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# Hill GBT 10e

# Chapter 02 Test Bank

## True / False Questions

1. The term political economy is used to stress the fact that the political, economic, and legal systems of a country are independent of each other.

   FALSE

   We use the term political economy 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.

   *AACSB: Analytical Thinking*
   *Accessibility: Keyboard Navigation*
   *Blooms: Remember*
   *Difficulty: 1 Easy*
   *Learning Objective: 02-01 Understand how the political systems of countries differ.*
   *Topic: Introduction*

2. Political systems that emphasize collectivism tend to be democratic, while political systems that place a high value on individualism tend to be totalitarian.

   FALSE

   Political systems that emphasize collectivism tend to be totalitarian, while political systems that place a high value on individualism tend to be democratic.

   *AACSB: Analytical Thinking*
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   *Difficulty: 1 Easy*
   *Learning Objective: 02-01 Understand how the political systems of countries differ.*
   *Topic: Political Systems*


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3. Plato did not equate collectivism with equality.

TRUE

Plato did not equate collectivism with equality; he believed that society should be stratified into classes, with those best suited to rule administering society for the benefit of all.

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*Difficulty: 1 Easy*
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*Topic: Political Systems*

4. Karl Marx advocated state ownership of the basic means of production, distribution, and exchange (i.e., businesses).

TRUE

Karl Marx advocated state ownership of the basic means of production, distribution, and exchange (i.e., businesses).

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

5. The social democrats believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

FALSE

The social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

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*Topic: Political Systems*

6. By the mid-1990s, communism was rising worldwide.

FALSE

By the mid-1990s, communism was in retreat worldwide.

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

7. One of the tenets of collectivism is that the welfare of society is best served by letting people pursue their own economic self-interest.

FALSE

In collectivist societies, 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." However, individualism holds 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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8. The Cold War was in many respects a war between collectivism, championed by the former Soviet Union, and individualism, championed by the United States.

TRUE

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

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

9. 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.

TRUE

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*
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10. In most democratic states, those who question the right of the rulers to rule find themselves imprisoned, or worse.

FALSE

In most totalitarian states (not democratic states), political repression is widespread, free and fair elections are lacking, media are heavily censored, basic civil liberties are denied, and those who question the right of the rulers to rule find themselves imprisoned, or worse.

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

11. The governments of China, Vietnam, and Laos are communist in name only because those nations have adopted wide-ranging, market-based economic reforms.

TRUE

In many respects, the governments of China, Vietnam, and Laos are communist in name only because those nations have adopted wide-ranging, market-based economic reforms.

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*Accessibility: Keyboard Navigation*
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*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*


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12. All right-wing dictatorships display an affinity toward socialist or communist ideas.

FALSE

A common feature of many right-wing dictatorships is an overt hostility for socialist or communist ideas.

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

13. In a pure 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 dictated by the interaction of demand and supply.

FALSE

In a pure 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.

*AACSB: Analytical Thinking*
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*Learning Objective: 02-02 Understand how the economic systems of countries differ.*
*Topic: Economic Systems*


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14. Command economies provide a more favorable environment for innovation and entrepreneurs than market economies.

FALSE

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.

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

15. A common law system tends to be less adversarial than a civil law system.

FALSE

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

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


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16. When law courts interpret civil law, they do so with regard to tradition, precedent, and custom.

FALSE

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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*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

17. Judges under a civil law system have less flexibility than those under a common law system.

TRUE

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

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

18. Islamic law is primarily a moral rather than a commercial law and is intended to govern all aspects of life.

TRUE

Islamic law is primarily a moral rather than a commercial law and is intended to govern all aspects of life.

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

19. Compared to a common law system, it is more expensive to draw up contracts in a civil law jurisdiction.

FALSE

It is more expensive to draw up contracts in a common law jurisdiction, and resolving contract disputes can be very adversarial in common law systems.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
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*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

20. By adopting the Contracts for the International Sale of Goods (CIGS), a nation signals to other adopters that it will treat the convention's rules as part of its law.

TRUE

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.

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*Topic: Legal Systems*


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21. When firms do not wish to accept the Contracts for the International Sale of Goods, they often opt for arbitration by a recognized arbitration court to settle contract disputes.

TRUE

When firms do not wish to accept the Contracts for the International Sale of Goods, they often opt for arbitration by a recognized arbitration court to settle contract disputes.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

22. The term "patent" refers to the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.

FALSE

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: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

23. Liability laws are typically the least extensive in highly-developed nations.

FALSE

Liability laws are typically the least extensive in less-developed nations.

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*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

24. The benefits, costs, and risks associated with doing business in a country are independent of that country's political, economic, and legal systems.

FALSE

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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*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*
*Topic: Focus on Managerial Implications*

25. Other things being equal, a nation with democratic political institutions is clearly more attractive as a place in which to do business than a nation that lacks democratic institutions.

TRUE

Other things being equal, a nation with democratic political institutions, a market-based economic system, and strong legal system that protects property rights and limits corruption is clearly more attractive as a place in which to do business than a nation that lacks democratic institutions, where economic activity is heavily regulated by the state, and where corruption is rampant and the rule of law is not respected.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*
*Topic: Focus on Managerial Implications*


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## Multiple Choice Questions

26. Which of the following systems is a part of the political economy?

A. Religious system
B. Value system
C. Demographic system
D. Legal system
E. Technological system

Collectively we refer to the political, economic, and legal systems as constituting the political economy of a country. This emphasizes the fact 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: Analytical Thinking*
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*Difficulty: 1 Easy*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Introduction*


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27. Which of the following statements is true about political systems?

