QUESTION 1

Two companies make handcrafted wooden ducks and rocking horses. Information about each company's weekly production alternatives is as follows:

Company	*Ducks*	*Horses*
Treasure	60	15
Gem	24	12

Production possibilities are linear. The annual market for ducks in the relevant shipping range is saturated at 4,160 ducks. Treasure and Gem enter into a trade agreement. According to the principle of comparative advantage, which company should produce which product and why?

- **A.** Gem should produce horses because it only needs to sacrifice four ducks compared to Treasure's 10 ducks.
- **B.** Treasure should produce ducks because it only needs to sacrifice one-fourth of a horse compared to Gem's one-half of a horse.
- **C.** Treasure should produce horses because it only needs to sacrifice one-half of a horse compared to Gem's one-fourth of a horse.
- **D.** Gem should produce ducks because it only needs to sacrifice two ducks compared to Treasure's four ducks.

QUESTION 2

A significant decline in the exchange rate of the U.S. dollar generally will have which of the following effects?

A. It will hurt all U.S. business.

B. It will benefit U.S. importers.

C. It will benefit U.S. exporters.

D. It will make foreign goods cheaper for U.S. consumers.

QUESTION 3

A country's currency conversion value has recently changed from 1.5 to the U.S. dollar to 1.7 to the U.S. dollar. Which of the following statements about the country is correct?

A. Its exports are *less* expensive for the United States.

B. Its purchases of the U.S. dollar will cost *less*.

C. Its imports of U.S. goods are more affordable.

D. Its currency has appreciated.

QUESTION 4

A massive earthquake and tsunami seriously damaged the productive capabilities of auto manufacturers in Japan. As a result, workers at U.S. parts manufacturing firms dedicated to supplying the Japanese manufacturers are furloughed because the parts produced in the U.S. plants are temporarily unneeded. The negative impact of the Japanese earthquake and tsunami on these U.S. parts manufacturers is best described as:

- **A.** Transaction risk.
- **B.** Global sourcing complications.
- **C.** Economic risk.
- **D.** A shift in the economic balance of power.

QUESTION 5

Which of the following statements is correct regarding foreign economies?

A. Lower inflation and increased purchasing power increase local demand, as imports are less expensive.

B. High interest rates reflect faster economic growth and increased demand.

C. A strong local currency reduces demand for imported goods and increases demand for exported goods.

D. A weak local currency increases demand for imported goods and reduces demand for exported goods.

QUESTION 6

Which of the following statements is most accurate regarding methods of conducting international business?

A. International joint ventures are set up to maximize the comparative advantages of either one or both of the participating firms.

B. An example of a direct foreign investment (DFI) is a company purchasing five percent of a foreign company's outstanding stock.

C. If a company creates a new software system and offers it to previous foreign customers, it will typically be provided with no fees attached.

D. Importing will be relatively cheap for a country with a depreciating currency that is engaging in international trading.

QUESTION 7

Which of the following is/are inherent risk(s) of conducting international business?

I. Exchange rate fluctuation

II. Foreign economies

III. Political risk

- **A.** II and III
- **B.** I only
- **C.** I and III
- **D.** I, II, and III

QUESTION 8

All of the following represent significant political risks except:

- **A.** The tendency of a local government to try and block foreign firms from operating in its economy.
- **B.** A weak local currency which increases the demand for imported products.
- **C.** The inability to convert a foreign currency into another currency.
- **D.** Barriers to trade established by local governments.

QUESTION 9

Global companies that deal with the political and financial risks of conducting business in a particular foreign location face which of the following types of risk?

A. Commodity price risk

B. Interest rate risk

C. Principal risk

D. Country risk

QUESTION 10

The transfer price set by a parent or subsidiary for goods or services most likely can be used by multinational companies to:

- **A.** Transfer funds from a subsidiary located in a strong-currency country to a subsidiary located in a country with depreciating currency.
- **B.** Transfer as much of the cost as allowable to the country with the lowest overall tax burden.
- **C.** Change the financial statements of the individual subsidiaries.
- **D.** Transfer as much of the cost as allowable to the country with the highest overall tax burden.

QUESTION 11

Company A and company B are subsidiaries of company C, a multinational company. A has a fixed corporate tax rate of 15 percent and B pays a 25 percent fixed corporate tax rate. A sells a component to B at a price ranging from $100 to $200 per unit. Which of the following statements is correct regarding the transfer price from A to B?

A. A transfer price of $100 will maximize after-tax profits of A and C.

B. A transfer price of $200 will maximize after-tax profits of A and C.

C. A transfer price of $200 will maximize after-tax profits of B and C.

D. A transfer price of $100 will maximize after-tax profits of B and C.

QUESTION 12

NAFTA offers trading partners operating within its boundaries reductions in tariffs on products in exchange for compliance with limits on imported labor and materials used in the manufacture of those products. This practice is also known as a:

- **A.** Foreign trade zone.
- **B.** Value added tax.
- **C.** International rebate.
- **D.** Sourcing requirement.

QUESTION 13

Each of the following is an effect from opening markets to foreign investment, *except:*

A. An increase in the correlation of emerging stock markets with world markets.

B. A change in the volatility of emerging stock market returns.

C. A decrease in local firms' cost of capital.

D. A decrease in investment growth rates.