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International Business: Environments and Operations, 15e, Global Edition (Daniels et al.)

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Chapter 4 Economic Systems and Market Methods

Multiple Choice Questions: CIRCLE the LETTER of the one best answer according to the textbook:

- 1) The recent global economic crisis has led to which of the following?
 - A) governments seeking to impose more constraints on capitalism
 - B) governments seeking to eliminate constraints on capitalism
 - C) governments seeking to increase the interdependence of developing economies
 - D) governments seeking to eliminate the interdependence of developing economies

- 2) Which of the following is most likely a true statement about the global economy since the 1980s?
 - A) Socialist governments are intervening more in global exchanges.
 - B) Wealthy countries are exercising total control over emerging markets.
 - C) Developing countries are losing growing shares of their foreign-exchange reserves.
 - D) Emerging economies are adopting the principles and practices of free markets.

- 3) Kyle, an international manager for Apex Industries, has been given the task of analyzing the economies of three different emerging countries for the firm's potential expansion. Which of the following questions is LEAST relevant to Kyle's assignment?
 - A) How much freedom will Apex have to run its foreign operations?
 - B) What are the current economic policies related to development?
 - C) What is the likelihood that Apex can fill manufacturing positions with locals?
 - D) What factors in the country drive or hinder economic change?

- 4) Managers at Morrison Manufacturing are considering expanding the firm's production overseas and want to ensure that the firm is located in a country with a high degree of economic freedom. Presently, which of the following locations would most likely offer Morrison the highest economic freedom?
 - A) Bolivia
 - B) Hong Kong
 - C) Venezuela
 - D) North Korea

- 5) Since the late 1980s, the growing emergence of freer markets has been powered by the realization that _____.
 - A) economic growth is directly related to economic freedom
 - B) economic growth has a limited effect on the standard of living
 - C) adoption of free market principles contributes to social injustices
 - D) centrally planned economies are best designed to deliver progress

- 6) The Economic Freedom Index indicates that economic freedom is positively correlated with all of the following EXCEPT _____.
 - A) life expectancy
 - B) literacy
 - C) environmental sustainability
 - D) diversity

- 7) The recent global credit crisis has interrupted the trend of national economies _____.
- A) rapidly adopting the command market model
 - B) steadily adopting the free market model
 - C) moving from the mixed to the command model
 - D) turning away from the mixed model
- 8) History suggests that if the economic crisis worsens, we are likely to see more people question the _____.
- A) fall of communism
 - B) legitimacy of capitalism
 - C) practicality of mixed market economies
 - D) correlation between economic freedom and prosperity
- 9) According to research, which of the following countries is the strongest supporter of free markets?
- A) China
 - B) India
 - C) France
 - D) Ukraine
- 10) Which of the following is NOT a characteristic of capitalism?
- A) private ownership of assets
 - B) right to profit from individual effort
 - C) state control of factors of production
 - D) private control of investment
- 11) Communism primarily relies on a system of _____.
- A) private business ownership
 - B) competitive pricing and marketing
 - C) market-generated supply and demand
 - D) government controlled economic activity
- 12) In a market economy, the patterns of resource allocation are most directly influenced by _____.
- A) government administrators who monitor the equilibrium of supply and demand
 - B) industry coalitions that strive to improve the efficiency of production and service
 - C) consumer group alliances that negotiate with firms to improve product quality
 - D) consumers who "vote" by their personal decision to buy or not buy products
- 13) A system in which individuals, rather than the government, make the majority of economic decisions is commonly referred to as a _____.
- A) command economy
 - B) market economy
 - C) private economy
 - D) mixed economy

