sales in India
B) A marketing effort targeted to American citizens living in India
C) A price drop to ward off competition from an emerging Indian auto retailer
D) A new manufacturing protocol based on an efficient Indian production method
Answer: A
Diff: 2: Moderate
Skill: Concept
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

70) Entering a foreign market can extend the marketable life of products or services that have reached maturity in the home market.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-4: Explain why firms internationalize
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71) Why might firms choose to pursue internationalization strategies? In a short essay, identify five major motivations for expanding overseas.
Answer: Strategic Motivations
a. One reason why firms might expand internationally is to *seek opportunities for growth through market diversification*. Firms expand to tap into the market potential that exists outside the home country.
b. Firms expand to *earn higher margins and profits*. Foreign markets are often underserved or not served at all. Less intense competition, combined with strong market demand, implies that companies can command higher margins for their offerings.
c. Firms internationalize to *gain new ideas about products, services, and business methods*. The experience of doing business abroad helps firms acquire new knowledge for improving organizational effectiveness and efficiency.
d. Firms might internationalize to *be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products*. Companies often establish international operations in countries where needed raw materials are located, or where raw materials and labor can be more flexibly accessed.
e. Firms might internationalize to *serve key customers better that have relocated abroad*. In a global economy, many firms internationalize to better serve clients that have moved into foreign markets.
f. Firms might internationalize to *be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in product sourcing.* Companies in extractive industries such as petroleum, mining, and forestry establish international operations where raw materials are located.
g. Firms expand to *gain access to lower-cost or better-value factors of production*. Internationalization enables the firm to access capital, technology, managerial talent, labor, and land at lower costs, higher quality, or better overall value at locations worldwide. For example, some Taiwanese computer manufacturers have established subsidiaries in the United States to access low-cost capital.
h. Firms internationalize to *develop economies of scale in sourcing, production, marketing, and R&D*. Economies of scale refers to the reduction of the per-unit cost of manufacturing and marketing due to operating at high volume. For example, the per-unit cost of manufacturing 100,000 cameras is much cheaper than the per-unit cost of making just 100 cameras. By expanding internationally, the firm greatly increases the size of its customer base, thereby increasing the volume of products that it manufactures.
i. Firms might also internationalize to *confront international competitors more effectively or thwart the growth of competition in the home market*. International competition is substantial and increasing, with multinational competitors invading markets worldwide. The firm can enhance its competitive positioning by confronting competitors in international markets or preemptively entering a competitor's home markets to destabilize and curb its growth.

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j. Firms might expand to *invest in a potentially rewarding relationship with a foreign partner*. Firms often have long-term strategic reasons for venturing abroad. Joint ventures or project-based alliances with key foreign players can lead to the development of new products, early positioning in future key markets, or other long-term profit-making opportunities. For example, Black and Decker entered a joint venture with Bajaj, an Indian retailer, to position itself for expected long-term sales in the huge Indian market.
Diff: 3: Challenging
Skill: Concept
Objective: 1-4: Explain why firms internationalize
AACSB: Analytical Thinking

72) All of the following are reasons to study international business EXCEPT ________.
A) international business contributes to economic prosperity
B) international trade is a critical engine for job creation
C) international trade and investment have experienced unprecedented decline
D) international business provides an opportunity to support sustainability and corporate citizenship
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-5: Appreciate why you should study international business
AACSB: Analytical Thinking

73) Which of the following, if TRUE, would most strongly support the claim that economic prosperity is increased by participation in international business?
A) Countries that participate in international trade have higher GDP per capita than non-participating countries.
B) Individuals in advanced economies tend to set purchasing trends for consumers worldwide.
C) For most countries, levels of international trade have increased significantly in recent decades.
D) National literacy levels are strongly correlated with a country's degree of political freedom.
Answer: A
Diff: 3: Challenging
Skill: Critical Thinking
Objective: 1-5: Appreciate why you should study international business
AACSB: Analytical Thinking

74) Since the 1980s, emerging market countries have experienced substantial market liberalization and privatization.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-5: Appreciate why you should study international business
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75) Firms that do not export tend to create jobs more quickly than do exporting firms.
Answer: FALSE
Diff: 1: Easy
Skill: Concept
Objective: 1-5: Appreciate why you should study international business
AACSB: Analytical Thinking

76) Which of the following documents is NOT required for international travel?
A) Passport
B) A traveler's visa issued by the embassy of some host countries
C) Driver's license
D) Proof of return trip
Answer: C
Diff: 1: Easy
Skill: Concept
Objective: 1-6: Learn the CKR Intangible Human Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.
AACSB: Analytical Thinking

77) It is not necessary to learn about foreign currency exchange rates since you can use your credit card instead of cash.
Answer: FALSE
Diff: 2: Moderate
Skill: Concept
Objective: 1-6: Learn the CKR Intangible Human Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.
AACSB: Analytical Thinking

78) It is vital to understand and comply with security, safety, and health care requirements for the countries you visit, including guidelines on Covid-19 and other ailments.
Answer: TRUE
Diff: 1: Easy
Skill: Concept
Objective: 1-6: Learn the CKR Intangible Human Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.
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