Chapter 1

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

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| 1. | What major dimension sets apart international finance from domestic finance?

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| --- | --- |
| A.  | Lower Foreign exchange and political risks |

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| --- | --- |
| B.  | Market perfections |

|  |  |
| --- | --- |
| C.  | Depleted opportunity set |

|  |  |
| --- | --- |
| D.  | Higher Foreign exchange and political risks |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | Market imperfections include all of the following except:

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| --- | --- |
| A.  | Taxes on imported goods |

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| --- | --- |
| B.  | Taxes on exported goods |

|  |  |
| --- | --- |
| C.  | Stock markets |

|  |  |
| --- | --- |
| D.  | Two different classes of shareholders for one company |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | Privatization refers to process of:

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| --- | --- |
| A.  | Having government operate businesses for the betterment of the public sector |

|  |  |
| --- | --- |
| B.  | Government allowing the operation of privately owned business |

|  |  |
| --- | --- |
| C.  | Prohibiting government operated enterprises |

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| --- | --- |
| D.  | A country divesting itself of the ownership and operation of a business venture by turning it over to the free market system |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | The goal of shareholder wealth maximization

|  |  |
| --- | --- |
| A.  | is not appropriate for non-U.S. business firms. |

|  |  |
| --- | --- |
| B.  | means that all business decisions and investments that a firm makes are done for the purpose of making the owners of the firm better off financially. |

|  |  |
| --- | --- |
| C.  | is a sub-objective the firm should attempt to achieve after the objective of customer satisfaction is met. |

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| --- | --- |
| D.  | is in conflict with the privatization process taking place in third-world countries. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | The theory of comparative advantage:

|  |  |
| --- | --- |
| A.  | Claims that economic well-being is enhanced if each country's citizens produce only a single product |

|  |  |
| --- | --- |
| B.  | Claims that economic well-being is enhanced when all countries compare commodity prices after adjusting for exchange rate differences in order to standardize the prices charged all countries |

|  |  |
| --- | --- |
| C.  | Claims that economic well-being is enhanced if each country's citizens produce that which they have a comparative advantage in producing relative to the citizens of other countries, and then trade production |

|  |  |
| --- | --- |
| D.  | Claims that no country has an absolute advantage over another country in the production of any good or service |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | A multinational firm can be defined as:

|  |  |
| --- | --- |
| A.  | A firm that invests short-term cash inflows in more than one currency |

|  |  |
| --- | --- |
| B.  | A firm that has sales affiliates in several countries |

|  |  |
| --- | --- |
| C.  | A firm that is incorporated in more than one country |

|  |  |
| --- | --- |
| D.  | A firm that incorporated in one country that has production and sales operations in several other countries |

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| 7. | An example of a political risk is

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| --- | --- |
| A.  | Expropriation of assets |

|  |  |
| --- | --- |
| B.  | Adverse change in tax rules |

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| --- | --- |
| C.  | The opposition party being elected |

|  |  |
| --- | --- |
| D.  | Expropriation of assets and Adverse change in tax rules |

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| 8. | Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Compute the opportunity cost of producing food instead of textiles.

|  |  |
| --- | --- |
| A.  | 1 yard of textiles per 1.67 pounds of food |

|  |  |
| --- | --- |
| B.  | 1 pound of food per 1.67 yards of textiles |

|  |  |
| --- | --- |
| C.  | 1 yard of textiles per 0.6 pounds of food |

|  |  |
| --- | --- |
| D.  | 1 pound of food per 0.6 yards of textiles |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Country B can produce 8 yards of textiles or 5 pounds of food per unit of input.

|  |  |
| --- | --- |
| A.  | Country A is relatively more efficient than Country B in the production of food |

|  |  |
| --- | --- |
| B.  | Country B is relatively more efficient than Country A in the production of textiles |

|  |  |
| --- | --- |
| C.  | Country A has an absolute advantage over Country B in the production of food and textiles |

|  |  |
| --- | --- |
| D.  | Country B has an absolute advantage over Country A in the production of food and textiles |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | Country B can produce 10 yards of textiles and 6 pounds of food per unit of input. Country A can produce 8 yards of textiles and 5 pounds of food per unit of input.