A. The political system of a country is independent of its economic and legal systems.
B. The political system of a country is of no importance to international business.
C. It is not possible to have democratic societies that emphasize a mix of collectivism and individualism.
D. It is possible to have totalitarian societies that are not collectivist.
E. The societal culture of a country does not influence its political system.

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.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

28. The country of Maracon downplays individual goals and emphasizes the collective goals of the country. Maracon's political system is most likely an example of

A. democracy.
B. collectivism.
C. individualism.
D. capitalism.
E. privatization.

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: Analytical Thinking*
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*Blooms: Apply*
*Difficulty: 3 Hard*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*


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*Topic: Political Systems*

29. The needs of society as a whole are generally viewed as being more important than individual freedoms when the emphasis is on

A. democracy.
B. collectivism.
C. individualism.
D. capitalism.
E. privatization.

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: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

30. In the country of Normian Republic, an individual's right to own land is restricted to a large extent on the basis that it runs counter to "the common good." In this context, which of the following is most likely to be the political system adopted by Normian Republic?

A. individualism
B. democracy
C. collectivism
D. capitalism
E. protectionism

Collectivism refers to a political system that stresses the primacy of collective goals over individual goals. 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."

*AACSB: Reflective Thinking*


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*Blooms: Apply*
*Difficulty: 3 Hard*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

31. Karl Marx promoted the idea of a _____ society in which the state owned the means of production, distribution, and exchange.

A. socialist
B. capitalist
C. individualist
D. monarchist
E. feudalist

A socialist society is one in which the state owns the means of production, distribution, and exchange.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

32. Modern socialism traces its intellectual roots to

A. Aristotle.
B. David Hume.
C. Karl Marx.
D. Adam Smith.
E. Milton Friedman.

Modern socialism traces its intellectual roots to Karl Marx (1818-83), although socialist thought clearly predates Marx.

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*Topic: Political Systems*

33. Which of the following was advocated by Karl Marx?

A. capitalist society
B. individualism
C. selling state-owned enterprises to private investors
D. socialism
E. private profit over public good

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.

*AACSB: Analytical Thinking*
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34. In the early twentieth century, the socialist ideology split into two broad camps and the people who believed that socialism could be achieved only through violent revolution and totalitarian dictatorship were referred to as

A. communists.
B. capitalists.
C. democrats.
D. individualists.
E. anarchists.

In the early twentieth century, the socialist ideology split into two broad camps. The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

35. For centuries, Somariya was a capitalist country where the rich became richer and the poor became poor. A group calling itself the "Change Brotherhood" sought to convert Somariya into a socialist country by democratic means. The "Change Brotherhood" is an example of

A. communists.
B. democrats.
C. republicans.
D. social democrats.
E. Ideological democrats.

In the early twentieth century, the socialist ideology split into two broad camps. The communists believed that socialism could be achieved only through violent revolution and totalitarian dictatorship. In contrast, social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship.

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*Difficulty: 3 Hard*
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*Topic: Political Systems*

36. Those who attempt to achieve the same ideologies as that of the communists without violent revolution and totalitarian dictatorship are called

A. pure capitalists.
**B.** social democrats.
C. individualists.
D. anarchists.
E. aristocrats.

Social democrats committed themselves to achieving socialism by democratic means.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

37. Which of the following is inconsistent with Marxist philosophy?

A. concern over public good rather than private profit
B. monopoly of state-owned companies in certain industries
C. opposing the ideologies of capitalist societies
D. substantial limits on individual political freedom
**E.** selling state-owned enterprises to private investors

Karl 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.

*AACSB: Analytical Thinking*
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*Difficulty: 2 Medium*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

38. Which of the following is true about communism?

A. Communism propagates the idea of "private profit rather than public good."
B. By the mid-1990s communism started rising worldwide.
C. China has moved sharply away from strict adherence to communist ideology in the economic sphere.
D. Communists committed themselves to achieving socialism by turning their backs on violent revolution and dictatorship.
E. Communism stresses that the interests of the individual should take precedence over the interests of the state.

Although China is still nominally a communist state with substantial limits to individual political freedom, in the economic sphere the country has moved sharply away from strict adherence to communist ideology.

*AACSB: Analytical Thinking*
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*Topic: Political Systems*


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39. The sale of state-owned enterprises to independent, nonpublic investors is referred to as

A. privatization.
B. nationalization.
C. collectivism.
D. communalism.
E. public action.

Privatization involves the sale of state-owned enterprises to private investors.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

40. Which of the following can be traced to the ancient Greek philosopher Aristotle?

A. collectivism
B. individualism
C. socialism
D. totalitarianism
E. communism

Individualism can be traced to the ancient Greek philosopher Aristotle.

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
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41. The Cedian government believes that its citizens should have complete freedom in their economic and political pursuits, and the Cedian ideology is "private profit over public good." In this context, it can be said that Cedia most likely follows the philosophy of

A. totalitarianism.
B. socialism.
C. individualism.
D. communism.
E. Marxism.

Individualism stresses that the interests of the individual should take precedence over the interests of the state.

