

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

- 1) The traditional financial analysis applied to foreign or domestic projects, to determine the project's value to the firm is called: 1) \_\_\_\_\_  
A) cost of capital analysis. B) capital structure analysis.  
C) capital budgeting. D) agency theory.
- 2) Which of the following is NOT a basic step in the capital budgeting process? 2) \_\_\_\_\_  
A) Identify the appropriate interest rate at which to discount future cash flows.  
B) Estimate the cash flows to be derived from the project over time.  
C) Identify the initial capital invested.  
D) All of the above are steps in the capital budgeting process.
- 3) Of the following capital budgeting decision criteria, which does NOT use discounted cash flows? 3) \_\_\_\_\_  
A) internal rate of return  
B) accounting rate of return  
C) net present value  
D) All of these techniques typically use discounted cash flows.
- 4) Which of the following is NOT a reason why capital budgeting for a foreign project is more complex than for a domestic project? 4) \_\_\_\_\_  
A) Parent cash flows must be distinguished from project cash flows.  
B) Differing rates of inflation exist between the foreign and domestic economies.  
C) Parent firms must specifically recognize remittance of funds due to differing rules and regulations concerning remittance of cash flows, taxes, and local norms.  
D) All of the above add complexity to the international capital budgeting process.
- 5) For purposes of international capital budgeting, which of the following statements is NOT true? 5) \_\_\_\_\_  
A) An array of nonfinancial payments can generate cash flows from subsidiaries to the parent, including payment of license fees and payments for imports from the parent.  
B) Parent cash flows must be distinguished from project cash flows. Each of these two types of flows contributes to a different view of value.  
C) Managers must evaluate political risk because political events can drastically reduce the value or availability of expected cash flows.  
D) All of the above are true statements.

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

- 6) When engaged in international capital budgeting, the analyst must identify the initial amount of capital invested or put at risk. 6) \_\_\_\_\_
- 7) In international capital budgeting, the appropriate discount rate for determining the present value of the expected cash flows is always the firm's domestic WACC. 7) \_\_\_\_\_

- 8) For purposes of international capital budgeting, it is NOT important to distinguish between parent and total project cash flows. 8) \_\_\_\_\_
- 9) For purposes of international capital budgeting, parent cash flows often depend on the form of financing. Thus, we cannot clearly separate cash flows from financing decisions, as we can in domestic capital budgeting. 9) \_\_\_\_\_

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

- 10) Project evaluation from the \_\_\_\_\_ viewpoint serves some useful purposes and/but should \_\_\_\_\_ the \_\_\_\_\_ viewpoint. 10) \_\_\_\_\_  
 A) local; not be subordinated to; parent's                      B) local; be subordinated to; parent's  
 C) parent's; be subordinated to; local                              D) none of the above
- 11) For financial reporting purposes, U.S. firms must consolidate the earnings of any subsidiary that is over \_\_\_\_\_ owned. 11) \_\_\_\_\_  
 A) 40%                      B) 50%                      C) 75%                      D) 20%
- 12) A foreign firm that is 20% to 49% owned by a parent is called a/an: 12) \_\_\_\_\_  
 A) affiliate.                      B) partner.                      C) subsidiary.                      D) rival.
- 13) Affiliate firms are consolidated on the parent's financial statements on a \_\_\_\_\_ basis. 13) \_\_\_\_\_  
 A) 50%                      B) 75%                      C) 100%                      D) pro rated

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

- 14) There are no important differences between domestic and international capital budgeting methods. 14) \_\_\_\_\_
- 15) It is important that firms adopt a common standard for the capital budgeting process for choosing among foreign and domestic projects. 15) \_\_\_\_\_
- 16) The only proper way to estimate the NPV of a foreign project is to discount the appropriate cash flows first and then convert them to the domestic currency at the current spot rate. 16) \_\_\_\_\_
- 17) When dealing with international capital budgeting projects, the value of the project is NOT sensitive to the firm's cost of capital. 17) \_\_\_\_\_
- 18) For purposes of international capital budgeting, evaluation of a project from the PARENT viewpoint serves some useful purposes, but it should be subordinated to evaluation from the LOCAL's viewpoint. 18) \_\_\_\_\_
- 19) Multinational firms should invest only if they can earn a risk-adjusted return greater than locally based competitors can earn on the same project. 19) \_\_\_\_\_

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

- 20) The authors highlight a strong theoretical argument in favor of analyzing any foreign project from the viewpoint of the parent. Provide at least three reasons why the parent's viewpoint is superior to the local viewpoint and give an example of when the local viewpoint fails to maximize the value of the firm.
- 21) Explain how political risk and exchange rate risk increase the uncertainty of international projects for the purpose of capital budgeting.

