

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) An example of economies of scale in financing include: 1) \_\_\_\_\_  
A) being able to use large-scale plant and equipment.  
B) being able to access the Euroequity, Eurobond, and Eurocurrency markets.  
C) being able to ship product in shiploads or carloads.  
D) all of the above
- 2) Which of the following is NOT a factor of Porter's "diamond of national advantage"? 2) \_\_\_\_\_  
A) factor conditions  
B) related and supporting industries  
C) demand conditions  
D) All of the above are factors of the diamond of national advantage.
- 3) The OLI paradigm is an attempt to create a framework to explain why MNEs choose \_\_\_\_\_ rather than some other form of international venture. 3) \_\_\_\_\_  
A) licensing  
B) strategic alliances  
C) joint ventures  
D) foreign direct investment
- 4) The O in OLI refers to an advantage in a firm's home market that is: 4) \_\_\_\_\_  
A) open-market.  
B) official designation.  
C) owner-specific.  
D) operator independent.
- 5) The owner-specific advantages of OLI must be: 5) \_\_\_\_\_  
A) not easily copied.  
B) transferable to foreign subsidiaries.  
C) firm-specific.  
D) all of the above
- 6) A/An \_\_\_\_\_ would be an example of an owner-specific advantage for an MNE. 6) \_\_\_\_\_  
A) patent  
B) economy of scope  
C) economy of scale  
D) all of the above
- 7) The L in OLI refers to an advantage in a firm's home market that is a: 7) \_\_\_\_\_  
A) liability in the domestic market.  
B) longevity in a particular market.  
C) location-specific advantage.  
D) none of the above
- 8) A/An \_\_\_\_\_ would be an example of a location-specific advantage for an MNE. 8) \_\_\_\_\_  
A) unique source of raw materials  
B) possession of proprietary information  
C) patent  
D) economy of scale
- 9) The I in OLI refers to an advantage in a firm's home market that is an: 9) \_\_\_\_\_  
A) international abnormality.  
B) internalization.  
C) industry-specific advantage.  
D) none of the above

- 10) A/An \_\_\_\_\_ would be an example of an internalization advantage for an MNE. 10) \_\_\_\_\_  
A) possession of proprietary information      B) patent  
C) economy of scale      D) unique source of raw materials

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 11) MNEs that are resident in liquid and unsegmented capital markets are more likely to be able to demonstrate financial strength by achieving and maintaining a global cost and availability of capital. 11) \_\_\_\_\_
- 12) A strongly competitive home market tends to dull the competitive advantage relative to firms located in less competitive home markets. 12) \_\_\_\_\_
- 13) The authors were unable to identify in lesser developed countries specific firms that are nearing the status of global MNE. 13) \_\_\_\_\_

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 14) List and explain three strategic motives why firms become multinationals and give an example of each.
- 15) What does the OLI Paradigm propose to explain? Define each component and provide an example of each.

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 16) Which of the following is NOT true regarding behavioral observations of firms making a decision to invest internationally? 16) \_\_\_\_\_  
A) Firms eventually take greater risks in terms of the national psychic of countries in which they invest.  
B) Initial investments tend to be much larger than subsequent ones.  
C) MNEs initially invest in countries with a similar "national psychic."  
D) All of the above have been observed.

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 17) In practice, when expanding into other countries, firms have been observed to follow a sequential search pattern as described in the behavioral theory of the firm. 17) \_\_\_\_\_
- 18) As a general rule, the decision about where to invest abroad for the first time is the same as the decision about where to reinvest abroad. 18) \_\_\_\_\_

