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Chapter 02 - Understanding Formal Institutions: Politics, Laws, and Economics

1. Institutional framework pertains only to a firm's behavior.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Understanding Institutions
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Environmental Influence
KEYWORDS:	Bloom's: Remember
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2. An institutional framework is made up of formal and informal institutions governing individual and firm behavior.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Understanding Institutions
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Legal Responsibilities
KEYWORDS:	Bloom's: Remember
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3. The laws of a country are part of the formal institution.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Understanding Institutions
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS:	United States - BUSPROG: Analytic
STATE STANDARDS:	United States - AK - DISC: Legal Responsibilities

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KEYWORDS: Bloom's: Remember
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4. The regulatory pillar supports both informal and formal institutions.
   a. True
   b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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5. The normative pillar supports informal institutions.
   a. True
   b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
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6. The values and beliefs of a culture are examples of a formal institution.
   a. True
   b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: True / False
HAS VARIABLES: False

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7. The cognitive pillar is the coercive power of governments.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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8. *Force majeure* is a method of interpreting a statute by understanding the legislative history leading up to the adoption of that statute.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: What Do Institutions Do?
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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9. Disabling formal institutions does not affect transaction costs.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy

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REFERENCES: What Do Institutions Do?
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
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10. Opportunism is a source of transaction costs.
    a. True
    b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: What Do Institutions Do?
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Strategy
KEYWORDS: Bloom's: Understand
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11. Transition economies have static institutions.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: What Do Institutions Do?
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Strategy
KEYWORDS: Bloom's: Understand
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12. According to the institution-based view, managers and firms make choices outside institutional constraints.
    a. True
    b. False

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ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Remember
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13. Proposition 1 of the institution-based view specifically concerns bounded rationality.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Diversity
STATE STANDARDS: United States - AK - DISC: Environmental Influence
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14. Economic systems are examples of formal institutions.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
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15. Right-wing totalitarianism refers to the monopolization of power in the hands of a communist party.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Political Systems
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-03 - LO: 02-03
NATIONAL STANDARDS:	United States - BUSPROG: Analytic
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KEYWORDS:	Bloom's: Remember
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16. Theocratic totalitarianism refers to the monopolization of political power in the hands of one religious party.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Political Systems
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-03 - LO: 02-03
NATIONAL STANDARDS:	United States - BUSPROG: Analytic
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KEYWORDS:	Bloom's: Remember
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17. Totalitarian countries have less political risk than democratic ones.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Difficulty: Easy
REFERENCES:	Political Systems
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	GLOB.PENG.05.02-03 - LO: 02-03
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18. Firms operating in democracies never confront political risk.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Political Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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19. Civil law uses comprehensive statutes and codes as a primary means to form legal judgments.
    a. True
    b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
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20. The common law tradition is mostly spread in non-English speaking countries.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04

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21. Civil law has more flexibility than common law.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Analyze
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22. Islamic law is the only surviving example of a theocratic legal system that is formally practiced by some existing governments.
    a. True
    b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Apply
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23. In the United States, only 1% of the land is formally registered.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems

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QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Operations Management
KEYWORDS: Bloom's: Remember
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24. Patents are exclusive rights of firms to use specific names and brands.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Remember
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25. Trademarks are legal rights awarded by government authorities to inventors of new products or processes.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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26. Intellectual property rights need to be asserted through a formal system to both provide incentive for innovation and to punish violators.
    a. True
    b. False
ANSWER: True

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POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Remember
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27. Intellectual property rights are enforced though the informal institution system.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
NATIONAL STANDARDS: United States - BUSPROG: Analytic - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Understand
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28. A copyright is an example of an intellectual property.
    a. True
    b. False
ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Creation of Value
KEYWORDS: Bloom's: Apply
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29. In a pure market economy, the government only performs functions that the private sector cannot do.

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a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Analyze
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30. In a command economy, all factors of production are government-owned or state-owned.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
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31. A mixed economy has elements of both a market economy and a command economy.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
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32. All Western countries practice the absolute *laissez-faire* philosophy in trade.
    a. True
    b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Remember
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33. In private ownership, liquidation of a firm is forced by competition.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Debates and Extensions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Environmental Influence
KEYWORDS: Bloom's: Analyze
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34. The cultural school of thought in economic development suggests that rich countries tend to be endowed with natural resources.
    a. True
    b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic

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35. The Washington Consensus emphasizes using government intervention over state ownership in business.
    a. True
    b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
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KEYWORDS: Bloom's: Analyze
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36. The main supportive pillars of the informal institutions are _____.
    a. normative and cognitive
    b. regulatory and normative
    c. regulatory, normative, and cognitive
    d. cognitive and regulatory
ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Analyze
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37. In which of the following ways do formal institutions regulate trade?
    a. By inducing uncodified ethical beliefs into society
    b. By putting faith in individuals to expose perceived wrong doings
    c. By allowing the cultural beliefs of a society to dictate the terms of trade
    d. By imposing laws that make certain trades unacceptable
ANSWER: d

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POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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38. What type of institution is represented by laws, regulations, and rules?
    a. Normative
    b. Sociocultural
    c. Cognitive
    d. Formal

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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39. Which pillar refers to the coercive power of governments?
    a. Normative
    b. Regulatory
    c. Cognitive
    d. Informal