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

- 22) Which of the following is NOT an example of political risk? 22) \_\_\_\_\_  
A) The foreign government nationalizes all foreign-owned assets.  
B) Expropriation of cash flows by a foreign government.  
C) The U.S. government restricts trade with a foreign country where your firm has investments.  
D) All of the above are examples of political risk.
- 23) Real option analysis allows managers to analyze all of the following EXCEPT: 23) \_\_\_\_\_  
A) the option to abandon.  
B) the option to alter capacity.  
C) the option to defer.  
D) All of the above may be analyzed using real option analysis.
- 24) Given a current spot rate of 8.10 Norwegian krone per U.S. dollar, expected inflation rates of 6% in Norway and 3% per annum in the U.S., use the formula for relative purchasing power parity to estimate the one-year spot rate of krone per dollar. 24) \_\_\_\_\_  
A) 8.10 krone per dollar  
B) 7.87 krone per dollar  
C) 8.34 krone per dollar  
D) There is not enough information to answer this question.
- 25) When evaluating capital budgeting projects, which of the following would NOT necessarily be an indicator of an acceptable project? 25) \_\_\_\_\_  
A) an IRR > \$0  
B) an NPV > \$0  
C) an IRR > the project's required rate of return  
D) All of the above are correct indicators.

- 26) Given a current spot rate of 8.10 Norwegian krone per U.S. dollar, expected inflation rates of 3% in Norway and 6% per annum in the U.S., use the formula for relative purchasing power parity to estimate the one-year spot rate of krone per dollar. 26) \_\_\_\_\_
- A) 8.10 krone per dollar  
 B) 8.34 krone per dollar  
 C) 7.87 krone per dollar  
 D) There is not enough information to answer this question.
- 27) When determining a firm's weighted average cost of capital (wacc) which of the following terms is NOT necessary? 27) \_\_\_\_\_
- A) the firm's tax rate  
 B) the firm's cost of equity  
 C) the firm's cost of debt  
 D) All of the above are necessary.
- 28) When determining a firm's weighted average cost of capital (WACC) which of the following terms is NOT necessary? 28) \_\_\_\_\_
- A) the firm's weight of equity financing  
 B) the firm's weight of debt financing  
 C) the risk-free rate of return  
 D) All of the above are necessary to determine a firm's WACC.

Instruction 18.1:

Use the information to answer the following question(s).

The Velo Rapid Revolutions Inc., a company that produces bicycles, elliptical trainers, scooters and other wheeled non-motor recreational equipment is considering an expansion of their product line to Europe. The expansion would require a purchase of equipment with a price of euro 1,200,000 and additional installation of euro 300,000 (assume that the installation costs cannot be expensed, but rather, must be depreciated over the life of the asset). Because this would be a new product, they will not be replacing existing equipment. The new product line is expected to increase revenues by euro 600,000 per year over current levels for the next 5 years, however; expenses will also increase by euro 200,000 per year. (Note: Assume the after-tax operating cash flows in years 1-5 are equal, and that the terminal value of the project in year 5 may change total after-tax cash flows for that year.) The equipment is multipurpose and the firm anticipates that they will sell it at the end of the five years for euro 500,000. The firm's required rate of return is 12% and they are in the 40% tax bracket. Depreciation is straight-line to a value of euro 0 over the 5-year life of the equipment, and the initial investment (at year 0) also requires an increase in NWC of euro 100,000 (to be recovered at the sale of the equipment at the end of five years). The current spot rate is \$0.95/euro, and the expected inflation rate in the U.S. is 4% per year and 3% per year in Europe.

