

**Chapter 1 Multinational Financial Management: Opportunities and Challenges**

**1.1 The Global Financial Marketplace**

1) Financial globalization has NOT resulted in:

- A) continuing imbalances of balance of payments.
- B) an increase in quantity and speed in the flow of capital across the world.
- C) capital markets less open and a decrease in the availability of capital for many organizations.
- D) uniform ways of ownership, control, and governance across the world.

Answer: D

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

2) Financial globalization has NOT resulted in:

- A) continuing imbalances of balance of payments.
- B) an increase in quantity and speed in the flow of capital across the world.
- C) capital markets more open and an increase in the availability of capital for many organizations.
- D) an increase in the flow of capital into and out of industrialized markets.

Answer: C

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

3) The institutions of global finance are:

- A) central banks.
- B) commercial banks.
- C) investment banks.
- D) All of the above are institutions of global finance.

Answer: D

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

4) A major cost avoided in the eurocurrency markets is the payment of deposit insurance fees, such as:

- A) Federal Deposit Insurance Corporation — FDIC.
- B) Office of the Comptroller of the Currency — OCC.
- C) International Monetary Fund — IMF.
- D) World Bank — WB.

Answer: A

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

5) The modern eurocurrency market was born shortly after:

- A) World War II.
- B) World War I.
- C) Korean War.
- D) Bosnian War.

Answer: A

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

6) The reference rate of interest in the eurocurrency market is the:

- A) London Interbank Offered Rate.
- B) Prima rate.
- C) Federal funds rate.
- D) Treasury rate.

Answer: A

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

7) Interest spreads in the eurocurrency market are small for many reasons EXCEPT:

- A) Eurocurrency loans are secured loans.
- B) Eurocurrency deposits and loans are made in amounts of \$500,000 or more on an unsecured basis.
- C) The eurocurrency is a wholesale market.
- D) Borrowers are usually large corporations or government entities.

Answer: A

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

8) Multinational enterprises (MNEs) are firms, both for-profit companies and not-for-profit organizations, that have operations in more than one country, and conduct their business through foreign subsidiaries, branches, or joint ventures with host country firms.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

9) Ownership, control, and governance changes radically across the world. The publicly traded company is not the dominant global business organization—the privately held or family-owned business is the prevalent structure—and their goals and measures of performance differ dramatically.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

10) The securities at the heart of the global capital markets are the Mortgage Backed Securities (MBS). The health and security of the global financial system rely on the quality of these securities.

Answer: FALSE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

11) The U.S. dollar has been the focal point of currency trading since the 1940s. As a result, most of the world's currencies are quoted against the dollar.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

12) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the euro is always quoted as "dollars per euro."

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

13) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the British pound is always quoted as "dollars per pound."

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

14) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the Japanese yen is always quoted as "dollars per Japanese yen."

Answer: FALSE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

15) Your authors suggest that one way to characterize the global financial marketplace is through its assets, institutions, and linkages.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

16) Eurocurrencies are domestic currencies of one country on deposit in a second country.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

17) A eurodollar deposit is a demand deposit.

Answer: FALSE

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

18) Eurocurrency markets serve two valuable purposes: 1) Eurocurrency deposits are an efficient and convenient money market device for holding excess corporate liquidity; and 2) the Eurocurrency market is a major source of short-term bank loans to finance corporate working capital needs, including the financing of imports and exports.

Answer: TRUE

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

19) The key factor attracting both depositors and borrowers to the Eurocurrency loan market is the narrow interest rate spread within that market.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

20) The Eurocurrency market continues to thrive because it is a large international money market relatively free from governmental regulation and interference. Recent events may lead to greater regulation.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

21) The theme dominating global financial markets today is the complexity of risks associated with financial globalization. List and explain examples of the complexity of risks affecting the leading and managing of multinational firms in the rapidly moving marketplace.

