

# ch01

Student: \_\_\_\_\_

1. The shift toward a more integrated and interdependent world economy is referred to as globalization.  
True False
2. A company does not need a large size to facilitate, and benefit from, the globalization of markets.  
True False
3. Companies hope to lower their overall cost structure or improve the quality or functionality of their product offering through globalization of production.  
True False
4. The most global markets currently are markets for consumer products.  
True False
5. Outsourcing is a process that is limited to manufacturing enterprises.  
True False
6. The health care sector in the U.S. cannot avail the benefits of outsourcing to low-cost producers in other nations because of the nature of the work.  
True False
7. The World Bank has focused on policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties.  
True False
8. The World Bank is known as the lender of the last resort.  
True False
9. One of the UN's central mandates is the promotion of higher standards of living, full employment, and conditions of economic and social progress and development.  
True False
10. In 2008 and 2009, the GATT became the forum through which major nations attempted to launch a coordinated policy response to the global financial crisis, which started in America.  
True False
11. The Uruguay Round, finalized in December 1993, reduced protection for patents, trademarks, and copyrights.  
True False
12. "Beggar thy neighbor" retaliatory trade policies involved countries progressively lowering trade barriers against each other, which contributed to the Great Depression of the 1930s.  
True False
13. Rivers Inc., a U.S. based sports apparel manufacturer, sets up a production unit in China to take advantage of the lower labor costs there. This is an example of foreign direct investment.  
True False
14. World Bank gives an aid of 100 million dollars to Kenya for creating rural health care facilities. This is an example of foreign direct investment.  
True False
15. The lowering of barriers to international trade enables firms to view the world, rather than a single country, as their market.  
True False

16. According to WTO data, the volume of world merchandise trade has grown faster than the world economy since 1950.  
True False
17. The expansion of world trade implies that nations are becoming less dependent on each other for important goods and services.  
True False
18. Over the past 30 years the flow of FDI has accelerated faster than the growth in world trade and world output.  
True False
19. The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets protected from foreign competitors.  
True False
20. The cost of microprocessors continues to fall, while their power increases. This statement supports the predictions made by Moore's Law.  
True False
21. Efficiency gains associated with containerization have caused transportation costs to fall dramatically.  
True False
22. The Internet has developed into the information backbone of the global economy.  
True False
23. Globalization of markets has resulted in greater differentiation of consumer tastes and preferences.  
True False
24. In the early 1960s, the United States was by far the world's dominant industrial power. However by 2009, it lost its dominant position and now, is no longer the world's largest industrial power.  
True False
25. Non-U.S. firms increasingly began to invest across national borders because they wanted to disperse production activities to optimal locations and to build a direct presence in major foreign markets.  
True False
26. A multinational enterprise (MNE) is any business that exports or imports products from other countries.  
True False
27. A current trend in international business is the decline of medium-sized and small multinationals, known as mini-multinationals.  
True False
28. The globalization of the world economy has resulted in a relative increase in the dominance of U.S. firms in the global marketplace.  
True False
29. Doing business in Russia involves risks because the country has shown signs of shifting back toward greater state involvement in economic activity and authoritarian government.  
True False
30. Current trends indicate the world is moving toward an economic system that is more favorable for international business.  
True False
31. Globalization reduces the risks of global financial contagion.  
True False

32. Globalization critics argue that the decline in unskilled wage rates is due to the migration of low-wage manufacturing jobs offshore and a corresponding reduction in demand for unskilled workers.  
True False
33. Evidence suggests that technological change has had a bigger impact than globalization on the declining share of national income enjoyed by labor.  
True False
34. Recent evidence indicates that the solution to the problem of stagnant incomes among the unskilled is to be found in increasing government regulation of markets.  
True False
35. According to supporters of free trade, as countries get richer they commit greater violation of environmental and labor regulations.  
True False
36. According to critics of globalization, today's interdependent global economy limits a nation's national sovereignty.  
True False
37. Critics of globalization suggest that over the last century, the gap between the rich and poor nations of the world has shrunken.  
True False
38. Supporters of debt relief argue that new democratic governments in poor nations should not be forced to honor debts incurred by corrupt and dictatorial predecessors.  
True False
39. A firm does not have to become a multinational enterprise to engage in international business.  
True False
40. Differences between countries require that an international business vary its practices country by country.  
True False
41. Cross-border business transactions have become easier for international businesses because they use a common currency.  
True False
42. A domestic business must find ways to work within the limits imposed by governmental intervention in the international trade and investment system.  
True False
43. Managing an international business is much easier than managing a domestic business.  
True False
44. Since the collapse of communism at the end of the 1980s, the erstwhile communist nations have transformed their economies by globalizing their markets. This involves \_\_\_\_.
- A. regulating markets
  - B. privatizing state-owned enterprises
  - C. decreasing competition
  - D. reducing foreign investment
45. Which of the following is a consequence of globalization?
- A. Decreasing interdependence between national economies
  - B. Increasing outsourcing of services
  - C. Differentiation of material culture
  - D. Increase in barriers to cross-border trade