*AACSB: Reflective Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Apply*
*Difficulty: 3 Hard*
*Learning Objective: 02-01 Understand how the political systems of countries differ.*
*Topic: Political Systems*

42. In the context of individualism, which of the following is inconsistent with the works of the ancient Greek philosopher Aristotle?

A. guaranteeing individual freedom
B. government dictating what is in the best interest of society
C. guaranteeing self-expression
D. committing to private ownership
E. treating individual diversity as desirable

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.

*AACSB: Analytical Thinking*
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*Difficulty: 2 Medium*
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*Topic: Political Systems*

43. Which of the following is most likely to be advocated by individualism?

A. Communal property is more highly productive than private property.
B. Public good should be preferred over private profit.
C. State-owned companies should monopolize certain industries.
D. The welfare of society is best served by some collective body such as government.
E. Free market ideologies should be followed for achieving better standards of living.

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.

*AACSB: Analytical Thinking*
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44. In practical terms, which of the following translates into an advocacy for democratic ideals and free market economics, which in general creates the most favorable environment for international businesses to operate in?

A. collectivism
B. totalitarianism
C. individualism
D. communism
E. socialism

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

*AACSB: Analytical Thinking*
*Accessibility: Keyboard Navigation*
*Blooms: Understand*
*Difficulty: 2 Medium*
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*Topic: Political Systems*

45. Democracy, in its purest form, is based on the belief that

A. citizens should be directly involved in decision making.
B. political freedom of the citizens should be limited.
C. citizens are responsible for their own economic health and thus need no government.
D. individual freedom in the economic sphere should be restricted.
E. one person should have an absolute control over all the citizens of a nation.

The pure form of democracy, as originally practiced by several city-states in ancient Greece, is based on a belief that citizens should be directly involved in decision making, which is impractical in modern democratic states with populations in the tens or hundreds of millions.

*AACSB: Analytical Thinking*
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*Difficulty: 1 Easy*
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*Topic: Political Systems*

46. Which of the following 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?

A. capitalism
**B.** totalitarianism
C. pure democracy
D. republicanism
E. representative democracy

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*
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*Topic: Political Systems*


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47. Which of the following is a feature of representative democracy?

A. Restrictions on an individual's right to freedom of expression, opinion, and organization
B. Inability of the citizens to vote out elected representatives who fail to perform their job adequately at the next election
C. An unlimited term for elected representatives
D. A court system that is linked to the political system
**E.** A nonpolitical police force and armed service

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. This includes a nonpolitical state bureaucracy, police force, and armed service.

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48. Which of the following applies to most totalitarian states?

A. Free and fair elections are not denied to the citizens.
B. There is free access to state information.
C. All the basic civil liberties are granted to the citizens.
D. The right to freedom of expression and organization is not curbed.
**E.** Media are heavily censored.

In most totalitarian states, political repression is widespread, free and fair elections are lacking, media are heavily censored, and basic civil liberties are denied.

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49. Which of the following is a form of totalitarianism which advocates that socialism can be achieved only through a totalitarian dictatorship?

A. tribal totalitarianism
B. democratic totalitarianism
C. communist totalitarianism
D. theocratic totalitarianism
E. right-wing totalitarianism

Communist totalitarianism is a form of totalitarianism that advocates achieving socialism through totalitarian dictatorship.

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50. States that limit the freedom of religious expression with laws based on religious principles most likely follow the political system of

A. theocratic totalitarianism.
B. communist totalitarianism.
C. right-wing totalitarianism.
D. pure democracy.
E. representative democracy.

A political system in which political power is monopolized by a party, group, or individual that governs according to religious principles is referred to as theocratic totalitarianism.

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51. A totalitarian political system in which a party, group, or individual that represents the interests of a particular ethnic group monopolizes political power is referred to as

A. theocratic totalitarianism.
B. communist totalitarianism.
C. right-wing totalitarianism.
D. tribal totalitarianism.
E. democratic totalitarianism.

Tribal totalitarianism refers to a political system in which a party, group, or individual that represents the interests of a particular tribe (ethnic group) monopolizes political power. Tribal totalitarianism has arisen from time to time in African countries such as Zimbabwe, Tanzania, Uganda, and Kenya.

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52. Which of the following generally permits individual economic freedom, but restricts individual political freedom on the grounds that it would lead to the rise of communism?

A. pure democracy
B. right-wing totalitarianism
C. free market capitalism
D. representative democracy
E. communist totalitarianism

Right-wing totalitarianism generally permits individual economic freedom, but restricts individual political freedom on the grounds that it would lead to the rise of communism.

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53. The fascist regimes that ruled Germany and Italy in the 1930s and 1940s had adopted

A. right-wing totalitarianism.
B. theocratic totalitarianism.
C. representative democracy.
D. pure democracy.
E. totalitarian democracy.

The fascist regimes that ruled Germany and Italy in the 1930s and 1940s were right-wing totalitarian states.

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54. A common feature of many right-wing dictatorships is

A. total restriction on individual economic freedom.
B. strong commitment to socialist or communist ideas.
C. governments that are made up of military officers.
D. politicians from a particular tribe dominating the political system.
E. the direct involvement of the citizens in decision making.

A common feature of many right-wing dictatorships is an overt hostility to socialist or communist ideas. Many right-wing totalitarian governments are backed by the military, and in some cases the government may be made up of military officers.

