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International Economics (Trường Đại học Quốc tế, Đại học Quốc gia Thành phố Hồ Chí Minh)



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Chapter 13—Direct Foreign Investment

1. Based on the text, it should be obvious that markets are ____ in reality, and consequently, monopolistic advantages ____ be exploited.
- perfect; may possibly
 - perfect; cannot
 - imperfect; may possibly
 - imperfect; cannot

ANS: C PTS: 1

2. When a firm analyzes the feasibility of a project, it should consider the:
- variability of the project's cash flow.
 - correlation of the project's cash flow relative to the prevailing cash flows of the MNC.
 - A and B
 - none of the above

ANS: C PTS: 1

3. The ____ a project's variability in cash flows, and the ____ the positive correlation between the project's cash flow and the MNC's cash flow, the lower the risk of the project.
- higher; higher
 - higher; lower
 - lower; lower
 - lower; higher

ANS: C PTS: 1

4. More than 50% of the DFI by U.S. firms is in Mexico.
- True
 - False

ANS: F PTS: 1

5. Consider Firm A and Firm B that both produce the same product. Firm A would more likely have more stable cash flows if its percentage of foreign sales were ____ and the number of foreign countries it sold products to was ____.
- higher; large
 - higher; small
 - lower; small
 - higher; large

ANS: A PTS: 1

6. According to the text, a firm may be able to achieve a "more efficient" project portfolio if it:
- focuses solely on one product.
 - focuses solely on one location to market what it produces.
 - A and B
 - none of the above

ANS: D PTS: 1

7. According to information in the text, a host government would be least likely to provide incentives for direct foreign investment (DFI) into its country if the firm planning DFI:
- would compete with local firms of the host country.

- b. would produce a good not currently available in the host country.
- c. would produce a good and export it to other countries.
- d. B and C

ANS: A PTS: 1

8. If countries are highly influential upon each other, the correlations of their economic growth levels would likely be _____. A firm would benefit _____ by diversifying sales among these countries relative to another set of countries that were not influential upon each other.
- a. high and positive; more
 - b. close to zero; more
 - c. high and positive; less
 - d. close to zero; less

ANS: C PTS: 1

9. A firm will likely benefit most from diversifying if:
- a. the correlations between country economies are high.
 - b. the correlations between country economies are low.
 - c. the variability of all country economy levels is high.
 - d. B and C

ANS: B PTS: 1

10. When a foreign currency is perceived by a firm to be undervalued, the firm may consider direct foreign investment in that country, as the initial outlay should be relatively low.
- a. True
 - b. False

ANS: T PTS: 1

11. Consider a country that presently has a high level of unemployment because of weak economic conditions. Its income levels are very low. This country may be an attractive target as a result of _____ motives by U.S. firms that engage in direct foreign investment.
- a. revenue-related
 - b. cost-related
 - c. A and B
 - d. none of the above

ANS: B PTS: 1

12. Which of the following is a reason to consider international business?
- a. economies of scale.
 - b. exploit monopolistic advantages.
 - c. diversification.
 - d. all of the above

ANS: D PTS: 1

13. From the concept of an "efficient frontier," the point on a frontier that is optimal for all firms:
- a. is the top point.
 - b. is the point closest to the vertical axis.
 - c. is the point half way between the two end points.
 - d. cannot be determined since firms vary in their willingness to accept risk.

ANS: D PTS: 1

14. Direct foreign investment is perceived by foreign governments to:
- a. be a cause of national problems.
 - b. be a remedy for national problems.
 - c. either A or B is possible.
 - d. have no impact on national problems.

ANS: C PTS: 1

15. Direct foreign investment would typically be welcomed if:
- a. the products to be produced are substitutes for other locally produced products.
 - b. people from the country of the company's headquarter are transferred to the foreign country to work at the subsidiary.
 - c. the products to be produced are going to be exported.
 - d. all of the above

ANS: C PTS: 1

16. Assume a U.S. firm initiates direct foreign investment in the U.K. If the British pound is expected to appreciate against the dollar, the dollar value of earnings remitted to the parent should _____. The parent may request that the subsidiary _____ in order to benefit from the expectation about the pound.
- a. increase; postpone remitting earnings until the pound strengthens
 - b. decrease; postpone remitting earnings until the pound strengthens
 - c. decrease; remit earnings immediately before the pound strengthens
 - d. increase; remit earnings immediately before the pound strengthens

