

***Fundamentals of Multinational Finance, 4e (Moffett)***  
**Chapter 1 Current Multinational Challenges and the Global Economy**

**Multiple Choice and True/ False Questions**

**1.1 The Global Financial Marketplace**

1) Which of the following firms are NOT considered to be multinational enterprises (MNEs) even if they have operations in more than one country?

- A) for-profit companies
- B) not-for-profit organizations
- C) non-government organizations (NGOs)
- D) all of the above may be considered MNEs

Answer: D

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

2) "BRIC" is a term coined in 2001 to refer to a group of countries at about the same stage of advanced economic development. The BRIC countries are \_\_\_\_\_.

- A) Belgium, Romania, Italy, and Canada
- B) Brazil, Russia, India, and China
- C) Britain, Romania, Israel, and Colombia
- D) Brazil, Russia, Italy, and Chile

Answer: B

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

3) According to the authors, which of the following groups or securities are at the "heart" to the global capital markets?

- A) debt securities issued by governments
- B) bank loans and corporate bonds
- C) equity securities
- D) derivative securities

Answer: A

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

4) \_\_\_\_\_ are the largest markets in the world.

- A) United States equity markets
- B) European debt markets
- C) Global currency markets
- D) Chinese export markets

Answer: C

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

5) Domestic currencies of one country on deposit in a second country are called \_\_\_\_\_.

- A) export deposits
- B) eurocurrencies
- C) import deposits
- D) forocurrencies

Answer: B

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

6) Eurocurrency deposits are an efficient and convenient money market device for holding excess corporate liquidity.

Answer: TRUE

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Recognition

7) The Eurocurrency loan market is characterized by narrow interest rate spreads between deposit and loan rates. This is due in part to which of the following factors?

- A) The Eurocurrency market is a "wholesale" market..
- B) Loan amounts are very large, often in excess of \$500,000.
- C) Eurocurrency borrowers are typically large, low-risk corporations or government entities.
- D) All of the above are legitimate reasons for the narrow spread in the Eurocurrency market.

Answer: D

Diff: 1

Topic: 1.1 The Global Financial Marketplace

Skill: Conceptual

## 1.2 The Theory of Comparative Advantage

1) The theory that suggests specialization by country can increase worldwide production is \_\_\_\_\_.

- A) the theory of comparative advantage
- B) the theory of foreign direct investment
- C) the international Fisher effect
- D) the theory of working capital management

Answer: A

Diff: 1

Topic: 1.2 Comparative Advantage

Skill: Recognition

2) Of the following, which would NOT be considered a way that government interferes with comparative advantage?

- A) tariffs
- B) managerial skills
- C) quotas
- D) other non-tariff restrictions

Answer: B

Diff: 1

Topic: 1.2 Comparative Advantage

Skill: Recognition

3) Comparative advantage shifts over time as less developed countries become more developed and realize their latent opportunities.

Answer: TRUE

Diff: 1

Topic: 1.2 Comparative Advantage

Skill: Recognition

4) Although the world is a long way from the classical trade model, the general principle of comparative advantage is still valid.

Answer: TRUE

Diff: 1

Topic: 1.2 Comparative Advantage

Skill: Analytical

**TABLE 1.1**

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

	Production Capability	
	Containers of Snowboards	Containers of Digital Cameras
Austria has 1000 production units:	15 containers/unit	8 containers/unit
Russia has 1000 production units:	12 containers/unit	3 containers/unit

5) Refer to Table 1.1. A production unit in Austria has a/an \_\_\_\_\_ over a production unit in Russia in \_\_\_\_\_.

- A) absolute disadvantage; digital cameras
- B) absolute disadvantage; snowboards
- C) absolute advantage; both cameras and snowboards
- D) none of the above

Answer: C

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Conceptual

6) Refer to Table 1.1. Austria has a larger relative advantage over Russia in the production of \_\_\_\_\_ at a ratio of \_\_\_\_\_.

- A) snowboards; 5 to 4
- B) cameras; 8 to 3
- C) snowboards; 8 to 3
- D) cameras; 3 to 8

Answer: B

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Conceptual

7) Refer to Table 1.1. Assume no trade between Russia and Austria. If each country put 50% of their production units into each product, the total number of snowboards and digital cameras produced by the two countries combined are \_\_\_\_\_ and \_\_\_\_\_.

- A) 15,000 snowboards; 3,000 digital cameras
- B) 6,000 snowboards; 4,000 digital cameras
- C) 2,750 digital cameras; 6,750 snowboards
- D) 15,000 digital cameras; 1,000 snowboards

Answer: C

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Analytical

8) Refer to Table 1.1. If trade takes place at Brazil's domestic price, \_\_\_\_\_ snowboards will be required to obtain 1 digital camera.

- A) 4
- B) 2 and 2/3
- C) 1.25
- D) 0.25

Answer: A

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Analytical

9) Refer to Table 1.1. If each country specializes in their production with Austria producing only digital cameras and Russia producing only snowboards, at a trading rate of three snowboards per digital camera, how many cameras and snowboards will be available to be consumed in Austria if they trade 3,000 cameras to Russia?

- A) 9,000 snowboards and 5,000 digital cameras
- B) 3,000 snowboards and 3,000 digital cameras
- C) 3,000 snowboards and 9,000 digital cameras
- D) There is not enough information to answer this question.

Answer: A

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Analytical

10) Refer to Table 1.1. If each country specializes in their production with Austria producing only digital cameras and Russia producing only snowboards, at a trading rate of three snowboards per digital camera, how many cameras and snowboards will be available to be consumed in Russia if they trade 9,000 snowboards to Austria?

