

International Financial Management, 2e (Bekaert / Hodrick)
Chapter 1 Globalization and the Multinational Corporation

1.1 Multiple Choice Easy

1) Which of the following was created in an effort to promote free trade?

- A) World Trade Organization
- B) the Sarbanes-Oxley Act
- C) multilateral development banks
- D) the Organization for Economic Cooperation and Development

Answer: A

2) Which one of the following is an investment from which the payoff over time is derived from the performance of an underlying asset?

- A) a common stock certificate
- B) a derivative security
- C) a corporate bond
- D) a mortgage bond

Answer: B

3) What is the name for the shifting of non-strategic functions to specialist firms to reduce costs?

- A) outsourcing
- B) multinational company
- C) globalization
- D) transnational corporations

Answer: A

4) According to the United Nations Conference on Trade and Development, what percentage of China's GDP in 2009 was attributed to the trade sector?

- A) 70%
- B) 60%
- C) 65%
- D) 50%

Answer: D

5) The World Bank's main goal is to ensure the stability of

- A) the international monetary and financial system only in developed countries.
- B) the international monetary and financial system in developing countries.
- C) the international monetary and financial system in both developed and developing countries.
- D) only the financial system in both developed and developing countries.

Answer: C

6) Between 2007 and 2010 the world witnessed a full-blown financial crisis that was attributed to

- A) subprime mortgage repricing.
- B) quantitative easing by the Fed.
- C) foreign exchange imbalances.
- D) banking failures.

Answer: A

7) Which of the following is **NOT** a protectionist tendency?

- A) tariffs
- B) comparative advantage
- C) non-tariff barriers
- D) quotas

Answer: B

8) This organization was established in 1995 to replace the GATT Treaty.

- A) ASEAN
- B) EEC
- C) NAFTA
- D) WTO

Answer: D

9) It is the right given to firms to produce specific products in exchange for a _____ fee.

- A) Joint Venture
- B) Securitization
- C) Licensing
- D) Royalty

Answer: C

10) Which one of the following provides a specialized sales or service strategy, offers support at various levels, and occasionally invests in the firm in exchange for periodic fees?

- A) joint venture
- B) franchising
- C) licensing
- D) royalty

Answer: B

11) _____ is a company that is commonly owned and operated by two or more firms.

- A) Joint Venture
- B) Franchising
- C) Licensing
- D) Royalty

Answer: A

12) The legal and financial structure controlling the relationship between a company's shareholders and its management is called the

- A) Agency Theory.
- B) Stakeholder Alternative.
- C) Corporate Governance.
- D) Concentrated Ownership.

Answer: C

13) Which organization was originally designed to encourage free trade between member states by regulating and reducing tariffs on traded goods?

- A) NAFTA
- B) EU
- C) ASEAN
- D) GATT

Answer: D

14) What is the name of the international organization that was founded to ensure the stability of the international system of payments and exchange rates among national currencies?

- A) The International Monetary Fund
- B) The World Bank
- C) The World Trade Organization
- D) The International Finance Corporation

Answer: A

15) The main resources of the International Monetary Fund are provided by

- A) the members of the World Bank.
- B) its member countries primarily through payments of quotas.
- C) members of the Organization for Economic Cooperation and Development.
- D) the Bank for International Settlements.

Answer: B

16) What is the name for an organization that invests a large pool of money on behalf of another organization such as a bank, insurance company, or a retirement fund?

- A) hedge fund
- B) private equity firm
- C) institutional investor
- D) mutual fund

Answer: C

17) In 1992, the European Union decided to create an economic as well as a monetary union involving the introduction of

- A) a pegged currency known as the euro.
- B) a managed currency known as the ecu.
- C) a freely floating exchange rate for a currency known as the euro.
- D) a single European currency managed by a European central bank.

Answer: D

18) The European Union is a free trade association that is based on a(n)

- A) economic and monetary union.
- B) economic union.
- C) monetary union.
- D) a commonly agreed upon list of lowered tariffs.

Answer: A

19) Which one of the following has a single currency managed by a common central bank?

- A) ASEAN
- B) European Union
- C) World Trade Organization
- D) The Organization for Economic Cooperation and Development

Answer: B

20) Which one of the following is renowned for its high-quality databases on economic and social data?

- A) WTO
- B) EU
- C) OECD
- D) World Bank

Answer: C

21) What is the name of the international organization that fosters monetary and financial cooperation and serves as a bank for central banks?

- A) WTO
- B) EU
- C) World Bank
- D) Bank for International Settlements

Answer: D

22) Which of the following are institutional banks that provide financial support and professional advice for developing countries?

- A) multilateral development banks
- B) central banks
- C) investment banks
- D) Barclays bank

Answer: A

23) What economic field of study explores the problems associated with a firm that arise from a separation of ownership and control and devises ways to resolve them?

- A) futures and options
- B) agency theory
- C) foreign direct investment
- D) franchising

Answer: B

24) State-owned investment funds that manage global portfolios of investment assets are known as

- A) hedge funds.
- B) sovereign wealth funds.
- C) city-state pensions.
- D) multinational mutual funds.

Answer: B

1.2 Multiple Choice Moderate

1) In the economic field of agency theory, which one of the following is viewed as an agent with the principals who are most importantly the firm's shareholders?

- A) suppliers
- B) employees
- C) managers
- D) attorneys

Answer: C

2) What do the Enron Corporation, Worldcom, and Tyco have in common?

- A) They were part of the oil and gas industry.
- B) All three were owned by a single parent company.
- C) Each one was an example of sound corporate governance.
- D) All were involved in corporate scandals.

Answer: D

3) Which one of the following is the most common method of overcoming the agency problem in developed countries outside of the U.S. and the U.K?

- A) concentrated ownership
- B) currency boards
- C) hostile takeovers
- D) foreign direct investment

Answer: A

1.3 Short Answer

1) What are some of the basic beliefs of the anti-globalists?

Answer: The anti-globalist movement targets multinational corporations as one of the main villains of the globalization phenomenon that they believe is detrimental to the poor countries, their workers, and to disadvantaged people in developed countries. Laissez-faire capitalism is another cause of the detrimental side effects of globalization to the anti-globalists.

2) Why do the anti-globalists see globalization as a threat to the home country?

Answer: Anti-globalists believe that one outcome of globalization is the outsourcing phenomenon which they blame for threatening the home country's work force.

3) How can financial globalization be blamed for the loss of fiscal autonomy to a nation?

Answer: The loss of fiscal autonomy is often seen as another by-product of globalization of financial markets. In particular, multinational corporations, hedge fund managers, and institutional investors become more mobile as globalization increases making capital "footloose" and subsequently, some would say, the loss of a nation's fiscal autonomy since these groups can move funds to avoid taxation.

4) Institutional investors play important roles in financial markets. Explain.

Answer: Institutional investors such as insurance companies, retirement funds, and mutual funds have the ability to help determine security prices, the cost of equity and debt.

5) Globally why are certain types of firms seeking others with poor corporate governance?

Answer: Hedge funds and private equity firms are very often looking for these poorly performing firms as potential targets for their value-enhancing activities.

1.4 Essay

1) Why might setting up production facilities abroad lead to expanded sales in local markets?

Answer: When a firm such as a multinational produces abroad, it can more easily monitor market developments, adapt its products and production schedules, and provide more comprehensive after-sales services. Establishing local production facilities also demonstrates a greater commitment to the local citizens and the markets. It can also assure a stable supply of resources. This is particularly important for firms who produce intermediate goods for sale to other countries.