- 29) Refer to Instruction 18.1. What is the initial investment for the Velo Rapid Revolutions project? 29) \_\_\_\_\_
- A) \$1,500,000      B) \$1,600,000      C) €1,500,000      D) €1,600,000
- 30) Refer to Instruction 18.1. What are the annual after-tax cash flows for the Velo Rapid Revolutions project? 30) \_\_\_\_\_
- A) €360,000      B) €120,000      C) €240,000      D) €400,000
- 31) Refer to Instruction 18.1. What is the NPV of the European expansion if Velo Rapid Revolutions first computes the NPV in euros and then converts that figure to dollars using the current spot rate? 31) \_\_\_\_\_
- A) \$1,684,210      B) -\$75,310      C) -\$71,544      D) \$1,520,000

- 32) Refer to Instruction 18.1. In euros, what is the NPV of the Velo Rapid Revolutions expansion? 32) \_\_\_\_\_  
 A) €1,524,690                      B) -€111,317                      C) \$1,611,317                      D) -€75,310
- 33) Refer to Instruction 18.1. What is the IRR of the Velo Rapid Revolutions expansion? 33) \_\_\_\_\_  
 A) 12.0%                      B) 8.6%                      C) 14.4%                      D) 10.3%
- 34) If a firm undertakes a project with ordinary cash flows and estimates that the firm has a positive NPV, then the IRR will be: 34) \_\_\_\_\_  
 A) greater than the cost of the project.  
 B) less than the cost of capital.  
 C) greater than the cost of capital.  
 D) cannot be determined from this information
- 35) When estimating a firm's cost of equity capital using the CAPM, you need to estimate: 35) \_\_\_\_\_  
 A) the firm's beta.  
 B) the risk-free rate of return.  
 C) the expected return on the market portfolio.  
 D) all of the above
- 36) \_\_\_\_\_ is the risk that a foreign government will place restrictions such as limiting the amount of funds that can be remitted to the parent firm, or even expropriation of cash flows earned in that country. 36) \_\_\_\_\_  
 A) Political risk                      B) Exchange risk  
 C) Unnecessary risk                      D) Foreign risk
- 37) Generally speaking, a firm wants to receive cash flows from a currency that is \_\_\_\_\_ relative to their own, and pay out in currencies that are \_\_\_\_\_ relative to their home currency. 37) \_\_\_\_\_  
 A) depreciating; depreciating                      B) appreciating; appreciating  
 C) appreciating; depreciating                      D) depreciating; appreciating
- 38) When assessing the additional risk that can occur from investing abroad firms may choose to account for risk via: 38) \_\_\_\_\_  
 A) adjusting the discount rates.  
 B) adjusting both cash flows and discount rates.  
 C) adjusting the cash flows.  
 D) adjusting all of the above.

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

- 39) When a multinational firm invests abroad, it is common to develop two capital budgets: one from the project viewpoint, and one from the parent viewpoint. 39) \_\_\_\_\_
- 40) When estimating a capital budget, it is common to separate cash flows into: 1) the initial investment, 2) incremental cash flows over the life of the project, and 3) a terminal value. 40) \_\_\_\_\_

- 41) Because international capital budgeting is so difficult, time consuming, expensive, and uncertain, firms generally forego any type of additional sensitivity analysis after completing a base-case scenario. 41) \_\_\_\_\_
- 42) A criticism of adjusting the discount rate to account for political risk is that adjusting the discount rate for political risk penalizes early cash flows too heavily while not penalizing distant cash flows enough. 42) \_\_\_\_\_

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

- 43) Which of the following is NOT a factor critical to the success of project financing? 43) \_\_\_\_\_  
 A) cash flow predictability from third part commitments  
 B) long-lived and capital intensive singular projects  
 C) separability of the project from its investors  
 D) All of the above are critical factors for project financing.
- 44) Which of the following is NOT a characteristic of international long-term capital project financing? 44) \_\_\_\_\_  
 A) The projects are long in life. B) The projects are large in scale.  
 C) The projects are generally high in risk. D) The projects may be all of the above.
- 45) Which of the following is NOT a reason given for international mergers and acquisitions? 45) \_\_\_\_\_  
 A) diversifying and spreading their risks wider  
 B) gaining market power and dominance  
 C) gaining access to strategic proprietary assets  
 D) All of the above are commonly cited reasons for international mergers and acquisitions.
- 46) The process of acquiring an enterprise anywhere in the world has three common elements EXCEPT: 46) \_\_\_\_\_  
 A) execution of the acquisition offer and purchase—the *tender*.  
 B) management of the post-acquisition transition.  
 C) identification and valuation of the target.  
 D) All of the above are common elements in acquiring an enterprise anywhere in the world.

