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Chapter 02

National Differences in Political, Economic, and Legal Systems

True / False Questions

1. The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.

   True False

2. The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.

   True False

3. The Cold War was, in many respects, a war between collectivism and individualism.

   True False

4. Most modern democratic states practice representative democracy.

   True False

5. Democracy is a form of government that prohibits opposing political parties.

   True False

6. In a totalitarian country, there are safeguards to protect an individual's right to freedom of expression, opinion, and organization.

   True False

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7. The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

True False

8. The objective of the government in a command economy is to encourage free and fair competition between private producers.

True False

9. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

True False

10. A nation's legal system is usually of very little interest to international business managers, because international businesses are headquartered in different countries.

True False

11. Judges under a civil law system have more flexibility than those under a common law system.

True False

12. A theocratic law system is one in which the law is based on religious teachings.

True False

13. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

True False

14. Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

True False

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15. Many of the world's larger trading nations, including India and the United Kingdom, have not ratified the United Nations Convention on Contracts for the International Sale of Goods (CISG).

True False

16. To facilitate international business, property rights are defined in a consistent way across countries.

True False

17. Property rights can be violated in two ways—through private action and through public action.

True False

18. The Foreign Corrupt Practices Act does not allow for grease payments.

True False

19. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

True False

20. Patents discourage companies from committing themselves to extensive basic research.

True False

21. The Trade-Related Aspects of Intellectual Property Rights, attempts to reduce intellectual property protections to enhance trade.

True False

22. Product liability sets certain safety standards to which a product must adhere.

True False

23. Product liability can be much lower if a product does not conform to required safety standards.

True False

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24. The political systems of a country raise ethical issues that have implications for the practice of international business.

True False

Multiple Choice Questions

25. Interdependent political, economic, and legal systems of a country make up its:

A. administrative agenda.
B. socioeconomic fabric.
C. cultural environment.
D. political economy.

26. A political system that prioritizes the needs of the society over individual freedoms is called _____.

A. totalitarianism
B. collectivism
C. capitalism
D. egalitarianism

27. Modern socialism has been popularized largely through the work of _____.

A. Adam Smith
B. Karl Marx
C. David Hume
D. Thomas Hobbes

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28. The ____ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

A. existentialists
B. social democrats
C. communists
D. anarchists

29. In several Western democracies, the poor performance of state-owned enterprises, because of protection from competition and guaranteed government financial support, led to _____.

A. privatization
B. nationalization
C. liberalization
D. socialization of production

30. Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?

A. Socialism
B. Individualism
C. Collectivism
D. Anarchism

31. The tenet of _____ is that the welfare of society is best served by letting people pursue their own economic self-interest.

A. socialism
B. communism
C. anarchism
D. individualism

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32. Which of the following statements about individualism is true?

A. Individualism promotes state ownership of the basic means of production, distribution, and exchange.
B. Individualism promotes globalization.
C. Individualism creates an anti-business environment.
D. Individualism advocates for a democratic political system.

33. Which of the following is a feature of a democracy?

A. Exercise of absolute control by one person or political party.
B. Governance by people or elected representatives.
C. Prohibition of entry to opposing political parties.
D. Complete restriction of individual political freedom.

34. Totalitarianism:

A. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
B. is based on a belief that citizens should be directly involved in decision making.
C. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

35. Peoples' right to protest on issues of accountability in public expenditure would be possible in a _____ political set-up.

A. dictatorial
B. democratic
C. totalitarian
D. fascist

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36. _____ refers to a state where political power is monopolized by a party, group, or individual that governs according to religious principles.

A. Representative democracy
B. Theocratic totalitarianism
C. Tribal anarchism
D. Monotheistic communism

37. Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

A. Tribal totalitarianism
B. Right-wing totalitarianism
C. Democratic totalitarianism
D. Theocratic totalitarianism

38. In a pure market economy:

A. all productive activities are owned by the state.
B. production is determined by the interaction of supply and demand.
C. collectivist goals are given priority over individual goals.
D. the prices at which goods are sold is determined by the government.

39. An economy in which the interaction of supply and demand determines the quantity in which goods and services are produced is called a _____.

A. planned economy
B. command economy
C. closed economy
D. market economy

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40. Antitrust laws in the United States are designed to:

A. restrict agricultural subsidies.
B. increase trade barriers.
C. outlaw monopolies.
D. restrict privatization.

41. In a(n) _____ economy the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

A. market
B. command
C. open economy
D. laissez-faire

42. In a _____ economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

A. market
B. private
C. command
D. mixed

43. In which of the following economies would the government be most likely to take into state ownership troubled firms whose continued operation is thought to be vital to national interests?

A. Market economies
B. Laissez-faire economies
C. Liberal economies
D. Mixed economies

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44. Which of the following statements about the legal systems of countries is true?

A. They can affect the attractiveness of a country as an investment site or market.
B. They are not influenced by the prevailing political system of the country.
C. They are almost the same for all countries.
D. They are of little importance to international business.

45. One key components of a country's legal system is:

A. establishing a mixed economy.
B. taking a hands-off approach to business practices.
C. defining the rights and obligations of those involved in business transactions.
D. leaving the monitoring of the way business transactions are executed to the United Nations.

46. Under the _____, cases are judged with reference to three characteristics: tradition, precedent, and custom.

A. theocratic law system
B. civil law system
C. contract law system
D. common law system

47. A civil law system tends to be less adversarial than a common law system because the:

A. judges' decisions are based on detailed legal codes.
B. judges have the freedom to interpret laws based on the situation.
C. judges' decisions are based on religious teachings.
D. judges are guided by interpretations made in prior legal cases.

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48. A common law system is different from a civil law system because:

A. a common law system is based on religious teachings, while a civil law system is based on cultural traditions.
B. a common law system is very rigid, while a civil law system tends to be more flexible.
C. in a common law system a judge relies on legal codes to make rulings, while in a civil law system a judge relies on his intuition and moral reasoning to make judgments.
D. in a common law system a judge has the power to interpret the law, while in a civil law system a judge has the power only to apply the law.

49. A ____ system is based on a very detailed set of laws organized into codes.

A. traditional law
B. theocratic law
C. civil law
D. common law

50. A theocratic law system is one in which the law is based on:

A. religious teachings.
B. tradition, precedent, and custom.
C. a detailed set of laws organized into codes.
D. cultural and social norms.

51. Which of the following is the most widely practiced theocratic legal system in the world today?

A. Hindu law
B. Sikh law
C. Islamic law
D. Jewish law

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52. _____ is the collective term for the legal rights relating to the use to which a resource is put and over the use made of any income that may be derived from that resource.

A. Trade rights
B. Property rights
C. Positive rights
D. Common rights

53. In Russia, in the chaotic period following the collapse of communism, an outdated legal system, coupled with a weak police force and judicial system, allowed the Russian Mafia to demand "protection money" from business owners. Any business owner who rebelled had to face violent retribution. This violation of property rights exemplifies _____.