|  |  |
| --- | --- |
| A.  | Country A is relatively more efficient than Country B in the production of textiles |

|  |  |
| --- | --- |
| B.  | Country B is relatively more efficient than Country A in the production of food |

|  |  |
| --- | --- |
| C.  | Country A has an absolute advantage over Country B in the production of food and textiles |

|  |  |
| --- | --- |
| D.  | Country B has an absolute advantage over Country A in the production of food and textiles. |

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| 11. | Exchange rate risk refers to

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| A.  | An expected drop in an exchange rate. |

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| --- | --- |
| B.  | A highly stable exchange rate. |

|  |  |
| --- | --- |
| C.  | Lower profit due to an expected drop in an exchange rate. |

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| --- | --- |
| D.  | Lower profits due to an unexpected change in exchange rates. |

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| 12. | Political risk includes all of the following except:

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| --- | --- |
| A.  | Expropriation |

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| --- | --- |
| B.  | Unexpected changes in tax rules |

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| --- | --- |
| C.  | Change in government |

|  |  |
| --- | --- |
| D.  | Unexpected changes in environmental rules |

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| 13. | Multinational firms gain from their global presence in the following ways except:

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| --- | --- |
| A.  | Rising marginal costs of production |

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| --- | --- |
| B.  | Economies of Scale |

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| --- | --- |
| C.  | Low-cost labour in foreign countries |

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| --- | --- |
| D.  | Spreading R&D expenditures over global sales |

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| 14. | Recent trends in the globalization of the world economy include all of the following except:

|  |  |
| --- | --- |
| A.  | Emergence of global financial markets |

|  |  |
| --- | --- |
| B.  | Economic differentiation |

|  |  |
| --- | --- |
| C.  | Advent of the euro |

|  |  |
| --- | --- |
| D.  | Privatization |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. | David Ricardo's theory of comparative advantage has the following policy implication:

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| A.  | Liberalization of international trade will enhance the welfare of the world's citizens |

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| --- | --- |
| B.  | International trade is a zero-sum game |

|  |  |
| --- | --- |
| C.  | One country will benefit from trade at the expense of another country |

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| --- | --- |
| D.  | Restriction of international trade will enhance the welfare of the world's citizens |

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| 16. | GATT, the General Agreement on Tariffs and Trade, has been successful in:

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| --- | --- |
| A.  | reducing import tariffs worldwide by an average of 98%. |

|  |  |
| --- | --- |
| B.  | reducing import tariffs worldwide by an average of 78%. |

|  |  |
| --- | --- |
| C.  | reducing import tariffs worldwide by an average of 58%. |

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| --- | --- |
| D.  | reducing import tariffs worldwide by an average of 38%. |

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| 17. | The common monetary policy for the euro zone is now formulated by

|  |  |
| --- | --- |
| A.  | the Bundesbank in Germany. |

|  |  |
| --- | --- |
| B.  | the Federal Reserve Bank. |

|  |  |
| --- | --- |
| C.  | the World Bank. |

|  |  |
| --- | --- |
| D.  | the European Central Bank. |

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| 18. | The "Big Bang" refers to:

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| A.  | Deregulation of the Japanese stock market |

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| --- | --- |
| B.  | Deregulation of the German stock market |

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| --- | --- |
| C.  | Deregulation of the British stock market |

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| --- | --- |
| D.  | Deregulation of the Mexican stock market |

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| 19. | The euro

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| --- | --- |
| A.  | is the common currency of Europe. |

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| --- | --- |
| B.  | is backed by gold. |

|  |  |
| --- | --- |
| C.  | is an electronic currency with no physical bills. |

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| --- | --- |
| D.  | is the currency of Britain. |