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

- 47) Project financing is the arrangement of financing for very large individual long-term capital projects. 47) \_\_\_\_\_
- 48) Currency risk is a concern for any international merger and acquisition activity. For instance, the initial bid, if denominated in a foreign currency, creates a *contingent foreign currency exposure* for the bidder. 48) \_\_\_\_\_

49) Currency risk is a concern for any international merger and acquisition activity. For instance, once the bidder has successfully won the acquisition, the exposure evolves from a *transaction exposure* to a *contingent exposure*. 49) \_\_\_\_\_

50) The drivers of international merger and acquisitions are only MACRO in scope. 50) \_\_\_\_\_

51) As opposed to greenfield investment, a cross-border acquisition is typically quicker. 51) \_\_\_\_\_

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

52) Working capital management involves the management of: 52) \_\_\_\_\_  
A) current liabilities and long-term assets.  
B) current and long-term assets.  
C) current assets and current liabilities.  
D) current liabilities and long-term debt and equity.

53) The cash conversion cycle: 53) \_\_\_\_\_  
A) is a subset of the accounts receivable period.  
B) occurs in the latter stages of the operating cycle.  
C) is a subset of the operating cycle.  
D) all of the above.

54) The proper order of events for the operating cycle is: 54) \_\_\_\_\_  
A) quotation period, input servicing period, inventory period, accounts receivable period.  
B) quotation period, accounts receivable period, inventory period, input servicing period.  
C) accounts receivable period, input servicing period, quotation period, inventory period.  
D) input serving period, accounts receivable period, inventory period, quotation period.

55) TrinityApps Corporation (US) has bid a price on a project for a Korean firm, but the Korean firm has not yet placed an order. This portion of the operating cycle is best described as the: 55) \_\_\_\_\_  
A) input sourcing period. B) quotation period.  
C) cash conversion cycle. D) accounts payable cycle.

56) The period in the cash cycle where the customer places the order, and the firm determines what materials for manufacture are NOT in inventory is called the \_\_\_\_\_ period. 56) \_\_\_\_\_  
A) accounts payable B) input sourcing  
C) quotation D) accounts receivable

57) The accounts payable period of the operating cycle: 57) \_\_\_\_\_  
A) may run concurrently but longer than the inventory period.  
B) is equal to the inventory period.  
C) may run concurrently but shorter than the inventory period.  
D) Any one of the above may be true.

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

- 58) Typically, the inventory period and the accounts payable period at least partially overlap in the firms operating cycle. 58) \_\_\_\_\_
- 59) Typically, the inventory period and the accounts receivable period at least partially overlap in the firms operating cycle. 59) \_\_\_\_\_
- 60) The operating cycle begins with the quotation period and ends with the accounts payable period. 60) \_\_\_\_\_

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

- 61) Of the following, which would NOT be a significant decision-making factor in a multinational firm's repositioning decision-making? 61) \_\_\_\_\_
- A) the ability to move capital in and out of the subsidiary's country
  - B) the stability of the local currency
  - C) the subsidiary's tax environment (high or low)
  - D) All of the above are significant factors.

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

- 62) In a country with a relatively high tax rate, it make sense the the MNE to reposition cash flows TO that country. 62) \_\_\_\_\_
- 63) The MNE would prefer to leave capital with a firm in a country with high growth prospects over the alternative of leaving capital with a firm in a country with low growth prospects (other factors equal). 63) \_\_\_\_\_

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

- 64) Each of the following is listed by your authors as a constraint on repositioning funds by an MNE EXCEPT: 64) \_\_\_\_\_
- A) transaction costs.
  - B) political constraints.
  - C) tax constraints.
  - D) All of the above are listed by your authors.