A. private action
B. copyright violation
C. infrastructural failure
D. public liability

54. Violation of property rights done through legal mechanisms such as levying excessive taxation and requiring expensive licenses or permits from property holders is called _____.

A. private action
B. collective action
C. public action
D. copyright violation

55. Which of the following areas of international trade is regulated by the Foreign Corrupt Practices Act?

A. Making and performance of commercial contracts in international trade.
B. Preventing bribery and unethical acts in the conduct of international business.
C. Establishing a set of safety standards to which a new product must adhere.
D. Controlling the mafia activity that hinders trade in Russia, Japan, and the U.S.

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56. Which of the following is an example of intellectual property?

A. A music score
B. A lazer-tag game
C. A software business
D. A theater

57. A _____ grants the inventor of a new product or process exclusive rights for a defined period of time to the manufacture, use, or sale of that invention.

A. copyright
B. trademark
C. contract
D. patent

58. Design and names by which merchants or manufacturers designate and differentiate their products are known as _____.

A. trademarks
B. copyrights
C. patents
D. licenses

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59. The Research and Development division of a company has recently designed a new coffee vending machine that is likely to sell very well in the market. It is compact, user-friendly, and provides unprecedented efficiency in terms of cost per cup. Consequently, the company fears that its competitors would soon mimic the design of their product and to protect its product, it is now seeking a _____.

A. copyright
B. patent
C. trademark
D. certification

60. Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

A. Patent
B. Copyright
C. Trademark
D. License

61. The TRIPS agreement was designed to:

A. exclude China from all intellectual property agreements.
B. oversee a much stricter enforcement of intellectual property regulations.
C. hold a firm and its officers responsible when a product causes injury, death, or damage.
D. support traded software and recorded property among developed markets.

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62. Which of the following statements about the Trade Related Aspects of Intellectual Property Rights (or TRIPS) agreement is true?

A. It was designed to oversee the loosening of intellectual property regulations, beginning in 1995.
B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
C. It directed rich countries to comply with its rules of intellectual property protection within five years.
D. It provided the very poorest countries amnesty from complying with its rules of intellectual property protection.

63. Safety standards to which a product must adhere are set by:

A. safety certifications.
B. contract laws.
C. product safety laws.
D. product liability laws.

64. Private action refers to:

A. public officials extorting income, resources, or the property itself from property holders.
B. bribing government officials in foreign countries in an attempt to win lucrative contracts.
C. theft, piracy, blackmail, and the like by private individuals or groups.
D. violations of intellectual property rights.

65. Which of the following is a safeguard that representative democracies use to ensure that their elected officials are held responsible for their actions?

A. Unlimited terms for elected representatives
B. A court system that is integrated with the political system
C. An individual's right to freedom of expression, opinion, and organization
D. A political police force and armed service

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66. The ____ establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B. Paris Convention for the Protection of Industrial Property
C. United Nations Convention on Contracts for the International Sale of Goods (CIGS)
D. World Trade Organization (WTO)

67. The ____ makes it illegal for American companies to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, and requires all publicly traded companies to keep detailed records that would allow determining whether a violation of the act has occurred.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B. Foreign Corrupt Practices Act
C. Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
D. Organisation for Economic Co-operation and Development (OECD)

68. Which of the following is a reason that command economies tend to stagnate?

A. Costs are tightly controlled and business are forced to be efficient rather than dynamic and innovative.
B. The abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs.
C. All economic resources are mobilized for the public good.
D. Individuals in command economy countries lack the skills to be innovative.

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69. Which of the following is true of criminal liability laws?

A. Calls for the payment of monetary damages
B. They are more extensive in Western Europe than in any other region of the world
C. Results in fines or imprisonment
D. They are less impactful if the product does not conform to the required safety standards

70. _____ are established through patents, copyrights, and trademarks.

A. Digital signatures
B. Ownership rights over private property
C. Origination fees and tributes
D. Ownership rights over intellectual property

71. Systems that emphasize collectivism tend toward _____.

A. totalitarianism
B. capitalism
C. democracy
D. privatization

72. In a(n) _____ society, the welfare of society is best served by letting people pursue their own economic self-interest.

A. individualist
B. capitalist
C. democratic
D. totalitarian

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73. _____ argued that individual diversity and private ownership are undesirable.

A. Karl Marx
B. Plato
C. John Stuart Smith
D. Aristotle

74. _____ generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism.

A. Communist totalitarianism
B. Theoretical totalitarianism
C. Right-wing totalitarianism
D. Tribal totalitarianism

75. In a _____, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

A. mixed economy
B. market economy
C. collectivist economy
D. command economy

76. The abolition of _____ in a command economy means there is no incentive for individuals to look for better ways to serve consumer needs.

A. private ownership
B. public ownership
C. government-owned businesses
D. co-operatives

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77. In common law, _____ refers to cases that have come before the courts in the past.

A. custom
B. precedent
C. codification
D. tradition

78. Judges in a(n) _____ have the power to interpret the law so that it applies to the unique circumstances of an individual case.

A. civil law system
B. international law system
C. common law system
D. theocratic law system

79. The most widely practiced theocratic legal system in the world today.

A. Christian
B. Hindu
C. Jewish
D. Islamic

80. The legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

A. Property rights
B. Public action
C. Intellectual rights
D. Private action

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81. In the 1970s, the United States _____ which requires all publicly traded companies, whether or not they are involved in international trade, to keep detailed records that would reveal whether a violation of the act has occurred.

A. adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions policy
B. passed the Foreign Corrupt Practices Act
C. joined Transparency International
D. joined the Organisation for Economic Co-operation and Development (OECD)

82. The _____ associated with doing business in a country are a function of that country's political, economic, and legal systems.

A. ethical considerations
B. profitability
C. simplicity and ease
D. benefits, costs, and risks

83. When _____ is emphasized, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society."

A. individualism
B. totalitarianism
C. collectivism
D. theocracy

84. Plato _____; he believed that society should be stratified into classes, with those best suited to rule.

A. equated individualism with equality
B. equated collectivism with equality
C. promoted representative democracy
D. did not equate collectivism with equality

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85. The ____ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

A. socialists
B. communists
C. collectivists
D. social democrats

86. Modern socialists trace their intellectual roots to _____, although socialist thought clearly predates this individual.

A. David Hume
B. Karl Marx
C. Adam Smith
D. John Stuart Mill

87. A law system that is based on a detailed set of laws organized into codes.

A. Theocratic
B. Contract
C. Civil
D. Common

88. The term _____ stresses that the political, economic, and legal systems of a country are interdependent.

A. political economy
B. common law
C. socialism
D. collectivism

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89. Who was the author of *The Wealth of Nations* in which it is stated that an individual who intends his own gain is led by an invisible hand to promote an end that was not part of his intention?