Answer: The following is a sampling of this complexity of risks: 1) The international monetary system is under constant scrutiny. The rise of the Chinese renminbi is changing much of the world's outlook on currency exchange, reserve currencies, and the roles of the dollar and the euro. 2) Large fiscal deficits, including the current eurozone crisis, plague most of the major trading countries of the world, complicating fiscal and monetary policies, and ultimately, interest rates and exchange rates. 3) Many countries experience continuing balance of payments imbalances, and in some cases, dangerously large deficits and surpluses. 4) Ownership, control, and governance vary radically across the world. 5) Global capital markets that normally provide the means to lower a firm's cost of capital, and even more critically, increase the availability of capital, have in many ways shrunk in size and have become less open and accessible to many of the world's organizations. 6) Financial globalization has resulted in the ebb and flow of capital in and out of both industrial and emerging markets, greatly complicating financial management.

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

22) Business involves the interaction of individuals and individual organizations for the exchange of products, services, and capital through markets. The global capital markets are critical for the conduct of this exchange. The authors suggest that one way to characterize the global financial marketplace is through its assets, institutions, and linkages. Explain how each of the three dimensions characterize the global financial marketplace.

Answer: 1) The financial assets at the heart of the global capital markets are the debt securities issued by governments. These low-risk or risk-free assets (e.g., U.S. Treasury Bonds) form the foundation for the creation, trading, and pricing of other financial assets like bank loans, corporate bonds, and equities (stock). In recent years, a number of additional securities have been created from existing securities-derivatives, whose value is based on market value changes of the underlying securities. The health and security of the global financial system relies on the quality of these assets. 2) The institutions of global finance are the central banks, which create and control each country's money supply; the commercial banks, which take deposits and extend loans to businesses, both local and global; and the multitude of other financial institutions created to trade securities and derivatives. These institutions take many shapes and are subject to many different regulatory frameworks. The health and security of the global financial system relies on the stability of these financial institutions. 3) The links between the financial institutions, the actual fluid or medium for exchange, are the interbank networks using currency. The ready exchange of currencies in the global marketplace is the first and foremost necessary element for the conduct of financial trading, and the global currency markets are the largest markets in the world. The exchange of currencies, and the subsequent exchange of all other securities globally via currency, is the international interbank network.

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

## 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

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

2) Which of the following is NOT a reason governments interfere with comparative advantage?

- A) Governments attempt to achieve full employment.
- B) Governments promote economic development.
- C) national self-sufficiency in defense-related industries
- D) All are reasons governments interfere with comparative advantage.

Answer: D

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

3) Which of the following factors of production DO NOT flow freely between countries?

- A) raw materials
- B) financial capital
- C) (non-military) technology
- D) All of the above factors of production flow freely among countries.

Answer: A

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

4) Which of the following would NOT be a way to implement comparative advantage?

- A) IBM exports computers to Egypt.
- B) Computer hardware is designed in the United States but manufactured and assembled in Korea.
- C) Water of the greatest purity is obtained from wells in Oregon, bottled, and exported worldwide.
- D) All of the above are examples of ways to implement comparative advantage.

Answer: D

Diff: 2

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Conceptual

AACSB: Application of knowledge

5) 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

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

6) The concept of absolute comparative advantage's origins lie in:

- A) Adam Smith's work of 1776.
- B) David Ricardo's work of 1776.
- C) *The Wealth of Nations* book, published in 1887.
- D) *On the Principles of Political Economy and Taxation* book, published in 1817.

Answer: A

Diff: 3

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

7) The concept of relative comparative advantage's origins lie in:

- A) Adam Smith's work of 1776.
- B) David Ricardo's work of 1776.
- C) *The Wealth of Nations* book, published in 1887.
- D) *On the Principles of Political Economy and Taxation* book, published in 1817.

Answer: D

Diff: 3

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

8) Comparative advantage is one of the underlying principles driving the growth of global business.

Answer: TRUE

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

9) The theory of comparative advantage owes its origins to Ben Bernanke as described in his book *The Wealth of Bankers*.

Answer: FALSE

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

10) International trade might have approached the comparative advantage model in the 19th century, and it does so even more today.

Answer: FALSE

Diff: 2

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge



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

Answer: TRUE

Diff: 2

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

12) Comparative advantage in the 21st century is based more on services and their cross border facilitation by telecommunications and the Internet.

