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Name:_____ Class:_____ Date:_____

Chapter_01_Globalizing_Business

1. Adidas has full ownership control over its entire global supply chain.
   a. True
   b. False

ANSWER: False

2. A company undertaking foreign direct investment is defined as a multinational enterprises.
   a. True
   b. False

ANSWER: True

3. A multinational enterprise is a firm that engages in foreign direct investment by directly investing in, controlling and managing value-added activities in other countries.
   a. True
   b. False

ANSWER: True

4. Gross domestic product (GDP) is the sum of value added by resident firms, households and government operating in an economy.
   a. True
   b. False

ANSWER: True

5. Most EU countries export more than half of their exports to other EU countries.
   a. True
   b. False

ANSWER: True

6. Purchasing power parity (PPP) is a conversion that reflects the equivalent amount of goods and services different currencies can purchase.
   a. True
   b. False

ANSWER: True

7. Purchasing power parity (PPP) is an adjustment that reflects the differences in cost of living in countries.
   a. True
   b. False

ANSWER: True

8. Gross national product (GNP) is the sum of value added by resident firms, households and government operating in an economy.
   a. True
   b. False

ANSWER: False

9. The per capital GDP of China is predicted to exceed that of the USA before 2035.

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a. True
b. False

ANSWER: False

10. Although GDP, GNP and GNI are often used as yardsticks of economic development, differences in cost of living make such a direct comparison less meaningful.
a. True
b. False

ANSWER: True

11. Digital technologies enable new forms of reaching customers in foreign countries.
a. True
b. False

ANSWER: True

12. Most top managers of large firms lack significant global competence.
a. True
b. False

ANSWER: False

13. Global business contributes substantially to greenhouse gas emissions via long distance travels and product shipments.
a. True
b. False

ANSWER: True

14. Greater scale economies in production increase both costs and greenhouse gas emissions.

a. True
b. False

ANSWER: False

15. Thanks to globalization, low skills jobs are less vulnerable to competition.
a. True
b. False

ANSWER: False

16. National governments have to respect the rules established by globally operating.
a. True
b. False

ANSWER: False

17. Innovation is taking place in advanced economies, and is followed by time-delayed knowledge transfer to emerging economies.
a. True
b. False

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ANSWER: False

18. Both, institution- and resource-based views are two core perspectives answering the fundamental question: 'What determines the success and failure of firms around the globe?'

a. True

b. False

ANSWER: True

19. Possessing intimate knowledge about the formal and informal rules governing competition in various countries is sufficient to succeed globally.

a. True

b. False

ANSWER: False

20. Firms that are able to succeed in the difficult, harsh, even hostile foreign environments, established by unfavourable formal and informal rules, possess unique firm-specific resources and capabilities not shared by competitors.

a. True

b. False

ANSWER: True

21. The liability of outsidership is a major challenge for companies setting up business in another country.

a. True

b. False

ANSWER: True

22. Globalization is a relatively new phenomenon triggered by the information revolution of late 1980s and early 1990s.

a. True

b. False

ANSWER: False

23. Globalization is defined as a process leading to greater interdependence and mutual awareness (reflexivity) among economic, political and social units in the world, and among actors in general.

a. True

b. False

ANSWER: True

24. During the age of the Roman Empire, there was no international trade activity.

a. True

b. False

ANSWER: False

25. According to business historians, multinational enterprises were as important to the global economy in 1913 as in the 1990s.

a. True

b. False

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ANSWER: True

26. In the 1950s, barriers to trade and capital movements were pervasive, even within Western Europe.
    a. True
    b. False
ANSWER: True

27. More than 50% of the exports from any EU country are destined for another EU country.
    a. True
    b. False
ANSWER: True

28. Countries with per capita income below €2000 are defined as emerging economies.
    a. True
    b. False
ANSWER: False

29. Emerging economies account for more than 80% of the world's population.
    a. True
    b. False
ANSWER: True

30. Emerging economies account for more than 80% of the world's exports.
    a. True
    b. False
ANSWER: False

31. The world economy at present is an approximately $60 trillion economy (GDP calculated at official, nominal exchange rates).
    a. True
    b. False
ANSWER: True

32. Many elites have not failed to take into sufficient account the social, political, and environmental costs associated with globalization.
    a. True
    b. False
ANSWER: False

33. According to the opening case, which region contributed the largest share to adidas's worldwide sales?
    a. Western Europe
    b. Eastern Europe and the former Soviet Union
    c. North America
    d. Asia Pacific
ANSWER: d

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34. According to the opening case, in which country did adidas have the largest number of footwear suppliers?
a. Germany b. USA
c. China d. Vietnam
ANSWER: d