46. Which of the following has enabled globalization of markets?
- A. Differentiation amongst national markets
  - B. Falling barriers to cross border trade
  - C. Reduced homogeneity of material culture across the world
  - D. Increased government ownership of factors of production
47. Which of the following factors hinders globalization of consumer goods market?
- A. National differences in tastes and preferences
  - B. Higher production costs in developed nations
  - C. Homogenization of material culture
  - D. Increasing outsourcing of goods and services
48. Globalization of markets results in markets becoming \_\_\_\_.
- A. less interdependent
  - B. less diverse
  - C. more protected
  - D. less competitive
49. A U.S. Investment firm, Fin-Smart, set up a customer service call center in India to take advantage of the lower labor costs. This is called \_\_\_\_.
- A. homogenizing markets
  - B. vertical integration
  - C. outsourcing
  - D. horizontal integration
50. Early outsourcing efforts were primarily confined to \_\_\_\_.
- A. health care
  - B. service activities
  - C. technological research
  - D. manufacturing activities
51. Which of the following is NOT an impediment that makes it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe?
- A. Reduced tariffs on imports of manufactured goods
  - B. Government regulations
  - C. Issues associated with economic and political risk
  - D. Barriers to foreign direct investment
52. The General Agreement on Tariffs and Trade (GATT) was responsible for \_\_\_\_.
- A. protecting government owned enterprises
  - B. policing the global marketplace
  - C. limiting nuclear testing
  - D. promoting environment friendly technology
53. The \_\_\_\_\_ is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by member states.
- A. International Development Association
  - B. World Bank
  - C. International Court of justice
  - D. World Trade Organization
54. The World Trade Organization promotes \_\_\_\_.
- A. lowering of barriers to cross-border trade and investment
  - B. infrastructural development in poor nations through low-interest loans
  - C. state ownership of major enterprises
  - D. regulation of national economies

55. Which of the following is true about the International Monetary Fund?
- A. It is primarily responsible for policing the world trading system.
  - B. It is seen as the lender of last resort to nation-states whose economies are in turmoil.
  - C. It is responsible for establishing multinational treaties to govern the global business system.
  - D. It was established to formulate a coordinated policy response to financial crises in developing nations.
56. The \_\_\_\_\_ was established on October 24, 1945, by 51 countries committed to preserving peace through international cooperation and collective security.
- A. World Trade Organization
  - B. United Nations
  - C. G20
  - D. World Bank
57. The G20 was originally established to \_\_\_\_\_.
- A. preserve peace through international cooperation and collective security
  - B. maintain order in the international monetary system
  - C. formulate a coordinated policy response to financial crises in developing nations
  - D. manage, regulate, and police the global marketplace
58. \_\_\_\_\_ occurs when a firm exports goods or services to consumers in another country.
- A. International trade
  - B. Foreign direct investment
  - C. Inward investment
  - D. Outsourcing
59. In late 2001, the WTO launched a new round of talks in Doha aimed at:
- A. helping member states to cope with financial crisis.
  - B. further liberalization of the global trade and investment framework.
  - C. protecting national economies from global competition.
  - D. promoting higher standards of living in all member states.
60. Which of the following is NOT included in world merchandise trade?
- A. Manufactured goods
  - B. Agricultural goods
  - C. Services
  - D. Mining products
61. \_\_\_\_\_ have/has the most to gain from reductions in agricultural tariffs and subsidies that are a part of the Doha agenda.
- A. The world's developed nations
  - B. The world's poorer nations
  - C. European nations
  - D. The United States
62. Which of the following is NOT a consequence of the reduction in trade barriers and restrictions on FDI since 1950?
- A. Firms are dispersing parts of their production process to global locations to drive down production costs and increase product quality.
  - B. The economies of the world's nation states are becoming more intertwined.
  - C. Nations are becoming more independent of each other for important goods and services.
  - D. The world has become significantly wealthier since 1950.
63. The financial crisis in the U.S. in 2009 was triggered by \_\_\_\_\_.
- A. the global hike in the price of crude oil
  - B. the slowdown in U.S. imports
  - C. the problems in the U.S. subprime mortgage lending market
  - D. the artificial fixing of currency rate by China

