Chapter 06

The Political Environment: A Critical Concern

**True / False Questions**

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| 1. | Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.     True    False |

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| 2. | Foreign investment can be perceived as a threat to sovereignty.     True    False |

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| 3. | Adherence to World Trade Organization (WTO) rules means a loss of some degree of national sovereignty.     True    False |

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| 4. | At the top of the list of political issues concerning foreign businesses is the issue of taxation and tariffs.     True    False |

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| 5. | Pressure from nationalist and self-interest groups affect the stability of a government.     True    False |

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| 6. | Saudi Arabia permits women to vote if they are at least 18 years old and married or 21 years old, if single.     True    False |

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| 7. | Nationalism can take an anti-foreign business bias.     True    False |

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| 8. | Nationalistic feelings are directly proportional to growth of domestic economy.     True    False |

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| 9. | Economically prosperous countries do not display strong nationalistic feelings.     True    False |

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| 10. | The most severe political risk is domestication.     True    False |

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| 11. | The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication.     True    False |

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| 12. | Expropriation and nationalization often lead to nationalized businesses that are efficient, technologically strong, and competitive in world markets.     True    False |

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| 13. | Barring Latin America, the risks of confiscation and expropriation have lessened over the last two decades.     True    False |

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| 14. | Many countries have domestication as a condition for investment.     True    False |

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| 15. | Price controls are normally targeted at nonessential products.     True    False |

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| 16. | Political sanctions are the most effective means of achieving the desired goal of forcing a country to accept demands of the boycotting country.     True    False |

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| 17. | Political and social activists have no impact on the normal flow of trade.     True    False |

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| 18. | Nongovernmental organizations affect the policy decisions made by governments.     True    False |

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| 19. | Risk of violence is not a consideration in assessing the political vulnerability of a multinational company’s activities.     True    False |

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| 20. | International warfare is fast gaining popularity among nations.     True    False |

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| 21. | Due to advancements in technology, it is easy to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank.     True    False |

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| 22. | As cultural and political scenario varies so widely across nations, there is absolutely no way to generalize tendencies for products to be politically sensitive.     True    False |

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| 23. | Products that have or are perceived to have an effect on the environment are more likely to be politically sensitive.     True    False |

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| 24. | A single company can directly control or alter the political environment of the country within which it operates.     True    False |

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| 25. | Relations between governments and MNCs are generally negative, even if the investment improves the balance of payments by increasing exports or reducing imports.     True    False |

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| 26. | Licensing is least effective when the technology is unique.     True    False |

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| 27. | Planned domestication can be profitable and operationally expedient for the foreign investor.     True    False |

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| 28. | It is illegal for U.S. citizens to pay bribe unless it is a common practice in the host country.     True    False |

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| 29. | The principal agency that supports U.S. business abroad is the Department of Commerce (DOC).     True    False |

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| 30. | The Foreign Credit Insurance Association underwrites trade and investments for U.S. firms.     True    False |

**Multiple Choice Questions**

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| 31. | In the context of international law, a \_\_\_\_\_ state is independent and free from all external control.       |  |  | | --- | --- | | A. | bounded |  |  |  | | --- | --- | | B. | sovereign |  |  |  | | --- | --- | | C. | legal |  |  |  | | --- | --- | | D. | liberal |  |  |  | | --- | --- | | E. | neutral | |

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| 32. | Which of the following is true of a sovereign state?       |  |  | | --- | --- | | A. | It is obligated to be a member of the World Trade Organization. |  |  |  | | --- | --- | | B. | Its political and economic systems are dependent on other nations. |  |  |  | | --- | --- | | C. | It enjoys full legal equality with other states. |  |  |  | | --- | --- | | D. | It has the power to enter into agreements with only select nations. |  |  |  | | --- | --- | | E. | It is bounded by external control. | |

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| 33. | \_\_\_\_\_ refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.       |  |  | | --- | --- | | A. | Sovereignty |  |  |  | | --- | --- | | B. | Self-governance |  |  |  | | --- | --- | | C. | Ethnocentrism |  |  |  | | --- | --- | | D. | Autocracy |  |  |  | | --- | --- | | E. | Non-interventionism | |

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| 34. | What was the goal of the April 2009 agreement arrived at by the G20 nations, which required them to cede some sovereignty?      |  |  | | --- | --- | | A. | Include all G20 nations in the Security Council. |  |  |  | | --- | --- | | B. | Fix escalating oil prices. |  |  |  | | --- | --- | | C. | Increase infrastructure funding. |  |  |  | | --- | --- | | D. | Reject protectionism. |  |  |  | | --- | --- | | E. | Increase aid to South Africa. | |

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| 35. | Adherence to the WTO means:       |  |  | | --- | --- | | A. | more avenues for outsourcing. |  |  |  | | --- | --- | | B. | loss of national security to a large extent. |  |  |  | | --- | --- | | C. | procurement of economies of scale. |  |  |  | | --- | --- | | D. | loss of some degree of national sovereignty. |  |  |  | | --- | --- | | E. | limited scope for foreign direct investments. | |

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| 36. | The ideal political climate for a multinational firm is:       |  |  | | --- | --- | | A. | a country where international laws do not apply. |  |  |  | | --- | --- | | B. | a country where favors can be purchased cheaply. |  |  |  | | --- | --- | | C. | a country with a stable and friendly government. |  |  |  | | --- | --- | | D. | a government where absolute power is a reality. |  |  |  | | --- | --- | | E. | an authoritarian government that can be dealt with through non-legal channels. | |

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| 37. | Which of the following is the top political issue concerning foreign businesses?       |  |  | | --- | --- | | A. | Demographic profile of political leaders |  |  |  | | --- | --- | | B. | Government policies on infrastructure |  |  |  | | --- | --- | | C. | Economic awareness of political leaders |  |  |  | | --- | --- | | D. | Stability of prevailing government policies |  |  |  | | --- | --- | | E. | Membership of governments in trade treaties | |

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| 38. | Which of the following is a political cause of instability in international markets?      |  |  | | --- | --- | | A. | Varied taxing conventions |  |  |  | | --- | --- | | B. | Differences in economic philosophies |  |  |  | | --- | --- | | C. | Global focus |  |  |  | | --- | --- | | D. | Activism |  |  |  | | --- | --- | | E. | Trade disputes | |

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| 39. | Monarchy, like \_\_\_\_\_, is a form of government ruled by one.       |  |  | | --- | --- | | A. | aristocracy |  |  |  | | --- | --- | | B. | dictatorship |  |  |  | | --- | --- | | C. | democracy |  |  |  | | --- | --- | | D. | monopoly |  |  |  | | --- | --- | | E. | oligarchy | |

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| 40. | The ancient Greeks conceived three fundamental forms of government. Which of the following refers to a government ruled by one?       |  |  | | --- | --- | | A. | Aristocracy |  |  |  | | --- | --- | | B. | Monarchy |  |  |  | | --- | --- | | C. | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Oligarchy | |

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| 41. | Which of the following government forms is ruled by a few?       |  |  | | --- | --- | | A. | Aristocracy |  |  |  | | --- | --- | | B. | Dictatorship |  |  |  | | --- | --- | | C. | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Monarchy | |

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| 42. | According to ancient Greeks which of the following refers to a fundamental government form ruled by many?       |  |  | | --- | --- | | A. | Aristocracy |  |  |  | | --- | --- | | B. | Dictatorship |  |  |  | | --- | --- | | C. | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Monarchy | |

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| 43. | Which of the following is a common term for a form of government in use today?       |  |  | | --- | --- | | A. | Protectionism |  |  |  | | --- | --- | | B. | Duopoly |  |  |  | | --- | --- | | C. | Oligopoly |  |  |  | | --- | --- | | D. | Capitalism |  |  |  | | --- | --- | | E. | Oligarchy | |

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| 44. | Which of the following countries is the only country to preclude women from voting and appears to be still completely in the dark ages with regard to suffrage?       |  |  | | --- | --- | | A. | Croatia |  |  |  | | --- | --- | | B. | Iran |  |  |  | | --- | --- | | C. | Bolivia |  |  |  | | --- | --- | | D. | Saudi Arabia |  |  |  | | --- | --- | | E. | Venezuela | |

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| 45. | In \_\_\_\_\_, police and military are not allowed to vote.       |  |  | | --- | --- | | A. | Croatia |  |  |  | | --- | --- | | B. | Iran |  |  |  | | --- | --- | | C. | Bolivia |  |  |  | | --- | --- | | D. | Saudi Arabia |  |  |  | | --- | --- | | E. | Peru | |

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| 46. | \_\_\_\_\_\_ is an intense feeling of state pride, unity, and an awakening of a country’s people to pride in their country.       |  |  | | --- | --- | | A. | Socialism |  |  |  | | --- | --- | | B. | Communism |  |  |  | | --- | --- | | C. | Fascism |  |  |  | | --- | --- | | D. | Nationalism |  |  |  | | --- | --- | | E. | Polarism | |

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| 47. | Which of the following is an instance of how nationalism can be manifested?      |  |  | | --- | --- | | A. | Membership in bilateral trade treaties. |  |  |  | | --- | --- | | B. | Call to buy a global counterpart’s products. |  |  |  | | --- | --- | | C. | Restrictions on imports. |  |  |  | | --- | --- | | D. | Removal of tariffs and quotas. |  |  |  | | --- | --- | | E. | Focus on global security. | |

