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International Business, 12e **(Hill)**

Chapter 2 National Differences in Political, Economic, and Legal Systems

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

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

3) Some believe the Cold War was simply about nuclear proliferation, but in many respects, it was a war between collectivism and individualism.

4) Most modern democratic states practice representative democracy.

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

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

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

8) The Republic of Elbow has a command economy, and as such, its objective is to encourage free and fair competition between private producers.

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

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

11) Judge Michaels operates in a country with a civil law system. This system has more flexibility than a common law system.

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

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.

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

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).

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

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

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

19) Fred wanted to protect his novel from piracy, so he copyrighted it. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

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

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

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

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

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

25) When Penelope returned home from vacation, she found her store had been robbed and her most valuable merchandise was gone. This violation of property rights is considered private action.

26) _____ 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

27) Who was the author of *The Wealth of Nations* in which he stated that "an individual who intends his own gain is led by an invisible hand to promote an end that was no part of his intention..."?
A) David Hume
B) Adam Smith
C) Karl Marx
D) John Stuart Mill

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28) 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

29) 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

30) Manchu believed that socialism could be achieved only through violent revolution and totalitarian dictatorship. Manchu was likely a
A) libertarian.
B) communist.
C) collectivist.
D) social democrat.

31) Plato _____; he believed that society should be stratified into classes, with those best suited to rule administering society for the benefit of all.
A) equated individualism with equality
B) equated collectivism with equality
C) promoted representative democracy
D) did not equate collectivism with equality

32) 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

33) What term is 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

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34) _____ 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

35) _____ argued that individual diversity and private ownership are desirable.
A) Karl Marx
B) Plato
C) John Stuart Smith
D) Aristotle

36) 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

37) Systems that emphasize collectivism tend toward
A) totalitarianism.
B) capitalism.
C) democracy.
D) privatization.

38) Interdependent political, economic, and legal systems of a country make up its
A) administrative agenda.
B) socioeconomic fabric.
C) cultural environment.
D) political economy.

39) A political system that prioritizes the needs of the society over individual freedoms is called
A) totalitarianism.
B) collectivism.
C) capitalism.
D) egalitarianism.

40) 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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41) 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.

42) Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?
A) socialism
B) individualism
C) collectivism
D) anarchism

43) 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

44) 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 antibusiness environment.
D) Individualism and democracy go hand in hand.

45) 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

46) 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

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47) 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.

48) People's right to protest on issues of accountability in public expenditure would be possible in a _____ political setup.
A) dictatorial
B) democratic
C) totalitarian
D) fascist

49) _____ 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

50) 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

51) 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 are determined by the government.

52) 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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53) The local grocery in a small southern city is the only option for the residents, so it has a monopoly on the grocery business there. When the population of the city grows and demand for groceries increases, what is the grocery store most 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.

54) 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

55) 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

56) 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.

57) 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.

58) Antitrust laws in the United States are designed to
A) restrict agricultural subsidies.
B) increase trade barriers.
C) outlaw monopolies.
D) restrict privatization.

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59) 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
D) laissez-faire

60) 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

61) 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

62) 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.

63) One key component 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.

64) 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

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65) 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.

66) 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.

67) A _____ law system is based on a very detailed set of laws organized into codes.
A) traditional
B) theocratic
C) civil
D) common

68) 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.

69) 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

70) _____ 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.
A) Trade
B) Property
C) Positive
D) Common

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71) 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.

72) 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.

73) Which of the following area 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 United States.

74) Which of the following is an example of intellectual property?
A) a music score
B) a laser-tag game
C) a software business
D) a theater

75) 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

76) Designs 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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77) 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 its product. To protect its product, the company is now seeking a
A) copyright.
B) patent.
C) trademark.
D) certification.

78) 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

79) 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.

80) 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.

81) 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.

82) 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.