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| 20. | The euro zone has

|  |  |
| --- | --- |
| A.  | a common fiscal policy. |

|  |  |
| --- | --- |
| B.  | a common monetary policy. |

|  |  |
| --- | --- |
| C.  | a common taxation policy. |

|  |  |
| --- | --- |
| D.  | a common immigration policy. |

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|  | Assume that the world economy consists of two countries: Russia and Republic of Belarus. Each country can produce tomatoes and potatoes. Russia can produce 1000 tons of tomatoes or 3000 tons of potatoes or any linear combination of tomatoes and potatoes that satisfies potatoes + 3 × tomatoes = 3000. Republic of Belarus can produce 500 tons of tomatoes or 1000 tons of potatoes or any linear combination of tomatoes and potatoes that satisfies potatoes + 2 × tomatoes = 1000. Countries can freely trade with each other. |

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| 21. | Which country has comparative advantage in producing potatoes?

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| --- | --- |
| A.  | Russia |

|  |  |
| --- | --- |
| B.  | Republic of Belarus |

|  |  |
| --- | --- |
| C.  | Both countries |

|  |  |
| --- | --- |
| D.  | Neither country |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | Which country has absolute advantage in producing potatoes?

|  |  |
| --- | --- |
| A.  | Russia |

|  |  |
| --- | --- |
| B.  | Republic of Belarus |

|  |  |
| --- | --- |
| C.  | Both countries |

|  |  |
| --- | --- |
| D.  | Neither country |

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| 23. | If the price of potatoes is $300 per ton, with free trade the price of tomatoes can be any of the numbers below EXCEPT

|  |  |
| --- | --- |
| A.  | $600 |

|  |  |
| --- | --- |
| B.  | $750 |

|  |  |
| --- | --- |
| C.  | $900 |

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| --- | --- |
| D.  | All of these numbers can be the equilibrium price of tomatoes |

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| 24. | If the total world production of potatoes is 2000 tons, how much tomatoes will be produced in Russia?

|  |  |
| --- | --- |
| A.  | 1000 tons |

|  |  |
| --- | --- |
| B.  | 500 tons |

|  |  |
| --- | --- |
| C.  | 666.67 tons |

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| --- | --- |
| D.  | 333.33 tons |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | If people in both countries eat the same dish that requires 0.1 kg of tomatoes and 1.4 kg of potatoes to prepare, how much potatoes will be produced in the Republic of Belarus?

|  |  |
| --- | --- |
| A.  | None |

|  |  |
| --- | --- |
| B.  | 333.33 tons |

|  |  |
| --- | --- |
| C.  | 500 tons |

|  |  |
| --- | --- |
| D.  | 666.67 tons |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | If people in both countries eat the same dish that requires 0.1 kg or tomatoes and 1.4 kg of potatoes to prepare, and the price of potatoes is $1000 per ton, what is the GDP in Republic of Belarus?

|  |  |
| --- | --- |
| A.  | $165,000 |

|  |  |
| --- | --- |
| B.  | $333,333 |

|  |  |
| --- | --- |
| C.  | $1,000,000 |

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| --- | --- |
| D.  | None of these |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | If people in both countries eat the same dish that requires 0.1 kg or tomatoes and 1.4 kg of potatoes to prepare, how much tomatoes are CONSUMED in Republic of Belarus?

|  |  |
| --- | --- |
| A.  | Less than 100 tons |

|  |  |
| --- | --- |
| B.  | At least 100 tons but less than 200 tons |

|  |  |
| --- | --- |
| C.  | At least 200 tons but less than 400 tons |

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| --- | --- |
| D.  | More than 400 tons |

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| 28. | What is special about international finance?      |

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| 29. | What is the goal of sound financial management?      |

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| 30. | What are some of major recent trends in globalization?      |

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| 31. | What is the specific Canadian perspective on international finance?      |

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| 32. | What is Political risk?      |

Chapter 1 Key

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | What major dimension sets apart international finance from domestic finance?