- A) 9,000 snowboards and 5,000 digital cameras
- B) 3,000 snowboards and 3,000 digital cameras
- C) 3,000 snowboards and 9,000 digital cameras
- D) There is not enough information to answer this question.

Answer: C

Diff: 2

Topic: 1.2 Comparative Advantage

Skill: Analytical

### 1.3 What is Different about Global Financial Management?

1) Which of these factors may differ for management of a domestic firm vs an international firm?

- A) culture
- B) corporate governance
- C) political risk
- D) All of the above may differ.

Answer: D

Diff: 1

Topic: 1.3 Global Financial Management

Skill: Recognition

2) Which of these issues must be addressed by domestic financial managers but may be ignored by international financial managers?

- A) capital budgeting decisions
- B) capital structure decisions
- C) working capital management decisions
- D) All of the above must also be addressed by international financial managers.

Answer: D

Diff: 1

Topic: 1.3 Global Financial Management

Skill: Recognition

### 1.4 Market Imperfections: A Rationale for the Existence of the Multinational Firm

1) MNEs look to exploit \_\_\_\_\_ in national markets for products, factors of production, and/or financial assets.

- A) imperfections
- B) perfect capital markets
- C) corrupt governments
- D) none of the above

Answer: A

Diff: 1

Topic: 1.4 Market Imperfections

Skill: Recognition

2) Large international firms may be better able to exploit such competitive factors as \_\_\_\_\_ than are their domestic competitors.

- A) economies of scale
- B) technological expertise
- C) product differentiation
- D) all of the above

Answer: D

Diff: 1

Topic: 1.4 Market Imperfections

Skill: Recognition

3) Once established abroad, large MNEs internal information networks typically fail to help implement market opportunities compared to their purely domestic counterparts.

Answer: FALSE

Diff: 1

Topic: 1.4 Market Imperfections

Skill: Conceptual

## **1.5 The Globalization Process**

1) The phase of the globalization process characterized by imports from foreign suppliers and exports to foreign buyers is called the

A) domestic phase.

B) multinational phase.

C) international trade phase.

D) import-export banking phase.

Answer: C

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Recognition

2) The authors describe the multinational phase of globalization for a firm as one characterized by the

A) ownership of assets and enterprises in foreign countries.

B) potential for international competitors or suppliers even though all accounts are with domestic firms

and are denominated in dollars.

C) imports from foreign suppliers and exports to foreign buyers.

D) requirement that all employees be multilingual.

Answer: A

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Recognition

3) Of the following, which was NOT mentioned by the authors as an increase in the demands of financial management services due to increased globalization by the firm?

A) evaluation of the credit quality of foreign buyers and sellers

B) foreign consumer method of payment preferences

C) credit risk management

D) evaluation of foreign exchange risk

Answer: B

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Recognition

4) Typically, a firm in its domestic stage of globalization has all financial transactions in its domestic currency.

Answer: TRUE

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Conceptual

5) A firm in the International Trade Phase of Globalization

A) makes all foreign payments in foreign currency units and all foreign receipts in domestic currency units.

B) receives all foreign receipts in foreign currency units and makes all foreign payments in domestic currency units.

C) bears direct foreign exchange risk.

D) none of the above.

Answer: C

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Conceptual

6) The exposure to foreign exchange risk known as Translation Exposure may be defined as

A) changes in reported owners' equity in consolidated financial statements caused by a change in exchange rates.

B) the impact of settling outstanding obligations entered into before change in exchange rates but to be settled after change in exchange rates.

C) the change in expected future cash flows arising from an unexpected change in exchange rates.

D) all of the above.

Answer: A

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Conceptual

7) The twin agency problems limiting financial globalization are caused by these two groups acting in their own self-interests rather than the interests of the firm.

A) rulers of sovereign states and unsavory customs officials

B) corporate insiders and attorneys

C) corporate insiders and rulers of sovereign states

D) attorneys and unsavory customs officials

Answer: C

Diff: 1

Topic: 1.5 The Globalization Process

Skill: Recognition



## **Essay Questions**

### **1.1 The Global Financial Marketplace**

1) The global financial marketplace consists of assets, institutions, and linkages. Explain how these factors come together to form the marketplace we know today.

Answer: Financial assets, such as government securities, are at the heart of today's global financial marketplace. These securities set the standard and establish rate and price benchmarks for other financial assets sourced by private and public firms and NGOs. Central banks help establish and implement monetary policy and regulate the commercial banks which take deposits and make loans. The assets and institutions are linked by the interbank networks operating worldwide that are so necessary for actual trading to take place.

Diff: 3

Topic: 1.1 The Global Financial Marketplace

### **1.2 The Theory of Comparative Advantage**

1) Despite the underlying advantages of the Theory of Comparative Advantage, countries do not appear to specialize in producing only those goods and services that could most efficiently be produced domestically. Provide at least three reasons why governments interfere with comparative advantage and the techniques they may use to enforce their objectives..

Answer: Governments interfere for several reasons. The authors suggest several reasons for this including national objectives for full employment, economic development, self-sufficiency, national defense, and agricultural protection. Common forms of government interference are tariffs, quotas, and other types of restrictions. Political influence may also include the manipulation of international standards of trade that benefit their own country more than others.

Diff: 3

Topic: 1.2 Comparative Advantage

### **1.3 What is Different about Global Financial Management?**

1) There are no essay questions in this section.

### **1.4 Market Imperfections: A Rationale for the Existence of the Multinational Firm**

1) List and explain three strategic motives why firms become multinationals and give an example of each.

Answer: 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.

Diff: 3

Topic: 1.4 Market Imperfections

## **1.5 The Globalization Process**

- 1) There are no essay questions in this section.