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*Topic: Political Systems*

55. In which countries are we likely to find free market economies?

A. countries where the good of the society has precedence over private profit
B. countries where individual goals are given primacy over collective goals
C. countries where state-owned enterprises have a monopoly in certain industries
D. countries that have adopted communism as their political system
E. countries where the government plans the goods and services produced

In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems.

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56. Which of the following refers to an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced?

A. barter
B. command
C. market
D. regulated
E. centrally planned

A market economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced.

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*Difficulty: 1 Easy*
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*Topic: Economic Systems*

57. The government of Semput plans the goods and services that Semput produces, the quantity of goods produced, and the prices at which goods are sold. Semput is a _____ economy.

A. market
B. mixed
C. command
D. theocratic
E. plural

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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58. Which of the following statements is most likely to be true regarding private ownership?

A. It reduces a nation's dynamism and its investments in innovation and creativity.
B. It is most commonly found in command economies.
C. It eliminates competitors and reduces pressure to lower production costs.
D. It gives entrepreneurs an incentive to search for better ways of serving consumer needs.
E. It is based on the philosophy that "the good of society is more important than the interests of an individual."

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.

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*Difficulty: 2 Medium*
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*Topic: Economic Systems*

59. In what type of economy are all businesses state owned, the rationale being that the government can then direct them to make investments that are in the best interests of the nation as a whole rather than in the interests of private individuals?

A. free market
B. deregulated
C. pure command
D. mixed
E. laissez-faire

In a pure command economy, all businesses are state owned, the rationale being that the government can then direct them to make investments that are in the best interests of the nation as a whole rather than in the interests of private individuals.

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60. In comparison to market economies, command economies lack

A. government interference in allocation of resources.
B. dynamism and innovation.
C. concern for the interests of the nation.
D. commitment to communism.
E. any opposition to private ownership.

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.

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61. In what type of economy are certain sectors of the economy left to private ownership and free market mechanisms, while in other sectors there is significant state ownership and government planning?

A. command
B. pure market
C. mixed
D. centrally planned
E. laissez-faire

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.

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62. In what economies, do governments sometimes tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests?

A. command
B. centrally planned
C. pure market
D. mixed
E. laissez-faire

In mixed economies, governments sometimes tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. Once a government takes into state ownership such troubled firms, they are said to be nationalized.

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63. Which of the following is true about the three broad types of economic systems?

A. For a pure market economy to function efficiently product supply must be restricted.
B. In a command economy, state-owned enterprises have little incentive to control costs and be efficient.
C. The sole role of government in a command economy is to encourage vigorous free and fair competition between private producers.
D. Mixed economies were once uncommon throughout much of the world, although they are becoming more popular now.
E. Production in command economies is determined by the interaction of supply and demand and signaled to producers through the price system.

In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business.

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64. The Boldovian government took Sea Lion Inc., a domestic, private shipbuilding firm, into state ownership to save the company from bankruptcy. However, the other private competitors in the shipbuilding industry were enraged by this decision of the government. As a result, the government had to reduce the tax burden on all other private shipbuilding firms so that both the state-owned enterprise and private firms could co-exist. According to this information, Boldovia has most likely adopted what type of economy?

A. mixed
B. market-based
C. command
D. laissez-faire
E. communist

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.

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65. Collectivist-inclined totalitarian states tend to enact laws that severely restrict private enterprises, whereas the laws enacted by governments in democratic states, where individualism is the dominant political philosophy, tend to be pro-private enterprise and pro-consumer. This indicates that the

A. economic system of a country is independent of its legal system.
B. legal system of a country is not influenced by the prevailing political system.
C. legal system does not affect the attractiveness of a country as an investment site or market.
D. all countries have the same legal environments.
**E.** the legal framework of a country reflects the rulers' dominant political ideology.

The government of a country defines the legal framework within which firms do business, and often the laws that regulate business reflect the rulers' dominant political ideology. For example, collectivist-inclined totalitarian states tend to enact laws that severely restrict private enterprise, whereas the laws enacted by governments in democratic states where individualism is the dominant political philosophy tend to be pro-private enterprise and pro-consumer.

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*Topic: Legal Systems*


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66. Which of the following is true about legal systems?

A. All countries have the same, uniform legal environment.
B. Unlike the economic system of a country, the legal system is independent of the country's political system.
C. The government of a country defines the legal framework within which firms do business.
D. The attractiveness of a country as an investment site or market is unaffected by its legal system.
E. Collectivist-inclined totalitarian states tend to enact laws that are pro-private enterprise.

The government of a country defines the legal framework within which firms do business, and often the laws that regulate business reflect the rulers' dominant political ideology.

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*Difficulty: 2 Medium*
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*Topic: Legal Systems*

67. Which of the following legal systems is most likely to be based on tradition, precedent, and custom?

A. common law
B. civil law
C. autocracy law
D. monarchy law
E. universal law

Common law is based on tradition (a country's legal history), precedent (cases that have come before the courts in the past), and custom (the ways in which laws are applied in specific situations).

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68. In the context of common law, which of the following terms refers to the ways in which laws are applied in specific situations?

A. tradition
B. precedent
C. custom
D. interpretation
E. culture

Common law is based on tradition, precedent, and custom, where custom refers to the ways in which laws are applied in specific situations.