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

- 65) Local liquidity needs sometimes impact a firm's worldwide optimal cash position. 65) \_\_\_\_\_
- 66) The constraints on repositioning of funds that occur when exchanging one currency for another are considered to be primarily political constraints. 66) \_\_\_\_\_



67) Political constraints can block the transfer of funds either overtly or covertly. OVERT blockage occurs when dividends or other forms of fund remittances are severely limited, heavily taxed, or excessively delayed by the need for bureaucratic approval. 67) \_\_\_\_\_

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

68) \_\_\_\_\_ allows a multinational firm to recover funds from subsidiaries without piquing host country sensitivities over large dividend drains. 68) \_\_\_\_\_  
A) Bundling funds B) Coordinating funds  
C) Unbundling funds D) none of the above

69) Unbundling of funds by an MNE may be a useful practice for which of the following reasons? 69) \_\_\_\_\_  
A) An increase in the funds flow (charges) in any of the before-tax categories reduces the taxable profits of the foreign subsidiary *if* the host-country tax authorities acknowledge the charge as a legitimate expense.  
B) Unbundling facilitates allocation of overhead from a parent's international division, so-called *shared services*, to each operating subsidiary in accordance with a predetermined formula.  
C) An item-by-item matching of remittance to input, such as royalties for intellectual property, and fees for patents and advice, is equitable to the host country and foreign investor alike.  
D) All of the reasons listed above

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

70) If all investment inputs are unbundled, part of what might have been classified as residual profits may turn out to be tax-deductible expenses related to a specific purchased benefit. 70) \_\_\_\_\_

71) The before-tax/after-tax distinction is quite significant to a parent company attempting to repatriate funds in the most tax-efficient method if it is attempting to manage its own foreign tax credit/deficits between foreign units. 71) \_\_\_\_\_

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

72) In anticipation of a foreign exchange loss, an MNE may speed up the transfer of funds out of the company via dividends. When undertaking such an activity the MNE must be concerned with all of the following EXCEPT: 72) \_\_\_\_\_  
A) defection on the part of executives in the home headquarters.  
B) interest rate differences between the two countries.  
C) the negative impact on host country relations.  
D) MNEs must be concerned with all of the above.

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

73) Political risk may motivate parent firms to require foreign subsidiaries to remit all locally generated funds above that required to internally finance growth in sales and planned capital expansions. 73) \_\_\_\_\_

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

74) One possible definition of net working capital (NWC) provided by your authors is: 74) \_\_\_\_\_  
 A)  $NWC = A/R + \text{inventory} - \text{long-term debt}$ .  
 B)  $NWC = A/P + A/R - \text{short-term loans}$ .  
 C)  $NWC = A/R + \text{inventory} - A/P$ .  
 D)  $NWC = \text{cash} + A/P - \text{inventory}$ .

75) Which of the following actions will result in an increase in NWC? 75) \_\_\_\_\_  
 A) a reduction in A/P plus a smaller reduction in A/R  
 B) an increase in A/P and a smaller reduction in inventory  
 C) a reduction in inventory  
 D) an increase in A/P that exceeds an increase in A/R

76) Which of the following statements is true? 76) \_\_\_\_\_  
 A) A/P provide part of the funding for A/R and inventory.  
 B) Inventory pays for A/R and A/P.  
 C) A/R provide part of the funding for inventory.  
 D) None of the above is true.

TABLE 19.1

Use the information to answer following question(s).

TrinityApps Corporation Balance Sheet December 31, 20xx			
Assets		Liabilities and Equity	
A/R	\$50,000	A/P	\$35,000
Inventory	<u>30,000</u>	Long-term Debt	<u>265,000</u>
Total Current Assets	\$80,000	Total Liabilities	\$300,000
Equipment	\$200,000	Common Stock	<u>\$380,000</u>
Other Fixed Assets	<u>400,000</u>	Total Liabilities and Equity	<u>\$680,000</u>
Total Assets	<u>\$680,000</u>		

77) Refer to Table 19.1. The NWC for TrinityApps is: 77) \_\_\_\_\_  
 A) \$680,000                      B) \$45,000                      C) \$35,000                      D) \$80,000

78) Refer to Table 19.1. If TrinityApps increases inventory by \$10,000 and A/P also by \$10,000, the net change in NWC is: 78) \_\_\_\_\_  
 A) \$0    B) \$20,000  
 C) \$10,000                                      D) none of the above

- 79) Refer to Table 19.1. NWC currently makes up what percentage of total firm value for TrinityApps? 79) \_\_\_\_\_  
A) 9.2% B) 6.6% C) 11.8% D) 5.1%

Instruction 19.1:

Use the information to answer the following question(s).