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Remember

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40. Which of the following would be considered an example of informal institutions?
    a. Laws
    b. Regulations
    c. Ethics
    d. Rules
ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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41. Which of the following would be considered an example of formal institutions?
    a. Laws
    b. Norms
    c. Cultures
    d. Ethics
ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
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42. Which pillar refers to the internalized, taken for granted values and beliefs that guide individual and firm behavior?
    a. Normative
    b. Regulatory
    c. Cognitive
    d. Formal
ANSWER: c

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POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
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43. In which of the following examples can the role of the cognitive pillar be identified?
    a. A firm being exposed after one of its employees turned whistleblower
    b. A firm being punished for corporate espionage by the courts
    c. A firm not being able to sell a certain product in a country due to the prevalent cultural beliefs
    d. A firm outsourcing its jobs

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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44. The key role of institutions is to do what in business transactions?
    a. Reduce uncertainty
    b. Increase normative limits
    c. Increase opportunism
    d. Reduce resource costs

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: What Do Institutions Do?
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Analyze

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45. What long-standing legal doctrine excuses firms from living up to the terms of a deal in the event of natural disasters or other calamities?

a. *De minimis*
b. *Nolo contendere*
c. *Force majeure*
d. *Travaux préparatoires*

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: What Do Institutions Do?
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
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46. Which of the following would be an example of a *force majeure* defense for a seller?

a. If the seller decides to stop delivery out of fear of nonpayment
b. If the customer has already accepted nonconforming goods
c. If the goods to be delivered are destroyed in an earthquake
d. If the seller places warranties on the goods

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: What Do Institutions Do?
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
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47. Which view focuses on the dynamic interactions between the laws, cultures and ethics of a country and a firm, and considers firm behaviors as the outcome of such an interaction?

a. Internal strength-based
b. Competency-based
c. Institution-based
d. Resource-based

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ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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48. Which of the following is a proposition of the institution-based view?
    a. Decisions based on bounded rationality should be avoided.
    b. Dependency on informal constraints will always increase the political risks associated with a firm.
    c. When formal constraints are unclear, informal constraints will play a larger role in reducing uncertainty and providing constancy to managers and firms.
    d. Informal constraints always increases transaction costs for the firm.

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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49. A fundamental aspect of what political system is that it effectively conducts global business by providing an individual the right to freedom of expression and organization?
    a. Communist totalitarianism
    b. Right-wing totalitarianism
    c. Democracy
    d. Theocracy

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Political Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03

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50. Which of the following is a feature of right-wing totalitarianism?
    a. It does not curtail an individual's right to freedom of expression and organization.
    b. It concentrates power in the hands of one or more religious groups.
    c. It bases its economic policies on communist ideologies.
    d. It does not allow room for political freedom.

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Political Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03
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51. Which of the following is true of the civil law system?
    a. It is the most widely distributed legal system around the world.
    b. It originated in England, and was then spread as the legal system for all its former colonies.
    c. It is shaped by precedents and traditions from previous judicial decisions.
    d. It allows judges to interpret the law before making judicial decisions.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Remember
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52. Which of the following is true of the common law system?
    a. It is the oldest legal system in the world.
    b. It has spread to many English-speaking countries and their (former) colonies.

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c. It bases its legal judgment primarily on the dominant religion of the country.
d. It does not allow interpretations of the law by judges.

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
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53. What type of law refers to a legal system based on religious teachings?
a. Common law
b. Theocratic law
c. Civil law
d. Right-wing totalitarian law

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
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54. Intellectual property specifically refers to which type of property?
a. Tangible
b. Intangible
c. Real
d. Moveable

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
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55. Which of the following is an example of an intellectual property?
    a. Home
    b. Scientist's laboratory
    c. Office
    d. Website

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
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56. Legal rights awarded by government authorities to inventors of new products are _____.
    a. copyrights
    b. patents
    c. trade secrets
    d. trademarks

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
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57. Exclusive legal rights of authors and publishers to publish and disseminate their work are _____.
    a. patents
    b. trademarks

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c. copyrights
d. trade secrets

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
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58. Exclusive legal rights of firms to use specific names, brands, and designs to differentiate their products from others are _____.

a. patents
b. trademarks
c. copyrights
d. trade secrets

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
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59. An example of intellectual property rights is rights associated with ownership of _____.

a. vehicles
b. trademarks
c. buildings
d. business contracts

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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60. Intellectual property rights need to be enforced through a formal system in order to _____.
    a. create IP rights that adhered to the norms of individual countries
    b. force firms to enforce IP rights through an informal system
    c. make sure that firms follow theocratic laws
    d. encourage firms to innovate while strictly adhering to IPR guidelines

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Legal Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-05 - LO: 02-05
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61. Which of the following economies would be characterized as having a *laissez faire* policy?
    a. Pure market economy
    b. Mixed economy
    c. Command economy
    d. Socialist economy

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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62. Which of the following is true of a pure market economy?
    a. All factors of production are owned by the government.

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b. All factors of production are privately owned.
c. It has elements of both a market economy and a command economy.
d. Its policies are based on religious decree.

ANSWER: b
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
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63. Which of the following is true of a command economy?
a. All factors of production are privately owned.
b. The government only performs those functions that the private sector cannot perform.
c. It does not allow private entrepreneurship.
d. It strictly follows the doctrine of *laissez faire*.