ANS: A PTS: 1

17. Assume the British pound appreciates against the dollar while the Japanese yen depreciates against the dollar. Which of the following is true?
- a. Japanese exporters can increase American sales by shifting operations from their British subsidiaries to Japan.
 - b. British exporters can increase American sales by shifting operations from their Japanese subsidiaries to Britain.
 - c. American exporters can increase sales to Japan by shifting operations from Japanese subsidiaries to American subsidiaries.
 - d. B and C

ANS: A PTS: 1

18. Even if production costs are higher in a foreign country, a U.S. firm may establish a manufacturing plant in the foreign country now if:
- a. the host government of that country eliminates all quotas.
 - b. the host government of that country reduces all quotas.
 - c. the host government of that country increases all quotas.
 - d. the host government of that country eliminates all tariffs.

ANS: C PTS: 1

19. A country with high unemployment could best increase its employment by:
- a. encouraging foreign firms to establish subsidiaries that produce the same products local firms produce.
 - b. encouraging foreign firms to establish licensing arrangements for products local firms produce.
 - c. encouraging foreign firms to establish subsidiaries that produce products local firms do

- not produce.
d. none of the above would reduce employment.

ANS: C PTS: 1

20. According to your text, _____ is a country that has been perceived as one of the most attractive sources of new demand.
- a. Paraguay
 - b. Morocco
 - c. Sweden
 - d. China

ANS: D PTS: 1

21. _____ is not a disadvantage of direct foreign investment.
- a. The expense of establishing a foreign subsidiary
 - b. The uncertainty of inflation and exchange rate movements
 - c. Political risk
 - d. All of the above are disadvantages of direct foreign investment

ANS: D PTS: 1

22. Assume the correlation coefficient between the return on the existing project and the return on a proposed foreign project is 1. Also assume the returns on the existing project and the new project are equal, and that the existing project has a lower standard deviation than the proposed project. Under this scenario, undertaking the proposed project will _____ the variance of the firm's overall returns.
- a. decrease
 - b. increase
 - c. decrease or increase, depending on the exact size of the returns and standard deviations
 - d. none of the above

ANS: B PTS: 1

23. Which of the following is not true regarding host government attitudes towards direct foreign investment (DFI)?
- a. Host governments may offer incentives to MNCs in the form of subsidies in certain circumstances.
 - b. Host governments generally perceive DFI as a remedy to eliminate a country's political problems.
 - c. The ability of a host government to attract DFI is dependent on the country's markets and resources.
 - d. Some types of DFI will be more attractive to some governments than to others.
 - e. All of the above are true.

ANS: B PTS: 1

24. Which of the following is not true regarding the efficient frontier considered by MNCs?
- a. There is exactly one point on the efficient frontier that is optimal for every MNC, regardless of its degree of risk aversion.
 - b. The efficient frontier for international projects will probably lie to the left of the efficient frontier for domestic projects.
 - c. Each point on the efficient frontier represents a portfolio of projects as opposed to an individual project.
 - d. All of the above are true.
 - e. A and C are false.

ANS: A PTS: 1

25. Which of the following is not a cost-related motive of direct foreign investment?
- a. International diversification.
 - b. Low labor costs.
 - c. Land can be purchased at a low price.
 - d. Manufacturing plants can be built for a low price.

ANS: A PTS: 1

26. MNCs commonly consider direct foreign investment because it can improve their profitability and enhance shareholder wealth.
- a. True
 - b. False

ANS: T PTS: 1

27. ____ is not a revenue-related motive for direct foreign investment.
- a. Attracting new sources of demand
 - b. Fully benefiting from economies of scale
 - c. Exploiting monopolistic advantages
 - d. Entering profitable markets

ANS: B PTS: 1

28. ____ is not a cost-related motive for direct foreign investment.
- a. Exploiting monopolistic advantages
 - b. Fully benefiting from economies of scale
 - c. Using foreign factors of production
 - d. Using foreign raw materials

ANS: A PTS: 1

29. When a firm perceives that a foreign currency is ____, the firm may attempt direct foreign investment in that country, as the initial outlay should be relatively ____.
- a. overvalued; high
 - b. overvalued; low
 - c. undervalued; high
 - d. undervalued; low

ANS: D PTS: 1

30. Countries that became part of the European Union in recent years had high labor and production costs and therefore were not targeted for new DFI by MNCs that wanted to reduce manufacturing costs.
- a. True
 - b. False

ANS: F PTS: 1

31. Generally speaking, direct foreign investment by U.S. firms in Eastern Europe has increased recently.
- a. True
 - b. False

ANS: T PTS: 1

32. The best means to accomplish the revenue-related motive of attracting new sources of demand is to:
- acquire a competitor that has controlled its local market.
 - establish a subsidiary or acquire a competitor in a new market.
 - establish a subsidiary in a market where tougher trade restrictions will adversely affect the firm's export volume.
 - establish subsidiaries in markets whose business cycles differ from those where existing subsidiaries are based.