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| 48. | With which of the following would the phrase “Buy American” be most closely associated?       |  |  | | --- | --- | | A. | Socialism |  |  |  | | --- | --- | | B. | Communism |  |  |  | | --- | --- | | C. | Nationalism |  |  |  | | --- | --- | | D. | Mercantilism |  |  |  | | --- | --- | | E. | Polarism | |

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| 49. | Which of the following is true of nationalism?       |  |  | | --- | --- | | A. | The more a country feels threatened by some outside force the less nationalistic the country becomes. |  |  |  | | --- | --- | | B. | A call to “buy our country’s products only” is one form of manifestation of national feelings. |  |  |  | | --- | --- | | C. | Nationalist feelings lead to loss of control over foreign investment. |  |  |  | | --- | --- | | D. | The more a country’s domestic economy declines, the less nationalistic it becomes. |  |  |  | | --- | --- | | E. | Nationalistic feelings are not prevalent in economically prosperous countries. | |

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| 50. | With respect to political risk that can be faced by a company seeking to invest abroad, which of the following is most severe?       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | C. | Domestication |  |  |  | | --- | --- | | D. | Exchange controls |  |  |  | | --- | --- | | E. | Local-content laws | |

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| 51. | The seizing of a company’s assets without payment is called:       |  |  | | --- | --- | | A. | confiscation. |  |  |  | | --- | --- | | B. | expropriation. |  |  |  | | --- | --- | | C. | domestication. |  |  |  | | --- | --- | | D. | exchange controls. |  |  |  | | --- | --- | | E. | local-content laws. | |

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| 52. | When a government seizes an investment of a foreign investor but some reimbursement for the assets is made, the government is following a process called:       |  |  | | --- | --- | | A. | confiscation. |  |  |  | | --- | --- | | B. | expropriation. |  |  |  | | --- | --- | | C. | domestication. |  |  |  | | --- | --- | | D. | exchange controls. |  |  |  | | --- | --- | | E. | local-content laws. | |

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| 53. | When does an expropriated investment become a government-run entity?       |  |  | | --- | --- | | A. | On democratization |  |  |  | | --- | --- | | B. | On domestication |  |  |  | | --- | --- | | C. | On nationalization |  |  |  | | --- | --- | | D. | On prioritization |  |  |  | | --- | --- | | E. | On socialization | |

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| 54. | \_\_\_\_\_ occurs when host countries gradually cause the transfer of foreign investment to national control and ownership through a series of government decrees by mandating local ownership and greater national involvement in a company’s management.       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | C. | Domestication |  |  |  | | --- | --- | | D. | Democratization |  |  |  | | --- | --- | | E. | Socialization | |

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| 55. | The government in Chile recently informed Clint Travis’ company that his retail grocery chain in Chile would have to be gradually turned over to the people of Chile by the year 2050. Additionally, starting next year fifty percent of the board of directors of the Chilean operation of the company must be Chileans. Which of the following political risk actions is Mr. Travis’ company facing in Chile?       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | C. | Domestication |  |  |  | | --- | --- | | D. | Patronization |  |  |  | | --- | --- | | E. | Socialization | |

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| 56. | Which of the following is true of domestication?       |  |  | | --- | --- | | A. | The ultimate goal of domestication is to force domestic investors to share more of the profits with the government. |  |  |  | | --- | --- | | B. | The risk of domestication appears to have decreased over the last two decades. |  |  |  | | --- | --- | | C. | Domestication has led to more technologically advanced and competitive businesses. |  |  |  | | --- | --- | | D. | Nowadays, countries often require companies to become domesticated as a condition for investment. |  |  |  | | --- | --- | | E. | It is the seizing of a company’s assets without payment. | |

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| 57. | \_\_\_\_\_ stem from shortages of foreign currency held by a country.       |  |  | | --- | --- | | A. | Exchange controls |  |  |  | | --- | --- | | B. | Local-content laws |  |  |  | | --- | --- | | C. | Price controls |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Production costs | |

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| 58. | If there is a substantial amount of capital leaving a country, which of the following is the country likely to implement to control the situation?       |  |  | | --- | --- | | A. | Exchange controls |  |  |  | | --- | --- | | B. | Local-content laws |  |  |  | | --- | --- | | C. | Import restrictions |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Price controls | |

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| 59. | In Thailand, it is required that any milk products sold in the country must contain at least 50 percent milk from Thai dairy farmers. Which of the following economic risks faced by international producers of milk is illustrated in this situation?       |  |  | | --- | --- | | A. | Exchange controls |  |  |  | | --- | --- | | B. | Local-content laws |  |  |  | | --- | --- | | C. | Import restrictions |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Price controls | |

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| 60. | The United States required that 50 percent of all parts used in an automobile constructed in the United States must contain parts that were manufactured in the United States. When Toyota Motor Company built automobile manufacturing plants in Tennessee and Ohio, it faced economic risks associated with \_\_\_\_\_.       |  |  | | --- | --- | | A. | exchange controls |  |  |  | | --- | --- | | B. | local-content laws |  |  |  | | --- | --- | | C. | import restrictions |  |  |  | | --- | --- | | D. | tax controls |  |  |  | | --- | --- | | E. | price controls | |

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| 61. | Taxes must be classified as a \_\_\_\_\_ risk when used as a means of controlling foreign investments.       |  |  | | --- | --- | | A. | political |  |  |  | | --- | --- | | B. | social |  |  |  | | --- | --- | | C. | financial |  |  |  | | --- | --- | | D. | environmental |  |  |  | | --- | --- | | E. | legal | |

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| 62. | Since the government of Nigeria is strapped for cash, it has decided to tax all foreign investments (such as oil production equipment) by up to forty percent of the appraised value. The Nigerian government has found that this is the handiest and quickest means of finding operating funds. The economic risk in discussion here is:       |  |  | | --- | --- | | A. | exchange controls. |  |  |  | | --- | --- | | B. | local-content laws. |  |  |  | | --- | --- | | C. | tax restrictions. |  |  |  | | --- | --- | | D. | tax controls. |  |  |  | | --- | --- | | E. | price controls. | |

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| 63. | Price controls are used during inflationary periods to:       |  |  | | --- | --- | | A. | control the cost of living. |  |  |  | | --- | --- | | B. | restrict exports to foreign countries. |  |  |  | | --- | --- | | C. | negotiate trade contracts favoring the host country. |  |  |  | | --- | --- | | D. | encourage imports. |  |  |  | | --- | --- | | E. | collect taxes on foreign investments. | |

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| 64. | In North Korea, foreign investors or producers are required to sell products at prices stated by the North Korean government rather than letting market value and demand, determine the prices. This implies that there is severe application of \_\_\_\_\_.       |  |  | | --- | --- | | A. | exchange controls |  |  |  | | --- | --- | | B. | local-content laws |  |  |  | | --- | --- | | C. | import restrictions |  |  |  | | --- | --- | | D. | tax controls |  |  |  | | --- | --- | | E. | price controls | |

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| 65. | Which of the following is more likely to be subjected to price control?       |  |  | | --- | --- | | A. | Leather garments |  |  |  | | --- | --- | | B. | Mobile phone accessories |  |  |  | | --- | --- | | C. | Aspirin and antacids |  |  |  | | --- | --- | | D. | Handycams and lenses |  |  |  | | --- | --- | | E. | Ceramic tiles | |

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| 66. | Stopping or refusing to trade with another nation for political reasons is called:       |  |  | | --- | --- | | A. | monopolizing. |  |  |  | | --- | --- | | B. | boycotting. |  |  |  | | --- | --- | | C. | confiscation. |  |  |  | | --- | --- | | D. | democratization. |  |  |  | | --- | --- | | E. | expropriation. | |

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| 67. | Which of the following statements is true of political sanctions?       |  |  | | --- | --- | | A. | Political sanctions normally control and rectify situations within a nation. |  |  |  | | --- | --- | | B. | Political sanctions are generally not very successful. |  |  |  | | --- | --- | | C. | Political sanctions are illegal. |  |  |  | | --- | --- | | D. | The United Nations encourages boycotts as a means of settling disputes. |  |  |  | | --- | --- | | E. | Political sanctions are least effective against consumer goods. | |

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| 68. | Which of the following represents a new and powerful tool of PSAs?      |  |  | | --- | --- | | A. | International funds. |  |  |  | | --- | --- | | B. | National governments backing their causes. |  |  |  | | --- | --- | | C. | The Internet and cell phone combination. |  |  |  | | --- | --- | | D. | The United Nations and its affiliated bodies. |  |  |  | | --- | --- | | E. | Private companies providing technical support. | |

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| 69. | Which of the following is an NGO (nongovernmental organization) group?       |  |  | | --- | --- | | A. | Central Intelligence Agency |  |  |  | | --- | --- | | B. | Peace Corps |  |  |  | | --- | --- | | C. | Millennium Challenge Corporation |  |  |  | | --- | --- | | D. | Oxfam |  |  |  | | --- | --- | | E. | FedEx | |

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| 70. | Why do terrorism experts predict multinational businesses will be targeted by terrorists more frequently?       |  |  | | --- | --- | | A. | They are rich and powerful. |  |  |  | | --- | --- | | B. | They are capitalists and are major contributors to the society. |  |  |  | | --- | --- | | C. | They are less well defended. |  |  |  | | --- | --- | | D. | They destroy and pollute the environment. |  |  |  | | --- | --- | | E. | They are subterfuge for espionage agents. | |

