

## **Learning Module 5: Introduction to Geopolitics**

Q.1562 Which of the following is *most likely* an international organization that aims to reduce poverty?

- A. World bank.
- B. World Trade Organization.
- C. International Monetary Fund.

The correct answer is **A**.

The World Bank's primary mission is to provide financial and technical assistance to developing countries with the overarching goal of reducing poverty. This is achieved through a variety of projects and initiatives designed to promote economic development, increase access to education and healthcare, and improve infrastructure. The World Bank's efforts are focused on long-term economic development and poverty reduction strategies that are tailored to the specific needs of each country. By providing loans, grants, and expert advice, the World Bank plays a crucial role in helping developing countries overcome financial, structural, and institutional barriers to growth. This focus on poverty reduction through sustainable development distinguishes the World Bank from other international financial institutions and underscores its commitment to improving the living standards of people in developing countries.

**B is incorrect.** The World Trade Organization (WTO) is primarily concerned with the regulation of international trade between nations. Its main goal is to ensure that trade flows as smoothly, predictably, and freely as possible. While the WTO can contribute indirectly to economic growth and development by promoting free trade, its primary focus is not on poverty reduction. The WTO works to resolve trade disputes, negotiate trade agreements, and support the integration of developing countries into the global trading system. However, its direct mandate does not include poverty alleviation, which is the primary mission of the World Bank.

**C is incorrect.** The International Monetary Fund (IMF) is an organization that aims to stabilize the international monetary system and provide a framework for economic cooperation. One of its key functions is to provide financial assistance to countries facing balance of payments crises, helping them to restore macroeconomic stability. While the IMF's work can contribute to creating a more stable economic environment that may indirectly support poverty reduction efforts, its primary focus is not on poverty alleviation. The IMF's role in providing policy advice, financial support, and technical assistance is geared towards ensuring the stability of the international monetary and financial system rather than directly targeting poverty reduction, which is the central objective of the World Bank.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS c: describe functions and objectives of the international organizations that facilitate trade, including the World Bank, the International Monetary Fund, and the World Trade Organization.***

---

Q.4062 Which of the following is *least likely* a characteristic of nationalism?

- A. Limited capital flows.
- B. Focus on national production.
- C. Cultural and information exchange.

The correct answer is C.

Cultural and information exchange is least likely a characteristic of nationalism. Nationalism often emphasizes the sovereignty and interests of one's own nation, potentially at the expense of international cooperation and exchange. It tends to prioritize domestic over foreign, aiming to protect and promote national identity, culture, and interests. This can lead to policies that restrict the free flow of information and cultural exchange with other countries, as the focus is on preserving the national culture and identity from external influences. In contrast, globalization encourages the exchange of culture and information across borders, fostering a more interconnected and interdependent world. Therefore, cultural and information exchange is more aligned with the principles of globalization rather than nationalism.

**A is incorrect.** Limited capital flows are indeed a characteristic of nationalism. Nationalistic policies may include measures to control or limit foreign investment and capital flows into the country. The rationale behind such policies is to protect domestic industries from foreign competition, maintain control over the economy, and prioritize national interests. By restricting capital flows, a nation may seek to avoid excessive foreign influence or dependency, which aligns with the nationalistic emphasis on sovereignty and self-reliance.

**B is incorrect.** A focus on national production is a hallmark of nationalism. Nationalistic policies often aim to promote domestic production and consumption, reducing reliance on imports and encouraging the use of locally produced goods and services. This can involve implementing tariffs, quotas, and other trade barriers to protect domestic industries from foreign competition. The goal is to strengthen the national economy, create jobs, and preserve or enhance the country's economic independence. Such policies reflect the nationalistic priority of putting the nation's economic interests first, ahead of global trade and cooperation.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS b: Describe geopolitics and its relationship with globalization.***

---

Q.4068 Which of the following is *least likely* a cost of globalization?

- A. Independence.
- B. Political consequences.
- C. Lower environmental and governance standards.

The correct answer is **A**.

