

***Global Marketing Management, 8e (Keegan)***

**Chapter 2 The Global Economic Environment**

1) The macro dimensions of the environment are economic, social and cultural, political and legal, and technological.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

2) Economic growth remains concentrated at the high-income countries.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

3) The more developed a country is, the scarcer the availability of economic data.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

4) Technology as a factor has contributed to the flattening of the world economy.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

5) Countries in emerging markets have sustained high rates of growth by taking advantage of high labor costs.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

6) Global companies entering new markets will need to adapt their offerings, distribution systems, and operations to local demand and custom.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

7) Most countries of the world have a mixed system of allocation.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

8) There are no pure market or command allocation systems today.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

9) According to the Heritage Foundation, the country with the highest degree of economic freedom is the United States.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

10) Low-income countries are typically referred to as industrialized nations.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

11) High-income countries are referred to as emerging markets.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

12) Low-income countries typically have low birth rates and high literacy rates.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

13) Another name for lower-middle income countries is industrializing countries.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

14) The nations of the G20 are among the most powerful nations of the postindustrial societies.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

15) A market can be defined as a group of people willing and able to buy a particular product or service.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

16) Location is the single most valuable economic indicator of potential for industrial products.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

17) Agricultural output and services, in particular, are often priced higher in relation to industrial output in developing countries than in industrial countries.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Moderate

18) Purchasing power differences can account for differential in demand of products and services, and also provide an indication on differences in costs.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

19) Purchasing power parity measures an economy's output in terms of demand and supply.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

20) The current account is a record of all long-term direct investment, portfolio investment, and other short- and long-term capital flows.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

21) In general, a country accumulates reserves when the net of its current and capital account transactions shows a deficit.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

22) Devaluation means that more of the home-country's currency is now needed to buy the same amount of a foreign currency.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Moderate

23) In a fixed exchange-rate system, the currency value is determined by demand and supply.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

24) The United States is an example of a country that follows a fixed exchange-rate system.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

25) The members of a customs union agree to the establishment of individual external trade barriers.

Answer: FALSE

AACSB: Analytical thinking

Difficulty: Easy

26) The Euro is a common currency adopted by the members of the European Union.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

27) The member states of the Commonwealth of Independent States (CIS) have signed agreements addressing issues of integration and cooperation with respect to economics, defense, and foreign policy.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

28) A common market goes beyond the removal of internal barriers to trade and the establishment of common external barriers to the important next stage of eliminating the barriers to the flow of factors (labor and capital) within the market.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

29) Member states of the North American Free Trade Agreement (NAFTA) are allowed to make separate bilateral treaties with nonmember states.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

30) The ASEAN Free Trade Area, or AFTA, was created in 1992 with the aim of promoting the region's competitive advantage as a single production area with the elimination of tariff and nontariff barriers among the member countries.

Answer: TRUE

AACSB: Analytical thinking

Difficulty: Easy

31) Which of the following statements is true about world economy?

A) Countries in emerging markets have sustained low rates of growth.

B) Global competitors are deprived of new opportunities.

C) The emergence of global markets has displaced local ones.

D) The integration between all world regions has steadily decreased.

Answer: C

AACSB: Analytical thinking

Difficulty: Moderate

32) Which of the following statements is true about the trends in world economy?

- A) Global economic activity will shift from the East to the West.
- B) The demand for natural resources will continue to grow.
- C) Shifts in consumer segments will not affect the consumer marketplace.
- D) An aging worldwide population will demand decreasing levels of productivity.

Answer: B

AACSB: Analytical thinking

Difficulty: Easy

33) Which of the following is characteristic of a pure market allocation system?

- A) The consumers decide what goods will be produced and by whom.
- B) The state determines the goods that consumers should use.
- C) It has limited economic integration with the rest of the world regions.
- D) It fails to utilize the market mix elements when demand exceeds supply.

Answer: A

AACSB: Analytical thinking

Difficulty: Easy

34) Which of the following is characteristic of a command allocation system?

- A) The government's role is to ensure the protection of consumer rights.
- B) Product distribution is handled by a large number of intermediaries.
- C) The state makes decisions on what consumers should purchase.
- D) Consumers allocate resources to the system.

Answer: C

AACSB: Analytical thinking

Difficulty: Easy

35) Which of the following is used to indicate the relative wealth of a country's citizenry?

- A) Gross National Product
- B) Gross Output
- C) Gross Domestic Product
- D) Gross Value Added

Answer: A

Difficulty: Easy

36) With regard to Gross National Product per capita, which of the following categories of countries is considered to be developed?

- A) lower-middle income
- B) high-income
- C) low-income
- D) upper-middle income

Answer: B

Difficulty: Easy

37) Which of the following is characteristic of low-income countries?