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
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64. For which of the following types of economies would the factors of production depend on the relative distribution of market forces versus command forces?
a. Mixed economy
b. Pure market economy
c. Strict *laissez faire* economy
d. Command economy

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Economic Systems
QUESTION TYPE: Multiple Choice

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HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
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65. Which of the following is the argument used by proponents of the "cultural" explanation for the difference in economic development across the globe?
    a. Rich countries have a smarter and harder-working population
    b. Rich countries tend to be endowed with natural resources
    c. Rich countries tend to have better market-supporting institutions
    d. Rich countries generally tend to have a democratic style of government

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Ethical Responsibilities
KEYWORDS: Bloom's: Analyze
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66. Which of the following is true of private ownership?
    a. It tends to force firms into liquidation due to high competition.
    b. It empowers the government to determine firm entry.
    c. It allows financing only through nationalized banks.
    d. Its primary objective is protecting jobs and minimizing social unrest.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
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67. State ownership differs from private ownership in that in state ownership _____.

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a. maximizing profits is the sole objective of a firm
b. management appointments are made by owners and investors based on merit
c. protecting jobs and minimizing social unrest is the objective of a firm
d. managers' compensation is determined by competitive market forces

ANSWER: c
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Analyze
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68. Private ownership differs from state ownership in that in private ownership _____.
a. maximizing profits is the primary objective of a firm
b. protecting jobs and minimizing social unrest is the primary objective of a firm
c. establishing a firm is determined by government officials and bureaucrats
d. failing firms deemed too big to fail may be supported by taxpayer money indefinitely

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
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69. Which of the following is true of private ownership?
a. Firms are established by entrepreneurs, owners, and investors.
b. Management appointments are made by government officials and bureaucrats who may also use non-economic criteria.
c. Firm's objective would be to find a "fair" deal for all stakeholders.
d. Firms deemed "too big to fail" may be supported by taxpayer dollars indefinitely.

ANSWER: a
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions

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QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Remember
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70. Which of the following is true of the Washington Consensus?
a. It provided measures that governments can take in order to move toward a command economy.
b. It listed the bail-out procedures that governments could follow in case of a firm's bankruptcy.
c. It advocated more governmental control in trade.
d. It advocated the superiority of private ownership over state ownership.

ANSWER: d
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Debates and Extensions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: GLOB.PENG.05.02-07 - LO: 02-07
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Remember
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71. Identify the basic characteristics of formal and informal institutions.

ANSWER: An institutional framework is made up of formal and informal institutions governing individual and firm behavior. Formal institutions include laws, regulations, and rules. Their primary supportive pillar, the regulatory pillar, is the coercive power of governments. Informal institutions include norms, cultures, and ethics. The two main supportive pillars are normative and cognitive. The normative pillar refers to how the values, beliefs, and actions of other relevant players—collectively known as norms—influence the behavior of focal individuals and firms. The cognitive pillar refers to the internalized, taken-for-granted values and beliefs that guide individual and firm behavior.
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Understanding Institutions
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-01 - LO: 02-01
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Analyze

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72. What are the two core propositions of the institution-based view?
ANSWER: The first core proposition of the institution-based view is that managers and firms rationally pursue their interests and make choices within the formal and informal constraints in a given institutional framework. The second proposition is that while formal and informal institutions combine to govern firm behavior, in situations where formal constraints are unclear or fail, informal constraints will play a larger role in reducing uncertainty and providing constancy to managers and firms.
POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: An Institution-Based View of Global Business
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-02 - LO: 02-02
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Strategy
KEYWORDS: Bloom's: Analyze
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73. Outline the differences between democracy and totalitarianism.
ANSWER: Democracy is a political system in which citizens elect representatives to govern the country on their behalf. A fundamental aspect of democracy that is relevant to the effective conduct of global business is an individual's right to freedom of expression and organization.
Totalitarianism is a political system in which one person or party exercises absolute political control over the population. A totalitarian regime can also be known as a dictatorship.
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Political Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Analyze
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74. What is totalitarianism? Outline the four major types of totalitarian systems.
ANSWER: The opposite end of democracy is totalitarianism (also known as dictatorship), which is defined as a political system in which one person or party exercises absolute political control over the population.
Communist totalitarianism centers on a communist party. This system had been embraced throughout Central and Eastern Europe and the former Soviet Union until the late 1980s. It is

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still practiced in China, Cuba, Laos, North Korea, and Vietnam.
Right-wing totalitarianism is characterized by its intense hatred of communism. One party, typically backed by the military, restricts political freedom, arguing that such freedom would lead to communism. In the postwar decades, Argentina, Brazil, Chile, Indonesia, South Africa, South Korea, and Taiwan practiced right-wing totalitarianism. Most of these countries have recently become democratic.
Theocratic totalitarianism refers to the monopolization of political power in the hands of one religious party or group. Iran and Saudi Arabia are leading examples.
Tribal totalitarianism refers to one tribe or ethnic group monopolizing political power and oppressing other tribes or ethnic groups

POINTS: 1
DIFFICULTY: Difficulty: Easy
REFERENCES: Political Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03
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KEYWORDS: Bloom's: Analyze
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75. Define political risk. How is it related to nationalization?