Independence is the least likely cost associated with globalization. Globalization leads to increased interdependence among nations, not independence. This interdependence arises because countries become more reliant on each other for trade, resources, and economic growth. As supply chains and markets extend across borders, disruptions in one part of the world can have ripple effects globally, affecting industries and economies far from the initial point of disruption. This interconnectedness can make individual countries more vulnerable to external economic pressures and crises, highlighting the cost of reduced autonomy rather than promoting independence.

**B is incorrect.** Political consequences are indeed a significant cost of globalization. The movement of companies across borders and the global integration of markets can lead to job losses in some regions as industries relocate to areas with lower labor costs. This can exacerbate income and wealth disparities within and between countries, fueling social and political unrest. Additionally, the global nature of trade and investment can lead to conflicts over regulations, standards, and enforcement, as nations navigate the challenges of balancing national interests with global economic integration. These political consequences reflect the complex interplay between globalization and governance, underscoring the multifaceted impacts of global economic activities.

**C is incorrect.** Lower environmental and governance standards are a significant concern associated with globalization. When companies seek to maximize profits by relocating operations to countries with less stringent regulations, it can lead to a "race to the bottom" in terms of environmental protection and labor rights. This can result in significant environmental degradation and exploitation of workers, as countries compete to attract foreign investment by offering minimal restrictions. The global nature of these practices means that the negative impacts are not confined to any single region but can have worldwide environmental and social consequences. This highlights the need for international cooperation and standards to address the challenges posed by globalization to environmental and governance quality.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS b: Describe geopolitics and its relationship with globalization.***

---

Q.4069 Which of the following is *least likely* one of the four archetypes of a country's behavior?

- A. Cabotage.
- B. Hegemony.
- C. Multilateralism.

The correct answer is **A**.

Cabotage refers to the transport of goods or passengers between two places in the same country by a transport operator from another country. It is a term primarily used in the context of the shipping and aviation industries and does not represent a country's behavior on the international stage. Therefore, it does not align with the concept of a country's archetype in international relations or global trade practices. The four archetypes of a country's behavior typically include hegemony, multilateralism, bilateralism, and autarky, each describing a distinct approach to international engagement and policy-making.

**B is incorrect.** Hegemony is indeed one of the four archetypes of a country's behavior. It describes a situation where a single country has dominant influence or control over others, often through economic, political, or military means. Hegemonic states use their power to shape international norms, rules, and systems to their advantage, influencing global governance structures. This archetype is characterized by the leadership role that a hegemonic country plays in international affairs, often leading coalitions, setting agendas, and providing public goods at the international level. The presence of a hegemonic power can lead to stability in the international system, as it sets clear expectations and enforces rules, but it can also lead to resistance from other states that feel marginalized or constrained by the hegemon's dominance.

**C is incorrect.** Multilateralism is another archetype of a country's behavior that emphasizes cooperative, coordinated action among three or more states. This approach is grounded in the belief that global challenges and issues can be best addressed through collective efforts rather than unilateral actions. Multilateralism involves the creation and maintenance of international institutions and agreements that facilitate cooperation and negotiation on a wide range of issues, including trade, security, environmental protection, and human rights. Countries that adopt a multilateral approach actively participate in international organizations, such as the United Nations, and seek to build consensus and shared solutions to global problems. This archetype reflects a commitment to rules-based international order and the principle that cooperation can lead to mutual benefits for all involved parties.

**CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS d: Describe geopolitical risk.**

---

Q.4072 Which of the following would *least likely* be classified as geopolitical tools?

- A. Natural tools.
- B. Financial tools.
- C. Economic tools.

The correct answer is **A**.

Natural tools, unlike financial or economic tools, are not typically classified as geopolitical tools. Geopolitical tools are strategic means employed by countries or regions to influence international relations and assert their power on the global stage. These tools are often used to achieve specific political, economic, or security objectives and can include a variety of measures such as economic sanctions, military alliances, and diplomatic negotiations. Natural tools, on the other hand, refer to the inherent physical resources or environmental attributes of a country, such as its geography, climate, and natural resources. While these natural aspects can indirectly influence a country's geopolitical strategy—for example, by determining its economic strengths or vulnerabilities—they are not actively used as tools in the same way that financial or economic measures are.