Sunny Manufacturing Systems Inc. is supplied with plastic chips for their plastic injection molding manufacturing process. The supplier, Sun Chemical, Inc. offers financing terms of a 2% discount if the accounts payable are paid in 10 days or less with the balance due in 45 days. Short-term financing available to Sunny Manufacturing is available at an annual rate of 9.6%. Sunny Manufacturing has just purchased \$400,000 of plastic chips from Sun Chemical.

- 80) Refer to Instruction 19.1. What is the amount of money Sunny Manufacturing will save on accounts payable if they accept the discount? 80) \_\_\_\_\_  
A) \$400,000 B) \$20,000 C) \$33,333 D) \$8,000

- 81) Refer to Instruction 19.1. What is the effective annual interest cost of supplier financing offered by Sun Chemical? 81) \_\_\_\_\_  
A) 9.5% B) 7.3% C) 22.9% D) 10.4%

- 82) Refer to Instruction 19.1. Should Sunny Manufacturing take the discount offered by Sun Chemical? 82) \_\_\_\_\_  
A) Yes, Sunny Manufacturing will get to use their raw materials 35 days earlier than if they waited to pay at the end of the 45 days.  
B) Yes, Sunny Manufacturing's short term borrowing rate of 9.6% is less than Sun's offered cost of carry of 22.9%.  
C) No, it costs Sunny Manufacturing 22.9% to accept the discount and they are better off paying the full amount in 45 days.  
D) No, Sunny Manufacturing will not have to pay any interest if they just pay in 45 days.

- 83) Days working capital is equal to: 83) \_\_\_\_\_  
A) days inventory + days receivables - days payables.  
B) days payables + days receivables - days inventory.  
C) days payables + days inventory + days receivables.  
D) none of the above

- 84) Amundsen of Norway receives raw materials from their corporate parent in the U.S. with payment terms of net 60 days. Most of their sales are to firms in Norway where normal payment terms are net 30 days. This causes a problem for the subsidiary with working capital management because: 84) \_\_\_\_\_  
A) accounts receivable are so much longer than accounts payable.  
B) accounts receivable and accounts payable are equal.  
C) accounts payable are so much longer than accounts receivable.  
D) This doesn't really cause a problem; in fact it is to the benefit of the Norwegian subsidiary.

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

- 85) In principle, the firm tries to minimize its NWC balance. 85) \_\_\_\_\_
- 86) Other things equal, managers prefer a lower "days working capital" to a higher one. 86) \_\_\_\_\_
- 87) The authors present empirical evidence that shows the days sales basis for working capital to be 30 days GREATER in the U.S. compared to a similar industry in Europe. 87) \_\_\_\_\_

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

- 88) What is a free-trade zone? Identify three techniques and provide examples of how firms and countries can benefit from having free trade zones.

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

- 89) Other things equal, a firm would rather have \_\_\_\_\_ in a depreciating currency, and \_\_\_\_\_ in an appreciating currency. 89) \_\_\_\_\_  
A) accounts receivable; accounts receivable      B) accounts payable; accounts receivable  
C) accounts receivable; accounts payable      D) none of the above
- 90) Which of the following is NOT a precautionary motive for holding cash? 90) \_\_\_\_\_  
A) The firm has several short-term obligations in unhedged foreign currency-denominated contracts.  
B) Anticipated funds to be remitted from several Middle East countries are in question due to unrest in the region.  
C) The firm must pay ordinary wages in two days.  
D) All are precautionary motives.
- 91) Increases to cash flows can be anticipated if which of the following occurs? 91) \_\_\_\_\_  
A) Days in accounts receivable increase by 15 days.  
B) A receivables contract is denominated in an appreciating foreign currency.  
C) Sales are less than anticipated.  
D) none of the above
- 92) A centralized depository benefits the firm primarily by: 92) \_\_\_\_\_  
A) reducing the cost of repatriating funds.  
B) reducing the total amount of capital employed within the total firm.  
C) earning a higher rate of return than in domestic banking deposits.  
D) positioning profits where taxes are lowest.