35. A firm that engages in foreign direct investment is a(n):
a. global firm. b. multinational enterprise.
c. international enterprise. d. foreign direct investor.
ANSWER: b

36. A multinational enterprise (MNE) is a firm that engages in:
a. foreign direct investment. b. domestic direct investment.
c. exporting. d. importing.
ANSWER: a

37. Which of the following terms best describes foreign direct investment?
a. Directly investing in, controlling and managing value-added activities in other countries.
b. Directly investing in, controlling and managing value-added activities in other markets.
c. Directly investing in shares of multinational enterprise.
d. All of these answers
ANSWER: a

38. ____ is/are measured as the sum of value added by resident firms, households and government operating in an economy.
a. Gross national product b. Gross national income
c. Gross domestic product d. National reserves
ANSWER: c

39. In order to better compare/contrast costs of living in the various environments per capita income may be adjusted to:
a. PPP (purchasing power parity).
b. foreign exchange rate.
c. country's inflation rate.
d. five-year national bond appreciation/depreciation.
ANSWER: a

40. Without adjusting for PPP, emerging economies contribute about 26% of the global GDP. Adjusting for PPP, they now contribute approximately 45% of the global GDP. The reason there is a huge difference between the two measures is because:
a. the cost of living in emerging economies tends to be lower than that in developed economies.
b. the measurements are not very accurate.
c. the population in emerging economies is much higher than that in developed economies.
d. the land in emerging economies is much larger than that in developed economies.
ANSWER: a

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41. More than half of the world GDP growth in recent years comes from ____.
a. the Four Tigers (Hong-Kong, Singapore, South Korea, and Taiwan)
b. Latin America
c. Central and Eastern Europe
d. BRIC (Brazil, Russia, India, and China)
ANSWER: d

42. BRIC includes the following countries except:
a. Brazil. b. Russia.
c. Italy. d. China.
ANSWER: c

43. Which of the following are potential advantages of globalization:
a. Sharing of green technologies and business practices b. Energy efficient scale of production
c. Location production where clean energy is available d. All of the above
ANSWER: d

44. Transportation accounts for ___% of global greenhouse gas emissions.
a. 24 b. 21
c. 19 d. 15
ANSWER: a

45. Which of the following are potential dis-advantages of globalization:
a. Loss of control over national identity b. Increased inequality within countries
c. Destruction of the natural environment by infrastructure projects. d. All of the above
ANSWER: d

46. An expatriate assignment is
a. a job overseas,
b. a relationship counselling job,
c. a class assignment in the IB course
d. a job working for a multinational enterprise
ANSWER: a

47. Why study global business?
a. In order to increase one's employability
b. In order be an informed participant in contemporary political debates
c. In order to better understand how to become a sought after, globe-trotting manager
d. All of these answers
ANSWER: d

48. The liability of outsidership is increased, if
a. a firms knows little about its business partners.
b. a firms comes from a very distant country.

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c. a firm has no prior business activity in a country.

d. all of the above answers.

ANSWER: d

49. A liability of outsidership is ____

a. the inherent advantage that new entrants experience in host countries.

b. the inherent disadvantage that new entrants experience in host countries.

c. the inherent advantage that new entrants experience in home countries.

d. the inherent disadvantage that new entrants experience in home countries.

ANSWER: b

50. In order to answer the question 'What determines the success and failures of firms around the globe?' the author introduces two core perspectives:

a. capability- and asset-based views. b. formal- and informal-rule-based views.

c. institution- and resource-based views. d. ability- and mobility-based views.

ANSWER: c

51. The ____-based view suggests that the formal and informal rules of the game, known as institutions, shed a great deal of light on what is behind firm performance around the globe.

a. resource b. asset

c. capability d. institution

ANSWER: d

52. The ____-based view suggests that in order to achieve remarkable success, a firm must possess some very rare and powerful firm-specific resources and capabilities that are the envy of their rivals around the globe.

a. resource b. asset

c. capability d. institution

ANSWER: a

53. The Hanseatic League, which operated a network of trading links between cities governed by common rules, was operating when?

a. during the Roman empire. b. during the Middle Ages.

c. during the first industrial revolution. d. during the age of colonialism.