**B is incorrect.** Financial tools are indeed considered geopolitical tools. They encompass a wide range of financial measures that countries can use to exert influence or pressure on other nations. This can include, but is not limited to, the imposition of financial sanctions, manipulation of currency exchange rates, and strategic investments in foreign economies. Through these actions, countries can achieve geopolitical objectives such as weakening an adversary's economy, fostering economic dependencies, or rewarding allies with financial aid and investments. Financial tools are thus an active and deliberate means of geopolitical engagement.

**C is incorrect.** Economic tools are also recognized as critical instruments in the geopolitical toolkit. These tools can take various forms, including trade agreements, tariffs, export controls, and the establishment of economic blocs or unions. By leveraging economic tools, countries can promote their own economic interests while influencing the political and economic landscape of other nations. For instance, a country might use trade agreements to open new markets for its products or impose tariffs to protect its industries from foreign competition.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS e: Describe tools of geopolitics and their impact on regions and economies.***

---

Q.4073 Which of the following is *least likely* a type of geopolitical risk?

- A. Event risk.
- B. Exogenous risk.
- C. Regionalism risk.

The correct answer is C.

Regionalism risk is least likely to be considered a type of geopolitical risk. Geopolitical risks typically involve uncertainties or threats that stem from political decisions, conflicts, or disruptions that can affect the global economic environment and investment markets. These risks are often related to the actions of governments or non-state actors that have the potential to cause significant changes in a country's or region's stability. Regionalism, on the other hand, refers to a form of cooperation among countries within a specific region to enhance their economic, political, or security integration. This cooperation is aimed at achieving mutual benefits for the member countries, such as increased trade, improved security, and stronger political alliances. While regionalism can influence geopolitical dynamics, it is not in itself a risk but rather a strategy or approach adopted by countries to strengthen their positions and mitigate external risks.

**A is incorrect.** Event risk is indeed a type of geopolitical risk. It encompasses risks associated with specific events that have a defined timeline, such as elections, referendums, or significant political anniversaries. These events can lead to sudden changes in a country's political landscape, economic policies, or international relations, which in turn can impact investment markets and economic conditions. The uncertainty surrounding the outcome of such events and their potential implications makes event risk a critical consideration for investors and policymakers. By influencing investor sentiment and expectations, event risks can cause volatility in financial markets and affect the performance of investments.

**B is incorrect.** Exogenous risks are abrupt and unplanned risks that can have immediate and profound effects on economic stability, security, and the overall investment climate. Understanding and preparing for exogenous risks is crucial for governments, businesses, and investors to protect their interests and minimize potential losses.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS f: Describe the impact of geopolitical risk on investments.***

---

Q.4075 Which of the following geopolitical risk is *most likely* a known risk that evolves and expands over a period of time?

- A. Event risk.
- B. Thematic risk.
- C. Exogenous risk.

The correct answer is **B**.

Thematic risk represents a type of geopolitical risk that is identifiable, evolves, and expands over time. This category of risk encompasses broad, long-term issues that gradually develop and affect nations and markets globally. Examples of thematic risks include climate change, demographic shifts, and the persistent threat of terrorism. These risks are characterized by their gradual development, making them somewhat predictable in terms of their presence, though their specific impacts and timelines can be uncertain. Understanding thematic risks is crucial for long-term strategic planning and risk management, as they can significantly influence global economic and political landscapes.

**A is incorrect.** Event risk pertains to specific, date-driven occurrences that can lead to sudden and significant impacts on geopolitical stability and market conditions. These events are typically well-defined and have a clear temporal boundary, such as elections, referendums, or political anniversaries. Unlike thematic risks, which evolve over time, event risks are acute and can lead to immediate volatility in markets and political environments. The key distinction lies in the predictability and duration of the impact, with event risks being more sudden and potentially more drastic but confined to a shorter timeframe.