64. \_\_\_\_\_ predicts that the power of microprocessor technology doubles and its cost of production falls in half every 18 months.
- A. Keynes's Law
  - B. Say's Law
  - C. Moore's Law
  - D. Sullivan Principles
65. Containerization allows:
- A. reduction of the time needed to get from one location to another.
  - B. simplification of transshipment from one mode of transport to another.
  - C. buyers and sellers to find each other easily.
  - D. enterprises to coordinate and control a globally dispersed production system.
66. The relative decline of the United States in the share of world output and world exports reflects \_\_\_\_\_.
- A. an increase in the barriers to foreign trade in the U.S.
  - B. the deepening of the global financial crisis
  - C. the reduced industrialization in developing nations
  - D. the growth in the economic development of the world economy
67. In the 1970s, many Japanese firms invested in North America and Europe:
- A. to avoid a highly competitive domestic market.
  - B. to exploit high domestic tariff barriers.
  - C. as a hedge against unfavorable currency movements.
  - D. to take advantage of low labor costs.
68. What is the total cumulative value of foreign investments best referred to as?
- A. Accumulation of foreign shares
  - B. Portfolio investments
  - C. Stock of foreign direct investments
  - D. Stock market investments
69. Throughout the 1990s, the amount of foreign direct investment directed at both developed and developing nations increased dramatically. This trend reflects:
- A. a slowdown in global economic activity.
  - B. the increasing share of the U.S. in the total FDI stock.
  - C. the decline in cross-border flows of foreign direct investment.
  - D. the increasing internationalization of business corporations.
70. Which of the following countries has been the largest recipient of foreign direct investment and received about \$60 billion to \$100 billion a year in inflows in 2004-2009?
- A. Brazil
  - B. Russia
  - C. India
  - D. China
71. A multinational enterprise (MNE) is a firm that \_\_\_\_\_.
- A. exports its products to multiple countries
  - B. has production units in more than two countries
  - C. does most of its business on the Internet
  - D. lists its securities on a public exchange
72. Which of these statements pertaining to cross-border FDI flows is true?
- A. There was a growth of FDI between 2004 and 2007.
  - B. A slump in FDI from 1998 to 2000 was followed by a surge from 2001 to 2003.
  - C. Among developing nations, the largest recipient of FDI has been Russia.
  - D. The dramatic increase in FDI reflects the decreasing internationalization of business corporations.

73. Since the 1960s, which of the following has been a notable trend in the demographics of the multinational enterprise?
- A. The decline of multinational companies in the manufacturing sector
  - B. The growth of government-owned multinational enterprises
  - C. The decline of non-U.S. multinationals
  - D. The growth of mini-multinationals
74. In the last two decades, Latin American countries like Brazil, Mexico, and Chile have \_\_\_\_.
- A. embraced communist principles
  - B. promoted government ownership of enterprises
  - C. experienced increasing debt and inflation
  - D. welcomed foreign investment
75. Which of the following is a risk associated with globalization?
- A. Restrictions on competition
  - B. Global financial contagion
  - C. Excessive market regulation
  - D. Differentiation of markets
76. Supporters of globalization maintain that the apparent decline in real wage rates of unskilled workers:
- A. is due to technological changes that create greater demand for skilled workers.
  - B. is due to the migration of low-wage manufacturing jobs offshore.
  - C. can be checked by increasing government ownership of enterprises.
  - D. can be checked by limiting free trade and foreign investment.
77. A study published in 2011 by the OECD noted that:
- A. the real household income of the unskilled workers in the U.S. increased more in comparison to that of the skilled workers.
  - B. in almost all countries real income levels declined over the 20-year period studied.
  - C. falling unemployment rates brought gains to low-wage workers and fairly broad-based wage growth.
  - D. the gap between the poorest and richest segments of society in some OECD countries had widened.
78. A number of econometric studies have found consistent evidence of a hump-shaped relationship between income levels and pollution levels. According to this, as an economy grows and income levels rise:
- A. initially the pollution levels remain low.
  - B. after a while the pollution levels decrease.
  - C. the pollution levels also rise in proportion to the economic growth.
  - D. there is increasing industrialization which leads to greater pollution.
79. NAFTA was passed only after:
- A. China agreed to establish a higher minimum wage.
  - B. the U.S. agreed to limit the number of jobs that could be outsourced.
  - C. Mexico committed to tougher enforcement of environmental protection regulations.
  - D. Canada committed to establish new limits on FDI.
80. Globalization is criticized because it increases the power of \_\_\_\_.
- A. governments to own enterprises
  - B. unskilled labor to form labor unions
  - C. supranational organizations over nation-states
  - D. nation-states to regulate markets and reduce competition
81. The World Trade Organization has estimated that the developed nations of the world can raise global economic welfare by \$128 billion by:
- A. removing subsidies given to their agricultural producers.
  - B. increasing tariff barriers to trade in agriculture.
  - C. increasing outsourcing of manufacturing processes.
  - D. reducing defense expenditure.