A. David Hume
B. Adam Smith
C. Karl Marx
D. John Stuart Mill

90. _____ occurs when a political party that represents the interests of a particular tribe (and not always the majority tribe) monopolizes power.

A. Tribal dictatorship
B. Communist totalitarianism
C. Tribal totalitarianism
D. Privatization

91. The term used to describe a state in which authoritarian elements have captured some or much of the machinery of state and use this in an attempt to deny basic political and civil liberties.

A. Authoritarian dictatorship
B. Right-wing democracies
C. Representative totalitarianism
D. Pseudo-democracies

92. In response to increased demand, what is a monopolist likely to do?

A. Restrict output to drive prices down.
B. Increase output to drive prices down.
C. Restrict output and let prices rise.
D. Increase output and let prices rise.

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93. In 2008, the U.S. government took an 80 percent stake in AIG to stop that financial institution from collapsing, the theory being that if AIG did collapse, it would have very serious consequences for the entire financial system. What type of economy is this an example of?

A. Command
B. Mixed
C. Capitalistic
D. Market

94. Although many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax. This has been the case even among many of the 185 countries that are now members of the _____, all of which have signed international treaties designed to protect intellectual property.

A. World Intellectual Property Organization
B. General Agreement on Tariffs and Trade
C. Business Software Alliance
D. Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Essay Questions

95. Why did Karl Marx criticize capitalism? Describe how he planned to correct those shortcomings.

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96. Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?

97. What are state-owned companies? Why do they usually perform poorly?

98. Discuss individualism. Explain the key positions of the philosophy, it roots, and its role in the modern economy.

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99. Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

100. Compare and contrast the four forms of totalitarianism.

101. Identify the three types of economic systems. How do these three types of economic systems differ from each other? How are they the same?

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102. Discuss why there is inefficiency in a monopoly situation. What is the role of the government in such a situation?

103. Discuss the effects of private ownership of production in a market economy.

104. What is a country's legal system? Why is it important to international businesses?

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105. Explain the differences between common law and civil law systems by the approach of each to contract law.

106. Discuss the ways in which public action to violate property rights can occur.

107. What are the factors that contribute to the attractiveness of a country as a market or investment site?

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108. Discuss the key factors that companies must be aware of before deciding to do business in other countries.

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Chapter 02 National Differences in Political, Economic, and Legal Systems

Answer Key

True / False Questions

1. The central message of collectivism is that individual economic and political freedoms are the ground rules on which a society should be based.

   FALSE

   Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

   AACSB: Knowledge Application
   Accessibility: Keyboard Navigation
   Blooms: Understand
   Difficulty: 1 Easy
   Gradable: automatic
   Learning Objective: 02-01 Understand how the political systems of countries differ.
   Topic: Differences in Political Systems

2. The communists believed that socialism could be achieved by democratic means, and turned their backs on violent revolution and dictatorship.

   FALSE

   The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

   AACSB: Knowledge Application
   Accessibility: Keyboard Navigation
   Blooms: Remember
   Difficulty: 1 Easy
   Gradable: automatic

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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

3. The Cold War was, in many respects, a war between collectivism and individualism.

TRUE

The Cold War, in many respects, was a war between collectivism, championed by the former Soviet Union, and individualism, championed by the United States.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

4. Most modern democratic states practice representative democracy.

TRUE

In complex, advanced societies with populations in the tens or hundreds of millions the pure form of democracy is impractical. Most modern democratic states practice representative democracy.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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5. Democracy is a form of government that prohibits opposing political parties.

FALSE

Democracy refers to a political system in which government is by the people, exercised either directly or through elected representatives. Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

6. In a totalitarian country, there are safeguards to protect an individual's right to freedom of expression, opinion, and organization.

FALSE

In a totalitarian country, all the constitutional guarantees on which representative democracies are built—an individual's right to freedom of expression and organization, a free media, and regular elections—are denied to the citizens.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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7. The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

TRUE

Historically, command economies were found in communist countries where collectivist goals were given priority over individual goals. Since the demise of communism in the late 1980s, the number of command economies has fallen dramatically.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

8. The objective of the government in a command economy is to encourage free and fair competition between private producers.

FALSE

The objective of a command economy is for government to allocate resources for "the good of society." In addition, in a pure command economy, all businesses are state owned.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

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9. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

TRUE

In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

10. A nation's legal system is usually of very little interest to international business managers, because international businesses are headquartered in different countries.

FALSE

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained. The legal system of a country is of immense importance to international business.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Differences in Legal Systems

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11. Judges under a civil law system have more flexibility than those under a common law system.

FALSE

A civil law system is based on a detailed set of laws organized into codes. Judges under a civil law system have less flexibility than those under a common law system.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Differences in Legal Systems

12. A theocratic law system is one in which the law is based on religious teachings.

TRUE

A theocratic law system is one in which the law is based on religious teachings.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

13. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

TRUE

Contract law is the body of law that governs contract enforcement. The parties to an agreement normally resort to contract law when one party feels the other has violated either the letter or the spirit of an agreement.

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Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

14. Contracts under a civil law system tend to be very detailed with all contingencies spelled out.

FALSE

Because common law tends to be relatively ill specified, contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In civil law systems, however, contracts tend to be much shorter and less specific because many of the issues are already covered in a civil code.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

15. Many of the world's larger trading nations, including India and the United Kingdom, have not ratified the United Nations Convention on Contracts for the International Sale of Goods (CISG).

TRUE

One problem with the CISGS, however, is that only 83 nations have ratified the convention (the CISG went into effect in 1988). Many of the world's larger trading nations, including India and the United Kingdom, have not ratified the CISG.

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Difficulty: 1 Easy
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Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

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16. To facilitate international business, property rights are defined in a consistent way across countries.

FALSE

Countries differ in the extent to which their legal systems define and protect property rights.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

17. Property rights can be violated in two ways—through private action and through public action.

TRUE

Property rights can be violated in two ways—through private action and through public action.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

18. The Foreign Corrupt Practices Act does not allow for grease payments.

FALSE

Both the U.S. law and OECD convention include language that allows for exceptions known as facilitating or expediting payments (also called grease payments or speed money), the purpose of which is to expedite or to secure the performance of a routine governmental action.

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Blooms: Understand

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

19. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

TRUE

Patents, copyrights, and trademarks establish ownership rights over intellectual property.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

20. Patents discourage companies from committing themselves to extensive basic research.

FALSE

The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical record, and the like, for his or her idea and effort. Without the guarantees provided by patents, companies would be unlikely to commit themselves to extensive basic research.

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Difficulty: 2 Medium
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Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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21. The Trade-Related Aspects of Intellectual Property Rights, attempts to reduce intellectual property protections to enhance trade.