- 14) Market economies are primarily characterized by _____.
- A) formal cooperation among government, companies, and workers to achieve stable growth
 - B) heavy government spending and high taxation to pay for a range of social services
 - C) minimal governmental participation
 - D) restricted consumer powers
- 15) 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 planned by _____.
- A) government officials
 - B) private industries
 - C) individual entrepreneurs
 - D) local trade associations
- 16) In a command economy, _____.
- A) businesses and consumers are assumed to be the best judges of how resources should be allocated
 - B) the government sets goals and determines the price and quantity of what is produced
 - C) different economic sectors coordinate the activities of the federal government
 - D) each enterprise sets its goals before making reports to the central government
- 17) In Country X, all dimensions of economic activity, including pricing and production decisions, are determined by the central government. Which term best describes Country X?
- A) market economy
 - B) mixed economy
 - C) command economy
 - D) democratic economy
- 18) Which of the following is most typical of a command economy?
- A) Consumers have choices of many substitutes for any given product.
 - B) Quality of products and services tends to be consistent.
 - C) The prices of goods and services frequently change.
 - D) Many products are usually in short supply.
- 19) 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) state-directed
 - B) market
 - C) command
 - D) mixed
- 20) Some countries opt for a mixed economic system in the belief that although an economic system should aspire to achieve the efficiencies created by free markets, it must also support policies to _____.
- A) destabilize poverty rates
 - B) achieve low unemployment
 - C) restrict economic growth
 - D) inequitably distribute wealth

- 21) In the Economic Freedom Index, _____ exhibit high economic freedom whereas _____ exhibit little to no economic freedom.
- A) mixed economies; market economies
 - B) command economies; market economies
 - C) market economies; command economies
 - D) centrally planned economies; command economies
- 22) Which of the following countries is the best example of a mixed economic model?
- A) United States
 - B) France
 - C) United Kingdom
 - D) Australia
- 23) Country X is in the process of transforming from a command economy to a market economy. This process most likely involves _____.
- A) standardized procedures implemented by the state
 - B) high economic growth rates for the long-term
 - C) privatization of many factors of production
 - D) violent political and legal upheaval
- 24) In a country that practices state capitalism, all of the following are most likely to be handled by the state EXCEPT _____.
- A) leveraging control of the financial system
 - B) developing national corporations
 - C) supporting the local activities of foreign competitors
 - D) systematically managing trade relations
- 25) Gross national income (GNI), the broadest measure of economic activity for a country, is defined as the _____.
- A) total of all consumption and investment that takes place in a national economy
 - B) income generated in one country, regardless of who owns the productive assets
 - C) total of all economic activity in one country less services, such as government administration, health services, and education
 - D) income generated by both total domestic production and the international production activities of national companies
- 26) In computing GNI, the value of a Ford car that is manufactured in Mexico using capital from the United States would _____.
- A) be added to the GNI of the United States as well as to the GNI and GDP of Mexico
 - B) not be added to the GNI of the United States but would be added to the GNI of Mexico
 - C) only affect the computation of GDP and have no bearing on GNI
 - D) be added to the GNI of the United States but not the GNI of Mexico
- 27) The measure of the value of production that occurs within a country's borders without regard to whether the production is done by domestic or foreign factors of production is its _____.
- A) net national product (NNP)
 - B) gross national product (GNP)
 - C) gross domestic product (GDP)
 - D) gross national income (GNI)

28) To determine whether the standard of living within a country is rising or falling, economists would most likely use which of the following measures?

- A) per capita GNI
- B) GNI growth rate
- C) purchasing power parity
- D) degree of human development

29) Eileen, a manager at an international restaurant chain, wants to know if it will be most cost effective to buy 1,000 pounds of sugar in Country X or in Country Y using U.S. dollars. Which of the following is Eileen most likely trying to determine?

- A) purchasing power parity
- B) economic growth rate
- C) gross domestic income
- D) gross national product

30) The United Nations' _____ measures life expectancy, educational attainment, and the standard of living in a given country.

- A) Human Development Index
- B) Emerging Economic Stability
- C) Genuine Progress Indicator
- D) Net National Product

31) The Human Development Index measures the average achievements in a country on three basic dimensions of human development, including _____.

- A) promotion of cultural values
- B) quantity of free time
- C) extent of knowledge
- D) sustainability

32) The _____ starts with the same accounting framework used to calculate GDP but then adjusts for values assigned to environmental quality, population health, livelihood security, equity, free time, and educational attainment.