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69. The common law system enjoys a degree of flexibility not found in other systems because

A. it is usually found in democratic republics.
B. it originated from Great Britain and can be found in almost all of its former colonies.
C. it is interpreted by the law courts with regard to tradition, precedent, and custom.
D. it is based on a detailed set of laws organized into codes.
E. it has originated recently—just a decade ago.

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. In turn, each new interpretation sets a precedent that may be followed in future cases. As new precedents arise, laws may be altered, clarified, or amended to deal with new situations.

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70. Which of the following is a law system based on a detailed set of laws organized into codes?

A. civil
B. theocratic
C. common
D. traditional
E. precedent

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

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*Topic: Legal Systems*

71. A legal system which is based primarily on religious teachings is referred to as a

A. civil law system.
**B.** theocratic law system.
C. common law system.
D. precedent law system.
E. public law system.

A legal system that is based primarily on religious teachings is referred to as a theocratic law system.

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72. What is the most widely practiced theocratic legal system in the modern world?

A. Christian law
**B.** Islamic law
C. Jewish law
D. Hindu law
E. Buddhist law

Islamic law is the most widely practiced theocratic legal system in the modern world.

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73. Which of the following is true about the three main types of legal systems?

A. Judges under a civil law system have more flexibility than those under a common law system.
B. The common law system evolved in the United States over hundreds of years.
C. Although Islamic law is primarily concerned with moral behavior, it has been extended to cover certain commercial activities.
D. A theocratic law system is based on a detailed set of laws organized into codes.
E. Common law cannot be altered, clarified, or amended to deal with new situations.

Although Islamic law is primarily concerned with moral behavior, it has been extended to cover certain commercial activities.

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*Topic: Legal Systems*

74. Jewish law is an example of what type of law system?

A. autocratic
B. civil
C. common
D. theocratic
E. universal

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

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75. Which of the following refers to documents that specify the conditions under which an exchange is to occur and detail the rights and obligations of the parties involved?

A. memoranda
B. manifestoes
C. contracts
D. white papers
E. minutes

A contract is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved. Many business transactions are regulated by some form of contract.

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76. Which of the following statements is true about the difference between contracts in common law and civil law systems?

A. Contracts drafted under a common law system tend to be longer than those drafted under a civil law system.
B. Contracts drafted under a civil law system tend to be more specific than those drafted under a civil law system.
C. It is more expensive to draw up contracts in a civil law system than in a common law system.
D. Resolving contract disputes tends to be less adversarial in common law systems than in civil law systems.
E. Civil law systems have the advantage of greater flexibility and allow for judges to interpret a contract dispute in light of the prevailing situation but this feature is absent in common law systems.

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.

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77. Which of the following 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. Contracts for the International Sale of Goods
B. Bill of Exchange
C. United Nations Charter
D. International Forwarding Agent Contract
E. International Promissory Note

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 have ratified the United Nations Convention on Contracts for the International Sale of Goods (CIGS) which 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.

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78. When firms do not wish to accept the rules of the CIGS, what do they often opt for to settle contract disputes?

A. UN involvement
**B.** arbitration
C. collective bargaining
D. common law system of the United States
E. Islamic law

When firms do not wish to accept the CIGS, they often opt for arbitration by a recognized arbitration court, like the International Court of Arbitration of the International Chamber of Commerce in Paris, to settle disputes.

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79. The bundle of 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 are called what type of rights?

A. civil
B. political
C. shareholder
**D.** property
E. public

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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80. In the context of property rights, which of the following refers to theft, piracy, blackmail, and the like by private individuals or groups?

A. private consumption
B. private practice
C. privacy tort
D. private action
E. privacy violation

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups.

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81. After the collapse of communism in Dehran, successful business owners often had to pay "protection money" to the mafia or face violent retribution. In the context of property rights, the behavior of the mafia is an example of

A. active violation.
B. public action.
C. private action.
D. boundary spanning.
E. industrial espionage.

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.

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82. In the context of property rights, which of the following best exemplifies private action?

A. levying excessive taxes
B. requiring expensive licenses or state permits from private property holders
C. taking assets into state ownership without compensating the owners
D. government bureaucrats demanding bribes from businesses in return for the rights to operate in a country
**E.** business owners stealing their competitors' trade secrets and intellectual properties

Private action refers to theft, piracy, blackmail, and the like by private individuals or groups.

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83. Which of the following best exemplifies public action?

A. The mafia in Cedia Republic demands "protection money" from successful domestic business owners.
B. Cedian proprietors in the hospitality industry often complain about protection rackets by criminal groups.
C. Government bureaucrats demand bribes from international businesses in return for the rights to operate in Cedia Republic.
D. The Cedian government has been criticized for its inability to curb theft of trade secrets of international businesses by private domestic owners.
E. To promote the Cedian culture, the government has made Cedian movies, which are based on Cedian history, tax-free.

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.

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*Blooms: Apply*
*Difficulty: 3 Hard*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*


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84. The Republic of Marwa has decided to open its economy to globalization. Which of the following will facilitate this decision of Marwa?

A. strong commitment to communism
B. strong presence of private action in the nation
C. adopting the Contracts for the International Sale of Goods (CIGS)
D. creating a national environment that promotes public action
E. breaking the rule of law

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.

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85. Which of the following terms best defines the relationship between the level of corruption and economic growth rate in a country?

A. directly proportional
B. inversely proportional
C. independent
D. positive correlation
E. zero correlation

Economic evidence suggests that high levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country.

