**Chapter 1—Multinational Financial Management: An Overview**

1. The commonly accepted goal of the MNC is to:

|  |  |
| --- | --- |
| a. | maximize short-term earnings. |
| b. | maximize shareholder wealth. |
| c. | minimize risk. |
| d. | A and C. |
| e. | maximize international sales. |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

2. With regard to corporate goals, an MNC is mostly concerned with maximizing \_\_\_\_, and a purely domestic Company is mostly concerned with maximizing \_\_\_\_.

|  |  |
| --- | --- |
| a. | shareholder wealth; short-term earnings |
| b. | shareholder wealth; shareholder wealth |
| c. | short-term earnings; sales volume |
| d. | short-term earnings; shareholder wealth |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

3. For the MNC, agency costs are typically:

|  |  |
| --- | --- |
| a. | non-existent. |
| b. | larger than agency costs of a small purely domestic Company. |
| c. | smaller than agency costs of a small purely domestic Company. |
| d. | the same as agency costs of a small purely domestic Company. |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

4. Which of the following could reduce agency problems for an MNC?

|  |  |
| --- | --- |
| a. | stock options as managerial compensation. |
| b. | hostile takeover threat. |
| c. | investor monitoring. |
| d. | all of the above are forms of corporate control that could reduce agency problems for an MNC. |

ANS: D PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

5. The valuation of an MNC should rise when an event causes the expected cash flows from foreign to \_\_\_\_ and when foreign currencies denominating these cash flows are expected to \_\_\_\_.

|  |  |
| --- | --- |
| a. | decrease; appreciate |
| b. | increase; appreciate |
| c. | decrease; depreciate |
| d. | increase; depreciate |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

6. Which of the following theories identifies specialization as a reason for international business?

|  |  |
| --- | --- |
| a. | theory of comparative advantage. |
| b. | imperfect markets theory. |
| c. | product cycle theory. |
| d. | none of the above |

ANS: A PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

7. Which of the following theories identifies the non-transferability of resources as a reason for international business?

|  |  |
| --- | --- |
| a. | theory of comparative advantage. |
| b. | imperfect markets theory. |
| c. | product cycle theory. |
| d. | none of the above |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

8. Which of the following theories suggests that Companies seek to penetrate new markets over time?

|  |  |
| --- | --- |
| a. | theory of comparative advantage. |
| b. | imperfect markets theory. |
| c. | product cycle theory. |
| d. | none of the above |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

9. Which of the following industries would most likely take advantage of lower costs in some less developed foreign countries?

|  |  |
| --- | --- |
| a. | assembly line production. |
| b. | specialized professional services. |
| c. | nuclear missile planning. |
| d. | planning for more sophisticated computer technology. |

ANS: A PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

10. Due to the risks involved in international business, Companies should:

|  |  |
| --- | --- |
| a. | only consider international business in major countries. |
| b. | maintain international business to no more than 20% of total business. |
| c. | maintain international business to no more than 35% of total business. |
| d. | none of the above |

ANS: D PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

11. A product cycle is the process by which a Company provides a specialized sales or service strategy, support assistance, and possibly an initial investment in the franchise in exchange for periodic fees.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

12. Licensing is the process by which a Company provides its technology (copyrights, patents, trademarks, or trade names) in exchange for fees or some other specified benefits.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

13. The agency costs of an MNC are likely to be lower if it:

|  |  |
| --- | --- |
| a. | scatters its subsidiaries across many foreign countries. |
| b. | increases its volume of international business. |
| c. | uses a centralized management style. |
| d. | A and B. |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

14. An MNC may be more exposed to agency problems if most of its shares are held by:

|  |  |
| --- | --- |
| a. | a few mutual funds |
| b. | a widely dispersed set of individual investors |
| c. | a few pension funds |
| d. | all of the above would prevent agency problems |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

15. The Sarbanes-Oxley Act improves corporate governance of MNCs because it:

|  |  |
| --- | --- |
| a. | makes executives more accountable for verifying financial statements |
| b. | eliminates stock options as a form of compensation |
| c. | ties executive compensation to Company performance |
| d. | places a limit on the amount of funds that managers can spend |

ANS: A PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

16. MNCs can improve their internal control process by all of the following, except:

|  |  |
| --- | --- |
| a. | establishing a centralized data base of information |
| b. | ensuring that all data are reported consistently among subsidiaries |
| c. | ensuring that the MNC always borrows from countries where interest rates are lowest |
| d. | using a system that checks internal data for unusual discrepancies |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

17. Franchising is the process by which national governments sell state owned operations to corporations and other investors.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

18. The parent of MNC can implement compensation plans that directly reward the subsidiary managers for enhancing the value of the MNC.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

19. If a publicly-traded MNC's managers make poor decisions that reduce its value, it may encourage other Companies to acquire it.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