ANS: B PTS: 1

33. To enter markets where superior profits are possible, an MNC should:
- acquire a competitor that has controlled its local market.
 - establish a subsidiary or acquire a competitor in a new market.
 - establish a subsidiary in a market where tougher trade restrictions will adversely affect the firm's export volume.
 - establish subsidiaries in markets whose business cycles differ from those where existing subsidiaries are based.

ANS: A PTS: 1

34. To exploit monopolistic advantages, an MNC should:
- acquire a competitor that has controlled its local market.
 - establish a subsidiary or acquire a competitor in a new market.
 - establish a subsidiary in a market where tougher trade restrictions will adversely affect the firm's export volume.
 - establish subsidiaries in markets where competitors are unable to produce the identical product.

ANS: D PTS: 1

35. To fully benefit from economies of scale, an MNC should:
- establish a subsidiary in a new market that can sell products produced elsewhere.
 - establish a subsidiary in a market that has relatively low costs of labor or land.
 - establish a subsidiary in a market where raw materials are cheap and accessible.
 - participate in a joint venture in order to learn about a production process or other operations.

ANS: A PTS: 1

36. To use foreign factors of production, an MNC should:
- establish a subsidiary in a new market that can sell products produced elsewhere.
 - establish a subsidiary in a market that has relatively low costs of labor or land.
 - establish a subsidiary in a market where raw materials are cheap and accessible.
 - participate in a joint venture in order to learn about a production process or other operations.

ANS: B PTS: 1

37. The key to international diversification is selecting foreign projects whose performance levels are highly correlated over time.
- True
 - False

ANS: F PTS: 1

38. When economic conditions of two countries are ____, then a firm would ____ its risk by operating in both countries instead of concentrating just in one.
- a. highly correlated; reduce
 - b. not highly correlated; not reduce
 - c. not highly correlated; reduce
 - d. none of the above

ANS: C PTS: 1

39. Along the frontier of efficient project portfolios, exactly one portfolio can be singled out as "optimal" for all MNCs.
- a. True
 - b. False

ANS: F PTS: 1

40. Some governments restrict foreign ownership of local firms. Such restrictions may limit or prevent international acquisitions.
- a. True
 - b. False

ANS: T PTS: 1

41. Direct foreign investment (DFI) represents investment in real assets (such as land, buildings, or even existing plants) in foreign countries.
- a. True
 - b. False

ANS: T PTS: 1

42. Although direct foreign investment is sometimes conducted, benefits are rarely realized.
- a. True
 - b. False

ANS: F PTS: 1

43. MNCs often attempt to set up production in locations where land and labor are expensive, because expensive factors of production indicate high demand.
- a. True
 - b. False

ANS: F PTS: 1

44. Due to market imperfections, the cost of factors of production (such as labor) may differ substantially across countries.
- a. True
 - b. False

ANS: T PTS: 1

45. In assessing the risk of an individual project, the expected correlation of the new project's returns with those of the prevailing business should be considered.
- a. True
 - b. False

ANS: T PTS: 1

46. Managers of MNCs may attempt to expand their divisions internationally if their compensation may be increased as a result of expansion. This goal is consistent with the goals of shareholders.
- a. True
 - b. False

ANS: F PTS: 1

47. Countries in eastern Europe are more appealing to MNCs that seek relatively low costs of land and labor than countries in western Europe.
- a. True
 - b. False

ANS: T PTS: 1

48. Assume a U.S. firm initiates direct foreign investment in Italy. If the euro is expected to depreciate against the dollar, the dollar value of earnings remitted to the parent should _____. The parent may request that the subsidiary _____.
- a. increase; postpone remitting earnings until the euro weakens
 - b. decrease; postpone remitting earnings until the euro weakens
 - c. decrease; remit earnings immediately before the euro weakens
 - d. increase; remit earnings immediately before the euro weakens

ANS: C PTS: 1

49. To diversify internationally for the purpose of reducing risk, which strategy is appropriate?
- a. Establish subsidiaries in markets whose business cycles are the same as those where existing subsidiaries are based.
 - b. Establish a subsidiary in a market that has relatively low cost of labor or land.
 - c. Establish a subsidiary in a market where the local currency is weak but is expected to appreciate over time.
 - d. Establish subsidiaries in markets whose business cycles differ from those where existing subsidiaries are based.