93) The Clearing House Interbank Payment System (CHIPS) is: 93) \_\_\_\_\_  
A) the largest publicly operated payments system in the world.  
B) a computerized network that connects banks globally.  
C) owned and operated by the world's seven largest central banks.  
D) none of the above

94) An organizational structure employed by an MNE to reduce its use of bank lending for the support of operations is: 94) \_\_\_\_\_  
A) a cost center. B) a syndicated bank.  
C) a re-invoicing center. D) a centralized depository.

95) \_\_\_\_\_ is the process that cancels via offset all, or part, of the debt owed by one entity to another related entity. 95) \_\_\_\_\_  
A) Centralized depositing B) Debt cancellation  
C) Multilateral netting D) Syndicated banking

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

96) In an inflationary economy, demand for credit usually exceeds supply. 96) \_\_\_\_\_

97) For disbursement purposes, it is to the benefit of the firm to minimize float. 97) \_\_\_\_\_

98) Regarding wire transfers, CHIPS actually clears transactions whereas SWIFT does not. 98) \_\_\_\_\_

99) A significant problem with centralized cash depositories is that they are isolated from the rest of the firm and tend to be at an information disadvantage. 99) \_\_\_\_\_

100) A reason for holding all precautionary balances in a central pool is that the total pool, if centralized, can be reduced in size without any loss in the level of protection. 100) \_\_\_\_\_

101) A disadvantage of a centralized cash management system is that managers will not be able to get the lowest average rate available for the firm. Instead, it misses out on the really low borrowing rates. 101) \_\_\_\_\_

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

102) Central depositories are used for international cash management. What is a central depository? Identify and provide examples of at least three advantages to MNEs of having a central depository.

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

- 103) A precautionary cash balance: 103) \_\_\_\_\_  
A) is held for the benefit of a sister affiliate.  
B) is used for normal day-to-day operations.  
C) is held to facilitate cash disbursements when receipts slow down.  
D) is used to replace spoiled or damaged inventory.
- 104) An in-house bank: 104) \_\_\_\_\_  
A) provides banking services for employees.  
B) is a separate bank chartered to operate within a business firm.  
C) assesses the credit standing of the bank's customers.  
D) is in fact a set of functions performed by the firm's existing treasury department.
- 105) A foreign banking office that is separately incorporated in the host country is: 105) \_\_\_\_\_  
A) a correspondent bank. B) an Edge Act corporation.  
C) a bank subsidiary. D) a representative office.

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

- 106) An Edge Act corporation is a subsidiary of a U.S. bank located outside of the U.S. and incorporated to engage in international banking and financing operations. 106) \_\_\_\_\_
- 107) Because they are direct payments, dividends are among the most efficient way for foreign subsidiaries to remit funds back to the parent. 107) \_\_\_\_\_
- 108) Even though dividends are cash payments, firms typically must consider both cash flow and net income when making dividend distribution decisions. 108) \_\_\_\_\_