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| 71. | Which of the following forms of terrorism uses the Internet to inflict damage?       |  |  | | --- | --- | | A. | Germterrorism |  |  |  | | --- | --- | | B. | Bioterrorism |  |  |  | | --- | --- | | C. | Cyberterrorism |  |  |  | | --- | --- | | D. | Ecoterrorism |  |  |  | | --- | --- | | E. | Narcoterrorism | |

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| 72. | “Slammer,” “Melissa,” and “Goner worm” are all examples of:       |  |  | | --- | --- | | A. | viruses damaging the Internet. |  |  |  | | --- | --- | | B. | politically sensitive products. |  |  |  | | --- | --- | | C. | third-world diseases. |  |  |  | | --- | --- | | D. | hackers intent on attacking multinational businesses. |  |  |  | | --- | --- | | E. | new video games espousing Internet crime. | |

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| 73. | Brian is attempting to forecast political instability and help management identify and evaluate political events and their potential influence on current and future international business decisions. Brian is engaged in:       |  |  | | --- | --- | | A. | political risk assessment. |  |  |  | | --- | --- | | B. | political securitization. |  |  |  | | --- | --- | | C. | democratization. |  |  |  | | --- | --- | | D. | risk conditioning. |  |  |  | | --- | --- | | E. | quantification of risk. | |

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| 74. | In terms of political risk, which of the following poses the greatest threat to international marketers?      |  |  | | --- | --- | | A. | Newer environmental regulations approved by global trade bodies. |  |  |  | | --- | --- | | B. | Change of economic policies. |  |  |  | | --- | --- | | C. | Exchange rate fluctuations affecting margins. |  |  |  | | --- | --- | | D. | The possibility of the government actually failing. |  |  |  | | --- | --- | | E. | Membership or withdrawal of membership of the government in trade blocs. | |

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| 75. | Relations between governments and MNCs are generally positive if the investment:       |  |  | | --- | --- | | A. | increases the volume of imports. |  |  |  | | --- | --- | | B. | uses globally produced resources. |  |  |  | | --- | --- | | C. | brings capital, technology, and/or skills. |  |  |  | | --- | --- | | D. | brings in more number of foreign nationals. |  |  |  | | --- | --- | | E. | outsources work back to its home country. | |

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| 76. | Meteora Inc. is planning to enter the African market through its mobile phone manufacturing operations in Kenya. Which of the following could favor a positive relation with the host country?      |  |  | | --- | --- | | A. | Meteora Inc. using their manufacturing unit as an export base. |  |  |  | | --- | --- | | B. | Meteora Inc. importing phone components from China. |  |  |  | | --- | --- | | C. | Meteora having an R&D center in California and have all technology patented there. |  |  |  | | --- | --- | | D. | Having most of Meteora Inc.’s middle and upper management be expatriates. |  |  |  | | --- | --- | | E. | Meteora bargaining for a tax holiday for the next five financial years. | |

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| 77. | Juliet is concerned with the potential for political harassment when her company enters a new international market. To reduce the risk of political harassment, she will consider using \_\_\_\_\_ to enter the market.       |  |  | | --- | --- | | A. | externally produced products |  |  |  | | --- | --- | | B. | a smaller investment base |  |  |  | | --- | --- | | C. | foreign technology |  |  |  | | --- | --- | | D. | joint ventures |  |  |  | | --- | --- | | E. | sole-proprietorships | |

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| 78. | Which of the following is a strategy that multinational corporations use to minimize political vulnerability and risk?       |  |  | | --- | --- | | A. | Expropriation |  |  |  | | --- | --- | | B. | Sanctions |  |  |  | | --- | --- | | C. | Buy outs |  |  |  | | --- | --- | | D. | Confiscation |  |  |  | | --- | --- | | E. | Licensing | |

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| 79. | Which of the following strategies can be effective in forestalling or minimizing the effect of a total takeover of a multinational corporation’s holdings by a foreign government?       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Sole-proprietorship |  |  |  | | --- | --- | | C. | Expanding the investment base |  |  |  | | --- | --- | | D. | Advertising |  |  |  | | --- | --- | | E. | Leasing | |

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| 80. | Which of the following strategies to minimize political vulnerability and risk has the advantage of engaging the power of several investors and banks in the host country whenever any kind of government takeover or harassment is threatened?       |  |  | | --- | --- | | A. | Joint ventures |  |  |  | | --- | --- | | B. | Licensing |  |  |  | | --- | --- | | C. | Expanding the investment base |  |  |  | | --- | --- | | D. | Sole-proprietorship |  |  |  | | --- | --- | | E. | Political bargaining | |

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| 81. | Which of the following strategies minimizes political risks for a multinational corporation in situations in which the technology is unique and the risk is high?       |  |  | | --- | --- | | A. | Joint ventures |  |  |  | | --- | --- | | B. | Licensing |  |  |  | | --- | --- | | C. | Expanding the investment base |  |  |  | | --- | --- | | D. | Planned domestication |  |  |  | | --- | --- | | E. | Multi-facilities | |

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| 82. | The most effective solution to a situation where a foreign government is demanding local participation in a multinational corporation’s business activities in the host country is:       |  |  | | --- | --- | | A. | joint ventures. |  |  |  | | --- | --- | | B. | licensing. |  |  |  | | --- | --- | | C. | expanding the investment base. |  |  |  | | --- | --- | | D. | planned domestication. |  |  |  | | --- | --- | | E. | political payoffs. | |

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| 83. | While expanding the investment base of a company, which of the following can be used as a powerful ally in dealing with threats of government takeovers or harassment?      |  |  | | --- | --- | | A. | Banks lending to the host government |  |  |  | | --- | --- | | B. | World Trade Organization |  |  |  | | --- | --- | | C. | International Labor Organization |  |  |  | | --- | --- | | D. | Regional trade blocs |  |  |  | | --- | --- | | E. | Opposing political parties | |

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| 84. | An attempt to lessen political risks by paying those in power to intervene on behalf of the multinational company is referred to as a \_\_\_\_\_.       |  |  | | --- | --- | | A. | subornation |  |  |  | | --- | --- | | B. | protectionism |  |  |  | | --- | --- | | C. | political payoff |  |  |  | | --- | --- | | D. | buy out |  |  |  | | --- | --- | | E. | rake-off | |

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| 85. | Which of the following best describes the U.S. government’s policy toward multinational corporations that are confronted with situations where bribery is an issue?       |  |  | | --- | --- | | A. | A bribe may be paid as long as it is not a domestic situation. |  |  |  | | --- | --- | | B. | It is justified if it is a documented traditional practice in a country. |  |  |  | | --- | --- | | C. | A bribe can be paid in a foreign country if it is tied to national security. |  |  |  | | --- | --- | | D. | It is illegal for a U.S. citizen to pay a bribe. |  |  |  | | --- | --- | | E. | The issue revolves around the customs of the country and each issue is decided separately. | |

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| 86. | Which of the following is the principle U.S. agency that supports U.S. business abroad?       |  |  | | --- | --- | | A. | State Department of Entrepreneurship |  |  |  | | --- | --- | | B. | Better Business Bureau |  |  |  | | --- | --- | | C. | Department of Commerce |  |  |  | | --- | --- | | D. | Department of Foreign Relations |  |  |  | | --- | --- | | E. | Department of Defense | |

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| 87. | Within the same country, some foreign businesses may fall prey to politically induced harassment, while others may be placed under a government umbrella of protection and preferential treatment. What explains this difference?      |  |  | | --- | --- | | A. | The level of domestication achieved. |  |  |  | | --- | --- | | B. | The host nation’s relations with the business’ home country. |  |  |  | | --- | --- | | C. | The cultural differences between the host nation and the business’ home country. |  |  |  | | --- | --- | | D. | The amount of funds invested in the business. |  |  |  | | --- | --- | | E. | The evaluation of a company’s contribution to the nation’s interest. | |

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| 88. | Which of the following is the most important reason to encourage foreign investment?      |  |  | | --- | --- | | A. | Improve global image of the country. |  |  |  | | --- | --- | | B. | Accelerate the development of an economy. |  |  |  | | --- | --- | | C. | Evade political tensions between countries. |  |  |  | | --- | --- | | D. | Minimize negative political fallouts within the domestic economy. |  |  |  | | --- | --- | | E. | Improves ties between the investing country and the host country. | |

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| 89. | Which of the following agencies underwrites trade and investments for U.S. firms?       |  |  | | --- | --- | | A. | Export-Import Bank |  |  |  | | --- | --- | | B. | The Federal Trade Commission |  |  |  | | --- | --- | | C. | The Agency for International Development |  |  |  | | --- | --- | | D. | Social Security Advisory Board |  |  |  | | --- | --- | | E. | The Overseas Private Investment Corporation | |

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| 90. | Which of the following agencies is dedicated to helping U.S. business compete in a global marketplace?       |  |  | | --- | --- | | A. | Commodity Futures Trading Commission (CFTC) |  |  |  | | --- | --- | | B. | The Federal Trade Commission (FTC) |  |  |  | | --- | --- | | C. | The Small Business Administration (SBA) |  |  |  | | --- | --- | | D. | The United States International Trade Commission (USITC) |  |  |  | | --- | --- | | E. | The International Trade Administration (ITA) | |

**Essay Questions**

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| 91. | Describe the characteristics of a sovereign state. |

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| 92. | Discuss stability of governments and list the main political causes of instability in international markets. |

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| 93. | Describe the concept of nationalism and list some of the ways it manifests. |

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| 94. | Discuss and compare the terms confiscation, expropriation, and domestication. |