20. Institutional investors such as mutual funds or pension funds which have large holdings of an MNC's stock do not normally want to take control of it and therefore have no influence over management of the MNC.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

21. In comparing exporting to direct foreign investment (DFI), an exporting operation will likely incur \_\_\_\_ fixed production costs and \_\_\_\_ transportation costs than DFI.

|  |  |
| --- | --- |
| a. | higher; higher |
| b. | higher; lower |
| c. | lower; lower |
| d. | lower; higher |

ANS: D PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

22. Which of the following is an example of direct foreign investment?

|  |  |
| --- | --- |
| a. | exporting to a country. |
| b. | establishing licensing arrangements in a country. |
| c. | purchasing existing companies in a country. |
| d. | investing directly (without brokers) in foreign stocks. |

ANS: C PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

23. According to the text, a disadvantage of licensing is that:

|  |  |
| --- | --- |
| a. | it prevents a Company from importing. |
| b. | it is difficult to ensure quality control of the production process. |
| c. | it prevents a Company from exporting. |
| d. | none of the above |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

24. \_\_\_\_ are most commonly classified as a direct foreign investment.

|  |  |
| --- | --- |
| a. | Foreign acquisitions |
| b. | Purchases of international stocks |
| c. | Licensing agreements |
| d. | Exporting transactions |

ANS: A PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

25. Imperfect markets represent conditions under which factors of production are immobile.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

26. The Sarbanes-Oxley Act (SOX) was enacted in 2002 required MNCs and other Companies to implement an internal reporting process that could be easily monitored by executives and the board of directors.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

27. If markets were perfect, then labor and other costs of production would be perfectly stable (no movement across borders).

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

28. The valuation of an MNC is reduced if the required return on its investments in foreign countries is reduced.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

29. Which of the following is not mentioned in the text as an additional risk resulting from international business?

|  |  |
| --- | --- |
| a. | exchange rate fluctuations. |
| b. | political risk. |
| c. | interest rate risk. |
| d. | exposure to foreign economies. |

ANS: C PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

30. Licensing obligates a Company to provide \_\_\_\_, while franchising obligates a Company to provide \_\_\_\_.

|  |  |
| --- | --- |
| a. | a specialized sales or service strategy; its technology |
| b. | its technology; a specialized sales or service strategy |
| c. | its technology; its technology |
| d. | a specialized sales or service strategy; a specialized sales or service strategy |
| e. | its technology; an initial investment |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

31. Which of the following is not a way in which agency problems can be reduced through corporate control?

|  |  |
| --- | --- |
| a. | executive compensation. |
| b. | threat of hostile takeover. |
| c. | acquisition of a foreign subsidiary. |
| d. | monitoring by large shareholders. |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

32. The goal of a multinational corporation (MNC) is the maximization of shareholder wealth.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

33. A centralized management style, where major decisions about a foreign subsidiary are made by the parent company, results in an increase in agency costs.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

34. If an Australia Company sets up a plant in Indonesia to benefit from low cost labor, it will likely have a comparative advantage over other Companies in Indonesia that sell the same product.

a. True

b. False

ANS: F PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

35. Although MNCs may need to convert currencies occasionally, they do not face any exchange rate risk, as exchange rates are stable over time.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

36. One of the most prevalent factors conflicting with the realization of the goal of an MNC is the existence of agency problems.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

37. A centralized management style for an MNC results in relatively high agency costs.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

38. The imperfect markets theory states that factors of production are somewhat immobile, allowing Companies to capitalize on a foreign country's resources.

a. True

b. False

ANS: T PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

39. If an Australia-based MNC focused completely on importing, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

a. True

b. False

ANS: T PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

40. The acquisition of a foreign subsidiary is commonly considered by MNCs because the cost is less expensive than establishing a new subsidiary of the same size.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

41. If an Australia-based MNC focused completely on exporting, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

a. True

b. False

ANS: F PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

42. If markets were perfect, then labor and other costs of production would be easily transferable.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

43. International trade:

|  |  |
| --- | --- |
| a. | is a relatively conservative approach to foreign market penetration. |
| b. | entails minimal risk. |
| c. | does not require large amount of investment. |
| d. | all of the above. |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

44. Assume that an Australian Company wants to engage in international business without major investment in the foreign country. Which method is least appropriate in this situation?

|  |  |
| --- | --- |
| a. | International Trade |
| b. | Licensing |
| c. | Franchising |
| d. | Direct foreign investment |

ANS: D PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

45. The valuation of MNC accounts for all the cash flows received by the foreign subsidiaries plus all the cash flows remitted by the subsidiaries.