|  |  |
| --- | --- |
| A.  | Lower Foreign exchange and political risks |

|  |  |
| --- | --- |
| B.  | Market perfections |

|  |  |
| --- | --- |
| C.  | Depleted opportunity set |

|  |  |
| --- | --- |
| **D.**  | Higher Foreign exchange and political risks |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #1Difficulty: EasyLearning Objective: What is Special about International Finance?* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | Market imperfections include all of the following except:

|  |  |
| --- | --- |
| A.  | Taxes on imported goods |

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| --- | --- |
| B.  | Taxes on exported goods |

|  |  |
| --- | --- |
| **C.**  | Stock markets |

|  |  |
| --- | --- |
| D.  | Two different classes of shareholders for one company |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #2Difficulty: HardLearning Objective: What is Special about International Finance?* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | Privatization refers to process of:

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| A.  | Having government operate businesses for the betterment of the public sector |

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| --- | --- |
| B.  | Government allowing the operation of privately owned business |

|  |  |
| --- | --- |
| C.  | Prohibiting government operated enterprises |

|  |  |
| --- | --- |
| **D.**  | A country divesting itself of the ownership and operation of a business venture by turning it over to the free market system |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #3Difficulty: EasyLearning Objective: Globalization of the world economy: recent trends* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | The goal of shareholder wealth maximization

|  |  |
| --- | --- |
| A.  | is not appropriate for non-U.S. business firms. |

|  |  |
| --- | --- |
| **B.**  | means that all business decisions and investments that a firm makes are done for the purpose of making the owners of the firm better off financially. |

|  |  |
| --- | --- |
| C.  | is a sub-objective the firm should attempt to achieve after the objective of customer satisfaction is met. |

|  |  |
| --- | --- |
| D.  | is in conflict with the privatization process taking place in third-world countries. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #4Difficulty: MediumLearning Objective: Goals for international financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | The theory of comparative advantage:

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| --- | --- |
| A.  | Claims that economic well-being is enhanced if each country's citizens produce only a single product |

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| --- | --- |
| B.  | Claims that economic well-being is enhanced when all countries compare commodity prices after adjusting for exchange rate differences in order to standardize the prices charged all countries |

|  |  |
| --- | --- |
| **C.**  | Claims that economic well-being is enhanced if each country's citizens produce that which they have a comparative advantage in producing relative to the citizens of other countries, and then trade production |

|  |  |
| --- | --- |
| D.  | Claims that no country has an absolute advantage over another country in the production of any good or service |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #5Difficulty: MediumLearning Objective: Gains from trade: The theory of comparative advantage* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | A multinational firm can be defined as:

|  |  |
| --- | --- |
| A.  | A firm that invests short-term cash inflows in more than one currency |

|  |  |
| --- | --- |
| B.  | A firm that has sales affiliates in several countries |

|  |  |
| --- | --- |
| C.  | A firm that is incorporated in more than one country |

|  |  |
| --- | --- |
| **D.**  | A firm that incorporated in one country that has production and sales operations in several other countries |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #6Difficulty: MediumLearning Objective: Multinational Corporations* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | An example of a political risk is

|  |  |
| --- | --- |
| A.  | Expropriation of assets |

|  |  |
| --- | --- |
| B.  | Adverse change in tax rules |

|  |  |
| --- | --- |
| C.  | The opposition party being elected |

|  |  |
| --- | --- |
| **D.**  | Expropriation of assets and Adverse change in tax rules |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #7Difficulty: MediumLearning Objective: What is Special about International Finance?* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | Country A can produce 10 yards of textiles and 6 pounds of food per unit of input. Compute the opportunity cost of producing food instead of textiles.

|  |  |
| --- | --- |
| A.  | 1 yard of textiles per 1.67 pounds of food |

|  |  |
| --- | --- |
| B.  | 1 pound of food per 1.67 yards of textiles |

|  |  |
| --- | --- |
| **C.**  | 1 yard of textiles per 0.6 pounds of food |

|  |  |
| --- | --- |
| D.  | 1 pound of food per 0.6 yards of textiles |

1 yard of textiles = 6/10 = 0.6 pounds of food |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #8Difficulty: MediumLearning Objective: Gains from trade: The theory of comparative advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | Country A can produce 10 yards of textiles or 6 pounds of food per unit of input. Country B can produce 8 yards of textiles or 5 pounds of food per unit of input.