ANSWER: Political risk is risk associated with political changes that may negatively influence domestic and foreign firms. The most extreme political risk may lead to nationalization (expropriation) of foreign assets. This happened in many totalitarian countries from the 1950s through the 1970s. It has not become a thing of the past. Recently, Argentina expropriated the assets of YPF—the subsidiary of Spanish oil firm Repsol. Zimbabwe demanded that foreign mining companies cede 51% of their equity without compensation. It is hardly surprising that leaders of foreign firms are sick and tired of such expropriation and would rather go to “greener pastures” elsewhere.

POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Political Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-03 - LO: 02-03
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Analyze
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76. Compare and contrast civil law, common law, and theocratic law.

ANSWER: Civil law was derived from Roman law and strengthened by Napoleon’s France. It is “the oldest, the most influential, and the most widely distributed around the world.” It uses comprehensive statutes and codes as a primary means to form legal judgments. More than 80

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countries practice civil law. Common law, which is English in origin, is shaped by precedents and traditions from previous judicial decisions. Common law has spread to more than 40 English-speaking countries and their (former) colonies.
Relative to civil law, common law has more flexibility, because judges have to resolve specific disputes based on their *interpretation* of the law, and such interpretation may give new meaning to the law, which will shape future cases. Civil law has less flexibility, because judges only have the power to *apply* the law. On the other hand, civil law is less confrontational, because comprehensive statutes and codes serve to guide judges. Common law is more confrontational, because plaintiffs and defendants, through their lawyers, must argue and help judges to favorably interpret the law, largely based on precedents.
The third legal family is theocratic law, a legal system based on religious teachings. Examples include Jewish law and Islamic law. Although Jewish law is followed by some elements of the Israeli population, it is *not* formally embraced by the Israeli government. Islamic law is the only surviving example of a theocratic legal system that is formally practiced by some governments, such as those in Iran and Saudi Arabia. The holy book of Islam advises against certain business practices, such as a ban on direct face-to-face contact between unrelated men and women in public.

POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Legal Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-04 - LO: 02-04
NATIONAL STANDARDS: United States - BUSPROG: Analytic
STATE STANDARDS: United States - AK - DISC: Legal Responsibilities
KEYWORDS: Bloom's: Analyze
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77. How does an institution-based view understand intellectual property rights violation?

ANSWER: Overall, an institution-based view suggests that the key to understanding IPR violation is to realize that IP violators are not amoral monsters, but ordinary people and firms. Given an institutional environment of weak IPR protection, violators have made a rational decision by investing in skills and knowledge in this business. No high-school graduate will say, “My dream career is counterfeiting.” Nevertheless, thousands of individuals and firms voluntarily choose to be involved in this business worldwide. Stronger IPR protection—not only heavier punishment, but also better education and more lucrative legitimate job opportunities—may reduce their incentive to do so. During their earlier stages of development, many of today’s developed countries did not respect IPR, especially IPR held by foreign firms. Over time, as their economies became more innovation driven, they became more respectful of IPR—it was rational to do so. Therefore, to the same extent that developed economies voluntarily enhanced IPR protection when their economies became sufficiently innovation driven, there is hope that emerging economies will similarly improve their IPR protection going forward.

POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Legal Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic

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NATIONAL STANDARDS: United States - BUSPROG: Analytic
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KEYWORDS: Bloom's: Analyze
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78. Describe the differences among the three economic systems.
ANSWER: A pure market economy is characterized by the "invisible hand" of market forces noted by Adam Smith in *The Wealth of Nations* in 1776. The government takes a hands-off approach known as *laissez faire*. The government should only perform functions the private sector cannot perform.
A pure command economy is defined by a government taking, in the words of Lenin, the "commanding height" in the economy. All factors of production should be government-owned or state-owned, and all supply, demand, and pricing are planned by the government.
A mixed economy has elements of both a market economy and a command economy. It boils down to the relative distribution of market forces versus command forces.
POINTS: 1
DIFFICULTY: Difficulty: Moderate
REFERENCES: Economic Systems
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: GLOB.PENG.05.02-06 - LO: 02-06
NATIONAL STANDARDS: United States - BUSPROG: Analytic
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Instructor Manual

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Purpose and Perspective of the Chapter

The purpose of this chapter is to explore the concept of institutions, popularly known as the "rules of the game." As economic players, firms play by these rules. However, institutions are not static. They may change, resulting in institutional transitions—"fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players." Firms must respond to these changes.

Overall, the success and failure of a firm around the globe are, to a large extent, determined by its ability to understand and take advantage of the different rules of the game. In other words, how firms play the game and win (or lose), at least in part, depends on how the rules are made, enforced, and changed. This calls for firms to constantly monitor, decode, and adapt to the changing rules of the game in order to survive and prosper. As a result, such an institution-based view has emerged as a leading perspective on global business. This chapter first introduces this view. Then, it focuses on *formal* institutions (such as politics, laws, and economics). *Informal* institutions (such as cultures, ethics, and norms) will be discussed in Chapter 3.

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Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

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- Transition Guide (provides information about what's new from edition to edition)
- Educator's Guide (describes assets in the platform with a detailed breakdown of activities by chapter with seat time)
- PowerPoint (provides text-based lectures and presentations)
- Test Bank (contains assessment questions and problems)
- Guide to Teaching Online (provides information about the key assets within the product and how to implement/facilitate use of the assets in synchronous and asynchronous teaching environments)
- Accelerated Course Syllabus (provides guidance on the recommended delivery of course materials given a 5-week, 8-week, 12-week, and 16-week course)
- MindTap User Guide (provides information on how to navigate and use MindTap)

Chapter Objectives

The following objectives are addressed in this chapter:

2-1 Explain the concept of institutions and their key role in reducing uncertainty.