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86. In the United States, the Foreign Corrupt Practices Act was passed during the 1970s following revelations that

A. U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts.
B. U.S. companies were involved in bribing U.S. government officials in cases related to major corporate and accounting scandals.
C. U.S. government bureaucrats demanded bribes from U.S. companies in return for a permit to operate in a foreign country.
D. several companies were selling their products at lower prices in foreign countries than in the United States.
E. successful business owners in the United States often had to pay "protection money" to the Mafia or face violent retribution.

In the 1970s, the United States passed the Foreign Corrupt Practices Act following revelations that U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts.

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87. John Smith, a U.S. based businessman paid the equivalent of $20 to an official of the country of Murundi to expedite the overnight delivery of critical documents. When questioned, John Smith claimed this was not a bribe. The $20 is an example of

A. an under-the-table payment.
B. a bribe.
C. a violation of the Foreign Corrupt Practices Act.
D. an inappropriate payment


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E. a grease payment

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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88. Which of the following does the U.S. law and OECD convention allow as an exception?

A. bribing a foreign government official to obtain a contract
B. failure to keep records that would reveal if a violation of the Foreign Corrupt Practices Act has occurred
C. grease payments or speed money
D. private action
E. breach of the rule of law

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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89. As per the U.S. law and OECD convention, which of the following is most likely to be considered as a grease payment?

A. Gold Fire Inc. paid a fine of $2500 for violating the labor laws in a foreign country.
B. Gold Fire Inc. made a small payment of $20 to speed up some paperwork related to tax returns in a less developed country.
C. The proprietor of Gold Fire Inc. made payments to the Mafia as a protection against violent retribution.
D. Gold Fire Inc. gave gift vouchers to all its product wholesalers in order to promote the product.
E. Gold Fire Inc. made an unrecorded payment to one of its accountants in return for window dressing the company's accounts.

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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90. Which of the following best exemplifies facilitating or expediting payments in business?

A. making payments to government officials not to cancel the business license after violating local laws
B. paying a lump sum amount in order to win a government tender for road construction in a foreign country
C. making unsolicited payments to the concerned officers in return for employing child labor
D. making payments to customs officials in order to ship pirated merchandise
**E.** making small payments to government officials in order to speed up the work they are already obligated to perform

While grease payments are, technically, bribes, they are distinguishable from (and, apparently, less offensive than) bribes used to obtain or maintain business because they merely facilitate performance of duties that the recipients are already obligated to perform.

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91. Products of the mind, such as computer software, a screenplay, a music score, or the chemical formula for a new drug, constitute

A. assets which receive no protection under law.
B. non-performing assets.
C. tangible assets.
**D.** intellectual property.
E. real property.

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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92. Initech Incorporated, a multinational giant, runs a number of diversified businesses. Which of the following can be considered as an intellectual property of the firm?

A. income arising from renting land and buildings
B. profits arising from the sale of agricultural crops
C. interest earned by lending capital to other firms
D. innovations and capabilities, and skills of the employees
E. investments made in raw materials and machinery

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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93. Which of the following grants the inventor of a new product or process exclusive rights for a defined period to the manufacture, use, or sale of that invention?

A. copyright
B. trademark
C. patent
D. warranty
E. service mark

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.

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94. Silver Tape Corporation has developed a new type of adhesive tape. Which of the following types of legal protections can grant the company exclusive rights for a defined period to the manufacture, use, or sale of the new adhesive tape?

A. warrant
B. patent
C. copyright
D. trademark
E. writ

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.

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95. A composer can protect an original musical score from being copied and sold by someone else by acquiring for the score a(n)

A. patent.
B. warrant.
C. trademark.
D. copyright.
E. affidavit.

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

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96. Which of the following is most likely to be protected by a copyright?

A. new manufacturing process invented in a company
B. newly invented telecommunication device
C. tangible property like land and building
D. movies produced and directed by a person
E. new type of car invented by an automobile company

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

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97. Which of the following protects the Nike "swoosh" logo from being used by any other shoe manufacturer?

A. trademark
B. affidavit
C. patent
D. warrant
E. writ

Trademarks are designs and names, often officially registered, by which merchants or manufacturers designate and differentiate their products.

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98. Patents, copyrights, and trademarks establish ownership rights over what type of property?

A. intellectual
B. real
C. tangible
D. non-performing
E. stolen

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

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99. Which of the following is a typical function of a trademark?

A. It marks the sales territory for which individual salespeople are assigned.
B. It restrains authors, composers, playwrights, artists, and publishers from trading their creative work.
C. It signifies that a country is a member of the World Trade Organization.
D. It acts as a permit to expand a business globally.
**E.** It allows merchants or manufacturers to designate and differentiate their products.

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

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100. The philosophy behind intellectual property laws is to

A. reward the originator of a new invention, book, musical record, and the like for his or her idea and effort.
B. protect consumers from being subjected to business malpractice.
C. safeguard a firm and its officers from being responsible for injury, death, or damage caused by the firm's product.
D. eliminate monopoly in international trade.
E. ensure that the rights to manufacture, use, or sell an invention are made available to the whole society.

The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical record, clothes design, restaurant chain, and the like, for his or her idea and effort. Such laws stimulate innovation and creative work.

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101. In the context of "knowledge" economy of the twenty-first century, which of the following statements is true about intellectual property?