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83) The _____ establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers that 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 (CISG)
D) World Trade Organization (WTO)

84) 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 reveal whether a violation of the act has occurred.
A) Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B) Foreign Corrupt Practices Act (FCPA)
C) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
D) Organisation for Economic Co-operation and Development (OECD)

85) Company Zee has been found guilty of manufacturing a product that caused harm to its users, violating criminal liability laws. Which of the following is the most likely outcome for Company Zee?
A) payment and monetary damages
B) more severe punishment if Company Zee is outside the United States
C) fines or imprisonment
D) nothing if it was Company Zee's first offense

86) _____ 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

87) In common law, _____ refers to cases that have come before the courts in the past.
A) custom
B) precedent
C) codification
D) tradition

88) Judges in a(n) _____ system have the power to interpret the law so that it applies to the unique circumstances of an individual case.
A) civil law
B) international law
C) common law
D) theocratic law

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89) The most widely practiced theocratic legal system in the modern world is
A) Christian.
B) Hindu.
C) Jewish.
D) Islamic.

90) 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)

91) A law system that is based on a detailed set of laws organized into codes is
A) municipal.
B) contract.
C) civil.
D) common

92) 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)

93) 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

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

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

96) What are state-owned companies? Why do they usually perform poorly?

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

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

99) Compare and contrast the four forms of totalitarianism.

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

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

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

103) What is a country's legal system? Why is it important to international businesses?

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

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

106) What factors contribute to the attractiveness of a country as a market or investment site

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

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Chapter 2 National Differences in Political, Economic, and Legal Systems

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

3) Some believe the Cold War was simply about nuclear proliferation, but in many respects, it was a war between collectivism and individualism.

Answer: TRUE
Explanation: The Cold War, in many respects, was a war between collectivism, championed by the former Soviet Union, and individualism, championed by the United States.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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4) Most modern democratic states practice representative democracy.

Answer: TRUE
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
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7) The number of command economies has fallen dramatically since the demise of communism in the late 1980s.

Answer: TRUE
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

8) The Republic of Elbow has a command economy, and as such, its objective is to encourage free and fair competition between private producers.

Answer: FALSE
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Legal Systems
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) Judge Michaels operates in a country with a civil law system. This system has more flexibility than a common law system.

Answer: FALSE
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Legal Systems
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: A theocratic law system is one in which the law is based on religious teachings.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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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.

Answer: TRUE
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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).

Answer: TRUE
Explanation: One problem with the CISG 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.
Difficulty: 1 Easy
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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16) To facilitate international business, property rights are defined in a consistent way across countries.

Answer: FALSE
Explanation: Countries differ in the extent to which their legal systems define and protect property rights.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: Property rights can be violated in two ways—through private action and through public action.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: Both 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.
Difficulty: 1 Easy
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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19) Fred wanted to protect his novel from piracy, so he copyrighted it. Patents, copyrights, and trademarks establish ownership rights over intellectual property.

Answer: TRUE
Explanation: Patents, copyrights, and trademarks establish ownership rights over intellectual property.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
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20) Patents discourage companies from committing themselves to extensive basic research.

Answer: FALSE
Explanation: The philosophy behind intellectual property laws is to reward the originator of a new invention, book, musical recording, 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: Under the 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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22) Product liability sets certain safety standards to which a product must adhere.

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Product Liability
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: FALSE
Explanation: 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.
Difficulty: 1 Easy
Topic: Product Liability
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: TRUE
Explanation: 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?
Difficulty: 1 Easy
Topic: Ethical Issues in International Business
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Bloom's: Understand
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25) When Penelope returned home from vacation, she found her store had been robbed and her most valuable merchandise was gone. This violation of property rights is considered private action.