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| 95. | List and briefly discuss the various economic risks that international companies must face when they seek to market abroad. |

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| 96. | Briefly discuss the role of PSAs and NGOs. |

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| 97. | Discuss the threats posed by cyberterrorism or cyberattacks with an example. |

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| 98. | What are the conditions under which relations between governments and MNCs are generally positive? |

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| 99. | Ranzania, as a country, would like to increase its control and ownership of foreign investments in its country. However, Ranzania does not want to cut off or discourage foreign investment. Cite and describe a political risk strategy that Ranzania could follow that would meet the aforementioned objective. |

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| 100. | List the government agencies that are involved in promoting foreign investment and international business. |

Chapter 06 The Political Environment: A Critical Concern Answer Key

**True / False Questions**

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| 1. | Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.     **TRUE**  Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members. A state sets requirements for citizenship, defines geographical boundaries, and controls trade and the movement of people and goods across its borders. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 2. | Foreign investment can be perceived as a threat to sovereignty.     **TRUE**  Foreign investment can be perceived as a threat to sovereignty and thus become a rallying cry by opposing factions. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 3. | Adherence to World Trade Organization (WTO) rules means a loss of some degree of national sovereignty.     **TRUE**  Adherence to the WTO inevitably means the loss of some degree of national sovereignty, because the member nations have pledged to abide by international covenants and arbitration procedures that can override national laws and have far-reaching ramifications for citizens. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 4. | At the top of the list of political issues concerning foreign businesses is the issue of taxation and tariffs.     **FALSE**  At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 5. | Pressure from nationalist and self-interest groups affect the stability of a government.     **TRUE**  Radical shifts in government philosophy when an opposing political party ascends to power, pressure from nationalist and self-interest groups, weakened economic conditions, bias against foreign investment, or conflicts among governments are all issues that can affect the stability of a government. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 6. | Saudi Arabia permits women to vote if they are at least 18 years old and married or 21 years old, if single.     **FALSE**  Saudi Arabia precludes women from voting and appears to be the only state still completely in the dark ages with regard to suffrage. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 7. | Nationalism can take an anti-foreign business bias.     **TRUE**  Nationalism can best be described as an intense feeling of national pride and unity, an awakening of a nation’s people to pride in their country. This pride can take an anti–foreign business bias, where minor harassment and controls of foreign investment are supported, if not applauded. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 8. | Nationalistic feelings are directly proportional to growth of domestic economy.     **FALSE**  The more a country feels threatened by some outside force or the domestic economy declines, the more nationalistic it becomes in protecting itself against intrusions. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 9. | Economically prosperous countries do not display strong nationalistic feelings.     **FALSE**  Although militant economic nationalism has subsided, nationalistic feelings can be found even in the most economically prosperous countries. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 10. | The most severe political risk is domestication.     **FALSE**  The most severe political risk is confiscation, that is, the seizing of a company's assets without payment. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 11. | The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication.     **TRUE**  The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 12. | Expropriation and nationalization often lead to nationalized businesses that are efficient, technologically strong, and competitive in world markets.     **FALSE**  Expropriation and nationalization have often led to nationalized businesses that were inefficient, technologically weak, and noncompetitive in world markets. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 13. | Barring Latin America, the risks of confiscation and expropriation have lessened over the last two decades.     **TRUE**  Risks of confiscation and expropriation appear to have lessened over the last two decades (with exceptions in Latin America, particularly Venezuela) because experience has shown that few of the desired benefits materialize after government takeover. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 14. | Many countries have domestication as a condition for investment.     **TRUE**  Today, countries often require prospective investors to agree to share ownership, use local content, enter into labor and management agreements, and share participation in export sales as a condition of entry; in effect, the company has to become domesticated as a condition for investment. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 15. | Price controls are normally targeted at nonessential products.     **FALSE**  Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 3 Hard Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 16. | Political sanctions are the most effective means of achieving the desired goal of forcing a country to accept demands of the boycotting country.     **FALSE**  History indicates that sanctions are almost always unsuccessful in reaching desired goals, particularly when other major nations’ traders ignore them. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 17. | Political and social activists have no impact on the normal flow of trade.     **FALSE**  Although not usually officially sanctioned by the government, the impact of political and social activists (PSAs) can also interrupt the normal flow of trade. PSAs can range from those who seek to bring about peaceful change to those who resort to violence and terrorism to effect change. When well organized, the actions of PSAs can succeed. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 18. | Nongovernmental organizations affect the policy decisions made by governments.     **TRUE**  Often associated with political activism, nongovernmental organizations (NGOs) are increasingly affecting policy decisions made by governments. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 19. | Risk of violence is not a consideration in assessing the political vulnerability of a multinational company’s activities.     **FALSE**  Although not usually government initiated, violence is another related risk for multinational companies to consider in assessing the political vulnerability of their activities. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 20. | International warfare is fast gaining popularity among nations.     **FALSE**  International warfare is fast becoming obsolete. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 21. | Due to advancements in technology, it is easy to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank.     **FALSE**  One problem in tracing cyberterrorists and criminals is that it is hard to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 3 Hard Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 22. | As cultural and political scenario varies so widely across nations, there is absolutely no way to generalize tendencies for products to be politically sensitive.     **FALSE**  Although there are no specific guidelines to determine a product’s vulnerability at any point, there are some generalizations that help identify the tendency for products to be politically sensitive. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Assessing Political Vulnerability* |

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| 23. | Products that have or are perceived to have an effect on the environment are more likely to be politically sensitive.     **TRUE**  Products that have or are perceived to have an effect on the environment, exchange rates, national and economic security, and the welfare of people or that are publicly visible, subject to public debate, or associated with their country of origin are more likely to be politically sensitive. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Assessing Political Vulnerability* |

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| 24. | A single company can directly control or alter the political environment of the country within which it operates.     **FALSE**  Although a company cannot directly control or alter the political environment of the country within which it operates, a specific business venture can take measures to lessen its degree of susceptibility to politically induced risks. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 25. | Relations between governments and MNCs are generally negative, even if the investment improves the balance of payments by increasing exports or reducing imports.     **FALSE**  Relations between governments and MNCs are generally positive if the investment (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, and/or skills; (4) creates jobs; and/or (5) makes tax contributions. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 26. | Licensing is least effective when the technology is unique.     **FALSE**  Licensing can be effective in situations in which the technology is unique and the risk is high. Of course, there is some risk assumed, because the licensee can refuse to pay the required fees while continuing to use the technology. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 27. | Planned domestication can be profitable and operationally expedient for the foreign investor.     **TRUE**  As a reasonable response to the potential of domestication, planned domestication can be profitable and operationally expedient for the foreign investor. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 28. | It is illegal for U.S. citizens to pay bribe unless it is a common practice in the host country.     **FALSE**  Bribery poses problems for the marketer at home and abroad, because it is illegal for U.S. citizens to pay a bribe even if it is a common practice in the host country. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 29. | The principal agency that supports U.S. business abroad is the Department of Commerce (DOC).     **TRUE**  The Department of Commerce (DOC) is the principal agency that supports U.S. business abroad. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

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| 30. | The Foreign Credit Insurance Association underwrites trade and investments for U.S. firms.     **FALSE**  The Export-Import Bank (Ex-Im Bank) underwrites trade and investments for U.S. firms. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