A. Intellectual property has become an increasingly important source of economic value for businesses.
B. Protecting intellectual property has become increasingly easy in the twenty-first century.
C. Intellectual property laws limit the creativity and the ability of people to search for novel ways of doing things.
D. Firms always choose to stay out of countries where intellectual property laws are strict.
E. Companies in a country are more likely to commit themselves to extensive basic research if the country prohibits the use of patents.

In the high-technology "knowledge" economy of the twenty-first century, intellectual property has become an increasingly important source of economic value for businesses.

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102. The strong enforcement of intellectual property laws helps to

A. reduce the piracy (theft) of intellectual property.
B. reduce the attractiveness of a country as a market or investment site.
C. reduce the investments made by companies on basic research.
D. limit creativity and innovation among people.
E. prohibit a company from having a monopoly over its breakthrough inventions.

Weak enforcement of intellectual property laws encourages the piracy (theft) of intellectual property.

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103. Product safety and product liability laws are enforced to protect

A. intellectual property rights.
B. companies from their domestic competitors.
C. companies from their foreign competitors.
D. consumers.
E. product inventors.

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.

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104. Which of the following type of laws hold a firm and its officers responsible when a product causes injury, death, or damage?

A. product equity
B. product failure
C. product liability
D. product parity
E. product testing

Product liability involves holding a firm and its officers responsible when a product causes injury, death, or damage. Both civil and criminal product liability laws exist.

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105. A boom in product liability suits and awards in the United States resulted in a dramatic increase in the cost of liability insurance. Many business executives argue that this

A. makes American businesses less competitive in the global marketplace.
B. offers American businesses greater protection from foreign competitors.
C. exposes consumers to greater product risks.
D. eventually makes it cheaper for foreign companies to do business in the United States.
E. discourages American companies from outsourcing jobs to less developed countries.

A boom in product liability suits and awards in the United States resulted in a dramatic increase in the cost of liability insurance. Many business executives argue that the high costs of liability insurance make American businesses less competitive in the global marketplace.

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106. Which of the following statements is true about product safety and liability laws?

A. There are no criminal product liability laws—only civil product liability laws exist.
B. Liability laws are typically most extensive in less developed nations.
C. A boom in product liability suits and awards in the United States resulted in a dramatic decrease in the cost of liability insurance.
D. Product liability can be much greater if a product does not conform to required safety standards.
E. If product safety laws are tougher in a firm's home country than in a host country, the ethical thing to do is to adhere to host-country standards.

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

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107. Who among the following can claim product liability from the offender?

A. Jason wants to sue a multinational company for mass manufacturing one of his inventions without purchasing the rights.
B. Rebecca's patented jewelry designs have been imitated and sold at a low price under her brand name.
C. The airbags in Brian's car, manufactured by Zigwheels Inc., failed to inflate when his car met with an accident. This injured Brian and damaged the car.
D. Fred has accused his employer of forcing him and his teammates to work in an unsafe environment.
E. Samantha claims that her neighbor has stolen valuable ancestral antiques from her house.

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.

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108. Veronica had been getting red patches on her face after using a protein-based lotion manufactured by Nature Life Research Lab. On consulting a dermatologist, she learned that the lotion's steroid levels were beyond the standard levels permitted by the government and the damage caused by the lotion was irreversible. Which of the following will address Veronica's grievances?

A. laws related to property rights
**B.** product liability laws
C. intellectual property laws
D. Foreign Corrupt Practices Act
E. Sarbanes-Oxley Act

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.

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109. Which of the following nations is most likely to be unappealing as a place for doing business?

A. a nation that has a market-based economic system
B. a nation that has a strong legal system
C. a nation that has a democratic political institution
D. a nation that enforces strong property rights
**E.** a nation that has a totalitarian political system

Totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business is unappealing as a place for doing business.

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*Difficulty: 2 Medium*
*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*
*Topic: Focus on Managerial Implications*

110. If a country wants to improve its attractiveness as a place for doing business and as an investment site, it should

A. oppose the rule of law.
B. ensure that the economic activity is heavily regulated by the state.
**C.** move toward a market-based system.
D. extensively restrict property rights.
E. avoid enforcing intellectual property laws.

A nation with democratic political institutions, a market-based economic system, and strong legal system that protects property rights and limits corruption is clearly more attractive as a place in which to do business than a nation that lack democratic institutions, where economic activity is heavily regulated by the state, and where corruption is rampant and the rule of law is not respected.

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*Topic: Focus on Managerial Implications*

## Essay Questions

111. What are the various safeguards that are typically enshrined in constitutional law of an ideal representative democracy?

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. These include (1) an individual's right to freedom of expression, opinion, and organization; (2) a free media; (3) regular elections in which all eligible citizens are allowed to vote; (4) universal adult suffrage; (5) limited terms for elected representatives; (6) a fair court system that is independent from the political system; (7) a nonpolitical state bureaucracy; (8) a nonpolitical police force and armed service; and (9) relatively free access to state information.

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


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112. Describe in brief the different forms of totalitarianism.