ANSWER: b

54. The abolishment in the 19th century of the guild system for trades and crafts is an example of which type of policy?

a. industrialization b. liberalization

c. stabilization d. nation-state building

ANSWER: b

55. In the late 19th century, what was not a feature of international business?

a. European countries importing raw materials from their colonies

b. Colonies importing manufacturing goods from Europe

c. Multinational enterprises dominating the oil, gas and mining industries

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d. Migration was difficult due to complex visa requirements

ANSWER: c

56. Institutions are commonly referred to as what?
a. rules of the fun b. rules of the country
c. rules for everyone d. rules of the game

ANSWER: d

57. The world economy at present is an approximate:
a. €1 trillion economy. b. €2 trillion economy.
c. €7 trillion economy. d. €10 trillion economy.

ANSWER: c

58. China and Germany are the largest two economies measured by
a. population. b. GDP.
c. exports. d. outward foreign direct investment.

ANSWER: c

59. The three largest European countries measured by GDP in 2008 are
a. Germany, France and the UK. b. Germany, Italy and the UK.
c. Norway, Sweden and the Netherlands. d. Finland, Sweden and the Netherlands.

ANSWER: a

60. Which two medium-sized European countries are home to multinational enterprises with outward FDI stock of over €500 billion each?
a. Austria and Switzerland b. Switzerland and the Netherlands
c. The Netherlands and Sweden d. Sweden and Austria

ANSWER: b

61. Which type of people are known as cosmopolitans?
a. People who live in cities with over 1 million inhabitants
b. People who embrace the cultural diversity and personal and professional opportunities of globalization
c. Women who always dress after the latest fashion from Paris or Milan
d. Men who support a football team based in another country.

ANSWER: b

62. In 2016, approximately what percentage of Netherlands' exports went to other EU countries?
a. 75%
b. 65%
c. 55%
d. 45%

ANSWER: a

63. Risk management is

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a. The identification and avoidance of risks in international business
b. The identification and assessment of risks and the actions to minimize their impact
c. The assessment of stock market volatility
d. The actions firms take to withdraw from risky foreign markets

ANSWER: b

64. The Fortune Global 500 includes the largest 500 firms measured by sales. In 2017, how many of these 500 firms were from China

a. less than 25
b. about 50
c. about 75
d. more than 100

ANSWER: d

65. A person taking an ethnocentric view of global business views the world through the lens of his/her own culture.

a. True
b. False

ANSWER: True

66. European integration has greatly facilitated business within Europe. Should companies focus on doing business in Europe only to take advantage of these opportunities?

ANSWER: *Answers will vary.*
Good answers will mention a few opportunities in Europe, such as reduced trade barriers, high trade interdependency and low liability of outsidership. However, they will also mention the opportunities in emerging economies, e.g. at the bottom of the pyramid, and the competitive threat that may arise from multinational enterprises from emerging economies. Essays thus may conclude that small firms will find it easier to develop their business in Europe, yet for large firms it would be dangerous to ignore the opportunities and threats of the wider world economy. However, it also depends on the specific industry as in some industries the most eager potential customers are in distant countries.

67. Globalization is a new phenomenon that gradually emerged since the 1950s and accelerated in the 1990s. Do you agree or disagree, and why?

ANSWER:
Answers will vary
The essence of the answer should be to point out to the continuous acceleration of world trade since at least Roman times, with periodical setbacks. Answers should also emphasize the pre-World War I global economy as a period of intensive globalization that by some measures (such as the contribution of MNEs to the world economy) reached levels only surpassed again in the 1990s. Hence, the 1950s represent an inappropriate benchmark to discuss the level of globalization because it was a period when international trade was particularly disrupted due to the two World Wars and extensive protectionism.

68. Explain the correlation between the success and failure of global firms and the institution- and resource-based views.

ANSWER: Global firms can gain success in today's competitive global market by focusing on the institution- and resource-based perspectives. The first factor from an institutional perspective focuses on how companies can earn greater success by understanding the external business environments in international business. MNEs quick to acquaint and internationalize themselves with an understanding of the external environment, such as host country market rules, cultural norms and policies, will increase their success.

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The resource-based view focuses on an MNEs' internal resources, which are firm specific resources and capabilities. Competitors in the same environment do not share these internal capabilities; therefore, a company possessing unique firm-specific capabilities develops a competitive advantage in marketing their products or in the value creation process. Global companies that best utilize their internal strengths will increase their opportunities for business success.

69. The global economy may be viewed as a pyramid. The growing number of opportunities at the base of the pyramid highlights the role this bottom tier will play in the years to come. How would you take advantage of this often-ignored level if you were occupying a top management position at a prominent MNE?

ANSWER: The global economy can be viewed as a pyramid. The top of the pyramid consists of one billion people with per capita income of $20 000 or higher. The second tier consists of another billion people making $2000 to $20 000 a year. The vast majority of the world's population, representing approximately 4 billion people, live at the base of this pyramid, making less than $2000 a year.