**Multiple Choice Questions**

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| 31. | In the context of international law, a \_\_\_\_\_ state is independent and free from all external control.       |  |  | | --- | --- | | A. | bounded |  |  |  | | --- | --- | | **B.** | sovereign |  |  |  | | --- | --- | | C. | legal |  |  |  | | --- | --- | | D. | liberal |  |  |  | | --- | --- | | E. | neutral |   In the context of international law, a sovereign state is independent and free from all external control; enjoys full legal equality with other states; governs its own territory; selects its own political, economic, and social systems; and has the power to enter into agreements with other nations. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 32. | Which of the following is true of a sovereign state?       |  |  | | --- | --- | | A. | It is obligated to be a member of the World Trade Organization. |  |  |  | | --- | --- | | B. | Its political and economic systems are dependent on other nations. |  |  |  | | --- | --- | | **C.** | It enjoys full legal equality with other states. |  |  |  | | --- | --- | | D. | It has the power to enter into agreements with only select nations. |  |  |  | | --- | --- | | E. | It is bounded by external control. |   In the context of international law, a sovereign state is independent and free from all external control; enjoys full legal equality with other states; governs its own territory; selects its own political, economic, and social systems; and has the power to enter into agreements with other nations. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 33. | \_\_\_\_\_ refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members.       |  |  | | --- | --- | | **A.** | Sovereignty |  |  |  | | --- | --- | | B. | Self-governance |  |  |  | | --- | --- | | C. | Ethnocentrism |  |  |  | | --- | --- | | D. | Autocracy |  |  |  | | --- | --- | | E. | Non-interventionism |   Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 34. | What was the goal of the April 2009 agreement arrived at by the G20 nations, which required them to cede some sovereignty?      |  |  | | --- | --- | | A. | Include all G20 nations in the Security Council. |  |  |  | | --- | --- | | B. | Fix escalating oil prices. |  |  |  | | --- | --- | | C. | Increase infrastructure funding. |  |  |  | | --- | --- | | **D.** | Reject protectionism. |  |  |  | | --- | --- | | E. | Increase aid to South Africa. |   The leaders of the G20 nations ceded some sovereignty in their hugely important April 2009 agreement to "reject protectionism" at the nadir of the 2009 crash, when world trade had declined more than 12 percent. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 35. | Adherence to the WTO means:       |  |  | | --- | --- | | A. | more avenues for outsourcing. |  |  |  | | --- | --- | | B. | loss of national security to a large extent. |  |  |  | | --- | --- | | C. | procurement of economies of scale. |  |  |  | | --- | --- | | **D.** | loss of some degree of national sovereignty. |  |  |  | | --- | --- | | E. | limited scope for foreign direct investments. |   Adherence to the WTO inevitably means the loss of some degree of national sovereignty, because the member nations have pledged to abide by international covenants and arbitration procedures that can override national laws and have far-reaching ramifications for citizens. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 36. | The ideal political climate for a multinational firm is:       |  |  | | --- | --- | | A. | a country where international laws do not apply. |  |  |  | | --- | --- | | B. | a country where favors can be purchased cheaply. |  |  |  | | --- | --- | | **C.** | a country with a stable and friendly government. |  |  |  | | --- | --- | | D. | a government where absolute power is a reality. |  |  |  | | --- | --- | | E. | an authoritarian government that can be dealt with through non-legal channels. |   The ideal political climate for a multinational firm is a stable, friendly government. Because foreign businesses are judged by standards as variable as there are nations, the stability and friendliness of the government in each country must be assessed as an ongoing business practice. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 37. | Which of the following is the top political issue concerning foreign businesses?       |  |  | | --- | --- | | A. | Demographic profile of political leaders |  |  |  | | --- | --- | | B. | Government policies on infrastructure |  |  |  | | --- | --- | | C. | Economic awareness of political leaders |  |  |  | | --- | --- | | **D.** | Stability of prevailing government policies |  |  |  | | --- | --- | | E. | Membership of governments in trade treaties |   At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 38. | Which of the following is a political cause of instability in international markets?      |  |  | | --- | --- | | A. | Varied taxing conventions |  |  |  | | --- | --- | | B. | Differences in economic philosophies |  |  |  | | --- | --- | | C. | Global focus |  |  |  | | --- | --- | | D. | Activism |  |  |  | | --- | --- | | **E.** | Trade disputes |   There are five main political causes of instability in international markets: (1) some forms of government seem to be inherently unstable, (2) changes in political parties during elections can have major effects on trade conditions, (3) nationalism, (4) animosity targeted toward specific countries, and (5) trade disputes themselves. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 39. | Monarchy, like \_\_\_\_\_, is a form of government ruled by one.       |  |  | | --- | --- | | A. | aristocracy |  |  |  | | --- | --- | | **B.** | dictatorship |  |  |  | | --- | --- | | C. | democracy |  |  |  | | --- | --- | | D. | monopoly |  |  |  | | --- | --- | | E. | oligarchy |   Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 40. | The ancient Greeks conceived three fundamental forms of government. Which of the following refers to a government ruled by one?       |  |  | | --- | --- | | A. | Aristocracy |  |  |  | | --- | --- | | **B.** | Monarchy |  |  |  | | --- | --- | | C. | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Oligarchy |   Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 41. | Which of the following government forms is ruled by a few?       |  |  | | --- | --- | | **A.** | Aristocracy |  |  |  | | --- | --- | | B. | Dictatorship |  |  |  | | --- | --- | | C. | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Monarchy |   Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 42. | According to ancient Greeks which of the following refers to a fundamental government form ruled by many?       |  |  | | --- | --- | | A. | Aristocracy |  |  |  | | --- | --- | | B. | Dictatorship |  |  |  | | --- | --- | | **C.** | Democracy |  |  |  | | --- | --- | | D. | Monopoly |  |  |  | | --- | --- | | E. | Monarchy |   Circa 500 BC, the ancient Greeks conceived of and criticized three fundamental forms of government: rule by one, rule by few, and rule by many. The common terms for these forms in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 43. | Which of the following is a common term for a form of government in use today?       |  |  | | --- | --- | | A. | Protectionism |  |  |  | | --- | --- | | B. | Duopoly |  |  |  | | --- | --- | | C. | Oligopoly |  |  |  | | --- | --- | | D. | Capitalism |  |  |  | | --- | --- | | **E.** | Oligarchy |   The common terms for the various forms of government in use today are monarchy (or dictatorship), aristocracy (or oligarchy), and democracy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 44. | Which of the following countries is the only country to preclude women from voting and appears to be still completely in the dark ages with regard to suffrage?       |  |  | | --- | --- | | A. | Croatia |  |  |  | | --- | --- | | B. | Iran |  |  |  | | --- | --- | | C. | Bolivia |  |  |  | | --- | --- | | **D.** | Saudi Arabia |  |  |  | | --- | --- | | E. | Venezuela |   Saudi Arabia precludes women from voting. It appears to be the only state still completely in the dark ages with regard to suffrage. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 45. | In \_\_\_\_\_, police and military are not allowed to vote.       |  |  | | --- | --- | | A. | Croatia |  |  |  | | --- | --- | | B. | Iran |  |  |  | | --- | --- | | C. | Bolivia |  |  |  | | --- | --- | | D. | Saudi Arabia |  |  |  | | --- | --- | | **E.** | Peru |   In Peru, police and military are not allowed to vote. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 46. | \_\_\_\_\_\_ is an intense feeling of state pride, unity, and an awakening of a country’s people to pride in their country.       |  |  | | --- | --- | | A. | Socialism |  |  |  | | --- | --- | | B. | Communism |  |  |  | | --- | --- | | C. | Fascism |  |  |  | | --- | --- | | **D.** | Nationalism |  |  |  | | --- | --- | | E. | Polarism |   Nationalism can best be described as an intense feeling of national pride and unity, an awakening of a nation’s people to pride in their country. This pride can take an anti–foreign business bias, where minor harassment and controls of foreign investment are supported, if not applauded. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 47. | Which of the following is an instance of how nationalism can be manifested?      |  |  | | --- | --- | | A. | Membership in bilateral trade treaties. |  |  |  | | --- | --- | | B. | Call to buy a global counterpart’s products. |  |  |  | | --- | --- | | **C.** | Restrictions on imports. |  |  |  | | --- | --- | | D. | Removal of tariffs and quotas. |  |  |  | | --- | --- | | E. | Focus on global security. |   Feelings of nationalism are manifested in a variety of ways, including a call to “buy our country’s products only” (e.g., “Buy American”), restrictions on imports, restrictive tariffs, and other barriers to trade. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 48. | With which of the following would the phrase “Buy American” be most closely associated?       |  |  | | --- | --- | | A. | Socialism |  |  |  | | --- | --- | | B. | Communism |  |  |  | | --- | --- | | **C.** | Nationalism |  |  |  | | --- | --- | | D. | Mercantilism |  |  |  | | --- | --- | | E. | Polarism |   Feelings of nationalism are manifested in a variety of ways, including a call to “buy our country’s products only” (e.g., “Buy American”), restrictions on imports, restrictive tariffs, and other barriers to trade. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 49. | Which of the following is true of nationalism?       |  |  | | --- | --- | | A. | The more a country feels threatened by some outside force the less nationalistic the country becomes. |  |  |  | | --- | --- | | **B.** | A call to “buy our country’s products only” is one form of manifestation of national feelings. |  |  |  | | --- | --- | | C. | Nationalist feelings lead to loss of control over foreign investment. |  |  |  | | --- | --- | | D. | The more a country’s domestic economy declines, the less nationalistic it becomes. |  |  |  | | --- | --- | | E. | Nationalistic feelings are not prevalent in economically prosperous countries. |   Feelings of nationalism are manifested in a variety of ways, including a call to “buy our country’s products only” (e.g., “Buy American”). |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 50. | With respect to political risk that can be faced by a company seeking to invest abroad, which of the following is most severe?       |  |  | | --- | --- | | **A.** | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | C. | Domestication |  |  |  | | --- | --- | | D. | Exchange controls |  |  |  | | --- | --- | | E. | Local-content laws |   The most severe political risk is confiscation, that is, the seizing of a company’s assets without payment. Confiscation was most prevalent in the 1950s and 1960s when many underdeveloped countries saw confiscation, albeit ineffective, as a means of economic growth. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 51. | The seizing of a company’s assets without payment is called:       |  |  | | --- | --- | | **A.** | confiscation. |  |  |  | | --- | --- | | B. | expropriation. |  |  |  | | --- | --- | | C. | domestication. |  |  |  | | --- | --- | | D. | exchange controls. |  |  |  | | --- | --- | | E. | local-content laws. |   Confiscation is the seizing of a company’s assets without payment. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 52. | When a government seizes an investment of a foreign investor but some reimbursement for the assets is made, the government is following a process called:       |  |  | | --- | --- | | A. | confiscation. |  |  |  | | --- | --- | | **B.** | expropriation. |  |  |  | | --- | --- | | C. | domestication. |  |  |  | | --- | --- | | D. | exchange controls. |  |  |  | | --- | --- | | E. | local-content laws. |   Expropriation is when the government seizes an investment but makes some reimbursement for the assets. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 53. | When does an expropriated investment become a government-run entity?       |  |  | | --- | --- | | A. | On democratization |  |  |  | | --- | --- | | B. | On domestication |  |  |  | | --- | --- | | **C.** | On nationalization |  |  |  | | --- | --- | | D. | On prioritization |  |  |  | | --- | --- | | E. | On socialization |   When the expropriated investment is nationalized, it becomes a government-run entity. |