- A) Gross National Index
- B) Net National Product
- C) Genuine Progress Indicator
- D) Human Development Index

33) _____ is a general, sustained rise in prices measured against a standard level of purchasing power.

- A) Deflation
- B) Inflation
- C) Expansion
- D) Reflation

34) What is the most likely reason that a universal scheme for assessing the performance and potential of a country's economic environment does NOT exist?

- A) difficulties of identifying a definitive set of predictive economic indicators
- B) a lack of reliable economic data from most developed economies
- C) the isolation of most markets from each other
- D) static nature of the marketplace

- 35) A worrisome outcome of chronic inflation is that it tends to _____.
- A) erode confidence in a country's currency
 - B) give central banking officials excessive flexibility to manage monetary policy
 - C) increase the real income of people, thereby inflating their spending and borrowing levels
 - D) lower consumer demand for foreign goods, which triggers lower prices and eventually lower employment
- 36) In most cases, governments _____ in order to regulate inflation.
- A) lower interest rates
 - B) increase taxes
 - C) raise interest rates
 - D) decrease taxes
- 37) _____ typically results when demand decreases and supply increases.
- A) Inflation
 - B) Chronic inflation
 - C) Reflation
 - D) Deflation
- 38) In the U.S., the unemployment rate indicates the _____.
- A) percentage of the labor force that wants to work full-time but can only find part-time employment
 - B) number of people who have stopped looking for work because full-time jobs are unavailable
 - C) percentage of unemployed workers seeking paid work relative to the total labor force
 - D) number of workers eligible for government services and unemployment benefits
- 39) The so-called "misery index" is the sum of a country's _____.
- A) foreign and national debt
 - B) inflation and unemployment rates
 - C) unemployment level and total debt
 - D) trade deficit and long-term inflation rate
- 40) A government increases its internal debt for all of the following reasons EXCEPT _____.
- A) the tax system is so poorly run that the government cannot collect all the revenues it expects
 - B) government costs such as security and social programs exceed total tax revenues
 - C) the government borrows money from international financial institutions
 - D) state-owned enterprises run large deficits
- 41) Country X has a significant amount of external debt. Which of the following is the most likely cause?
- A) The government of Country X borrowed money from local banks.
 - B) The government of Country X borrowed money from other governments.
 - C) The government of Country X spent more than it collected in revenues.
 - D) The government of Country X received short-term credits from selling bonds.

- 42) Uneven income distribution _____.
- A) exists in almost every country
 - B) is largely a problem for poorer nations
 - C) primarily affects people in urban settings
 - D) is limited to a small share of the world population
- 43) Which of the following is most likely a FALSE statement about income inequality?
- A) The richest 1% of the world's population claims as much income as the bottom 57%.
 - B) GNI is the most effective tool for estimating the relative wealth of a nation's citizens.
 - C) Among industrialized nations, the U.S. has the largest inequality gap between rich and poor.
 - D) Income inequality between metropolitan and rural areas threatens a country's social stability.
- 44) The World Bank reports that approximately _____ percent of the world's population is poor.
- A) 50
 - B) 33
 - C) 80
 - D) 95
- 45) The Gini coefficient estimates a country's _____.
- A) gross national product
 - B) economic development
 - C) political and legal risk
 - D) income inequality
- 46) The _____ view calls for companies to develop low-cost, high-powered, resource-minimizing innovations that can be marketed to the billions of people living on less than a few dollars a day.
- A) Base of the Pyramid
 - B) Hierarchy of Needs
 - C) Happy Planet Index
 - D) Gini coefficient
- 47) Which of the following is a statement that summarizes all economic transactions between a country and the rest of the world during a given period of time?
- A) trade deficit
 - B) Gini coefficient
 - C) balance of payments
 - D) purchasing power parity
- 48) The two main categories in the balance of payments are the _____.
- A) merchandise exchange account and the services account
 - B) external debt and the unilateral transfers account
 - C) merchandise trade account and the capital account
 - D) current account and the capital account
- 49) In a country's balance of payments, the _____ tracks all trade activity in merchandise.
- A) capital account
 - B) current account
 - C) payment account
 - D) deficit account