Answer: TRUE
Explanation: In terms of violating property rights, private action refers to theft, piracy, blackmail, and the like by private individuals or groups.
Difficulty: 1 Easy
Topic: Ethical Issues in International Business
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

26) _____ 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

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
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27) Who was the author of *The Wealth of Nations* in which he stated that "an individual who intends his own gain is led by an invisible hand to promote an end that was no part of his intention..."?
A) David Hume
B) Adam Smith
C) Karl Marx
D) John Stuart Mill

Answer: B
Explanation: 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… ."
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

28) 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

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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29) 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

Answer: B
Explanation: 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).
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
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30) Manchu believed that socialism could be achieved only through violent revolution and totalitarian dictatorship. Manchu was likely a
A) libertarian.
B) communist.
C) collectivist.
D) social democrat.

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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31) Plato _____; he believed that society should be stratified into classes, with those best suited to rule administering society for the benefit of all.
A) equated individualism with equality
B) equated collectivism with equality
C) promoted representative democracy
D) did not equate collectivism with equality

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
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32) 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

Answer: C
Explanation: 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."
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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33) What term is 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

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

34) _____ 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

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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35) _____ argued that individual diversity and private ownership are desirable.
A) Karl Marx
B) Plato
C) John Stuart Smith
D) Aristotle

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

36) 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

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
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37) Systems that emphasize collectivism tend toward
A) totalitarianism.
B) capitalism.
C) democracy.
D) privatization.

Answer: A
Explanation: The democratic–totalitarian dimension is not independent of the individualism–collectivism dimension. Democracy and individualism go hand in hand, as do the communist version of collectivism and totalitarianism. However, gray areas exist; it is possible to have a democratic state in which collective values predominate, and it is possible to have a totalitarian state that is hostile to collectivism and in which some degree of individualism—particularly in the economic sphere—is encouraged.
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

38) Interdependent political, economic, and legal systems of a country make up its
A) administrative agenda.
B) socioeconomic fabric.
C) cultural environment.
D) political economy.

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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39) A political system that prioritizes the needs of the society over individual freedoms is called
A) totalitarianism.
B) collectivism.
C) capitalism.
D) egalitarianism.

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

40) Modern socialism has been popularized largely through the work of
A) Adam Smith.
B) Karl Marx.
C) David Hume.
D) Thomas Hobbes.

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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41) 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.

Answer: A
Explanation: 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).
Difficulty: 1 Easy
Topic: Nationalization and Privatization of Business
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

42) Which of the following philosophies can be traced back to the ancient Greek philosopher Aristotle?
A) socialism
B) individualism
C) collectivism
D) anarchism

Answer: B
Explanation: Like collectivism, individualism can be traced to an ancient Greek philosopher, in this case Plato's disciple Aristotle (384–322 B.C.). In contrast to Plato, Aristotle argued that individual diversity and private ownership are desirable.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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43) 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

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

44) 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 antibusiness environment.
D) Individualism and democracy go hand in hand.

Answer: D
Explanation: The central message of individualism is that individual economic and political freedoms are the ground rules on which a society should be based. This puts individualism in conflict with collectivism. Collectivism asserts the primacy of the collective over the individual; individualism asserts the opposite.
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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45) 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

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

46) 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

Answer: B
Explanation: The United States, for example, is a constitutional republic that operates as a representative democracy. 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
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47) 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.

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

48) People's right to protest on issues of accountability in public expenditure would be possible in a _____ political setup.
A) dictatorial
B) democratic
C) totalitarian
D) fascist

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
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49) _____ 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

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

50) 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

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Remember
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51) 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 are determined by the government.

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

52) 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

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
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53) The local grocery in a small southern city is the only option for the residents, so it has a monopoly on the grocery business there. When the population of the city grows and demand for groceries increases, what is the grocery store most 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.

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

54) 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

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
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55) 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

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Understand
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

56) 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.

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Remember
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57) 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.

Answer: B
Explanation: While the objective of a command economy is to mobilize economic resources for the public good, 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.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

58) Antitrust laws in the United States are designed to
A) restrict agricultural subsidies.
B) increase trade barriers.
C) outlaw monopolies.
D) restrict privatization.