|  |  |
| --- | --- |
| A.  | Country A is relatively more efficient than Country B in the production of food |

|  |  |
| --- | --- |
| B.  | Country B is relatively more efficient than Country A in the production of textiles |

|  |  |
| --- | --- |
| **C.**  | Country A has an absolute advantage over Country B in the production of food and textiles |

|  |  |
| --- | --- |
| D.  | Country B has an absolute advantage over Country A in the production of food and textiles |

Country A has an opportunity cost of 1 yard of textiles per 0.6 (= 6/10) pounds of food; Country B has an opportunity cost of 1 yard of textiles for 0.63 (= 5/8) pounds of food.Country A has an opportunity cost of 1 pound of food per 1.67 (= 10/6) yards of textiles; Country B has an opportunity cost of 1 pound of food for 1.60 (= 8/5) yards of textiles.Thus, Country A has an absolute advantage over Country B in the production of food and textiles. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #9Difficulty: HardLearning Objective: Gains from trade: The theory of comparative advantage* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | Country B can produce 10 yards of textiles and 6 pounds of food per unit of input. Country A can produce 8 yards of textiles and 5 pounds of food per unit of input.

|  |  |
| --- | --- |
| A.  | Country A is relatively more efficient than Country B in the production of textiles |

|  |  |
| --- | --- |
| B.  | Country B is relatively more efficient than Country A in the production of food |

|  |  |
| --- | --- |
| C.  | Country A has an absolute advantage over Country B in the production of food and textiles |

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| **D.**  | Country B has an absolute advantage over Country A in the production of food and textiles. |

Country B has an opportunity cost of 1 yard of textiles per 0.6 (= 6/10) pounds of food; Country A has an opportunity cost of 1 yard of textiles for 0.63 (= 5/8) pounds of food. Country B has an opportunity cost of 1 pound of food per 1.67 (= 10/6) yards of textiles; Country A has an opportunity cost of 1 pound of food for 1.60 (= 8/5) yards of textiles. Thus, Country B has an absolute advantage and a relative efficiency over Country A in the production of textiles. Country A has a relative efficiency over Country B in the production of food. Country A does not have an absolute advantage over Country B in the production of food or textiles. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #10Difficulty: HardLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 11. | Exchange rate risk refers to

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| A.  | An expected drop in an exchange rate. |

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| --- | --- |
| B.  | A highly stable exchange rate. |

|  |  |
| --- | --- |
| C.  | Lower profit due to an expected drop in an exchange rate. |

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| **D.**  | Lower profits due to an unexpected change in exchange rates. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #11Difficulty: MediumLearning Objective: What is Special about International Finance?* |

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| 12. | Political risk includes all of the following except:

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| --- | --- |
| A.  | Expropriation |

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| --- | --- |
| B.  | Unexpected changes in tax rules |

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| --- | --- |
| **C.**  | Change in government |

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| --- | --- |
| D.  | Unexpected changes in environmental rules |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #12Difficulty: HardLearning Objective: What is Special about International Finance?* |

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| 13. | Multinational firms gain from their global presence in the following ways except:

|  |  |
| --- | --- |
| **A.**  | Rising marginal costs of production |

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| --- | --- |
| B.  | Economies of Scale |

|  |  |
| --- | --- |
| C.  | Low-cost labour in foreign countries |

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| --- | --- |
| D.  | Spreading R&D expenditures over global sales |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #13Difficulty: MediumLearning Objective: Multinational Corporations* |

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| 14. | Recent trends in the globalization of the world economy include all of the following except:

|  |  |
| --- | --- |
| A.  | Emergence of global financial markets |

|  |  |
| --- | --- |
| **B.**  | Economic differentiation |

|  |  |
| --- | --- |
| C.  | Advent of the euro |

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| --- | --- |
| D.  | Privatization |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #14Difficulty: MediumLearning Objective: Globalization of the world economy: recent trends* |