82. An international business, unlike a multinational enterprise, \_\_\_\_.
- A. needs to have manufacturing units in at least two foreign nations
  - B. needs to manufacture products or provide services that target a global market
  - C. need not customize its products to the requirements of national markets
  - D. need not invest directly in operations in other countries
83. Which of the following statements is true about an international business?
- A. An international business needs to invest directly in operations in other countries.
  - B. An international business needs to have homogenous practices across countries.
  - C. An international business can be managed in the same way that a domestic business is managed.
  - D. An international business must find ways to work within the limits imposed by government intervention.
84. What is the main reason that managing an international business differs from managing a domestic business?
- A. Because international managers are more experienced.
  - B. Because countries differ in their cultures and systems.
  - C. Because countries want to do business with their neighbors.
  - D. Because countries want to keep their transactions simple.
85. With the help of an example discuss the characteristics of globalization.
86. Explain what is meant by the globalization of markets. Provide an example. What are the most global markets?
87. Discuss the concept of the globalization of production.
88. What is the World Trade Organization? What is its role in the world economy?

89. What is the International Monetary Fund? What is the World Bank? What is their relationship, if any, with each other?
90. What is the Uruguay Round? List the measures implemented in the Uruguay Round?
91. Explain the trends in world trade and foreign direct investment over the last half century.
92. Explain how a company competes using outsourcing. Provide an example.
93. Discuss the impact of technological change on global markets.
94. Explain the notion of the Internet emerging as an equalizer.

95. Innovations in transportation have had a major impact on global trade. Consider one of these innovations: containerization. Why is this innovation so significant?
96. Discuss the demographics of world trade since the 1960s. How has the role of the U.S. changed? How is world trade expected to change in the future?
97. How has the foreign direct investment picture changed since the 1960s?
98. What is a multinational enterprise (MNE)? How does a mini-multinational differ from an MNE?
99. Why does China represent both opportunities and threats for established international businesses?
100. Consider the global economy of the 21<sup>st</sup> century. What important changes are taking place? What do these changes mean for international companies?

101. Consider whether the shift toward a more integrated and interdependent global economy is a good thing. Discuss the shift from the eyes of the consumer, the worker, the company, and the environmentalist.
102. Discuss what occurred in Seattle in 1999 at the meeting of the WTO and why the events were important to the future of global trade.
103. Falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies. Discuss this statement. Do you agree? Why or why not?
104. Why is managing an international business different from managing a purely domestic business?
105. What are some of the issues a manager of an international business must confront that a manager of a domestic business never confronts?

## ch01 Key

1. TRUE
2. TRUE
3. TRUE
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42. FALSE
43. FALSE
44. B
45. B
46. B
47. A
48. B
49. C
50. D
51. A
52. B
53. D
54. A
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56. B
57. C
58. A
59. B
60. C
61. B
62. C
63. C
64. C
65. B
66. D
67. C
68. C
69. D
70. D
71. B
72. A
73. D
74. D

- 75. B
- 76. A
- 77. D
- 78. B
- 79. C
- 80. C
- 81. A
- 82. D
- 83. D
- 84. B

85. Globalization refers to a fundamental shift in the world economy in which national economies are no longer relatively self-contained entities. Instead, nations are moving toward an interdependent global economic system. Within this new global economy, an American might drive to work in a car designed in Germany that was assembled in Mexico by DaimlerChrysler from components made in the U.S. and Japan that were fabricated from Korean steel and Malaysian rubber. A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets.