**C is incorrect.** Exogenous risk refers to unexpected geopolitical events that arise outside the normal course of economic and political developments. These risks are characterized by their suddenness and the difficulty in predicting them. Examples include military invasions, sudden uprisings, or other dramatic shifts in the geopolitical landscape that can disrupt international relations and economic stability. Exogenous risks are external shocks that can have immediate and profound effects on countries and markets, distinguishing them from thematic risks, which are known and evolve over time. Understanding exogenous risks is crucial for crisis management and contingency planning, as they represent unanticipated challenges to global stability and security.

**CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS f: Describe the impact of geopolitical risk on investments.**

---

Q.4078 Which of the following is *most likely* a tool of geopolitical cooperation?

- A. Export subsidies.
- B. Nationalization of key firms.
- C. Multilateral trade agreements.

The correct answer is **C**.

Multilateral trade agreements such as the World Trade Organization are tools of geopolitical cooperation. Similar tools include common markets and economic and monetary unions such as the European Union.

**A is incorrect.** Export subsidies such as those provided to Boeing & Airbus are tools of geopolitical non-cooperation. Other tools of non-cooperation include foreign investment restrictions, economic and financial sanctions, and the nationalization of key export firms.

**B is incorrect.** The nationalization of key export firms is one of the tools of geopolitical non-cooperation.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS e: Describe tools of geopolitics and their impact on regions and economies.***

---



Q.4080 Which of the following is *most likely* considered a process of evaluating portfolio outcomes across potential circumstances?

- A. A signpost.
- B. A black swan risk.
- C. Scenario analysis.

The correct answer is **C**.

Scenario analysis is the process of evaluating portfolio outcomes across potential circumstances. It helps investment teams understand where they stand with respect to a risk that might cause them to change their behavior.

**A is incorrect.** A signpost is an indicator, market level, data piece, or event that signals a risk that is becoming more or less likely.

**B is incorrect.** A black swan risk is an event that is rare and difficult to predict but has an important impact.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS f: describe the impact of geopolitical risk on investments.***

---

Q.4083 Which of the following would *most likely* be considered a feature of globalization?

- A. Limited capital flows.
- B. Cultural and information exchange.
- C. Focus on national production and sales.

The correct answer is **B**.

Cultural and information exchange is a defining feature of globalization. Globalization refers to the process of interaction and integration among people, companies, and governments worldwide. This phenomenon is driven by international trade and investment and aided by information technology. Cultural and information exchange is a critical aspect of globalization as it facilitates the sharing of ideas, languages, and cultural practices across borders, contributing to a more interconnected and interdependent world. This exchange not only enriches societies by broadening access to new concepts and experiences but also plays a vital role in fostering mutual understanding and cooperation among nations. Through media, the internet, and direct cultural exchanges, people around the globe can learn from each other, adopt new practices, and collaborate more effectively. This aspect of globalization has profound implications for education, business, and international relations, making it a cornerstone of the globalized world.

**A is incorrect.** Limited capital flows are not a feature of globalization but rather a characteristic of nationalism. In a globalized economy, capital flows freely across borders, allowing for investment in foreign markets, the establishment of multinational corporations, and the global allocation of resources according to market demands. Limited capital flows would hinder these processes, leading to less economic integration and potentially slowing global economic growth. Therefore, suggesting limited capital flows as a feature of globalization contradicts the very essence of what globalization aims to achieve: a more interconnected and economically integrated world.

**C is incorrect.** A focus on national production and sales is indicative of nationalism, not globalization. Globalization encourages international trade and the production of goods and services for a global market, rather than solely for national consumption. By focusing on national production and sales, a country may limit its participation in the global economy, potentially missing out on the benefits of international trade, such as access to a broader range of goods and services, economies of scale, and increased competitiveness. This approach contrasts with the principles of globalization, which promote openness, trade liberalization, and economic cooperation across borders.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS b: Describe geopolitics and its relationship with globalization.***

---

Q.4084 Which of the following is *most likely* an example of thematic risk?