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| *AACSB: Analytic Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 54. | \_\_\_\_\_ occurs when host countries gradually cause the transfer of foreign investment to national control and ownership through a series of government decrees by mandating local ownership and greater national involvement in a company’s management.       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | **C.** | Domestication |  |  |  | | --- | --- | | D. | Democratization |  |  |  | | --- | --- | | E. | Socialization |   Domestication occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company’s management. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 55. | The government in Chile recently informed Clint Travis’ company that his retail grocery chain in Chile would have to be gradually turned over to the people of Chile by the year 2050. Additionally, starting next year fifty percent of the board of directors of the Chilean operation of the company must be Chileans. Which of the following political risk actions is Mr. Travis’ company facing in Chile?       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Expropriation |  |  |  | | --- | --- | | **C.** | Domestication |  |  |  | | --- | --- | | D. | Patronization |  |  |  | | --- | --- | | E. | Socialization |   Domestication occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company’s management. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 56. | Which of the following is true of domestication?       |  |  | | --- | --- | | A. | The ultimate goal of domestication is to force domestic investors to share more of the profits with the government. |  |  |  | | --- | --- | | B. | The risk of domestication appears to have decreased over the last two decades. |  |  |  | | --- | --- | | C. | Domestication has led to more technologically advanced and competitive businesses. |  |  |  | | --- | --- | | **D.** | Nowadays, countries often require companies to become domesticated as a condition for investment. |  |  |  | | --- | --- | | E. | It is the seizing of a company’s assets without payment. |   Today, countries often require prospective investors to agree to share ownership, use local content, enter into labor and management agreements, and share participation in export sales as a condition of entry; in effect, the company has to become domesticated as a condition for investment. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 57. | \_\_\_\_\_ stem from shortages of foreign currency held by a country.       |  |  | | --- | --- | | **A.** | Exchange controls |  |  |  | | --- | --- | | B. | Local-content laws |  |  |  | | --- | --- | | C. | Price controls |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Production costs |   Exchange controls stem from shortages of foreign exchange held by a country. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 58. | If there is a substantial amount of capital leaving a country, which of the following is the country likely to implement to control the situation?       |  |  | | --- | --- | | **A.** | Exchange controls |  |  |  | | --- | --- | | B. | Local-content laws |  |  |  | | --- | --- | | C. | Import restrictions |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Price controls |   Exchange controls stem from shortages of foreign exchange held by a country. When a nation faces shortages of foreign exchange and/or a substantial amount of capital is leaving the country, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the supply of foreign exchange for the most essential uses. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 59. | In Thailand, it is required that any milk products sold in the country must contain at least 50 percent milk from Thai dairy farmers. Which of the following economic risks faced by international producers of milk is illustrated in this situation?       |  |  | | --- | --- | | A. | Exchange controls |  |  |  | | --- | --- | | **B.** | Local-content laws |  |  |  | | --- | --- | | C. | Import restrictions |  |  |  | | --- | --- | | D. | Tax controls |  |  |  | | --- | --- | | E. | Price controls |   In addition to restricting imports of essential supplies to force local purchase, countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 60. | The United States required that 50 percent of all parts used in an automobile constructed in the United States must contain parts that were manufactured in the United States. When Toyota Motor Company built automobile manufacturing plants in Tennessee and Ohio, it faced economic risks associated with \_\_\_\_\_.       |  |  | | --- | --- | | A. | exchange controls |  |  |  | | --- | --- | | **B.** | local-content laws |  |  |  | | --- | --- | | C. | import restrictions |  |  |  | | --- | --- | | D. | tax controls |  |  |  | | --- | --- | | E. | price controls |   Selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 61. | Taxes must be classified as a \_\_\_\_\_ risk when used as a means of controlling foreign investments.       |  |  | | --- | --- | | **A.** | political |  |  |  | | --- | --- | | B. | social |  |  |  | | --- | --- | | C. | financial |  |  |  | | --- | --- | | D. | environmental |  |  |  | | --- | --- | | E. | legal |   Taxes are classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 62. | Since the government of Nigeria is strapped for cash, it has decided to tax all foreign investments (such as oil production equipment) by up to forty percent of the appraised value. The Nigerian government has found that this is the handiest and quickest means of finding operating funds. The economic risk in discussion here is:       |  |  | | --- | --- | | A. | exchange controls. |  |  |  | | --- | --- | | B. | local-content laws. |  |  |  | | --- | --- | | C. | tax restrictions. |  |  |  | | --- | --- | | **D.** | tax controls. |  |  |  | | --- | --- | | E. | price controls. |   Taxes are classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 63. | Price controls are used during inflationary periods to:       |  |  | | --- | --- | | **A.** | control the cost of living. |  |  |  | | --- | --- | | B. | restrict exports to foreign countries. |  |  |  | | --- | --- | | C. | negotiate trade contracts favoring the host country. |  |  |  | | --- | --- | | D. | encourage imports. |  |  |  | | --- | --- | | E. | collect taxes on foreign investments. |   Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 64. | In North Korea, foreign investors or producers are required to sell products at prices stated by the North Korean government rather than letting market value and demand, determine the prices. This implies that there is severe application of \_\_\_\_\_.       |  |  | | --- | --- | | A. | exchange controls |  |  |  | | --- | --- | | B. | local-content laws |  |  |  | | --- | --- | | C. | import restrictions |  |  |  | | --- | --- | | D. | tax controls |  |  |  | | --- | --- | | **E.** | price controls |   Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. They also may be used to force foreign companies to sell equity to local interests. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 65. | Which of the following is more likely to be subjected to price control?       |  |  | | --- | --- | | A. | Leather garments |  |  |  | | --- | --- | | B. | Mobile phone accessories |  |  |  | | --- | --- | | **C.** | Aspirin and antacids |  |  |  | | --- | --- | | D. | Handycams and lenses |  |  |  | | --- | --- | | E. | Ceramic tiles |   Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 66. | Stopping or refusing to trade with another nation for political reasons is called:       |  |  | | --- | --- | | A. | monopolizing. |  |  |  | | --- | --- | | **B.** | boycotting. |  |  |  | | --- | --- | | C. | confiscation. |  |  |  | | --- | --- | | D. | democratization. |  |  |  | | --- | --- | | E. | expropriation. |   In addition to economic risks, one or a group of nations may boycott another nation, thereby stopping all trade between the countries, or may issue sanctions against the trade of specific products. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 67. | Which of the following statements is true of political sanctions?       |  |  | | --- | --- | | A. | Political sanctions normally control and rectify situations within a nation. |  |  |  | | --- | --- | | **B.** | Political sanctions are generally not very successful. |  |  |  | | --- | --- | | C. | Political sanctions are illegal. |  |  |  | | --- | --- | | D. | The United Nations encourages boycotts as a means of settling disputes. |  |  |  | | --- | --- | | E. | Political sanctions are least effective against consumer goods. |   History indicates that sanctions are almost always unsuccessful in reaching desired goals, particularly when other major nations’ traders ignore them. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 68. | Which of the following represents a new and powerful tool of PSAs?      |  |  | | --- | --- | | A. | International funds. |  |  |  | | --- | --- | | B. | National governments backing their causes. |  |  |  | | --- | --- | | **C.** | The Internet and cell phone combination. |  |  |  | | --- | --- | | D. | The United Nations and its affiliated bodies. |  |  |  | | --- | --- | | E. | Private companies providing technical support. |   The Internet and cell phone combination has become an effective tool of PSAs to spread the word about whatever cause they sponsor. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 69. | Which of the following is an NGO (nongovernmental organization) group?       |  |  | | --- | --- | | A. | Central Intelligence Agency |  |  |  | | --- | --- | | B. | Peace Corps |  |  |  | | --- | --- | | C. | Millennium Challenge Corporation |  |  |  | | --- | --- | | **D.** | Oxfam |  |  |  | | --- | --- | | E. | FedEx |   Some NGOs have received global recognition—the Red Cross and Red Crescent, Amnesty International, Oxfam, UNICEF, Care, and Habitat for Humanity are examples—for their good works, political influence, and even their brand power. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 70. | Why do terrorism experts predict multinational businesses will be targeted by terrorists more frequently?       |  |  | | --- | --- | | A. | They are rich and powerful. |  |  |  | | --- | --- | | B. | They are capitalists and are major contributors to the society. |  |  |  | | --- | --- | | **C.** | They are less well defended. |  |  |  | | --- | --- | | D. | They destroy and pollute the environment. |  |  |  | | --- | --- | | E. | They are subterfuge for espionage agents. |   There are reasons to expect that businesses will become increasingly attractive to terrorists, both because they are less well defended than government targets and because of what they symbolize. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 71. | Which of the following forms of terrorism uses the Internet to inflict damage?       |  |  | | --- | --- | | A. | Germterrorism |  |  |  | | --- | --- | | B. | Bioterrorism |  |  |  | | --- | --- | | **C.** | Cyberterrorism |  |  |  | | --- | --- | | D. | Ecoterrorism |  |  |  | | --- | --- | | E. | Narcoterrorism |   Cyberterrorism and cybercrime is still in its infancy, and the Internet provides a vehicle for terrorist and criminal attacks by foreign and domestic antagonists wishing to inflict damage on a company with little chance of being caught. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 1 Easy Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 72. | “Slammer,” “Melissa,” and “Goner worm” are all examples of:       |  |  | | --- | --- | | **A.** | viruses damaging the Internet. |  |  |  | | --- | --- | | B. | politically sensitive products. |  |  |  | | --- | --- | | C. | third-world diseases. |  |  |  | | --- | --- | | D. | hackers intent on attacking multinational businesses. |  |  |  | | --- | --- | | E. | new video games espousing Internet crime. |   The Melissa virus and the denial of service (DoS) attacks that overloaded the Web sites of CNN, ZDNet, Yahoo!, and Amazon.com with a flood of electronic messages, crippling them for hours, were considered purposeful attacks on specific targets. The “Slammer” brought Internet service to a crawl. It doubled its numbers every 8.5 seconds during the first minute of its attack and infected more than 75,000 hosts within 10 minutes. After infecting hundreds of thousands of computers in Europe and North America, the “Goner worm” traveled to Australia overnight and brought down government agencies, financial and manufacturing sites, and at least 25 MNCs. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 73. | Brian is attempting to forecast political instability and help management identify and evaluate political events and their potential influence on current and future international business decisions. Brian is engaged in:       |  |  | | --- | --- | | **A.** | political risk assessment. |  |  |  | | --- | --- | | B. | political securitization. |  |  |  | | --- | --- | | C. | democratization. |  |  |  | | --- | --- | | D. | risk conditioning. |  |  |  | | --- | --- | | E. | quantification of risk. |   Political risk assessment is an attempt to forecast political instability to help management identify and evaluate political events and their potential influence on current and future international business decisions. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 1 Easy Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Assessing Political Vulnerability* |