FALSE

Under the new agreement, known as the Trade-Related Aspects of Intellectual Property Rights (TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations. These regulations oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

22. Product liability sets certain safety standards to which a product must adhere.

FALSE

Product safety laws set certain safety standards to which a product must adhere.
Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Product Liability

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23. Product liability can be much lower if a product does not conform to required safety standards.

FALSE

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Product liability can be much greater if a product does not conform to required safety standards.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Product Liability

24. The political systems of a country raise ethical issues that have implications for the practice of international business.

TRUE

The political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business. For example, what ethical implications are associated with doing business in totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business?

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Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Topic: Ethical Issues in International Business

Multiple Choice Questions

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25. Interdependent political, economic, and legal systems of a country make up its:

A. administrative agenda.
B. socioeconomic fabric.
C. cultural environment.
D. political economy.

The term political economy is used to stress that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so they affect the level of economic well-being.

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Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

26. A political system that prioritizes the needs of the society over individual freedoms is called _____.

A. totalitarianism
B. collectivism
C. capitalism
D. egalitarianism

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms.

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Difficulty: 1 Easy
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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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27. Modern socialism has been popularized largely through the work of ____.

A. Adam Smith
B. Karl Marx
C. David Hume
D. Thomas Hobbes

Modern socialists trace their intellectual roots to Karl Marx (1818-1883), although socialist thought clearly predates Marx (elements of it can be traced to Plato). Marx argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

28. The _____ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

A. existentialists
B. social democrats
C. communists
D. anarchists

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

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Learning Objective: 02-01 Understand how the political systems of countries differ.

29. In several Western democracies, the poor performance of state-owned enterprises, because of protection from competition and guaranteed government financial support, led to _____.

A. privatization
B. nationalization
C. liberalization
D. socialization of production

In many countries, state-owned companies performed poorly. As a consequence, a number of Western democracies voted many social democratic parties out of office in the late 1970s and early 1980s. They were succeeded by political parties, such as Britain's Conservative Party and Germany's Christian Democratic Party, that were more committed to free market economics. These parties sold state-owned enterprises to private investors (a process referred to as privatization).

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Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Nationalization and Privatization of Business

30. Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?

A. Socialism
B. Individualism
C. Collectivism
D. Anarchism

Like collectivism, individualism can be traced to an ancient Greek philosopher, in this case Plato's disciple Aristotle (384-322 BC). In contrast to Plato, Aristotle argued that individual diversity and private ownership are desirable.

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

31. The tenet of _____ is that the welfare of society is best served by letting people pursue their own economic self-interest.

A. socialism
B. communism
C. anarchism
D. individualism

A tenet of individualism is that the welfare of society is best served by letting people pursue their own economic self-interest, as opposed to some collective body (such as government) dictating what is in society's best interest.

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Difficulty: 1 Easy
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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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32. Which of the following statements about individualism is true?

A. Individualism promotes state ownership of the basic means of production, distribution, and exchange.
B. Individualism promotes globalization.
C. Individualism creates an anti-business environment.
D. Individualism advocates for a democratic political system.

In practical terms, individualism translates into an advocacy for democratic political systems and market economics, which in general creates a more favorable environment for international businesses to operate in.

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Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

33. Which of the following is a feature of a democracy?

A. Exercise of absolute control by one person or political party.
B. Governance by people or elected representatives.
C. Prohibition of entry to opposing political parties.
D. Complete restriction of individual political freedom.

Democracy refers to a political system in which government is by the people, exercised either directly or through elected representatives.

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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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34. Totalitarianism:

A. refers to a political system in which government is by the people, exercised either directly or through elected representatives.
B. is based on a belief that citizens should be directly involved in decision making.
C. is a form of government in which one person or political party exercises absolute control over all spheres of human life.
D. is based on the idea that the welfare of society is best served by letting people pursue their own economic self-interests.

Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties.

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Difficulty: 1 Easy
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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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35. Peoples' right to protest on issues of accountability in public expenditure would be possible in a _____ political set-up.

A. dictatorial
B. democratic
C. totalitarian
D. fascist

In a representative democracy, citizens periodically elect individuals to represent them. These elected representatives then form a government, whose function is to make decisions on behalf of the electorate. In a representative democracy, elected representatives who fail to perform this job adequately will be voted out of office at the next election. To guarantee that elected representatives can be held accountable for their actions by the electorate, an ideal representative democracy has a number of safeguards that are typically enshrined in constitutional law.

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Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

36. _____ refers to a state where political power is monopolized by a party, group, or individual that governs according to religious principles.

A. Representative democracy
B. Theocratic totalitarianism
C. Tribal anarchism
D. Monotheistic communism

Theocratic totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. The most common form of theocratic totalitarianism is based on Islam and is exemplified by states such as Iran and Saudi Arabia.

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

37. Which system of government generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism?

A. Tribal totalitarianism
B. Right-wing totalitarianism
C. Democratic totalitarianism
D. Theocratic totalitarianism

Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism. A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas.

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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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38. In a pure market economy:

A. all productive activities are owned by the state.
B. production is determined by the interaction of supply and demand.
C. collectivist goals are given priority over individual goals.
D. the prices at which goods are sold is determined by the government.

In the archetypal pure market economy, all productive activities are privately owned, as opposed to being owned by the state. The goods and services that a country produces are not planned by anyone.

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Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

39. An economy in which the interaction of supply and demand determines the quantity in which goods and services are produced is called a _____.

A. planned economy
B. command economy
C. closed economy
D. market economy

In the archetypal pure market economy, all productive activities are privately owned, as opposed to being owned by the state. Production is determined by the interaction of supply and demand and signaled to producers through the price system.

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Learning Objective: 02-02 Understand how the economic systems of countries differ.

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Topic: Differences in Economic Systems

40. Antitrust laws in the United States are designed to:

A. restrict agricultural subsidies.
B. increase trade barriers.
C. outlaw monopolies.
D. restrict privatization.

Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous free and fair competition between private producers. Governments do this by outlawing restrictive business practices designed to monopolize a market (antitrust laws serve this function in the United States).

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Laws Affecting International Business

41. In a(n) _____ economy the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

A. market
B. command
C. open economy
D. laissez-faire

In a pure command economy, the government plans the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold.

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Difficulty: 1 Easy

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Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

42. In a _____ economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

A. market
B. private
C. command
D. mixed

In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

43. In which of the following economies would the government be most likely to take into state ownership troubled firms whose continued operation is thought to be vital to national interests?

A. Market economies
B. Laissez-faire economies
C. Liberal economies
D. Mixed economies

In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.

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Difficulty: 2 Medium
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Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

44. Which of the following statements about the legal systems of countries is true?

A. They can affect the attractiveness of a country as an investment site or market.
B. They are not influenced by the prevailing political system of the country.
C. They are almost the same for all countries.
D. They are of little importance to international business.