Four major forms of totalitarianism exist in the world today. Until recently, the most widespread was communist totalitarianism—a version of collectivism advocating that socialism can be achieved only through a totalitarian dictatorship. A second form of totalitarianism might be labeled theocratic totalitarianism, which is found in states where political power is monopolized by a party, group, or individual that governs according to religious principles. Iran and Saudi Arabia are examples of theocratic totalitarianism. A third form of totalitarianism might be referred to as tribal totalitarianism, a political system in which a party, group, or individual that represents the interests of a particular tribe (ethnic group) monopolizes political power. It has arisen from time to time in some African countries. A fourth major form of totalitarianism might be described as right-wing totalitarianism, a political system in which political power is monopolized by a party, group, or individual that generally permits individual economic freedom but restricts individual political freedom, including free speech, frequently on the grounds that it would lead to the rise of communism.

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113. Discuss why supply must not be restricted for a pure market economy to function.

In a pure market economy, supply must not be restricted. 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. Although this is good for the monopolist, it is bad for the consumer, who has to pay higher prices. It also is probably bad for the welfare of society. Because a monopolist has no competitors, it has no incentive to search for ways to lower production costs. Rather, it can simply pass on cost increases 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, and society suffers as a consequence.

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

114. Discuss why command economies tend to stagnate.

While the objective of a command economy is to mobilize economic resources for the public good, the opposite seems to have occurred. 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.

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115. How does a common law system differ from a civil law system?

A common law system has a degree of flexibility that other systems lack. 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. In turn, each new interpretation sets a precedent that may be followed in future cases. As new precedents arise, laws may be altered, clarified, or amended to deal with new situations. 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. Judges under a civil law system have less flexibility than those under a common law system. 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.

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*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

116. Describe the significance of Contracts for the International Sale of Goods (CIGS).

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. One problem with the CIGS, however, is that as of late 2013, only 80 nations have ratified the convention (the CIGS went into effect in 1988). Some of the world's important trading nations, including the United Kingdom, have not ratified the CIGS.

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*Topic: Legal Systems*

117. What are the two ways through which property rights can be violated?

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

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*Blooms: Remember*
*Difficulty: 1 Easy*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

118. Describe the Foreign Corrupt Practices Act.

In the 1970s, the United States passed the Foreign Corrupt Practices Act following revelations that U.S. companies had bribed government officials in foreign countries in an attempt to win lucrative contracts. This law makes it illegal to bribe a foreign government official to obtain or maintain business over which that foreign official has authority, and it 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: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*


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119. How does corruption affect the economic growth rate in a country?

Economic evidence suggests that high levels of corruption significantly reduce the foreign direct investment, level of international trade, and economic growth rate in a country. By siphoning off profits, corrupt politicians and bureaucrats reduce the returns to business investment and, hence, reduce the incentive of both domestic and foreign businesses to invest in that country. The lower level of investment that results hurts economic growth. Thus, we would expect countries with high levels of corruption such as Indonesia, Nigeria, and Russia to have a much lower rate of economic growth than might otherwise have been the case.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

120. What are grease payments? Are they acceptable by the U.S. law and OECD convention?

Grease payments are facilitating or expediting payments, the purpose of which is to expedite or to secure the performance of a routine governmental action. For example, they allow for small payments made to speed up the issuance of permits or licenses, process paperwork, or just get vegetables off the dock and on their way to market. Both the U.S. law and OECD convention consider them acceptable. The explanation for this exception to general antibribery provisions is that while grease payments are, technically, bribes, they are distinguishable from (and, apparently, less offensive than) bribes used to obtain or maintain business because they merely facilitate performance of duties that the recipients are already obligated to perform.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*


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121. Discuss the philosophy that underlies intellectual property laws.

The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical record, clothes design, restaurant chain, and the like, for his or her idea and effort. Such laws stimulate innovation and creative work. They provide an incentive for people to search for novel ways of doing things, and they reward creativity. For example, in the pharmaceutical industry, a patent will grant the inventor of a new drug a 20-year monopoly in production of that drug. This gives pharmaceutical firms an incentive to undertake the expensive, difficult, and time-consuming basic research required to generate new drugs that can cost $1 billion in R&D and take 12 years to get on the market. Without the guarantees provided by patents, companies would be unlikely to commit themselves to extensive basic research.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

122. How do patents, copyrights, and trademarks differ from each other?

Patents, copyrights, and trademarks establish ownership rights over intellectual property. 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, often officially registered, by which merchants or manufacturers designate and differentiate their products.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*


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123. How do international businesses respond to violations of their intellectual property?

International businesses have a number of possible responses to violations of their intellectual property. They can lobby their respective governments to push for international agreements to ensure that intellectual property rights are protected and that the law is enforced. Partly as a result of such actions, international laws are being strengthened. The most recent world trade agreement, signed in 1994, for the first time extends the scope of the General Agreement on Tariffs and Trade to cover intellectual property. 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 after the death of the author. 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. In addition to lobbying governments, firms can file lawsuits on their own behalf.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

124. Briefly discuss product safety and 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. 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 the least extensive in less developed nations.

*AACSB: Analytical Thinking*


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*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-03 Understand how the legal systems of countries differ.*
*Topic: Legal Systems*

125. How do the political, economic, and legal environments of a country affect international trade? And what factors make a country favorable for doing business?

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. Other things being equal, a nation with democratic political institutions, a market-based economic system, and strong legal system that protects property rights and limits corruption is clearly more attractive as a place in which to do business than a nation that lacks democratic institutions, where economic activity is heavily regulated by the state, and where corruption is rampant and the rule of law is not respected.

*AACSB: Analytical Thinking*
*Blooms: Understand*
*Difficulty: 2 Medium*
*Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.*
*Topic: Focus on Managerial Implications*


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