Answer: TRUE

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

13) Comparative advantage was once the cornerstone of international trade theory, but today it is archaic, simplistic, and irrelevant for explaining investment choices made by MNEs.

Answer: FALSE

Diff: 2

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

14) When discussing comparative advantage, it is apparent that today at least two of the factors of production, capital and technology, now flow directly and easily between countries, rather than only indirectly through traded goods and services.

Answer: TRUE

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

15) It would be safe to make the statement that modern telecommunications now take business activities to labor rather than moving labor to the places of business.

Answer: TRUE

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Conceptual

AACSB: Application of knowledge

16) As the general principle of comparative advantage is still valid, complete specialization remains a realistic case.

Answer: FALSE

Diff: 2

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge

17) Although international trade might have approached the comparative advantage model during the nineteenth century, it certainly does not today, for a variety of reasons. Develop an argument as to why this is not happening today.

Answer: Countries do not appear to specialize only in those products that could be most efficiently produced by that country's particular factors of production. Instead, governments interfere with comparative advantage for a variety of economic and political reasons, such as to achieve full employment, economic development, national self-sufficiency in defense-related industries, and protection of an agricultural sector's way of life. Government interference takes the form of tariffs, quotas, and other non-tariff restrictions. The classical model of comparative advantage also did not really address certain other issues such as the effect of uncertainty and information costs, the role of differentiated products in imperfectly competitive markets, and economies of scale.

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Conceptual

AACSB: Application of knowledge

### 1.3 What Is Different About International Financial Management?

1) Which of the following domestic financial instruments have NOT been modified for use in international financial management?

A) currency options and futures

B) interest rate and currency swaps

C) letters of credit

D) All of the above are domestic financial instruments that have also been modified for use in international financial markets.

Answer: D

Diff: 1

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Recognition

AACSB: Application of knowledge

2) Which of the following is NOT always understood by MNE management?

- A) culture, history, and institutions
- B) political risk
- C) foreign exchange risk
- D) financial instruments

Answer: A

Diff: 2

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Recognition

AACSB: Application of knowledge

3) In determining why a firm becomes multinational there are many reasons. One reason is that the firm is a market seeker. Which of the following is NOT a reason why market-seeking firms produce in foreign countries?

- A) satisfaction of local demand in the foreign country
- B) to export to foreign markets
- C) political safety and small likelihood of government expropriation of assets
- D) All of the above are market-seeking activities.

Answer: C

Diff: 1

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Recognition

AACSB: Application of knowledge

4) \_\_\_\_\_ investments are designed to promote and enhance the growth and profitability of the firm. \_\_\_\_\_ investments are designed to deny those same opportunities to the firm's competitors.

- A) Conservative; Aggressive
- B) Defensive; Proactive
- C) Proactive; Defensive
- D) Aggressive; Proactive

Answer: C

Diff: 2

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Recognition

AACSB: Application of knowledge

5) In determining why a firm becomes multinational there are many reasons. One reason is that the firm is a raw material seeker. Which of the following is a reason why raw material seeker extract raw materials in foreign countries?

A) They extract raw materials wherever they can be found to export from the host country.

B) They extract raw materials wherever they can be found for sale in the host country.

C) They extract raw materials wherever they can be found for further processing in the host country.

D) All of the above are raw material seeker activities.

Answer: D

Diff: 1

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Recognition

AACSB: Application of knowledge

6) A well-established, large U.S.-based MNE will probably NOT be able to overcome which of the following obstacles to maximizing firm value?

A) an open marketplace

B) high-quality strategic management

C) access to capital

D) none of the above

Answer: D

Diff: 1

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Conceptual

AACSB: Application of knowledge

7) A well-established, large, China-based MNE will probably be most adversely affected by which of the following elements of firm value?

A) an open marketplace

B) high-quality strategic management

C) access to capital

D) access to qualified labor pool

Answer: A

Diff: 2

L.O.: 1.3 What Is Different About International Financial Management?

Skill: Conceptual

AACSB: Application of knowledge