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained. The legal environments of countries differ in significant ways.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Differences in Legal Systems

45. One key components of a country's legal system is:

A. establishing a mixed economy.
B. taking a hands-off approach to business practices.
C. defining the rights and obligations of those involved in business transactions.
D. leaving the monitoring of the way business transactions are executed to the United Nations.

A country's laws regulate business practice, define the manner in which business tractions are to be executed, and set down the rights and obligations of those involved in business transactions. Establishing a mixed economy would be part of a country's economic system, not its legal system.

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Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Differences in Legal Systems

46. Under the _____, cases are judged with reference to three characteristics: tradition, precedent, and custom.

A. theocratic law system
B. civil law system
C. contract law system
D. common law system

Common law is based on tradition, precedent, and custom.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

47. A civil law system tends to be less adversarial than a common law system because the:

A. judges' decisions are based on detailed legal codes.
B. judges have the freedom to interpret laws based on the situation.
C. judges' decisions are based on religious teachings.
D. judges are guided by interpretations made in prior legal cases.

A civil law system tends to be less adversarial than a common law system, because the judges rely upon detailed legal codes rather than interpreting tradition, precedent, and custom.

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Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

48. A common law system is different from a civil law system because:

A. a common law system is based on religious teachings, while a civil law system is based on cultural traditions.
B. a common law system is very rigid, while a civil law system tends to be more flexible.
C. in a common law system a judge relies on legal codes to make rulings, while in a civil law system a judge relies on his intuition and moral reasoning to make judgments.
D. in a common law system a judge has the power to interpret the law, while in a civil law system a judge has the power only to apply the law.

Judges in a common law system have the power to interpret the law, whereas judges in a civil law system have the power only to apply the law.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

49. A _____ system is based on a very detailed set of laws organized into codes.

A. traditional law
B. theocratic law
C. civil law
D. common law

A civil law system is based on a detailed set of laws organized into codes. When law courts interpret civil law, they do so with regard to these codes.

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Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

50. A theocratic law system is one in which the law is based on:

A. religious teachings.
B. tradition, precedent, and custom.
C. a detailed set of laws organized into codes.
D. cultural and social norms.

A theocratic law system is one in which the law is based on religious teachings.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

51. Which of the following is the most widely practiced theocratic legal system in the world today?

A. Hindu law
B. Sikh law
C. Islamic law
D. Jewish law

A theocratic law system is one in which the law is based on religious teachings. Islamic law is the most widely practiced theocratic system in the modern world, although usage of both Hindu and Jewish law persisted into the twentieth century.

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Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

52. _____ is the collective term for the legal rights relating to the use to which a resource is put and over the use made of any income that may be derived from that resource.

A. Trade rights
B. Property rights
C. Positive rights
D. Common rights

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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53. In Russia, in the chaotic period following the collapse of communism, an outdated legal system, coupled with a weak police force and judicial system, allowed the Russian Mafia to demand "protection money" from business owners. Any business owner who rebelled had to face violent retribution. This violation of property rights exemplifies ____.

A. private action
B. copyright violation
C. infrastructural failure
D. public liability

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups. Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

54. Violation of property rights done through legal mechanisms such as levying excessive taxation and requiring expensive licenses or permits from property holders is called _____.

A. private action
B. collective action
C. public action
D. copyright violation

Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

55. Which of the following areas of international trade is regulated by the Foreign Corrupt Practices Act?

A. Making and performance of commercial contracts in international trade.
B. Preventing bribery and unethical acts in the conduct of international business.
C. Establishing a set of safety standards to which a new product must adhere.
D. Controlling the mafia activity that hinders trade in Russia, Japan, and the U.S.

In the 1970s, the United States passed the Foreign Corrupt Practices Act. This law makes it illegal to bribe a foreign government official to obtain or maintain business over which that foreign official has authority.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

56. Which of the following is an example of intellectual property?

A. A music score
B. A lazer-tag game
C. A software business
D. A theater

Intellectual property refers to property that is the product of intellectual activity, such as computer software, a screenplay, a music score, or the chemical formula for a new drug.

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Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

57. A _____ grants the inventor of a new product or process exclusive rights for a defined period of time to the manufacture, use, or sale of that invention.

A. copyright
B. trademark
C. contract
D. patent

A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

58. Design and names by which merchants or manufacturers designate and differentiate their products are known as _____.

A. trademarks
B. copyrights
C. patents
D. licenses

Trademarks are designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products (e.g., Christian Dior clothes).

AACSB: Knowledge Application

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Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

59. The Research and Development division of a company has recently designed a new coffee vending machine that is likely to sell very well in the market. It is compact, user-friendly, and provides unprecedented efficiency in terms of cost per cup. Consequently, the company fears that its competitors would soon mimic the design of their product and to protect its product, it is now seeking a _____.

A. copyright
B. patent
C. trademark
D. certification

A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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60. Which of the following provides exclusive legal rights to authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit?

A. Patent
B. Copyright
C. Trademark
D. License

Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

61. The TRIPS agreement was designed to:

A. exclude China from all intellectual property agreements.
B. oversee a much stricter enforcement of intellectual property regulations.
C. hold a firm and its officers responsible when a product causes injury, death, or damage.
D. support traded software and recorded property among developed markets.

Under the new agreement, known as the Trade Related Aspects of Intellectual Property Rights (or TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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62. Which of the following statements about the Trade Related Aspects of Intellectual Property Rights (or TRIPS) agreement is true?

A. It was designed to oversee the loosening of intellectual property regulations, beginning in 1995.
B. It obliged WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years.
C. It directed rich countries to comply with its rules of intellectual property protection within five years.
D. It provided the very poorest countries amnesty from complying with its rules of intellectual property protection.

Under the new agreement, known as the Trade Related Aspects of Intellectual Property Rights (or TRIPS), as of 1995 a council of the World Trade Organization is overseeing enforcement of much stricter intellectual property regulations. These regulations oblige WTO members to grant and enforce patents lasting at least 20 years and copyrights lasting 50 years. Rich countries had to comply with the rules within a year. Poor countries, in which such protection generally was much weaker, had five years of grace, and the very poorest have 10 years.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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63. Safety standards to which a product must adhere are set by:

A. safety certifications.
B. contract laws.
C. product safety laws.
D. product liability laws.

Product safety laws set certain safety standards to which a product must adhere.
Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Product Liability

64. Private action refers to:

A. public officials extorting income, resources, or the property itself from property holders.
B. bribing government officials in foreign countries in an attempt to win lucrative contracts.
C. theft, piracy, blackmail, and the like by private individuals or groups.
D. violations of intellectual property rights.