ANS: D PTS: 1

50. To fully benefit from use of foreign raw materials:
- a. establish a subsidiary in a market where raw materials are cheap and accessible.
 - b. sell the finished product to countries where the raw materials are more expensive.
 - c. establish a subsidiary in a new market that can sell products produced elsewhere.
 - d. A and B

ANS: D PTS: 1

51. Procedural and documentation requirements imposed by the foreign government are referred to as:
- a. regulatory barriers.
 - b. industry barriers.
 - c. protective barriers.
 - d. "Red Tape" barriers.

ANS: D PTS: 1

52. Constraints pertaining to taxes, currency convertibility, earnings remittance, and employee rights are best described as:
- ethical differences.
 - regulatory barriers.
 - quota barriers.
 - "Red Tape" barriers.
- ANS: B PTS: 1
53. Assume that the government of Krusho requires bribes to approve certain projects. MNCs that attempt to do business in Krusho must deal with:
- protective barriers.
 - "red tape" barriers.
 - ethical differences.
 - regulatory barriers.
- ANS: C PTS: 1
54. The overall variability of a firm's returns depends on the expected return of each individual project, percentage of funds invested in each individual project, and correlation coefficient of returns between the investments.
- True
 - False
- ANS: T PTS: 1
55. MNCs can probably achieve more desirable risk-return characteristics from their project portfolios if they sufficiently diversify among products and geographical markets.
- True
 - False
- ANS: T PTS: 1
56. Once a decision to establish a foreign subsidiary has been made, it is irreversible. Therefore, no periodic monitoring of the project is necessary.
- True
 - False
- ANS: F PTS: 1
57. Direct foreign investment is commonly considered by MNCs because it allows the MNC to:
- attract new sources of demand.
 - enter profitable markets.
 - react to exchange rate movements.
 - react to trade restrictions.
 - all of the above
- ANS: E PTS: 1
58. _____ is not a revenue-related motive for direct foreign investment (DFI).
- Attracting new sources of demand
 - Fully benefiting from economies of scale
 - Exploiting monopolistic advantages
 - Reacting to trade restrictions
 - Diversifying internationally

ANS: B PTS: 1

59. ____ is not a cost-related motive for direct foreign investment (DFI).
- a. Using foreign factors of production
 - b. Using foreign raw materials
 - c. Using foreign technology
 - d. Reacting to trade restrictions
 - e. Fully benefiting from economies of scale

ANS: D PTS: 1

60. When a foreign currency is perceived by a firm to be ____, the firm will probably ____ direct foreign investment in that country.
- a. undervalued; consider
 - b. undervalued; not consider
 - c. overvalued; not consider
 - d. A and C
 - e. B and C

ANS: D PTS: 1

61. The best means of using direct foreign investment (DFI) to fully benefit from cheap foreign factors of production is probably to:
- a. acquire a competitor that has controlled its local market.
 - b. establish a subsidiary in a new market that can sell products produced elsewhere; this allows for increased production and possibly greater production efficiency.
 - c. establish a subsidiary in a market that has relatively low costs of labor and land; sell the finished product to countries where the cost of production is higher.
 - d. establish a subsidiary in a market in which raw materials are cheap and accessible; sell the finished product to countries in which the raw materials are more expensive.

ANS: C PTS: 1

62. The ____ the correlation in project returns is over time, the ____ will be the project portfolio risk as measured by the portfolio variance.
- a. lower; lower
 - b. higher; lower
 - c. lower; higher
 - d. none of the above

ANS: A PTS: 1

63. Which of the following is not true regarding host government attitudes towards direct foreign investment (DFI)?
- a. Host governments may offer incentives to MNCs in the form of subsidies in certain circumstances.
 - b. Host governments generally perceive DFI as a remedy for their national problems.
 - c. The ability of a host government to attract DFI is dependent on the country's markets and resources.
 - d. Some types of DFI will be more attractive to some governments than to others.
 - e. All of the above are true.

ANS: B PTS: 1