2-2 Articulate the two core propositions underpinning an institution-based view of global business.

2-3 Identify the differences among democracy, totalitarianism, and authoritarianism.

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2-4 Outline the differences among civil law, common law, and theocratic law.

2-5 Describe the importance of property rights and intellectual property rights.

2-6 Differentiate the characteristics among market economy, command economy, and mixed economy.

2-7 Participate in two leading debates concerning politics, laws, and economics.

2-8 Draw implications for action.

Complete List of Chapter Activities and Assessments

For additional guidance refer to the Teaching Online Guide.

Chapter Objective	PPT slide	Activity/Assessment	Duration
2-4	20	Discussion Activity 1 in PPT	10 min
2-6	23	Discussion Activity 2 in PPT	10 min
2-1—2-3	30	Polling Activity in PPT	5 min

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- Opening Case: Australia versus Facebook
- Closing Case: Democracy, Development, and COVID
- In Focus 3.1: One Rock Formation, Two Countries
- In Focus 3.2: New Political Risk
- In Focus 3.3: Freedom of Speech versus Censorship on Social Media
- New Implications for Action: Be geopolitically savvy
- New Topics: Authoritarianism, geopolitics, hybrid organization, illiberal democracy, institutional work, nonmarket (political) strategy, state capitalism

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Opening Case Discussion: Australia versus Facebook

Why did Facebook take the unprecedented action to “unfriend” Australia? Why was the Australian government motivated to pass the new law? How should firms respond when laws, regulations, and rules change? How do politics, laws, and economics influence high-stakes cases such as this? Answers to these questions boil down to institutions, popularly known as the “rules of the game.” As economic players, firms play by these rules. However, institutions are not static. They may change, resulting in institutional transitions—

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"fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players." Firms must respond to these changes. Overall, the success and failure of a firm around the globe are, to a large extent, determined by its ability to understand and take advantage of the different rules of the game.

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Chapter Outline

In the outline below, each element includes references (in parentheses) to related content. "CH.##" refers to the chapter objective; "PPT Slide #" refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center); and, as applicable for each discipline, accreditation or certification standards ("BL 1.3.3"). Introduce the chapter and review learning objectives for Chapter 2. (PPT Slide 2).

I. UNDERSTANDING INSTITUTIONS (LO 2-1, PPT Slides 3–6)

a. **Key Concepts**

- Institutions are commonly defined as "the rules of the game." Institutions have formal and informal components, each with different supportive pillars.

b. **Key Terms**

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- **Institutional transition**: Fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players
- **Institution-based view**: A leading perspective in global business that suggests that the success and failure of firms are enabled and constrained by institutions
- **Institution**: Formal and informal rules of the game
- **Institutional framework**: Formal and informal institutions that govern individual and firm behavior
- **Formal institution**: Institution represented by laws, regulations, and rules
- **Regulatory pillar**: The coercive power of governments
- **Informal institution**: Institution represented by cultures, ethics, and norms
- **Normative pillar**: The mechanism through which norms influence individual and firm behavior

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- **Norms**: Values, beliefs, and actions of relevant players that influence the focal individuals and firms
- **Cognitive pillar**: The internalized (or taken-for-granted) values and beliefs that guide individual and firm behavior

II. WHAT DO INSTITUTIONS DO? (LO 2-1, PPT Slides 7–8)

a. **Key Concepts**
- The key function of institutions is to reduce uncertainty.

b. **Key Terms**
- **Transaction cost**: The cost associated with economic transactions or, more broadly, the cost of doing business
- **Opportunism**: The act of self-interest seeking with guile
- **Transition economy**: Label for a subset of emerging economies, particularly those moving from central planning to market competition (such as China, Poland, Russia, and Vietnam)

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III. AN INSTITUTION-BASED VIEW OF GLOBAL BUSINESS (LO 2-2, PPT Slides 9–12)

a. **Key Concepts**
- Proposition 1: Managers and firms rationally pursue their interests and make choices within the formal and informal institutional constraints in a given institutional framework.
- Proposition 2: While formal and informal institutions combine to govern firm behavior, in situations where formal constraints are unclear or fail, informal constraints will play a larger role in reducing uncertainty and providing constancy to managers and firms.

b. **Key Terms**
- **Bounded rationality**: The necessity of making rational decisions in the absence of complete information
- **Nonmarket (political) strategy**: A strategy that centers on leveraging political and social relationships
- **Institutional work**: Purposive action aimed at creating, maintaining, and disrupting institutions

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IV. POLITICAL SYSTEMS (LO 2-3, PPT Slides 13–15)

a. **Key Concepts**

- Democracy is a political system in which citizens elect representatives to govern the country.
- Totalitarianism is a political system in which one person or party exercises absolute political control over the population.
- Authoritarianism is a political system in which political plurality is undermined and concentrated government power is imposed.
- While the degree of hostility toward business varies among different types of totalitarianism and authoritarianism (some are more probusiness than others), totalitarianism and authoritarianism in general are not as good for business as democracy.
- As the forces of deglobalization march around the world, firms must be prepared to deal with geopolitical risk.

b. **Key Terms**

- **Political system**: The rules of the game on how a country is governed politically
- **Democracy**: A political system in which citizens elect representatives to govern the country on their behalf
- **Totalitarianism (dictatorship)**: A political system in which one person or party exercises absolute political control over the population
- **Authoritarianism**: A political system in which political plurality is undermined and concentrated government power is imposed
- **Political risk**: Risk associated with political changes that may negatively impact domestic and foreign firms
- **Geopolitics**: International political relations

V. LEGAL SYSTEMS (LO 2-4 and 2-5, PPT Slides 16–20)

a. **Key Concepts**

- Laws in different countries are transplanted from three legal traditions.
- Civil law uses comprehensive statutes and codes as a primary means to form legal judgments.