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- 19) Which of the following is NOT an advantage to exporting goods to reach international markets rather than entering into some form of FDI? 19) \_\_\_\_\_  
A) greater agency costs B) lower front-end investment  
C) fewer political risks D) All of the above are advantages.
- 20) Which of the following is an advantage to exporting goods to reach international markets rather than entering into some form of FDI? 20) \_\_\_\_\_  
A) a greater risk of losing markets to copycat goods producers  
B) fewer agency costs  
C) fewer direct advantages from research and development  
D) an inability to exploit R&D as effectively as if also invested abroad
- 21) Which of the following is NOT a form of FDI? 21) \_\_\_\_\_  
A) greenfield investment B) joint venture  
C) exporting D) wholly-owned affiliate
- 22) With licensing the \_\_\_\_\_ is likely to be lower than with FDI because of lower profits; however, the \_\_\_\_\_ is likely to be higher due to a greater return per dollar invested. 22) \_\_\_\_\_  
A) NPV; IRR B) IRR; cost of capital  
C) cost of capital; NPV D) IRR; NPV
- 23) Which of the following is NOT a potential disadvantage of licensing relative to FDI? 23) \_\_\_\_\_  
A) possible improvement of the technology by the local licensee, which then enters the original firm's home market  
B) possible loss of quality control  
C) establishment of a potential competitor in third-country markets  
D) All of the above are potential disadvantages to licensing.
- 24) A \_\_\_\_\_ is a shared ownership in a foreign business. 24) \_\_\_\_\_  
A) greenfield investment B) wholly-owned affiliate  
C) licensing agreement D) joint venture
- 25) Which of the following is NOT an advantage to a joint venture? 25) \_\_\_\_\_  
A) Possible loss of opportunity to enter the foreign market with FDI later.  
B) May be a realistic alternative when 100% foreign ownership is not allowed.  
C) The local partner understands the customs and mores of the foreign market.  
D) The local partner can provide competent management at many levels.
- 26) Greenfield investments are typically \_\_\_\_\_ and \_\_\_\_\_ than cross-border acquisition. 26) \_\_\_\_\_  
A) faster; of greater certainty B) slower; more uncertain  
C) slower; of greater certainty D) faster; more uncertain

- 27) All of the following may be justification for a strategic alliance EXCEPT: 27) \_\_\_\_\_
- A) takeover defense.
  - B) joint marketing and serving agreements.
  - C) a joint venture to pool resources for research and development.
  - D) All of the above are legitimate reasons for strategic alliances.

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 28) Licensing is a popular form of foreign investment because it does not need a sizable commitment of funds, and political risk is often minimized. 28) \_\_\_\_\_
- 29) MNEs typically used licensing with independent firms rather than with their own foreign subsidiaries. 29) \_\_\_\_\_
- 30) Joint ventures are a more common FDI than wholly owned subsidiaries. 30) \_\_\_\_\_
- 31) Local partners in a foreign country and in a joint venture with an MNE are likely to make decisions that maximize the value of the subsidiary. Such actions probably will not maximize the value of the entire firm. 31) \_\_\_\_\_

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- 32) \_\_\_\_\_ risks are those that affect the MNE at the local or project level, but originate at the country level. 32) \_\_\_\_\_
- A) Country-specific
  - B) Global-specific
  - C) Firm-specific
  - D) none of the above
- 33) Which of the following is NOT an example of a country-specific risk? 33) \_\_\_\_\_
- A) war and ethnic strife
  - B) transfer risk
  - C) cultural and religious heritage
  - D) All of the above are examples of country-specific risk.
- 34) According to your authors, MNEs can anticipate government regulations that are discriminatory or wealth depriving from a/an \_\_\_\_\_ or \_\_\_\_\_ level view. 34) \_\_\_\_\_
- A) foreign; domestic
  - B) local; global
  - C) micro; macro
  - D) internal; external
- 35) \_\_\_\_\_ is the ability to exercise effective control over a foreign subsidiary within a country's legal and political environment. 35) \_\_\_\_\_
- A) Political risk
  - B) Governance risk
  - C) Portfolio risk
  - D) Interest rate risk