- A) sustained economic growth
- B) low engagement in agriculture
- C) high degree of urbanization
- D) heavy reliance on foreign aid

Answer: D

AACSB: Analytical thinking

Difficulty: Easy

38) Which of the following categories of countries is referred to as a postindustrial country?

- A) low-income
- B) upper-middle income
- C) lower-middle income
- D) high-income

Answer: D

Difficulty: Easy

39) Which of the following is the most valuable economic variable used to chart strategic plans for global market expansion of commercial products?

- A) regulations
- B) competitors
- C) income
- D) location

Answer: C

Difficulty: Easy

40) \_\_\_\_\_ accounts for the largest share of output in less developed countries.

- A) Education
- B) Agriculture
- C) Consumer goods
- D) Heavy industries

Answer: B

Difficulty: Easy

41) \_\_\_\_\_ provides the best comparison of the standards of living in the countries of the world.

- A) Purchasing power parity
- B) Exchange rate
- C) Gross National Product per capita
- D) Gross National Income

Answer: A

Difficulty: Easy

42) Which of the following is the primary output of the World Bank's International Comparison Program?

- A) purchasing power parities
- B) currency fluctuations
- C) market demand and supply
- D) production costs

Answer: A

Difficulty: Easy

43) Which of the following can be perceived from measuring actual individual consumption across global markets?

- A) Developed countries are likely to benefit more from full integration than developing countries.
- B) Purchasing power differences do not account for differences in demand of products and services.
- C) The living standards of high-income countries differ from low-income countries.
- D) A vast majority of the world's income is concentrated in the lower-middle or upper-middle income countries.

Answer: C

AACSB: Analytical thinking

Difficulty: Moderate

44) Which of the following is the most important variable considered for identifying opportunities in the global economy to sell low-priced products?

- A) middle-class income
- B) location of population
- C) demand in products
- D) cost of products

Answer: B

AACSB: Analytical thinking

Difficulty: Easy

45) Which of the following portrays all the economic transactions of a country with the rest of the world?

- A) balance of payments
- B) International Comparison Program
- C) purchasing power parity
- D) Gross National Product per capita

Answer: A

AACSB: Analytical thinking

Difficulty: Easy

46) Which of the following statements is true of global trade patterns?

- A) The annual rate of output is less than the total merchandise trade.
- B) In most countries, the share of trade as a percentage of the national economy has reduced.
- C) Import and export growth has outpaced the rate of increase in GNP.
- D) The share of agriculture in exports has increased over the past decade.

Answer: C

AACSB: Analytical thinking

Difficulty: Moderate

47) \_\_\_\_\_ refers to the price of one currency in terms of another.

- A) Tariff
- B) Exchange rate
- C) Duty
- D) National income

Answer: B

Difficulty: Easy

48) Which of the following is a characteristic of countries in a free trade area?

- A) abolition of internal tariffs and quotas
- B) establishment of common external barriers
- C) removal of restriction on factor movements
- D) harmonization of economic, social, and regulatory policies

Answer: A

AACSB: Analytical thinking

Difficulty: Moderate

49) Which of the following eliminates trade barriers to allow the harmonization of economic, social, and regulatory policies?

- A) a customs union
- B) a common market
- C) a free trade area
- D) an economic union

Answer: D

Difficulty: Easy

50) Which of the following is a trade block created between Canada, Mexico, and the United States?

- A) NAFTA
- B) SCCM
- C) CIS
- D) APEC

Answer: A

Difficulty: Easy



51) Which of the following is an example of a customs union?

- A) CSME
- B) European Economic Area
- C) NAFTA
- D) Mercosur

Answer: D

AACSB: Analytical thinking

Difficulty: Easy

52) What are the characteristics of a low-income country?

Answer: Low-income countries share the following characteristics:

1. Limited industrialization and a high percentage of the population engaged in agriculture and subsistence farming
2. High birth rates and low literacy rates, especially among women and girls
3. Heavy reliance on foreign aid
4. High levels of poverty
5. Inequality of income distribution
6. Political instability and unrest due at least in part to disenfranchised social groups

AACSB: Analytical thinking

Difficulty: Easy

53) What are exchange rates? How do they affect the global economy?

Answer: Exchange rates are the price of one currency in terms of another. If exchange rates change, so do the prices of exports and imports. Countries whose exchange rates are depreciating will find their exports becoming more price competitive and their imports relatively more expensive. If a seller of products or services expects payment for exports in any denomination other than their home currency, the total home-country receipts will change depending on the exchange rate at the time payment is made. Because exchange rates can give a price advantage to producers, governments seek to manage exchange rates. This is done by using reserves to buy or sell foreign currencies. If reserves are not used, market supply and demand will decide the value of the currency. Countries can choose to devalue their currency purposefully to stimulate their economy's exports and limit imports.

AACSB: Analytical thinking

Difficulty: Moderate