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups.
Although theft occurs in all countries, a weak legal system allows for a much higher level of criminal action in some than in others.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

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65. Which of the following is a safeguard that representative democracies use to ensure that their elected officials are held responsible for their actions?

A. Unlimited terms for elected representatives
B. A court system that is integrated with the political system
C. An individual's right to freedom of expression, opinion, and organization
D. A political police force and armed service

To guarantee that elected representatives are being held accountable for their actions by the electorate, an ideal representative democracy incorporates safeguards that are enshrined in constitutional law. These safeguards include an individual's right to freedom of expression, opinion, and organization; a free media; regular elections in which all eligible citizens are allowed to vote; universal adult suffrage; limited terms for elected representatives; a fair court system that is separate for the political system; a nonpolitical state bureaucracy; a nonpolitical police force and armed service; and relatively free access to state information.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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66. The _____ establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B. Paris Convention for the Protection of Industrial Property
C. United Nations Convention on Contracts for the International Sale of Goods (CIGS)
D. World Trade Organization (WTO)

When contract disputes arise in international trade, there is always the question of which country's laws to apply. To resolve this issue, a number of countries, including the United States, have ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS). The CIGS establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers who have their places of business in different nations. By adopting the CIGS, a nation signals to other adopters that it will treat the convention's rules as part of its law. The CIGS applies automatically to all contracts for the sale of goods between different firms based in countries that have ratified the convention, unless the parties to the contract explicitly opt out.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

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67. The _____ makes it illegal for American companies to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, and requires all publicly traded companies to keep detailed records that would allow determining whether a violation of the act has occurred.

A. Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B. Foreign Corrupt Practices Act
C. Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
D. Organisation for Economic Co-operation and Development (OECD)

The Foreign Corrupt Practices Act was passed during the 1970s by the United States. The Law makes it illegal for American companies to bribe a foreign government official in order to obtain or maintain business over which that foreign official has authority, and requires all publicly traded companies to keep detailed records that would allow determining whether a violation of the act has occurred.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

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68. Which of the following is a reason that command economies tend to stagnate?

A. Costs are tightly controlled and business are forced to be efficient rather than dynamic and innovative.
B. The abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs.
C. All economic resources are mobilized for the public good.
D. Individuals in command economy countries lack the skills to be innovative.

The objective of a command economy is to mobilize economic resources for the public good, however the opposite usually occurs. In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies. Instead of growing and becoming more prosperous, such economies tend to stagnate.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

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69. Which of the following is true of criminal liability laws?

A. Calls for the payment of monetary damages
B. They are more extensive in Western Europe than in any other region of the world
C. Results in fines or imprisonment
D. They are less impactful if the product does not conform to the required safety standards

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Product liability can be much greater if a product does not conform to required safety standards. Both civil and criminal product liability laws exist. Civil laws call for payment and monetary damages. Criminal liability laws result in fines or imprisonment. Both civil and criminal liability laws are probably more extensive in the United States than in any other country, although many other Western nations also have comprehensive liability laws. Liability laws are typically least extensive in less developed nations.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Product Liability

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70. _____ are established through patents, copyrights, and trademarks.

A. Digital signatures
B. Ownership rights over private property
C. Origination fees and tributes
D. Ownership rights over intellectual property

Ownership rights over intellectual property are established through patents, copyrights, and trademarks. A patent grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention. Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit. Trademarks are designs and names by which merchants or manufacturers designate and differentiate their products.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

71. Systems that emphasize collectivism tend toward _____.

A. totalitarianism
B. capitalism
C. democracy
D. privatization

Systems that emphasize collectivism tend toward totalitarian, whereas those that place a high value on individualism tend to be democratic. However, a large gray area exists in the middle. It is possible to have democratic societies that emphasize a mix of collectivism and individualism. Similarly, it is possible to have totalitarian societies that are not collectivist.

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Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

72. In a(n) _____ society, the welfare of society is best served by letting people pursue their own economic self-interest.

A. individualist
B. capitalist
C. democratic
D. totalitarian

Individualism refers to a philosophy that an individual should have freedom in his or her economic and political pursuits. In contrast to collectivism, individualism stresses that the interests of the individual should take precedence over the interests of the state.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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73. _____ argued that individual diversity and private ownership are undesirable.

A. Karl Marx
B. Plato
C. John Stuart Smith
D. Aristotle

Aristotle argued that individual diversity and private ownership are desirable. According to Aristotle, communal property receives little care, whereas property that is owned by an individual will receive the greatest care and therefore be most productive.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

74. _____ generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism.

A. Communist totalitarianism
B. Theoretical totalitarianism
C. Right-wing totalitarianism
D. Tribal totalitarianism

Right-wing totalitarianism generally permits some individual economic freedom but restricts individual political freedom, frequently on the grounds that it would lead to the rise of communism. A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas.

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Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic

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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

75. In a _____, if demand for a product exceeds supply, prices will rise, signaling to producers to produce more.

A. mixed economy
B. market economy
C. collectivist economy
D. command economy

In a market economy, if demand for a product exceeds supply, prices will rise, signaling producers to produce more. If supply exceeds demand, prices will fall, signaling producers to produce less. In this system consumers are sovereign.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
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Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

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76. The abolition of _____ in a command economy means there is no incentive for individuals to look for better ways to serve consumer needs.

A. private ownership
B. public ownership
C. government-owned businesses
D. co-operatives

In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

77. In common law, _____ refers to cases that have come before the courts in the past.

A. custom
B. precedent
C. codification
D. tradition

Common law is based on tradition, precedent, and custom. Tradition refers to a country's legal history, precedent to cases that have come before the courts in the past, and custom to the ways in which laws are applied in specific situations. When law courts interpret common law, they do so with regard to these characteristics.

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Blooms: Remember

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

78. Judges in a(n) _____ have the power to interpret the law so that it applies to the unique circumstances of an individual case.

A. civil law system
B. international law system
C. common law system
D. theocratic law system

Common law is based on tradition, precedent, and custom. Judges in a common law system have the power to interpret the law so that it applies to the unique circumstances of an individual case.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

79. The most widely practiced theocratic legal system in the world today.

A. Christian
B. Hindu
C. Jewish
D. Islamic

Islamic law is the most widely practiced theocratic system in the modern world, although usage of both Hindu and Jewish law persisted into the twentieth century.

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Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

80. The legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

A. Property rights
B. Public action
C. Intellectual rights
D. Private action

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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81. In the 1970s, the United States _____ which requires all publicly traded companies, whether or not they are involved in international trade, to keep detailed records that would reveal whether a violation of the act has occurred.

A. adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions policy
B. passed the Foreign Corrupt Practices Act
C. joined Transparency International
D. joined the Organisation for Economic Co-operation and Development (OECD)

The Foreign Corrupt Practices Act requires all publicly traded companies (whether or not they are involved in international trade) to keep detailed records that would reveal whether a violation of the act has occurred.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Laws Affecting International Business

82. The _____ associated with doing business in a country are a function of that country's political, economic, and legal systems.