Answer: C
Explanation: 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).
Difficulty: 1 Easy
Topic: Laws Affecting International Business
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Understand
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59) 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
D) laissez-faire

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

60) 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

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Remember
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61) 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

Answer: D
Explanation: In mixed economies, governments tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.
Difficulty: 2 Medium
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

62) 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.

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Legal Systems
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
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63) One key component 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.

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Differences in Legal Systems
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

64) 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

Answer: D
Explanation: Common law is based on tradition, precedent, and custom.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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65) 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.

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

66) 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.

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
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67) A _____ law system is based on a very detailed set of laws organized into codes.
A) traditional
B) theocratic
C) civil
D) common

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

68) 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.

Answer: A
Explanation: A theocratic law system is one in which the law is based on religious teachings.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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69) 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

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

70) _____ 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.
A) Trade
B) Property
C) Positive
D) Common

Answer: B
Explanation: 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. In a legal sense, the term *property* refers to a resource over which an individual or business holds a legal title, that is, a resource that it owns. Resources include land, buildings, equipment, capital, mineral rights, businesses, and intellectual property (ideas, which are protected by patents, copyrights, and trademarks).
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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71) 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.

Answer: A
Explanation: In terms of violating 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

72) 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.

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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73) Which of the following area 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 United States.

Answer: B
Explanation: 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. 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.
Difficulty: 2 Medium
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

74) Which of the following is an example of intellectual property?
A) a music score
B) a laser-tag game
C) a software business
D) a theater

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
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75) 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

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

76) Designs and names by which merchants or manufacturers designate and differentiate their products are known as
A) trademarks.
B) copyrights.
C) patents.
D) licenses.

Answer: A
Explanation: Trademarks are designs and names, officially registered, by which merchants or manufacturers designate and differentiate their products (e.g., Christian Dior clothes).
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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77) 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 its product. To protect its product, the company is now seeking a
A) copyright.
B) patent.
C) trademark.
D) certification.

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

78) 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

Answer: B
Explanation: Copyrights are the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
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79) 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.

Answer: B
Explanation: Under the 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.
Difficulty: 1 Easy
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

80) 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.

Answer: B
Explanation: Under the 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 had 10 years.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Analyze
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81) 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.

Answer: C
Explanation: 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.
Difficulty: 1 Easy
Topic: Product Liability
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

82) 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.

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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83) The _____ establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers that 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 (CISG)
D) World Trade Organization (WTO)

Answer: C
Explanation: 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 (CISG). The CISG establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between sellers and buyers that have their places of business in different nations. By adopting the CISG, a nation signals to other adopters that it will treat the convention's rules as part of its law. The CISG 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.
Difficulty: 2 Medium
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
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84) 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 reveal whether a violation of the act has occurred.
A) Trade-Related Aspects of Intellectual Property Rights (TRIPS)
B) Foreign Corrupt Practices Act (FCPA)
C) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
D) Organisation for Economic Co-operation and Development (OECD)

Answer: B
Explanation: 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 it requires all publicly traded companies to keep detailed records that would reveal whether a violation of the act has occurred.
Difficulty: 3 Hard
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

85) Company Zee has been found guilty of manufacturing a product that caused harm to its users, violating criminal liability laws. Which of the following is the most likely outcome for Company Zee?
A) payment and monetary damages
B) more severe punishment if Company Zee is outside the United States
C) fines or imprisonment
D) nothing if it was Company Zee's first offense

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Product Liability
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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86) _____ 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

Answer: D
Explanation: 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, officially registered, by which merchants or manufacturers designate and differentiate their products.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

87) In common law, _____ refers to cases that have come before the courts in the past.
A) custom
B) precedent
C) codification
D) tradition

Answer: B
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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88) Judges in a(n) _____ system have the power to interpret the law so that it applies to the unique circumstances of an individual case.
A) civil law
B) international law
C) common law
D) theocratic law

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

89) The most widely practiced theocratic legal system in the modern world is
A) Christian.
B) Hindu.
C) Jewish.
D) Islamic.