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- Common law is shaped by precedents and traditions from previous judicial decisions.
- Theocratic law is a legal system based on religious teachings.

b. **Key Terms**

- **Legal system**: The rules of the game on how a country's laws are enacted and enforced
- **Civil law**: A legal tradition that uses comprehensive statutes and codes as a primary means to form legal judgments
- **Common law**: A legal tradition that is shaped by precedents and traditions from previous judicial decisions
- **Theocratic law**: A legal system based on religious teachings
- **Property right**: The legal right to use an economic property (resource) and to derive income and benefits from it
- **Intellectual property (IP)**: Intangible property that is the result of intellectual activity
- **Intellectual property rights (IPR)**: Right associated with the ownership of intellectual property
- **Patent**: Exclusive legal right of inventors of new products or processes to derive income from such inventions
- **Copyright**: Exclusive legal right of authors and publishers to disseminate their work
- **Trademark**: Exclusive legal right of firms to use specific names, brands, and designs to differentiate their products from others
- **Piracy**: Unauthorized use of intellectual property

c. **Discussion Activity: 10 minutes total. (PPT Slide 20)**
Pose the question to the class.

- Would you rather do business in a country that uses civil law or common law? Why?

(1) Students' opinions may vary depending on the extent to which one prefers flexibility versus certainty. Some may prefer the type of law used in the country in which they live.

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VI. ECONOMIC SYSTEMS (LO 2-6, PPT Slides 21–23)

a. Key Concepts

- An economic system refers to the rules of the game on how a country is governed economically.
- A pure market economy is characterized by laissez faire and total control by market forces.
- A pure command economy is defined by government ownership and control of all means of production.
- Most countries operate mixed economies with a different emphasis on market versus command forces.

b. Key Terms

- **Economic system**: Rules of the game on how a country is governed economically
- **Market economy**: An economy that is characterized by the "invisible hand" of market forces
- **Command economy**: An economy that is characterized by government ownership and control of factors of production
- **Mixed economy**: An economy that has elements of both a market economy and a command economy

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c. Discussion Activity: 10 minutes total. (PPT Slide 23)

Pose the question to the class.

- Many view the United States as a mixed economy. In your opinion, is the mix changing? If so, how? Is it shifting more to a command economy or a market economy?

  (1) The US economy is constantly changing but the direction may depend on the political and economic tilt of those answering the question. Those who want more government involvement may not feel that a specific increase in government is sufficient and may take a much different view of the direction of the economy than those who feel that the country is moving toward a command economy.

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VII. DEBATES AND EXTENSIONS (LO 2-7, PPT Slides 24–27)

a. **Key Concepts**
- Two leading debates are (1) drivers of economic development and (2) private ownership versus state ownership.

b. **Key Terms**
- **State-owned enterprise (SOE)**: A firm owned and controlled by the state (government)
- **Moral hazard**: Recklessness when people and organizations (including firms and governments) do not have to face the full consequences of their actions
- **State capitalism**: A capitalist, market-based system with substantial state ownership
- **Hybrid organization**: An organization that incorporates elements from different institutional logics

VIII. MANAGEMENT SAVVY (LO 2-8, PPT Slides 28–30)

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a. **Key Concepts**
- Managers must be geopolitically savvy and realize that the institutional framework governing the age of deglobalization is not the same as that governing the age of globalization. Managers considering working abroad should have a thorough understanding of the formal institutions before entering a country. In situations where formal constraints are unclear, managers can reduce uncertainty by relying on informal constraints, such as relationship norms.

b. **Key Terms**
- None

c. **Polling Activity: 5 minutes total. (PPT Slide 30)**
Pose the question to the class.
- Do "rules of the game" promote or prevent opportunism?

(1) Students will probably argue that much depends on the rules in question.

(2) One important source of transaction costs is opportunism, defined as self-interest seeking with guile. Examples include misleading, cheating, and confusing other parties in

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transactions that will increase transaction costs. Attempting to reduce such transaction costs, institutional frameworks increase certainty by spelling out the rules of the game so that disputes can be mitigated with relative ease, such as through formal arbitration and courts.

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End-of-Chapter Guide

Review Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. How can the "rules of the game" reduce uncertainty and combat opportunism?
    - The very word "rules" suggests the answer to that question. When there is nothing involving formal or informal rules to serve as a guideline, there is obviously going to be uncertainty.
    - When it comes to combatting opportunism, students will probably argue that much depends on the rules. One important source of transaction costs is opportunism, defined as self-interest seeking with guile. Examples include misleading, cheating, and confusing other parties in transactions that will increase transaction costs. Attempting to reduce such transaction costs, institutional frameworks increase certainty by spelling out the rules of the game so that disputes can be mitigated with relative ease, such as through formal arbitration and courts.