A. ethical considerations
B. profitability
C. simplicity and ease
D. benefits, costs, and risks

The political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems.

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Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Topic: Country Risk Produced by Legal Systems

83. When _____ is emphasized, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society."

A. individualism
B. totalitarianism
C. collectivism
D. theocracy

When collectivism is emphasized, the needs of society as a whole are generally viewed as being more important than individual freedoms. In such circumstances, an individual's right to do something may be restricted on the grounds that it runs counter to "the good of society" or to "the common good."

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Difficulty: 2 Medium
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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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84. Plato ____; he believed that society should be stratified into classes, with those best suited to rule.

A. equated individualism with equality
B. equated collectivism with equality
C. promoted representative democracy
D. did not equate collectivism with equality

Advocacy of collectivism can be traced to the ancient Greek philosopher Plato. Plato did not equate collectivism with equality; he believed that society should be stratified into classes, with those best suited to rule (which for Plato, naturally, were philosophers and soldiers) administering society for the benefit of all.

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Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

85. The _____ believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

A. socialists
B. communists
C. collectivists
D. social democrats

The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic

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Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

86. Modern socialists trace their intellectual roots to _____, although socialist thought clearly predates this individual.

A. David Hume
B. Karl Marx
C. Adam Smith
D. John Stuart Mill

Modern socialists trace their intellectual roots to Karl Marx (1818-1883), although socialist thought clearly predates Marx (elements of it can be traced to Plato).

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

87. A law system that is based on a detailed set of laws organized into codes.

A. Theocratic
B. Contract
C. Civil
D. Common

A civil law system is based on a detailed set of laws organized into codes. When law courts interpret civil law, they do so with regard to these codes.

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Difficulty: 2 Medium
Gradable: automatic

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Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

88. The term _____ stresses that the political, economic, and legal systems of a country are interdependent.

A. political economy
B. common law
C. socialism
D. collectivism

The term political economy stresses that the political, economic, and legal systems of a country are interdependent; they interact and influence each other, and in doing so, they affect the level of economic well-being.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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89. Who was the author of *The Wealth of Nations* in which it is stated that an individual who intends his own gain is led by an invisible hand to promote an end that was not part of his intention?

A. David Hume
B. Adam Smith
C. Karl Marx
D. John Stuart Mill

The second tenet of individualism is that the welfare of society is best served by letting people pursue their own economic self-interest, as opposed to some collective body (such as government) dictating what is in society's best interest. Or, as Adam Smith put it in a famous passage from The Wealth of Nations, an individual who intends his own gain is led by an invisible hand to promote an end that was no part of his intention.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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90. _____ occurs when a political party that represents the interests of a particular tribe (and not always the majority tribe) monopolizes power.

A. Tribal dictatorship
B. Communist totalitarianism
C. Tribal totalitarianism
D. Privatization

Tribal totalitarianism has arisen from time to time in African countries such as Zimbabwe, Tanzania, Uganda, and Kenya. The borders of most African states reflect the administrative boundaries drawn by the old European colonial powers rather than tribal realities. Consequently, the typical African country contains a number of tribes (e.g., in Kenya there are more than 40 tribes). Tribal totalitarianism occurs when a political party that represents the interests of a particular tribe (and not always the majority tribe) monopolizes power.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

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91. The term used to describe a state in which authoritarian elements have captured some or much of the machinery of state and use this in an attempt to deny basic political and civil liberties.

A. Authoritarian dictatorship
B. Right-wing democracies
C. Representative totalitarianism
D. Pseudo-democracies

Many of the world's nations are neither pure democracies nor iron-clad totalitarian states. Rather they lie between pure democracies and complete totalitarian systems of government. They might be described as imperfect or pseudo-democracies, where authoritarian elements have captured some or much of the machinery of state and use this in an attempt to deny basic political and civil liberties.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

92. In response to increased demand, what is a monopolist likely to do?

A. Restrict output to drive prices down.
B. Increase output to drive prices down.
C. Restrict output and let prices rise.
D. Increase output and let prices rise.

A supply restriction occurs when a single firm monopolizes a market. In such circumstances, rather than increase output in response to increased demand, a monopolist might restrict output and let prices rise. This allows the monopolist to take a greater profit margin on each unit it sells.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply

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Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

93. In 2008, the U.S. government took an 80 percent stake in AIG to stop that financial institution from collapsing, the theory being that if AIG did collapse, it would have very serious consequences for the entire financial system. What type of economy is this an example of?

A. Command
B. Mixed
C. Capitalistic
D. Market

In mixed economies, governments tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. For example, in 2008 the U.S. government took an 80 percent stake in AIG to stop that financial institution from collapsing, the theory being that if AIG did collapse, it would have very serious consequences for the entire financial system.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

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94. Although many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax. This has been the case even among many of the 185 countries that are now members of the _____, all of which have signed international treaties designed to protect intellectual property.

A. World Intellectual Property Organization
B. General Agreement on Tariffs and Trade
C. Business Software Alliance
D. Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Although many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax. This has been the case even among many of the 185 countries that are now members of the World Intellectual Property Organization, all of which have signed international treaties designed to protect intellectual property, including the oldest such treaty, the Paris Convention for the Protection of Industrial Property, which dates to 1883 and has been signed by more than 170 nations.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

Essay Questions

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95. Why did Karl Marx criticize capitalism? Describe how he planned to correct those shortcomings.

Modern socialists trace their intellectual roots to Karl Marx. Marx argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted. While successful capitalists accumulate considerable wealth, Marx postulated that the wages earned by the majority of workers in a capitalist society would be forced down to subsistence levels. He argued that capitalists expropriate for their own use the value created by workers, while paying workers only subsistence wages in return. According to Marx, the pay of workers does not reflect the full value of their labor. To correct this perceived wrong, Marx advocated state ownership of the basic means of production, distribution, and exchange (i.e., businesses). His logic was that if the state owned the means of production, the state could ensure that workers were fully compensated for their labor. Thus, the idea is to manage state-owned enterprise to benefit society as a whole, rather than individual capitalists.

AACSB: Reflective Thinking
Blooms: Evaluate
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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96. Discuss collectivism. What ideals does the philosophy support? Where did the philosophy start? How does collectivism exist in the modern world?