a. True

b. False

ANS: F PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

46. The MNC's value depends on all of the following, except:

|  |  |
| --- | --- |
| a. | MNC's required rate of return |
| b. | Amount of MNC's cash flows in particular currency |
| c. | The exchange rate at which cash flows are converted to dollars |
| d. | The value of MNC depends on all of the above factors |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

47. Which of the following is not an example of political risk?

|  |  |
| --- | --- |
| a. | Government may impose taxes on subsidiary |
| b. | Government may impose barriers on subsidiary |
| c. | Consumers may boycott the MNC |
| d. | Consumers' income levels will decrease, thus decreasing consumption. |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

48. A microeconomic perspective focuses on external forces such as economic conditions that can affect the value of an MNC.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.05.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

49. Assume that an MNC has a subsidiary in Italy, which exports its products to various countries in Europe. Since all of the countries where it exports use Euro as their currency, this MNC is not subject to the exchange rate risk.

a. True

b. False

ANS: F PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

50. International trade generally results in \_\_\_\_ exposure to international political risk and \_\_\_\_ exposure to international economic conditions, when compared to other methods of international business.

|  |  |
| --- | --- |
| a. | higher; lower |
| b. | higher; higher |
| c. | lower; higher |
| d. | lower; lower |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

51. Assume that Boca Co. wants to expand its business to Japan, and wants complete control over the operations in Japan. Which method of international business is most appropriate for Boca Co?

|  |  |
| --- | --- |
| a. | Joint venture |
| b. | Licensing |
| c. | Partial acquisition of existing Japanese Company |
| d. | Establishment of Japanese subsidiary |

ANS: B PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

52. A decentralized management style of MNC results in relatively high agency costs.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

53. The establishment of a new subsidiary is commonly considered by MNCs because the cost is less expensive than acquiring a foreign subsidiary of the same size.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

54. Assume that Live Co. has expected cash flows of $200,000 from domestic operations, SF200,000 from Swiss operations, and 150,000 euros from Italian operations at the end of the year. The Swiss franc's value and euro's value are expected to be $.83 and $1.29 respectively, at the end this year. What are the expected dollar cash flows of Live Co?

|  |  |
| --- | --- |
| a. | $200,000 |
| b. | $559,500 |
| c. | $582,500 |
| d. | $393,500 |

ANS: B PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

55. Saller Co. has a subsidiary in Mexico. The expected cash flows in pesos to be received in the future from this subsidiary have not changed since last month, but the valuation of Saller Co. has declined since last month. What could've caused this decline in value?

|  |  |
| --- | --- |
| a. | A weaker Mexican economy |
| b. | Lower Mexican interest rates |
| c. | Depreciation of the Mexican peso |
| d. | Appreciation of the Mexican peso. |

ANS: C PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

56. Arrow Computers wants to establish a new subsidiary in Indonesia that will sell computers to Indonesian customers and remit earnings back to the Australian parent. The value of this project will be favorably affected if the value of the rupiah \_\_\_\_ while it establishes the new subsidiary and \_\_\_\_ when the subsidiary starts operations.

|  |  |
| --- | --- |
| a. | depreciates; appreciates |
| b. | appreciates; appreciates |
| c. | appreciates; depreciates |
| d. | depreciates; depreciates |

ANS: A PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

57. A macroeconomic perspective focuses on the financial management decisions that affect the value of MNC.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.05.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

58. An MNC will always use the same required rate of return in the valuation of foreign projects, as it would for its domestic projects.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

59. Livingston Co. has a subsidiary in Korea. The subsidiary reinvests half of its net cash flows into operations and remits half to the parent. Livingston's expected cash flows from domestic business are $100,000 and the Korean subsidiary is expected to generate 100 million Korean won at the end of the year. The expected value of won is $.0012. What are the expected dollar cash flows of Livingston Co.?

|  |  |
| --- | --- |
| a. | $100,000 |
| b. | $200,000 |
| c. | $160,000 |
| d. | $60,000 |

ANS: C PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

60. An Australia-based MNC has many foreign subsidiaries in Europe and does not expect to increase its investment there. Its value should increase if the value of the euro weakens over time.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Application

61. If managers of foreign subsidiaries make decisions that maximize the values of their respective subsidiaries, they automatically maximize the value of the entire corporation.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

62. A decentralized management style, where subsidiary managers make the relevant decisions regarding their subsidiary, may result in better decision making, as subsidiary managers are generally better informed about their subsidiary's operations.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

63. U.S.-based MNCs are typically not monitored by mutual funds and pension funds, as these institutions rarely hold stock in MNCs.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

64. The Sarbanes-Oxley Act ensures a more transparent process for managers to report on the productivity and financial condition of their Company.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

65. The Theory of Comparative Advantage begins by assuming that a given Company first becomes established in its home country and may subsequently penetrate foreign markets via geographic or product differentiation.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

66. Under the Imperfect Markets Theory, it is assumed that factors of production are entirely mobile, so that Companies can capitalize on a foreign country's resources.