- A. Brexit.
- B. Climate change.
- C. Sudden uprising.

The correct answer is **B**.

Thematic risks refer to broad, overarching risks that develop and expand over time, affecting economies, sectors, or the global market as a whole. Climate change is a prime example of thematic risk due to its widespread impact on environmental conditions, regulatory policies, and economic activities across the globe. The effects of climate change, such as increased frequency of extreme weather events, rising sea levels, and shifting agricultural patterns, pose significant challenges to businesses and governments alike. These challenges require long-term strategies and adaptations, making climate change a thematic risk that influences investment decisions, policy-making, and corporate strategies over an extended period.

**A is incorrect.** Brexit, while significant, is categorized as an event risk rather than a thematic risk. Event risks are specific, identifiable occurrences that have a clear start and end point. Brexit pertains to the United Kingdom's decision to leave the European Union, a political event with a set timeline and direct, immediate consequences on trade, regulation, and economic relations between the UK and EU. Unlike thematic risks that evolve and persist over time, event risks like Brexit are more immediate and can be planned for with a more defined scope.

**C is incorrect.** A sudden uprising is an example of exogenous risk, which refers to unexpected, external events that can have a significant impact on economies, markets, or specific sectors. Exogenous risks are characterized by their suddenness and unpredictability, making them difficult to anticipate and plan for. Unlike thematic risks, which are known and can be monitored and mitigated over time, sudden uprisings and other exogenous risks occur with little warning, requiring immediate response and potentially leading to rapid changes in market conditions or political landscapes.

***CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS f: Describe the impact of geopolitical risk on investments.***

---

Q.4085 Which of the following is *most likely* an economic tool used by geopolitical actors to reinforce a non-cooperative stance?

- A. Nationalism.
- B. Multilateral trade agreement.
- C. Restricting foreign investment.

The correct answer is **C**.

Restricting foreign investment is a strategic economic tool used by geopolitical actors to assert a non-cooperative stance. This approach involves implementing regulations, laws, or policies that limit or outright prohibit foreign entities from investing in a country's economy. Such measures can include restrictions on the percentage of a company that foreign investors can own, limitations on the types of industries in which foreign investors can participate, or complete bans on foreign investment in certain sectors. The rationale behind restricting foreign investment is multifaceted. It can serve to protect national security by limiting foreign control over critical industries, preserve economic sovereignty, and reduce dependency on foreign capital. In geopolitical terms, it can be a response to political tensions, a means of exerting pressure on other countries, or a way to retaliate against economic policies perceived as unfavorable. By restricting foreign investment, a country signals its willingness to prioritize national interests over globalization and international cooperation, thereby reinforcing a non-cooperative geopolitical stance.

**A is incorrect.** Nationalism, characterized by a belief or ideology that prioritizes the interests of one's own nation or ethnic group above those of others, is primarily a political and social phenomenon rather than an economic tool. While nationalism can influence economic policies, such as promoting protectionism or opposing foreign influence, it is not in itself an economic mechanism. Nationalism can lead to the adoption of economic strategies that align with its principles, such as restricting foreign investment, but it is the underlying ideology rather than a direct economic action.

**B is incorrect.** A multilateral trade agreement involves three or more countries agreeing to reduce or eliminate trade barriers among them, aiming to facilitate increased trade and economic cooperation. This type of agreement is fundamentally cooperative and seeks to promote mutual economic benefits through enhanced integration and shared economic policies. As such, it represents the opposite of a non-cooperative stance. Multilateral trade agreements are designed to foster international collaboration, reduce trade tensions, and support global economic growth, making them an unsuitable example of an economic tool used to reinforce a non-cooperative stance.

**CFA Level I, Economics, Learning Module 5: Introduction to Geopolitics. LOS e: Describe tools of geopolitics and their impact on regions and economies.**

---