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| 74. | In terms of political risk, which of the following poses the greatest threat to international marketers?      |  |  | | --- | --- | | A. | Newer environmental regulations approved by global trade bodies. |  |  |  | | --- | --- | | B. | Change of economic policies. |  |  |  | | --- | --- | | C. | Exchange rate fluctuations affecting margins. |  |  |  | | --- | --- | | **D.** | The possibility of the government actually failing. |  |  |  | | --- | --- | | E. | Membership or withdrawal of membership of the government in trade blocs. |   Perhaps the greatest risk to international marketers is the threat of the government actually failing, causing chaos in the streets and markets. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Assessing Political Vulnerability* |

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| 75. | Relations between governments and MNCs are generally positive if the investment:       |  |  | | --- | --- | | A. | increases the volume of imports. |  |  |  | | --- | --- | | B. | uses globally produced resources. |  |  |  | | --- | --- | | **C.** | brings capital, technology, and/or skills. |  |  |  | | --- | --- | | D. | brings in more number of foreign nationals. |  |  |  | | --- | --- | | E. | outsources work back to its home country. |   Relations between governments and MNCs are generally positive if the investment (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, and/or skills; (4) creates jobs; and/or (5) makes tax contributions. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 76. | Meteora Inc. is planning to enter the African market through its mobile phone manufacturing operations in Kenya. Which of the following could favor a positive relation with the host country?      |  |  | | --- | --- | | **A.** | Meteora Inc. using their manufacturing unit as an export base. |  |  |  | | --- | --- | | B. | Meteora Inc. importing phone components from China. |  |  |  | | --- | --- | | C. | Meteora having an R&D center in California and have all technology patented there. |  |  |  | | --- | --- | | D. | Having most of Meteora Inc.’s middle and upper management be expatriates. |  |  |  | | --- | --- | | E. | Meteora bargaining for a tax holiday for the next five financial years. |   Relations between governments and MNCs are generally positive if the investment (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, and/or skills; (4) creates jobs; and/or (5) makes tax contributions. |

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| *AACSB: Reflective Thinking Blooms: Apply Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 77. | Juliet is concerned with the potential for political harassment when her company enters a new international market. To reduce the risk of political harassment, she will consider using \_\_\_\_\_ to enter the market.       |  |  | | --- | --- | | A. | externally produced products |  |  |  | | --- | --- | | B. | a smaller investment base |  |  |  | | --- | --- | | C. | foreign technology |  |  |  | | --- | --- | | **D.** | joint ventures |  |  |  | | --- | --- | | E. | sole-proprietorships |   Typically less susceptible to political harassment, joint ventures can be with locals or other third-country multinational companies; in both cases, a company’s financial exposure is limited. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 78. *(p. 181)* | Which of the following is a strategy that multinational corporations use to minimize political vulnerability and risk?       |  |  | | --- | --- | | A. | Expropriation |  |  |  | | --- | --- | | B. | Sanctions |  |  |  | | --- | --- | | C. | Buy outs |  |  |  | | --- | --- | | D. | Confiscation |  |  |  | | --- | --- | | **E.** | Licensing |   The strategies used by MNCs to minimize political vulnerability and risk are joint ventures, expanding the investment base, licensing, planned domestication, political bargaining, and political payoffs. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 79. | Which of the following strategies can be effective in forestalling or minimizing the effect of a total takeover of a multinational corporation’s holdings by a foreign government?       |  |  | | --- | --- | | A. | Confiscation |  |  |  | | --- | --- | | B. | Sole-proprietorship |  |  |  | | --- | --- | | **C.** | Expanding the investment base |  |  |  | | --- | --- | | D. | Advertising |  |  |  | | --- | --- | | E. | Leasing |   The strategies used by MNCs to minimize political vulnerability and risk are joint ventures, expanding the investment base, licensing, planned domestication, political bargaining, and political payoffs. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 80. | Which of the following strategies to minimize political vulnerability and risk has the advantage of engaging the power of several investors and banks in the host country whenever any kind of government takeover or harassment is threatened?       |  |  | | --- | --- | | A. | Joint ventures |  |  |  | | --- | --- | | B. | Licensing |  |  |  | | --- | --- | | **C.** | Expanding the investment base |  |  |  | | --- | --- | | D. | Sole-proprietorship |  |  |  | | --- | --- | | E. | Political bargaining |   Including several investors and banks in financing an investment in the host country is a strategy that minimizes political vulnerability and risk. This approach has the advantage of engaging the power of the banks whenever any kind of government takeover or harassment is threatened. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 81. | Which of the following strategies minimizes political risks for a multinational corporation in situations in which the technology is unique and the risk is high?       |  |  | | --- | --- | | A. | Joint ventures |  |  |  | | --- | --- | | **B.** | Licensing |  |  |  | | --- | --- | | C. | Expanding the investment base |  |  |  | | --- | --- | | D. | Planned domestication |  |  |  | | --- | --- | | E. | Multi-facilities |   A strategy that some firms find eliminates almost all risks is to license technology for a fee. Licensing can be effective in situations in which the technology is unique and the risk is high. Of course, there is some risk assumed, because the licensee can refuse to pay the required fees while continuing to use the technology. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 82. | The most effective solution to a situation where a foreign government is demanding local participation in a multinational corporation’s business activities in the host country is:       |  |  | | --- | --- | | A. | joint ventures. |  |  |  | | --- | --- | | B. | licensing. |  |  |  | | --- | --- | | C. | expanding the investment base. |  |  |  | | --- | --- | | **D.** | planned domestication. |  |  |  | | --- | --- | | E. | political payoffs. |   In those cases in which a host country is demanding local participation, the most effective long-range solution is planned phasing out, that is, planned domestication. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 83. | While expanding the investment base of a company, which of the following can be used as a powerful ally in dealing with threats of government takeovers or harassment?      |  |  | | --- | --- | | **A.** | Banks lending to the host government |  |  |  | | --- | --- | | B. | World Trade Organization |  |  |  | | --- | --- | | C. | International Labor Organization |  |  |  | | --- | --- | | D. | Regional trade blocs |  |  |  | | --- | --- | | E. | Opposing political parties |   One approach to dealing with political vulnerability is the political payoff—an attempt to lessen political risks by paying those in power to intervene on behalf of the multinational company. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 84. | An attempt to lessen political risks by paying those in power to intervene on behalf of the multinational company is referred to as a \_\_\_\_\_.       |  |  | | --- | --- | | A. | subornation |  |  |  | | --- | --- | | B. | protectionism |  |  |  | | --- | --- | | **C.** | political payoff |  |  |  | | --- | --- | | D. | buy out |  |  |  | | --- | --- | | E. | rake-off |   Bribery poses problems for the marketer at home and abroad, because it is illegal for U.S. citizens to pay a bribe even if it is a common practice in the host country |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 85. | Which of the following best describes the U.S. government’s policy toward multinational corporations that are confronted with situations where bribery is an issue?       |  |  | | --- | --- | | A. | A bribe may be paid as long as it is not a domestic situation. |  |  |  | | --- | --- | | B. | It is justified if it is a documented traditional practice in a country. |  |  |  | | --- | --- | | C. | A bribe can be paid in a foreign country if it is tied to national security. |  |  |  | | --- | --- | | **D.** | It is illegal for a U.S. citizen to pay a bribe. |  |  |  | | --- | --- | | E. | The issue revolves around the customs of the country and each issue is decided separately. |   Bribery poses problems for the marketer at home and abroad, because it is illegal for U.S. citizens to pay a bribe even if it is a common practice in the host country. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 86. | Which of the following is the principle U.S. agency that supports U.S. business abroad?       |  |  | | --- | --- | | A. | State Department of Entrepreneurship |  |  |  | | --- | --- | | B. | Better Business Bureau |  |  |  | | --- | --- | | **C.** | Department of Commerce |  |  |  | | --- | --- | | D. | Department of Foreign Relations |  |  |  | | --- | --- | | E. | Department of Defense |   The Department of Commerce (DOC) is the principal agency that supports U.S. business abroad. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