2. Do you agree that managers and firms rationally pursue their interests? Why or why not?
    - It probably could be argued that they pursue their interests but their idea of what constitutes their interest may not be in agreement with what others would regard as their interest. A firm or person may wish to be respected and admired by society—that may be what the firm or individual feels is in one's best interest. However, that might involve not taking advantage of an opportunity for increased profits or a raise in compensation.

3. *ON CULTURE*: What are examples of formal institutional constraints that affect global business firms?
    - Students should be able to list a variety of constraints such as the negative reactions of various stakeholders to actions that may be legal but viewed as unacceptable.

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4. *ON ETHICS*: If your firm is from a totalitarian country, what are the pros and cons of expanding into a democratic country?
    - This is a question in which the answer is not as important as the student's reasoning.

5. *ON ETHICS*: If your firm is from a democratic country, what are the pros and cons of expanding into a totalitarian country?
    - This is a question in which the answer is not as important as the student's reasoning.

6. Would you rather do business in a country that uses civil law or common law? Why?
    - Students' opinions may vary depending on the extent to which one prefers flexibility versus certainty. Some may prefer the type of law used in the country in which they live.

7. What are some of the issues to consider before doing business in a theocracy?
    - Cultural sensitivity would be especially important in such a country. Familiarization with beliefs and the application of those beliefs to all aspects of business would be essential.

8. What is the relationship between property rights and economic development?
    - According to de Soto, there is a significant relationship between the two: The legal protection of property rights allows economic growth. For example, when property rights are in place, an entrepreneur can use his or her title to a piece of land as collateral for a small business loan.

9. Why is it important to protect IPR?
    - IP is normally intangible and can thus be easily duplicated. The incentive to invent or create music, for example, could be reduced if innovators had no assurance of reaping rewards from their efforts.

10. *ON ETHICS*: Under what circumstances would it be easier to do business in a command economy than a market economy?
    - In a market economy, one may need to convince many buyers but in a command economy in which the government is the buyer, the persuasion needs to be directed toward only those in control of the government. Also, buyers in a market economy may be fickle and change their mind over time but in a command economy, there is stability unless those in the government change what they want.

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11. Many view the United States as a mixed economy. In your opinion, is the mix changing? If so, how?
    - The US economy is constantly changing but the direction may depend on the political and economic tilt of those answering the question. Those who want more government involvement may not feel that a specific increase in government is sufficient and may take a much different view of the direction of the economy than those who feel that the country is moving toward a command economy.

12. In your opinion, which is the most important driver of economic development—culture, geography, or institutions? Why?
    - This is a question in which the answer is not as important as the reasoning and the ability to defend that reasoning.

13. Do you feel you would have the greatest likelihood of professional success under private ownership or state ownership? Why?
    - The answer to this question may depend on the specific individual's career plans (perhaps it involves some type of government activity, for example) and the person's social, political, and economic tilt.

14. Why has it recently become important for international managers to become geopolitically savvy?
    - Given that most managers grew up in the age of globalization, they have little appreciation of geopolitics. A new generation of managers are advised to be geopolitically savvy. They need to realize that the institutional framework governing the age of deglobalization is not the same as that governing the age of globalization.

15. Why is it important to understand formal institutions before entering a country? Explain by using an example.
    - This is true for both firms and individuals who wish to avoid being fined or imprisoned. Students should be able to use their own country to create examples that could get a person or firm into trouble if there was no awareness of formal institutional requirements.

16. *ON CULTURE*: Why is understanding of human relations within a culture sometimes more important than legal expertise?
    - In some societies there will be no need for legal expertise (for example, to prepare a contract) until the relationship has been established so that one is trusted.

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Critical Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. How do you explain your country's economic success (or failure)?
    - Encourage students to answer this question by focusing on concepts brought forth in this chapter (political, legal, and economic systems) and avoid using the question to expound favor or opposition to a politician or ideology. However, this is a question in which the answer is not as important as their thought process and the ability to clearly articulate it.

2. What is your view on the debate between private ownership and state ownership?
    - The response will likely be the result of ideology, but this is a question in which the answer is not as important as the students' thought processes and ability to clearly articulate their views.

3. *ON ETHICS:* As a manager, you discover that your firm's products are counterfeited by small family firms that employ child labor in rural Bangladesh. You are aware of the corporate plan to phase out the products soon. You also realize that once you report such IPR violations to the authorities, these firms will be shut down, employees will be out of work, and families and children will be starving. How do you proceed?
    - This is also a question in which the answer is not as important as the students' thought process and their ability to clearly articulate their views. However, because you plan to phase out the product, you may choose to ignore the counterfeiting. Even though child labor is involved, because child starvation is worse, you might offer advice to the family firms as to how to be more successful.

4. *ON ETHICS:* Your multinational, which is headquartered in a democratic country, is the largest foreign investor and enjoys 10% of its global profits from (1) Sudan, where government forces are reportedly cracking down on rebels and killing civilians; or (2) Myanmar, where the military has crushed a democratically elected government in a coup and killed some protesters. As country manager in one of these countries, you understand that your firm is pressured by activists to exit these countries. The government actions, which you personally find distasteful, are not directly related to your operations. How would you proceed?
    - Although this is also a question in which the answer is not as important as the student's thought process and their ability to clearly articulate their views, there are some things that should be considered even by students who really do not care about social/humanitarian issues and are only concerned about the bottom line. In a global economy with instant global communication of news, the policies of a given country might not affect a

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firm's operations in that country but it might affect the firm's sales and problems with legislative initiatives in other countries.