## Answer Key

Testname: UNTITLED8

- 1) C
- 2) D
- 3) B
- 4) D
- 5) D
- 6) TRUE
- 7) FALSE
- 8) FALSE
- 9) TRUE
- 10) B
- 11) B
- 12) A
- 13) D
- 14) FALSE
- 15) TRUE
- 16) FALSE
- 17) FALSE
- 18) FALSE
- 19) TRUE
- 20) A project might have a positive NPV from the local viewpoint, but fail to consider relevant cash flows from the parent viewpoint. For example, a positive NPV project in one country may result from the erosion of revenues in another. A local manager would not necessarily be expected to be aware of such erosion. It may not be possible to remit all or part of the local cash flows to the parent company and reinvestment opportunities in the local economy may be inferior to what the parent could do elsewhere, thus, a less than maximum use of funds. Political and exchange rate risk add to the uncertainty of cash flows and thus increase the required rate of return by stockholders. Cash flows may be more difficult to estimate especially long-term cash flows in lesser-developed countries.
- 21) The evaluation of foreign projects must consider several risks that are either nonexistent or much less important in domestic capital budgeting. First, if revenues and expenses are in a foreign currency, then the parent firm must estimate the exchange rate at which the foreign currency will be converted into the domestic currency. To estimate future exchange rates, the parent firm must estimate expected rates of inflation and interest rates in both countries, economic growth in each country, as well as consumer preferences and tastes in more than one country. Then, aspects of political risk must be considered. What is the likelihood that all or part of the cash flows accruing to the parent firm will be restricted through some political act? The firm must now consider the possibility of changing tax rates, new taxes, and additional restrictions on the flow of funds. Furthermore, local norms may differ from usual firm practice in terms of financing or dividend policy. Domestic capital budgeting may seem quite easy in comparison.
- 22) D
- 23) D
- 24) C
- 25) A
- 26) C
- 27) D
- 28) C
- 29) A
- 30) A

Answer Key

Testname: UNTITLED8

- 31) C
- 32) D
- 33) D
- 34) C
- 35) D
- 36) A
- 37) C
- 38) D
- 39) TRUE
- 40) TRUE
- 41) FALSE
- 42) TRUE
- 43) D
- 44) D
- 45) C
- 46) D
- 47) TRUE
- 48) TRUE
- 49) FALSE
- 50) FALSE
- 51) TRUE
- 52) C
- 53) D
- 54) A
- 55) B
- 56) B
- 57) D
- 58) TRUE
- 59) FALSE
- 60) FALSE
- 61) D
- 62) FALSE
- 63) TRUE
- 64) D
- 65) TRUE
- 66) FALSE
- 67) FALSE
- 68) C
- 69) D
- 70) TRUE
- 71) TRUE
- 72) A



Answer Key

Testname: UNTITLED8

73) TRUE

74) C

75) A

76) A

77) B

78) A

79) B

80) D

81) C

82) B

83) A

84) D

85) TRUE

86) TRUE

87) FALSE

88) Free-trade zones are locations within a country where foreign firms can store, assemble, or manufacture goods without paying an import duty until the goods are actually distributed. The authors provide the example of Toyota Motor Corporation exporting cars to the United States and storing them at a facility in Los Angeles. This allows Toyota to collect an inventory of cars in the states and to be more readily able to meet consumer demand for specific models. However, they do not pay any import duty until the cars are moved from the free-trade zone.

A second example provided by the authors is that of Mercedes assembling automobiles in Alabama. Again, the parts are shipped to Alabama without being assessed an import duty until the assembled cars are distributed. And then, even though the cars are finished products, the duty is assessed at a lower rate on the parts only. This also benefits the state of Alabama who now has a major employer in town.

Finally, a manufacturing center is placed in a free-trade or industrial zone. Here, several companies can set up shop in an area designated for foreign manufacture. Most of the items produced will be exported out of that country and not have to pay any sort of import duty. However, the country will benefit from employment, the resulting tax revenues, and perhaps being able to supply some of the parts used in the manufacturing process.

89) B

90) C

91) B

92) B

93) B

94) D

95) C

96) TRUE

97) FALSE

98) TRUE

99) FALSE

100) TRUE

101) FALSE

## Answer Key

Testname: UNTITLED8

102) A central depository for cash management allows the parent firm to manage cash in a manner that maximizes the benefit to the entire firm rather than specific affiliates. Typically, a firm will order each affiliate to maintain only those cash balances necessary for its own transactions and to forward the balance to a centralized location.

The central depository is typically located in a world money center where it has ready and inexpensive access to information. Central depositories can reduce the size of total precautionary funds for the MNE. If the need for precautionary funds of affiliates is not perfectly correlated, a central pool of funds will be smaller than if each of the affiliates independently held desired precautionary balances.

Managers of a central pool of funds can seek out the lowest costs for borrowing required funds, and the highest rates for parking excess cash more efficiently than can affiliate managers who may be limited by local laws as to where they can put their funds. Finally, location is important for either cost purposes, such as low taxes or a physically central presence, or for access to information.

103) C

104) D

105) C

106) FALSE

107) FALSE

108) TRUE