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| 87. | Within the same country, some foreign businesses may fall prey to politically induced harassment, while others may be placed under a government umbrella of protection and preferential treatment. What explains this difference?      |  |  | | --- | --- | | A. | The level of domestication achieved. |  |  |  | | --- | --- | | B. | The host nation’s relations with the business’ home country. |  |  |  | | --- | --- | | C. | The cultural differences between the host nation and the business’ home country. |  |  |  | | --- | --- | | D. | The amount of funds invested in the business. |  |  |  | | --- | --- | | **E.** | The evaluation of a company’s contribution to the nation’s interest. |   Within the same country, some foreign businesses may fall prey to politically induced harassment, while others may be placed under a government umbrella of protection and preferential treatment. The difference lies in the evaluation of a company’s contribution to the nation’s interest. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

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| 88. | Which of the following is the most important reason to encourage foreign investment?      |  |  | | --- | --- | | A. | Improve global image of the country. |  |  |  | | --- | --- | | **B.** | Accelerate the development of an economy. |  |  |  | | --- | --- | | C. | Evade political tensions between countries. |  |  |  | | --- | --- | | D. | Minimize negative political fallouts within the domestic economy. |  |  |  | | --- | --- | | E. | Improves ties between the investing country and the host country. |   The most important reason to encourage foreign investment is to accelerate the development of an economy. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

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| 89. | Which of the following agencies underwrites trade and investments for U.S. firms?       |  |  | | --- | --- | | **A.** | Export-Import Bank |  |  |  | | --- | --- | | B. | The Federal Trade Commission |  |  |  | | --- | --- | | C. | The Agency for International Development |  |  |  | | --- | --- | | D. | Social Security Advisory Board |  |  |  | | --- | --- | | E. | The Overseas Private Investment Corporation |   Export-Import Bank (Ex-Im Bank) underwrites trade and investments for U.S. firms. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

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| 90. | Which of the following agencies is dedicated to helping U.S. business compete in a global marketplace?       |  |  | | --- | --- | | A. | Commodity Futures Trading Commission (CFTC) |  |  |  | | --- | --- | | B. | The Federal Trade Commission (FTC) |  |  |  | | --- | --- | | C. | The Small Business Administration (SBA) |  |  |  | | --- | --- | | D. | The United States International Trade Commission (USITC) |  |  |  | | --- | --- | | **E.** | The International Trade Administration (ITA) |   The International Trade Administration (ITA), a bureau of the DOC, is dedicated to helping U.S. business compete in the global marketplace. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 3 Hard Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |

**Essay Questions**

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| 91. | Describe the characteristics of a sovereign state.     A sovereign state is independent and free from all external control; enjoys full legal equality with other states; governs its own territory; selects its own political, economic, and social systems; and has the power to enter into agreements with other nations. Sovereignty refers to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: The Sovereignty of Nations* |

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| 92. | Discuss stability of governments and list the main political causes of instability in international markets.     The ideal political climate for a multinational firm is a stable, friendly government. Radical shifts in government philosophy when an opposing political party ascends to power, pressure from nationalist and self-interest groups, weakened economic conditions, bias against foreign investment, or conflicts among governments are all issues that can affect the stability of a government. At the top of the list of political issues concerning foreign businesses is the stability or instability of prevailing government policies.  There are five main political causes of instability in international markets: (1) some forms of government seem to be inherently unstable, (2) changes in political parties during elections can have major effects on trade conditions, (3) nationalism, (4) animosity targeted toward specific countries, and (5) trade disputes themselves. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-01 What the sovereignty of nations means and how it can affect the stability of government policies Topic: Stability of Government Policies* |

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| 93. | Describe the concept of nationalism and list some of the ways it manifests.     Nationalism can best be described as an intense feeling of national pride and unity, an awakening of a nation’s people to pride in their country. This pride can take an anti-foreign business bias, where minor harassment and controls of foreign investment are supported, if not applauded. Economic nationalism has as one of its central aims the preservation of national economic autonomy, in that residents identify their interests with the preservation of the sovereignty of the state in which they reside. In other words, national interest and security are more important than international relations. Feelings of nationalism are manifested in a variety of ways, including a call to “buy our country’s products only” (e.g., “Buy American”), restrictions on imports, restrictive tariffs, and other barriers to trade. They may also lead to control over foreign investment. Generally speaking, the more a country feels threatened by some outside force or the domestic economy declines, the more nationalistic it becomes in protecting itself against intrusions. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 3 Hard Learning Objective: 06-02 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries Topic: Stability of Government Policies* |

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| 94. | Discuss and compare the terms confiscation, expropriation, and domestication.     Confiscation is the seizing of a company’s assets without payment. Expropriation occurs when the government seizes an investment but some reimbursement for the assets is made. Domestication occurs when the host country gradually causes the transfer of foreign investments to national control and ownership through a series of government decrees by mandating local ownership and greater national involvement in a company’s management. The ultimate goal of domestication is to force foreign investors to share more of the ownership, management, and profits with nationals than was the case before domestication. |

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| *AACSB: Analytic Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 95. | List and briefly discuss the various economic risks that international companies must face when they seek to market abroad.     The text lists six economic risks: Exchange controls: When a nation faces shortages of foreign exchange and/or a substantial amount of capital is leaving the country, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the supply of foreign exchange for the most essential uses. Local-content laws: Countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts. Import restrictions: Selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry. Tax controls: Taxes must be classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. Price controls: Controls applied for essential products during inflationary periods can be used to control the cost of living. They also may be used to force foreign companies to sell equity to local interests. Labor problems: In many countries, labor unions have strong government support that they use effectively in obtaining special concessions from business. Layoffs may be forbidden, profits may have to be shared, and an extraordinary number of services may have to be provided. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 3 Hard Learning Objective: 06-04 The importance of the political system to international marketing and its effect on foreign investments Topic: Political Risks of Global Business* |

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| 96. | Briefly discuss the role of PSAs and NGOs.     The impact of political and social activists (PSAs) can also interrupt the normal flow of trade. PSAs can range from those who seek to bring about peaceful change to those who resort to violence and terrorism to effect change. Often associated with political activism, nongovernmental organizations (NGOs) are increasingly affecting policy decisions made by governments. Many are involved in peaceful protests, lobbying, and even collaborations with governmental organizations. Many also are involved in mitigating much of the human misery plaguing parts of the planet. Some NGOs have received global recognition for their good works, political influence, and even their brand power. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 97. | Discuss the threats posed by cyberterrorism or cyberattacks with an example.     Cyberterrorism and cybercrime are growing threats for businesses. Although still in its infancy, the Internet provides a vehicle for terrorist and criminal attacks by foreign and domestic antagonists wishing to inflict damage on a company with little chance of being caught. One problem in tracing cyberterrorists and criminals is that it is hard to determine if a cyberattack has been launched by a rogue state, a terrorist, or a hacker as a prank. Moreover, each wave of viruses gets more damaging and spreads so rapidly that considerable harm is done before it can be stopped. The “Slammer,” for example, brought Internet service to a crawl. It doubled its numbers every 8.5 seconds during the first minute of its attack and infected more than 75,000 hosts within 10 minutes. Whether perpetrated by pranksters or hackers out to do harm, these incidents show that tools for cyberterrorism can be developed to do considerable damage to a company, an entire industry, or a country’s infrastructure. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 3 Hard Learning Objective: 06-05 The impact of political and social activists, violence, and terrorism on international business Topic: Political Risks of Global Business* |

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| 98. | What are the conditions under which relations between governments and MNCs are generally positive?     Relations between governments and MNCs are generally positive if the investment: (1) improves the balance of payments by increasing exports or reducing imports through import substitution; (2) uses locally produced resources; (3) transfers capital, technology, or skills; (4) creates jobs; or (5) makes tax contributions. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 99. | Ranzania, as a country, would like to increase its control and ownership of foreign investments in its country. However, Ranzania does not want to cut off or discourage foreign investment. Cite and describe a political risk strategy that Ranzania could follow that would meet the aforementioned objective.     Ranzania could choose domestication (planned domestication). Domestication occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees by mandating local ownership and greater national involvement in a company’s management. As a reasonable response to the potential of domestication, planned domestication can be profitable and operationally expedient for the foreign investor. Planned domestication is, in essence, a gradual process of participating with nationals in all phases of company operations. |

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| *AACSB: Reflective Thinking Blooms: Understand Difficulty Level: 2 Medium Learning Objective: 06-06 How to assess and reduce the effect of political vulnerability Topic: Lessening Political Vulnerability* |

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| 100. | List the government agencies that are involved in promoting foreign investment and international business.     The Department of Commerce (DOC) is the principal agency that supports U.S. business abroad. The International Trade Administration (ITA), a bureau of the DOC, is dedicated to helping U.S. businesses compete in the global marketplace. Other agencies that provide assistance to U.S. companies include: Export-Import Bank (Ex-Im Bank) underwrites trade and investments for U.S. firms. Foreign Credit Insurance Association (FCIA), an agency of the Ex-Im Bank, provides credit insurance that minimizes nonpayment risk caused by financial, economic, or political uncertainties. The Agency for International Development (AID) provides aid to underdeveloped countries and has limited protection in support of “essential” projects in approved countries and for approved products. The Overseas Private Investment Corporation (OPIC) provides risk insurance for companies investing in less-developed countries. |

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| *AACSB: Analytic Blooms: Remember Difficulty Level: 2 Medium Learning Objective: 06-07 How and why governments encourage foreign investment Topic: Government Encouragement* |