Answer: D
Explanation: 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.
Difficulty: 1 Easy
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
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90) 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)

Answer: B
Explanation: 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.
Difficulty: 2 Medium
Topic: Laws Affecting International Business
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

91) A law system that is based on a detailed set of laws organized into codes is
A) municipal.
B) contract.
C) civil.
D) common

Answer: C
Explanation: 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.
Difficulty: 2 Medium
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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92) 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)

Answer: A
Explanation: 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.
Difficulty: 2 Medium
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Remember
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

93) 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

Answer: D
Explanation: 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.
Difficulty: 2 Medium
Topic: Country Risk Produced by Legal Systems
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: 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.
Difficulty: 3 Hard
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Evaluate
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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

Answer: 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 (i.e. businesses). 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, whereas the social democrats committed themselves to achieving socialism by democratic means, turning their backs on violent revolution and dictatorship. Both versions of socialism waxed and waned during the twentieth century. The communist version of socialism reached its high point in the late 1970s, when the majority of the world's population lived in communist states. By the mid-1990s, however, communism was in retreat worldwide. The Soviet Union had collapsed and had been replaced by a collection of 15 republics, many of which were at least nominally structured as democracies. Communism was swept out of Eastern Europe by the largely bloodless revolutions of 1989.
Difficulty: 3 Hard
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

96) What are state-owned companies? Why do they usually perform poorly?

Answer: 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.
Difficulty: 3 Hard
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: Individualism refers to a philosophy that an individual should have freedom in his or 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. Individualism is built on two central tenets. The first is an emphasis on the importance of guaranteeing individual freedom and self-expression. 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. The central message of individualism, therefore, is that individual economic and political freedoms are the ground rules on which a society should be based. Today, individualism translates into an advocacy for democratic political systems and free market economies.
Difficulty: 3 Hard
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: 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.
Difficulty: 3 Hard
Topic: Different Forms of Government
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Analyze
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Accessibility: Keyboard Navigation

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99) Compare and contrast the four forms of totalitarianism.

Answer: 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, frequently on the grounds that it would lead to the rise of communism.
Difficulty: 3 Hard
Topic: Differences in Political Systems
Learning Objective: 02-01 Understand how the political systems of countries differ.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: In the archetypal 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. In mixed economies, governments tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests.
Difficulty: 3 Hard
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Analyze
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101) Discuss why there is inefficiency in a monopoly situation. What is the role of the government in such a situation?

Answer: 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).
Difficulty: 3 Hard
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: 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-sales 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.
Difficulty: 3 Hard
Topic: Differences in Economic Systems
Learning Objective: 02-02 Understand how the economic systems of countries differ.
Bloom's: Apply
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103) What is a country's legal system? Why is it important to international businesses?

Answer: The legal system of a country refers to the rules, or laws, that regulate behavior along with the processes by which laws are enforced and through which redress for grievances is obtained. It is critical that international companies understand a country's legal system because its laws regulate business practice, define the manner in which business transactions are to be executed, and set down the rights and obligations of those involved in business transactions. The legal environments of countries differ in significant ways and can affect the attractiveness of a country as an investment site or market.
Difficulty: 3 Hard
Topic: Differences in Legal Systems
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: 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 a civil code.
Difficulty: 3 Hard
Topic: Civil Law, Common Law, and Theocratic Law
Learning Objective: 02-03 Understand how the legal systems of countries differ.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

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

Answer: 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.
Difficulty: 3 Hard
Topic: Property Rights and Intellectual Property Rights
Learning Objective: 02-03 Understand how the legal systems of countries differ.
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106) What factors contribute to the attractiveness of a country as a market or investment site

Answer: 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.
Difficulty: 3 Hard
Topic: Managing Political Risk and Differences
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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

Answer: 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.
Difficulty: 3 Hard
Topic: Country Risk Produced by Legal Systems
Learning Objective: 02-04 Explain the implications for management practice of national differences in political economy.
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