- 36) Of the following, which would NOT be considered an issue for an investment agreement prior to investing in a foreign country? 36) \_\_\_\_\_
- A) the right to export to third-country markets
  - B) provision for arbitration of disputes
  - C) the basis for setting transfer prices
  - D) All of the above could be negotiated prior to investing.
- 37) OPIC stands for: 37) \_\_\_\_\_
- A) Organization for the Prevention of Insufficient Capitalization.
  - B) Overseas Private Investment Corporation.
  - C) Organization of Petroleum Importing Countries.
  - D) Overseas Public Insurance Commission.
- 38) \_\_\_\_\_ is a type of political risk that OPIC does NOT cover. 38) \_\_\_\_\_
- A) Expropriation
  - B) War
  - C) Inconvertibility
  - D) OPIC covers all of the above.
- 39) \_\_\_\_\_ is the risk that the host government will take specific steps that prevent the foreign affiliate from exercising control over the firm's assets. 39) \_\_\_\_\_
- A) Inconvertibility
  - B) Business income risk
  - C) Expropriation
  - D) none of the above
- 40) \_\_\_\_\_ is NOT one of the three main country-specific risks as outlined by your authors. 40) \_\_\_\_\_
- A) Protectionism
  - B) Cultural differences
  - C) Transfer risk
  - D) Thin equity base
- 41) Of the following, which was NOT identified by the authors as a type of cultural difference that MNEs must consider when expanding to foreign countries? 41) \_\_\_\_\_
- A) differences in religious heritage
  - B) differences in human resource norms
  - C) differences in allowable ownership structures
  - D) All of the above must be considered.
- 42) An alternative strategy to engaging in bribery in international investments include: 42) \_\_\_\_\_
- A) refuse bribery outright.
  - B) educate management and local employees about the firm's bribery policy.
  - C) retain local advisors to diffuse requests for bribes.
  - D) all of the above
- 43) \_\_\_\_\_ industries are NOT typically "protected" by government policy. 43) \_\_\_\_\_
- A) Defense
  - B) Textiles
  - C) Agriculture
  - D) "Infant" industries

- 44) Forming regional alliances is one way to help mitigate the practice of government protectionism. Which of the following is NOT a regional trade organization formed by government treaty? 44) \_\_\_\_\_  
 A) MERCOSUR      B) NAFTA      C) EU      D) NATO
- 45) Terrorism, cyber attacks, and the anti-globalization movement are each examples of \_\_\_\_\_ risks. 45) \_\_\_\_\_  
 A) firm-specific      B) global-specific  
 C) country-specific      D) institutional
- 46) Governance risk due to goal conflict between an MNE and its host government is the main political \_\_\_\_\_ risk. 46) \_\_\_\_\_  
 A) country-specific      B) global-specific  
 C) cultural-specific      D) firm-specific
- 47) The speed at which inventory moves through a manufacturing process is known as: 47) \_\_\_\_\_  
 A) warp speed.      B) supply chain management.  
 C) inventory velocity.      D) working capital management.
- 48) As a result of the terrorist attacks of September 11, 2001, many firms have employed a wide range of tactics to ensure continued flow of inventory in the face of government steps to curb terrorism. Which of the following is an inventory sourcing strategy response (as opposed to an inventory management response, or a transportation response)? 48) \_\_\_\_\_  
 A) shifting to air cargo shipments instead of co-habitation of products and passengers on commercial air flights  
 B) increasing the on-hand supply of critical parts  
 C) minimizing cross-border exposure from suppliers  
 D) carrying more inventory on-hand
- 49) Blocked funds are cash flows that: 49) \_\_\_\_\_  
 A) have been restricted in transfer out of a local country.  
 B) come from a certain sector or region of the world.  
 C) come in regular intervals in standardized amounts or blocks.  
 D) none of the above
- 50) A \_\_\_\_\_ loan, also known as \_\_\_\_\_ is a parent-to-affiliate loan channeled through a financial intermediary such as a large commercial bank. 50) \_\_\_\_\_  
 A) fronting; a back-to-back loan      B) parallel; a back-to-back loan  
 C) link financing; parallel loan      D) fronting; link financing

- 51) Which of the following is NOT a typical characteristic of a fronting loan made to an international subsidiary? 51) \_\_\_\_\_
- A) The bank lends to the subsidiary firm an amount equal to the parent deposit at a slightly higher interest rate.
  - B) The lending bank is located in the subsidiary's country.
  - C) The parent makes a deposit equal to the size of the desired loan into a large commercial bank.
  - D) All of the above are typical characteristics of a fronting loan.
- 52) Which of the following could be considered an example of forced reinvestment if the blockage of funds was expected to be temporary? 52) \_\_\_\_\_
- A) A lumber cutting company subsequently builds a paper mill with blocked funds.
  - B) purchase of local money market instruments and short-term loans
  - C) vertical reinvestment by an automobile manufacturer to buy parts suppliers and showrooms
  - D) all of the above