Marketers have focused on the top two levels and end up ignoring the bottom tier. An increasing number of countries located in this bottom tier are demonstrating economic and marketing opportunities as they move from low- to middle-income levels. It is much easier to market to consumers with higher incomes. In the emerging markets, products are standardized and media can follow a variety of tracks. In the emerging world, marketing is different. There is no guarantee media choices will be available or that your product will be a success.

The challenges in the bottom of the pyramid require innovation, such as identifying special price points, as well as long-term commitment. Many consumers at the base of the pyramid may be illiterate, but they are brand conscious. Companies need to think outside the box and identify win-win strategies for this emerging consumer market.

Although individuals living in developing economies have less purchasing power than their counterparts living in the developed countries, they still have needs and wants. Global firms capable of fulfilling these needs will make a profit and emerge as global marketers.

70. Explain the benefits of gaining international business experience and working as an expat.

ANSWER: *Answers will vary.*

People skills and greater understanding of the complexity of the global business environment are valuable assets for current and future top MNE executives. Expatriates have a unique opportunity to be hands-on managers exposed to the corporation's global organizational dynamics.

Top-level jobs, especially those held by expats, are both financially rewarding and secure. Expats often command a significant premium in compensation, which usually includes a premium pay raise when accepting overseas assignments – although these are not as attractive as they used to be a few decades ago. Other benefits include more career opportunities in times of recession. Managers who have positioned themselves strategically with international business experience have a better chance at continued employment.

When the expat returns from a global assignment, if the current company does not provide attractive career return opportunities, the expat has the skills and expertise to consider other global firms. Often, the expat will not have a difficult time identifying other employment opportunities and commanding a higher premium. Expats gain a competitive advantage by accepting global business assignments as it increases their opportunities for upward mobility.

71. Explain how the pendulum view attempts to describe globalization as a cyclical phenomenon with many difficulties.

ANSWER: The Pendulum View presents the events in the present timeframe as a long-term model to help us gain a greater understanding and perspective of globalization's challenges.

The current era of globalization originated after World War II with the major Western nations committing to globalization. From the 1950s through the 1970s, political unrest in the Communist countries formed a different view of globalization. Noncommunist countries, such as Argentina and Brazil, focused on

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protecting their domestic industries. In contrast, the Four Tigers − specifically, the developing economies of Hong Kong, Singapore, South Korea and Taiwan − participated in the global economy.

Both the emerging and developed markets benefit greatly from globalization. However, seen in a historical context, globalization never continues in one upward or positive direction, hence the view of globalization as a pendulum. In the 1990s, globalization was on the fast track. However, globalization proponents witnessed significant backlashes and setbacks. This rapid growth in globalization led to an inaccurate view that globalization was new, which created many negative perceptions. This new globalization created fear, and competition posed a direct threat to countries' culture and values.

More recently, globalization has once again come to be considered a positive thing, offering contributions to worldwide economic growth. Globalization can be compared to a two-faced Janus with both a rosy and dark side. In some areas, it has resulted in job creation with tremendous outcomes, while in other areas it has resulted in job losses and hardship. How globalization has affected you or your family will influence your perceptions and viewpoints.

72. Explain how countries' gross domestic product (GDP) is changed after adjusting for purchasing power parity (PPP).

ANSWER: The World Bank uses the United States as a benchmark in PPP calculation. It is a conversion that determines the equivalent amount of goods and services different currencies can purchase. For example, one dollar spent in Mexico can buy a lot more than one dollar spent in the United States.

Gross domestic product (GDP) is the sum of value added by resident firms, households and government operating in an economy. To compare two countries' GDP, a conversion based on PPP is necessary.

The PPP between two countries is the rate at which the currency of one country needs to be converted into that of a second country to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country. Without adjusting for PPP, emerging economies contribute about 26% of the global GDP. But after adjusting for PPP, emerging economies contribute about 45% of the global GDP.

73. Economies that only recently established institutional frameworks that facilitate international trade and investment are generally known as

a. emerging markets
b. emerging economies
c. both of the above
d. none of the above

ANSWER: c

74. In 2016, approximately what percentage of exports from the UK went to other EU countries?

a. 30%
b. 40%
c. 50%
d. 60%

ANSWER: c

75. Is globalization good or bad for the natural environment and for the climate?

ANSWER: Industrial production, shipment of products over long distances, and travel of people substantially contribute to CO2 emissions and biosphere destruction. However, there are some countervailing effects such as more efficient production in larger scale facilities, faster sharing of ‘green’ technologies and low-energy operation models, and location of production where clean energy is available.

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