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Global Action

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Evaluating political risk is an important element of country risk analysis. You are an executive assistant for the CEO of a company in China. She is interested in doing business with or in the United States. However, she is concerned about (1) the US-China geopolitical rivalry, (2) the numerous mass shootings reported by the US media, and (3) the anti-Asian hate crime in the United States. She has asked you to conduct a political risk analysis of the United States and come up with a go/no-go recommendation. Can you prepare a report for her?
    - Students' responses will vary. The important thing is not so much the answer as the students' thought process and the ability to clearly articulate their response.
    - The globalEDGE **Reference Desk** may be a useful resource for students.
2. For your employer, a diversified multinational organization (such as GE, Samsung, Siemens, or Tata Group), evaluate the political and economic risk of three industry sectors within its current portfolio. Prepare a report, and identify which industry and region would provide the highest likelihood of good profits to your firm in the next five years?
    - Students' responses will vary. The important thing is not so much the answer as the students' thought process and the ability to clearly articulate their response.
    - The globalEDGE **Reference Desk** may be a useful resource for students.

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Closing Case: Emerging Markets—Democracy, Development, and COVID

This case explores an overview of the spread of democracy since the 1960s—and its subsequent stall—as a backdrop to a discussion of how various democratic and authoritarian countries fared during the COVID-19 pandemic. As countries race ahead to tame COVID and to recharge their economies, it is very clear that the global debate about the relationship among democracy, development, and pandemics will not stop any time soon.

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1. Why does democracy have such broad appeal around the world? Why does it suffer from severe setbacks lately?
    - Democracies—on average—are richer, less corrupt, and experience more peace. However, it is often easier to remove an old regime than it is to build a new one. Democracy can also be seen as trending toward an example of mob rule in some cases.

2. *ON ETHICS*: If you could choose to become a citizen of any country, which country would you choose in preparation for the next pandemic, which, according to some experts, will be bigger and more devastating than COVID-19?
    - Students' responses will vary. The important thing is not so much the answer as the students' thought process and the ability to clearly articulate their response. World Bank research reports that democracy, on average, is associated with lower pandemic mortality rate, but the global debate about the relationship among democracy, development, and pandemics will not stop any time soon.

3. *ON ETHICS*: The military governments in Egypt, Myanmar, and Thailand have invited your firm to do business there. As a CEO who struggles to find post-COVID growth opportunities, you appreciate the lucrative offers. But you are also concerned that your firm may be labeled a "devil's advocate" or "accomplice" by democracy activists around the world. How would you proceed?
    - Students' responses will vary. The important thing is not so much the answer as the students' thought process and the ability to clearly articulate their response.

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Appendix

Generic Rubrics

Providing students with rubrics helps them understand expectations and components of assignments. Rubrics help students become more aware of their learning process and progress, and they improve students' work through timely and detailed feedback.

Customize these rubric templates as you wish. The writing rubric indicates 40 points and the discussion rubric indicates 30 points.

Standard Writing Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Content	The assignment clearly and comprehensively addresses all questions in the assignment. 15 points	The assignment partially addresses some or all questions in the assignment. 8 points	The assignment does not address the questions in the assignment. 0 points
Organization and Clarity	The assignment presents ideas in a clear manner and with strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are logically related and consistent. 10 points	The assignment presents ideas in a mostly clear manner and with a mostly strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are mostly logically related and consistent. 7 points	The assignment does not present ideas in a clear manner and with strong organizational structure. The assignment includes an introduction, content, and conclusion, but coverage of facts, arguments, and conclusions are not logically related and consistent. 0 points
Research	The assignment is based upon appropriate and adequate academic literature, including peer reviewed journals and other scholarly work. 5 points	The assignment is based upon adequate academic literature but does not include peer reviewed journals and other scholarly work. 3 points	The assignment is not based upon appropriate and adequate academic literature and does not include peer reviewed journals and other scholarly work. 0 points
Research	The assignment follows the required citation guidelines. 5 points	The assignment follows some of the required citation guidelines. 3 points	The assignment does not follow the required citation guidelines. 0 points
Grammar and Spelling	The assignment has two or fewer grammatical and spelling errors. 5 points	The assignment has three to five grammatical and spelling errors. 3 points	The assignment is incomplete or unintelligible. 0 points

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Standard Discussion Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Participation	Submits or participates in discussion by the posted deadlines. Follows all instructions for initial post and responses. 5 points	Does not participate or submit discussion by the posted deadlines. Does not follow instructions for initial post and responses. 3 points	Does not participate in discussion. 0 points
Contribution Quality	Comments stay on task. Comments add value to discussion topic. Comments motivate other students to respond. 20 points	Comments may not stay on task. Comments may not add value to discussion topic. Comments may not motivate other students to respond. 10 points	Does not participate in discussion. 0 points
Etiquette	Maintains appropriate language. Offers criticism in a constructive manner. Provides both positive and negative feedback. 5 points	Does not always maintain appropriate language. Offers criticism in an offensive manner. Provides only negative feedback. 3 points	Does not participate in discussion. 0 points

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