A collectivist political system is one that stresses the primacy of collective goals over individual goals. In that sense, the needs of the society as a whole are viewed as being more important than individual freedoms. Collectivism can trace its roots to the ancient Greek philosopher Plato who suggested that individual rights be sacrificed for the good of the majority. Today, collectivism is reflected in the socialist movement started by Karl Marx who argued that the few benefit at the expense of the many in a capitalist society where individual freedoms are not restricted. Marx advocated state ownership of the basic means of production, distribution, and exchange. Supporters of Marx's ideals were divided into two camps in the early 20th century: communists, who believed that socialism could only be achieved through violent revolution and totalitarian dictatorship; and social democrats, who committed themselves to achieving socialism by democratic means. Today, both versions of socialism are losing followers.

AACSB: Analytical Thinking
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

97. What are state-owned companies? Why do they usually perform poorly?

A state-owned company is a company that is owned by a nation's government. After World War II, many social democratic governments nationalized private companies that were to be run for the public good rather than private profit. Great Britain, for example, nationalized so many companies that by the end of the 1970s, state-owned monopolies existed in telecommunications, electricity, gas, coal, and several other industries. However, because state-run companies such as the ones that existed in Great Britain are protected from competition by their monopoly position and guaranteed financial support, they become inefficient.

AACSB: Analytical Thinking
Blooms: Analyze

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Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

98. Discuss individualism. Explain the key positions of the philosophy, it roots, and its role in the modern economy.

Individualism refers to a philosophy that an individual should have freedom in his/her economic and political pursuits. Accordingly, the philosophy stresses that the interests of the individual should take precedence over the interests of the state. Individualism can be traced to the ancient Greek philosopher Aristotle who argued that individual diversity and private ownership are desirable. Aristotle's philosophy was refined by David Hume, Adam Smith, and John Stuart Mill in the 1700s and 1800s, and more recently by Milton Friedman, Friedrich von Hayek, and James Buchanan. Today, individualism translates into an advocacy for democratic political systems and free market economies.

AACSB: Analytical Thinking
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

99. Compare and contrast a pure democracy and a representative democracy. Which type of democracy is more common today? Why?

The pure form of democracy is based on a belief that citizens should be directly involved in decision making. In contrast, in a representative democracy, citizens periodically elect individuals to represent them. The elected individuals form a government and make decisions on behalf of the electorate. Because a pure democracy is impractical in advanced societies with tens or hundreds of millions of people, representative democracies are far more common in today's world.

AACSB: Analytical Thinking
Blooms: Analyze

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Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Different Forms of Government

100. Compare and contrast the four forms of totalitarianism.

In a totalitarian country, an individual's right to freedom of expression and organization, a free media, and regular elections are denied to the citizens. There are four forms of totalitarianism. Communist totalitarianism was until recently the most widespread form of totalitarianism. This form of totalitarianism advocates that socialism can only be achieved through totalitarian dictatorship. Theocratic totalitarianism is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. Tribal totalitarianism occurs when a political party that represents the interests of a particular tribe monopolizes power. Right-wing totalitarianism permits some individual economic freedoms but restricts individual political freedom.

AACSB: Analytical Thinking
Blooms: Analyze
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-01 Understand how the political systems of countries differ.
Topic: Differences in Political Systems

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101. Identify the three types of economic systems. How do these three types of economic systems differ from each other? How are they the same?

In a pure market economy, all productive activities are privately owned. Production is determined by supply and demand, and signaled to producers through the price system. The role of the government in a pure market economy is to encourage vigorous free and fair competition between private producers. In a command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government. The government's role is to allocate resources for the good of the society. In addition, all businesses are state owned. A mixed economy is a combination of the other economic systems in which certain sectors of the economy are left to private ownership and free market mechanisms, while other sectors have significant state ownership and government planning.

AACSB: Analytical Thinking
Blooms: Analyze
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

102. Discuss why there is inefficiency in a monopoly situation. What is the role of the government in such a situation?

In a monopoly situation, a firm has no competitors, and therefore it has no incentive to search for ways to lower production costs. Rather, cost increases are simply passed on to consumers in the form of higher prices. The net result is that the monopolist is likely to become increasingly inefficient, producing high-priced, low-quality goods. Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous free and fair competition between private producers. Governments do this by outlawing restrictive business practices designed to monopolize a market (antitrust laws serve this function in the United States).

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Blooms: Apply
Difficulty: 3 Hard
Gradable: manual

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Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

103. Discuss the effects of private ownership of production in a market economy.

Private ownership encourages vigorous competition and economic efficiency. Private ownership ensures that entrepreneurs have a right to the profits generated by their own efforts. This gives entrepreneurs an incentive to search for better ways of serving consumer needs. That may be through introducing new products, by developing more efficient production processes, by pursuing better marketing and after-sale service, or simply through managing their businesses more efficiently than their competitors. In turn, the constant improvement in product and process that results from such an incentive has been argued to have a major positive impact on economic growth and development.

AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Topic: Differences in Economic Systems

104. What is a country's legal system? Why is it important to international businesses?

The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which laws are enforced through which redress for grievances are obtained. It is critical that international companies understand a country's legal system because the legal system regulates business practice, defines the manner in which business transactions are to be executed, and sets down the rights and obligations of those involved in business transactions.

AACSB: Analytical Thinking
Blooms: Analyze
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Differences in Legal Systems

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105. Explain the differences between common law and civil law systems by the approach of each to contract law.

Contracts drafted under a common law framework tend to be very detailed with all contingencies spelled out. In contrast, contracts in a civil law system tend to be much shorter and less specific because many of the issues typically covered in a common law contract are already covered in civil law.

AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Civil Law, Common Law, and Theocratic Law

106. Discuss the ways in which public action to violate property rights can occur.

Public action to violate property rights occurs when public officials, such as politicians and government bureaucrats, extort income, resources, or the property itself from property holders. This can be done through legal mechanisms such as levying excessive taxation, requiring expensive licenses or permits from property holders, taking assets into state ownership without compensating the owners, or redistributing assets without compensating the prior owners. It can also be done through illegal means, or corruption, by demanding bribes from businesses in return for the rights to operate in a country, industry, or location.

AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Topic: Property Rights and Intellectual Property Rights

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107. What are the factors that contribute to the attractiveness of a country as a market or investment site?

The political, economic, and legal environments of a country clearly influence the attractiveness of that country as a market or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems. The overall attractiveness of a country as a market or investment site depends on balancing the likely long-term benefits of doing business in that country against the likely costs and risks.

AACSB: Analytical Thinking
Blooms: Analyze
Difficulty: 3 Hard
Gradable: manual
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Topic: Managing Political Risk and Differences

108. Discuss the key factors that companies must be aware of before deciding to do business in other countries.

The political, economic, and legal systems of a country raise important issues that have implications for the practice of international business. For example, what ethical implications are associated with doing business in totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business? The other important factor is that the benefits, costs, and risks associated with doing business in another country are a function of that country's political economic, and legal systems. Companies must balance the likely long-term benefits of doing business in that country against likely costs and risks.

AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Gradable: manual

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Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Topic: Country Risk Produced by Legal Systems

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