- 50) An economic system is the set of structures and processes that _____ in a country.
- A) guides the allocation of resources and shapes the conduct of business activities
 - B) directs the movement of specific products to specific consumers
 - C) sets the standards of competitive success for companies in the economy
 - D) stipulates the roles and responsibilities of consumers
- 51) Pender Pharmaceuticals is considering expanding overseas and is focusing primarily on the BRICs. Which of the following countries is one that Pender is considering?
- A) Indonesia
 - B) Chile
 - C) Russia
 - D) Bangladesh
- 52) Taylor Enterprises wants to expand its operations into Asia. Managers are focusing on countries with high degrees of economic freedom most likely because the firm is interested in a country with _____.
- A) minimal government intervention
 - B) standardized minimum wages
 - C) laws favoring sustainability
 - D) state-run corporations
- 53) Tatum Manufacturing recently opened a new facility in Hong Kong. The firm can most likely expect the Hong Kong government to _____.
- A) monitor market prices
 - B) control natural resources
 - C) ensure fair competition
 - D) provide innovation incentives
- 54) Presently, which of the following countries is best characterized as a pure example of a command economy?
- A) Russia
 - B) North Korea
 - C) China
 - D) Vietnam
- 55) A firm with operations in Denmark can most likely expect all of the following EXCEPT _____.
- A) high taxes
 - B) significant regulation
 - C) tough job-protection laws
 - D) minimal monetary policies
- 56) According to the concept of green economics, measuring a country's economic performance should also take into account _____.
- A) market share
 - B) population size
 - C) ecological costs
 - D) cost-of-living increases

57) Which of the following calls for economic activity that meets present needs without hindering the future needs of society?

- A) privatization
- B) state capitalism
- C) economic freedom
- D) sustainable development

58) Which of the following ideas calls for assessing a country's performance based on factors such as life expectancy, leisure time, and income equality?

- A) microeconomics
- B) happynomics
- C) macroeconomics
- D) green economics

59) During a time of reflation, the government is most likely to _____.

- A) lower taxes
- B) print money
- C) reduce interest rates
- D) support infrastructure

60) Which of the following governmental actions is LEAST likely to increase national debt?

- A) macroeconomic stimulus plans
- B) unemployment benefits
- C) corporate bailouts
- D) T-bond (Treasury-bond) sales

Short Answer Questions:

61) What is gross national income? How is it calculated? Illustrate your answer with a specific example.

Learning Outcome: Define the fundamental concepts of international business

62) What general characteristics of a country should managers consider when analyzing an economic environment? What specific indicators help managers measure the economic development, performance, and potential of a country?

Learning Outcome: Define the fundamental concepts of international business

63) What is inflation? How does inflation affect international business?

Learning Outcome: Define the fundamental concepts of international business

64) Describe the three ways economies can be categorized. Which one do you believe is best? Why?

Learning Outcome: Discuss arguments for and against government intervention in international business

65) What is meant by the idea of economic freedom? What factors are used in the Economic Freedom Index? For managers, what role does the Economic Freedom Index play in analyzing the potential of a country?

Learning Outcome: Define the fundamental concepts of international business

66) What is state capitalism? Why do you think state capitalism is becoming increasingly popular around the world?

Learning Outcome: Discuss arguments for and against government intervention in international business

67) What is the difference between a developing country and a developed country? What significant trends are occurring in each type of market that relate to international business decisions?

Learning Outcome: Describe how differences in political economy influence economic development

68) What issues complicate international economic analysis? Briefly describe how they complicate analysis?

Learning Outcome: Define the fundamental concepts of international business

69) What is the difference between a command economy and state capitalism?

Learning Outcome: Discuss arguments for and against government intervention in international business

70) Why is economic freedom an important factor to consider when analyzing a country's economic development, performance, and potential?

Learning Outcome: Describe how differences in political economy influence economic