a. True

b. False

ANS: F PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

67. Under the Product Cycle Theory, foreign demand can be initially satisfied by exporting.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

68. Licensing allows Companies to use their technology in foreign markets without a major investment in foreign countries.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

69. International trade is the most common form of direct foreign investment (DFI).

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

70. When the parent's home currency is weak, remitted funds from foreign subsidiaries will convert to a smaller amount of the home currency.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Comprehension

71. A purely domestic Company may be affected by exchange rate fluctuations if it faces at least some foreign competition.

a. True

b. False

ANS: T PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

72. One form of an exposure to political risk is terrorism.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

73. The goal of a multinational corporation (MNC) is

|  |  |
| --- | --- |
| a. | The minimization of taxes remitted from foreign subsidiaries. |
| b. | The establishment of subsidiaries in any country where operations would provide a return over and above the cost of capital, even if better projects are available domestically. |
| c. | The maximization of shareholder wealth. |
| d. | The maximization of social benefits resulting from actions such as the employment of foreign managers. |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

74. Agency costs faced by multinational corporations (MNCs) may be larger than those faced by purely domestic Companies because

|  |  |
| --- | --- |
| a. | Monitoring of managers located in foreign countries is more difficult. |
| b. | Foreign subsidiary managers raised in different cultures may not follow uniform goals. |
| c. | MNCs are relatively large. |
| d. | All of the above |
| e. | A and B only |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

75. Which of the following is not one of the more common methods used by MNCs to improve their internal control process?

|  |  |
| --- | --- |
| a. | Establishing a centralized database of information |
| b. | Ensuring that all data are reported consistently among subsidiaries |
| c. | Speeding the process by which all departments and all subsidiaries have access to the data that they need |
| d. | Making executives more accountable for financial statements by personally verifying their accuracy |
| e. | All of the above are common methods used by MNCs to improve their internal control process. |

ANS: E PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.01

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

76. Which of the following is not mentioned in the text as a theory of international business?

|  |  |
| --- | --- |
| a. | Theory of Comparative Advantage |
| b. | Imperfect Markets Theory |
| c. | Product Cycle Theory |
| d. | Globalization of Business Theory |
| e. | All of the above are mentioned in the text as theories of international business |

ANS: D PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.02

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

77. The most risky method(s) by which Companies conduct international business is (are):

|  |  |
| --- | --- |
| a. | Franchising. |
| b. | The acquisitions of existing operations. |
| c. | The establishment of new subsidiaries. |
| d. | All of the above |
| e. | B and C only |

ANS: E PTS: 1 DIF: Moderate OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

78. The least risky method by which Companies conduct international business is:

|  |  |
| --- | --- |
| a. | Franchising. |
| b. | The acquisitions of existing operations. |
| c. | International Trade. |
| d. | The establishment of new subsidiaries. |
| e. | Licensing |

ANS: C PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

79. Which of the following does not constitute a form of direct foreign investment?

|  |  |
| --- | --- |
| a. | Franchising |
| b. | International trade |
| c. | Joint ventures |
| d. | Acquisitions of existing operations |
| e. | Establishment of new foreign subsidiaries |

ANS: B PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.03

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

80. This conflict of goals between a company’s managers and shareholders is often referred to as the agency problem.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

81. Comparative advantages do not allow companies to penetrate foreign markets.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

82. According to product cycle theory, companies become established in the home market as a result of some perceived advantage over existing competitors, such as a need by the market for at least one more supplier of the product.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

83. Licensing is an arrangement whereby one company provides its technology in exchange for fees or other considerations.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

84. Franchising is a business relationship in which one business is allowed to use the established brand of another business and to sell its products and/ or services for a fixed period of time.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

85. Joint venture is a business relationship in which one business is allowed to use the established brand of another business and to sell its products and/ or services for a fixed period of time.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

86. Joint venture is a business entity which is jointly owned and operated by two or more companies.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

87. The term country risk is commonly used to reflect an MNC’s exposure to a variety of country conditions, including political actions such as friction within the government, government policies, and financial conditions within that country.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

88. If the foreign currencies to be received by an Australia-based MNC suddenly weaken against the dollar, then the MNC will receive a higher amount of dollar cash flows than expected.

a. True

b. False

ANS: F PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

89. If there is suddenly more uncertainty about an MNC’s future cash flows, then investors will expect to receive a higher rate of return.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge

90. Subprime mortgage is a type of loan that is normally granted to individuals with poor credit histories.

a. True

b. False

ANS: T PTS: 1 DIF: Easy OBJ: INFM.MADU.15.01.04

NAT: BUSPROG.INFM .MADU.15.03 STA: DISC.INFM.MADU.15.02

KEY: Bloom's: Knowledge