86. The globalization of markets refers to the idea that historically distinct and separate national markets are merging into a single, huge global marketplace. For example, Coca-Cola, Starbucks, and McDonald's offer the same basic product worldwide, and are in fact, not only a part of the trend, but facilitators of the trend as well. The most global markets are not actually for consumer goods, but instead are for industrial goods and materials that serve the same needs across the world.

87. The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

88. The World Trade Organization (WTO) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO members. The WTO currently has 148 members that collectively account for 97 percent of world trade. The WTO has been instrumental in lowering barriers to cross-border trade and investment. In addition to these responsibilities, the WTO also facilitates the establishment of additional agreements between member states.

89. The International Monetary Fund (IMF) was created to maintain order in the international monetary system. The World Bank was established to promote economic development. Both organizations were launched as part of the 1944 Bretton Woods Agreement, and have emerged as significant players in the global economy. The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and currencies are losing value against those of other nations.

90. Under the umbrella of GATT, eight rounds of negotiations among member states worked to lower barriers to the free flow of goods and services. The most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system.

91. Since 1950, the volume of world merchandise trade has grown faster than the world economy. In particular, there has been acceleration in world trade since 1980. This trade and investment pattern implies that firms are dispersing parts of their production to different locations around the world to drive down production costs and increase product quality, that the economies of the world's nation states are becoming more intertwined, that foreign direct investment is playing an increasing role in the global economy as firms increase their cross-border investments, and that the world has become significantly wealthier over the last 50 years.

92. The lowering of trade and investment barriers also allows firms to base production at the optimal location for that activity. Thus, a firm might design a product in one country, produce component parts in two other countries, assemble the product in yet another country, and then export the finished product around the world. For example, consider Boeing's 777, a commercial jet airliner. Eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on. In total, some 30 percent of the 777, by value, is built by foreign companies.

93. Major advances in communication, information processing, and transportation technology have facilitated the globalization of markets and production. The microprocessor and the Internet have been central to the technology explosion. The development of the microprocessor vastly increased the amount of information that can be processed by individuals and firms, and the growth of the Internet has allowed companies to expand their global presence at a fraction of the cost of more traditional methods of business. Jet air travel, by shrinking travel time, has also helped to link the worldwide operations of international businesses. These changes have enabled firms to achieve tight coordination of their worldwide operations and to view the world as a single market.

94. In 1990, fewer than 1 million users were connected to the Internet. By 1995, the figure had risen to 50 million. By 2012 the Internet had 2.4 billion users. Viewed globally, the Internet is emerging as an equalizer. It rolls back some of the constraints of location, scale, and time zones. The Internet makes it much easier for buyers and sellers to find each other, wherever they may be located and whatever their size. It allows businesses, both small and large, to expand their global presence at a lower cost than ever before. It enables enterprises to coordinate and control a globally dispersed production system in a way that was not possible 20 years ago.

95. Containerization has revolutionized the transportation business, significantly lowering the costs of shipping goods over long distances. Since 1980, the world's containership fleet has more than quadrupled, reflecting in part the growing volume of international trade and in part the switch to this mode of transportation. As a result of the efficiency gains associated with containerization, transportation costs have plummeted, making it much more economical to ship goods around the globe, thereby helping to drive the globalization of markets and production.

96. In the early 1960s, the U.S. was the world's dominant industrial power accounting for over 40 percent of world output. By 2009, the United States accounted for 24.1 percent of world output, still the world's largest industrial power but down significantly in relative size since the 1960s. Other industrialized countries also saw their relative standing slip. This change in the U.S. position was a relative decline, reflecting the faster economic growth of several other economies, particularly in Asia. Most forecasts now predict a rapid rise in the share of world output accounted for by developing nations such as China, India, Russia, Indonesia, Thailand, South Korea, Mexico, and Brazil, and a commensurate decline in the share enjoyed by rich industrialized countries such as Great Britain, Germany, Japan, and the United States.