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 53) When faced with additional risk from a foreign investment, firms typically account for the additional risk by adjusting the discount rates or by adjusting cash flows. 53) \_\_\_\_\_
- 54) A number of institutional services provide updated country risk ratings on a regular basis. This is an example of micro-risk information for MNEs using this data. 54) \_\_\_\_\_
- 55) A country can react to the potential for blocked funds prior to making an investment, during operations, or by investing in the local country in assets than maintain their value. 55) \_\_\_\_\_
- 56) Banks are very hesitant to engage in fronting loans because of the low probability of repayment and thus their risk exposure up to a 100% loss. 56) \_\_\_\_\_
- 57) Many problems such as poverty, environmental concerns, and cyber attacks are beyond the capabilities of MNEs alone to correct and require government participation as well. 57) \_\_\_\_\_
- 58) Business risk can be measured through sensitivity analysis but from only the project viewpoint. 58) \_\_\_\_\_

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 59) What are blocked funds? List and explain two of the three methods the authors list in this chapter for dealing with blocked funds.

## Answer Key

Testname: UNTITLED7

- 1) B
- 2) D
- 3) D
- 4) C
- 5) D
- 6) A
- 7) C
- 8) A
- 9) B
- 10) A
- 11) TRUE
- 12) FALSE
- 13) FALSE
- 14) The authors provide 5 strategic motives for firms to become multinationals: market seekers, raw materials seekers, production efficiency seekers, knowledge seekers, and political safety seekers. Market seekers are looking for more consumers for their products such as automobiles, or steel. Knowledge seekers may be looking for an educated workforce similar to the way firms seeking R and D set up shop in university towns. Raw materials seekers may be after commodities such as oil or copper. Production efficiencies may occur in countries like Mexico that have capable workers and lower wages. Political safety seekers are looking for countries that will not expropriate their assets, so they may stay away from countries that in the past have engaged in such activities.
- 15) The OLI Paradigm is an attempt to develop an overall framework to explain why MNEs choose FDI to serve foreign markets rather than alternatives such as licensing or exporting. The letters of the paradigm are O for owner-specific advantages, L for location-specific advantages, and I for internalization. Owner-specific advantages require that the firm have a comparative advantage in its home market that it feels it can exploit internationally. To be most effective, the advantages should be difficult to copy. Location specific advantages may be due to market imperfections or genuine comparative advantages such as a source of a particularly high quality natural resource. With internalization the firm has in its possession some proprietary information or product such as software or personnel that may provide an advantage in the international marketplace.
- 16) B
- 17) TRUE
- 18) FALSE
- 19) A
- 20) B
- 21) C
- 22) A
- 23) D
- 24) D
- 25) A
- 26) B
- 27) D
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) TRUE



## Answer Key

Testname: UNTITLED7

32) A

33) D

34) C

35) B

36) D

37) B

38) D

39) C

40) D

41) D

42) D

43) B

44) D

45) B

46) D

47) C

48) C

49) A

50) D

51) B

52) B

53) TRUE

54) FALSE

55) TRUE

56) FALSE

57) TRUE

58) FALSE

59) Blocked funds are those that have been restricted from foreign exchange in some fashion by the government of the host country. If this is a potential problem, firms take a number of steps to reduce or minimize the impact of such a governmental action. In this chapter the authors identify three techniques for dealing with the problem of blocked funds. First, using fronting loans. Here the firm deposits money into a large financial institution, typically in a neutral country, and then has the bank loan the same amount to the foreign subsidiary. There are several reasons why governments are more likely to allow repayments of such loans as opposed to repayment to the parent. Second, the local firm may create new exports thus increasing the flow of currency into the country and achieving the goal of the government. Third, the authors also mention a special dispensation whereby firms in highly desirable and specialized industries such as telecommunications or pharmaceuticals are contractually guaranteed repatriation of funds at a greater rate than normal.