97. The U.S. accounted for about 66.3 percent of worldwide foreign direct investment flows in the 1960s, followed by British firms with about 10.5 percent of FDI flows, and Japanese firms with 2 percent. As barriers to trade fell, non-U.S. firms increased their investments around the world in search of optimal production locations and a direct presence in major markets. During the 1990s, FDI to both developed and developing nations increased dramatically. China also emerged as an important destination for FDI.

98. A multinational enterprise is any business that has productive activities in two or more countries. Since the 1960s, two notable trends in the demographics of the multinational enterprise have been (1) the rise of non-U.S. multinationals and (2) the growth of mini-multinationals. The number of mini-multinationals is also on the rise. Mini-multinationals are medium-sized and small MNEs.

99. China represents a huge and largely untapped market. Reflecting this, between 1983 and 2010, annual foreign direct investment in China increased from less than \$2 billion to \$100 billion annually. On the other hand, China's new firms are proving to be very capable competitors, and they could take global market share away from Western and Japanese enterprises. Thus, the changes in China are creating both opportunities and threats for established international businesses.

100. The last 25 years have been a time of great change in the global economy. Barriers to the free flow of goods, services, and capital have been falling, national economies are becoming more integrated, and more countries are joining the ranks of the developed world. All of these changes point toward an economic system that is more favorable for international business.

101. There are many advantages of globalization. From a broad perspective, globalization creates economic activity (which stimulates economic growth), creates jobs, raises income levels, and provides consumers with more choices in regard to the products and services that are available to them. From the perspective of an individual firm, globalization has the potential to increase revenues (through expanded market potential), drive down costs (through additional economies of scale), and boost profits. However, critics argue that globalization destroys manufacturing jobs in wealthy countries and contributes to pollution. Critics argue that falling trade barriers allow firms in industrialized countries to move their manufacturing activities offshore to countries where wage rates are much lower. Critics also argue that globalization encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries to avoid the more stringent pollution controls in place in their home countries.

102. In December 1999, more than 40,000 protesters blocked the streets of Seattle in an effort to shut down a WTO meeting being held in the city. The issue was job losses in industries under attack from foreign competitors, falling wage rates of unskilled workers, environmental degradations, and cultural imperialism of global media and MNEs. Protesters believed that all of these issues were the result of globalization, and felt that the WTO, as a promoter of globalization, was a legitimate target for blame. The protest was a violent one, and emboldened by the experience, antiglobalization protesters now turn up at almost every major meeting of a global institution.

103. Critics argue that falling trade barriers allow firms to move manufacturing activities to countries where wage rates are much lower. Because of such moves they argue that, the wage rates of poorer Americans have fallen significantly over the past quarter of a century. Supporters of globalization reply that critics of these trends miss the essential point about free trade—the benefits outweigh the costs. They argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently.

104. Managing an international business is different from managing a purely domestic business for at least four reasons: (1) countries are different, (2) the range of problems confronted by a manager in an international business is wider and the problems themselves more complex than those confronted by a manager in a domestic business, (3) an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system, and (4) international transactions involve converting money into different currencies.

105. In addition to the problems that arise from the differences between countries, managers of an international business must decide where in the world to site production activities to minimize costs and to maximize value added. They must decide whether it is ethical to adhere to the lower labor and environmental standards found in many less developed nations. Then they must decide how best to coordinate and control globally dispersed production activities, which is not a trivial problem. Managers in an international business must also decide which foreign markets to enter and which ones to avoid.

# ch01 Summary

<u>Category</u>	<u># of Questions</u>
AACSB: Analytic	105
Accessibility: Keyboard Navigation	84
Blooms: Apply	1
Blooms: Remember	73
Blooms: Understand	31
Difficulty: 1 Easy	72
Difficulty: 2 Medium	32
Difficulty: 3 Hard	1
Hill - Chapter 01	105
Learning Objective: 01-01 Understand what is meant by the term globalization.	29
Learning Objective: 01-02 Recognize the main drivers of globalization.	27
Learning Objective: 01-03 Describe the changing nature of the global economy.	23
Learning Objective: 01-04 Explain the main arguments in the debate over the impact of globalization.	16
Learning Objective: 01-05 Understand how the process of globalization is creating opportunities and challenges for business managers.	10
Topic: Drivers of Globalization	27
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