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| 15. | David Ricardo's theory of comparative advantage has the following policy implication:

|  |  |
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| **A.**  | Liberalization of international trade will enhance the welfare of the world's citizens |

|  |  |
| --- | --- |
| B.  | International trade is a zero-sum game |

|  |  |
| --- | --- |
| C.  | One country will benefit from trade at the expense of another country |

|  |  |
| --- | --- |
| D.  | Restriction of international trade will enhance the welfare of the world's citizens |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #15Difficulty: EasyLearning Objective: Globalization of the world economy: recent trends* |

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| 16. | GATT, the General Agreement on Tariffs and Trade, has been successful in:

|  |  |
| --- | --- |
| A.  | reducing import tariffs worldwide by an average of 98%. |

|  |  |
| --- | --- |
| B.  | reducing import tariffs worldwide by an average of 78%. |

|  |  |
| --- | --- |
| C.  | reducing import tariffs worldwide by an average of 58%. |

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| --- | --- |
| **D.**  | reducing import tariffs worldwide by an average of 38%. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #16Difficulty: EasyLearning Objective: Globalization of the world economy: recent trends* |

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| 17. | The common monetary policy for the euro zone is now formulated by

|  |  |
| --- | --- |
| A.  | the Bundesbank in Germany. |

|  |  |
| --- | --- |
| B.  | the Federal Reserve Bank. |

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| --- | --- |
| C.  | the World Bank. |

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| --- | --- |
| **D.**  | the European Central Bank. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #17Difficulty: EasyLearning Objective: Globalization of the world economy: recent trends* |

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| 18. | The "Big Bang" refers to:

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| --- | --- |
| A.  | Deregulation of the Japanese stock market |

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| --- | --- |
| B.  | Deregulation of the German stock market |

|  |  |
| --- | --- |
| **C.**  | Deregulation of the British stock market |

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| --- | --- |
| D.  | Deregulation of the Mexican stock market |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #18Difficulty: EasyLearning Objective: Globalization of the world economy: recent trends* |

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| 19. | The euro

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| **A.**  | is the common currency of Europe. |

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| --- | --- |
| B.  | is backed by gold. |

|  |  |
| --- | --- |
| C.  | is an electronic currency with no physical bills. |

|  |  |
| --- | --- |
| D.  | is the currency of Britain. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #19Difficulty: MediumLearning Objective: Globalization of the world economy: recent trends* |

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| 20. | The euro zone has

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| --- | --- |
| A.  | a common fiscal policy. |

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| --- | --- |
| **B.**  | a common monetary policy. |

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| --- | --- |
| C.  | a common taxation policy. |

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| --- | --- |
| D.  | a common immigration policy. |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #20Difficulty: MediumLearning Objective: Globalization of the world economy: recent trends* |

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|  | Assume that the world economy consists of two countries: Russia and Republic of Belarus. Each country can produce tomatoes and potatoes. Russia can produce 1000 tons of tomatoes or 3000 tons of potatoes or any linear combination of tomatoes and potatoes that satisfies potatoes + 3 × tomatoes = 3000. Republic of Belarus can produce 500 tons of tomatoes or 1000 tons of potatoes or any linear combination of tomatoes and potatoes that satisfies potatoes + 2 × tomatoes = 1000. Countries can freely trade with each other. |

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| *Brean - Chapter 01* |

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| 21. | Which country has comparative advantage in producing potatoes?

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| --- | --- |
| **A.**  | Russia |

|  |  |
| --- | --- |
| B.  | Republic of Belarus |

|  |  |
| --- | --- |
| C.  | Both countries |

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| --- | --- |
| D.  | Neither country |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #21Difficulty: EasyLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 22. | Which country has absolute advantage in producing potatoes?

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| --- | --- |
| **A.**  | Russia |

|  |  |
| --- | --- |
| B.  | Republic of Belarus |

|  |  |
| --- | --- |
| C.  | Both countries |

|  |  |
| --- | --- |
| D.  | Neither country |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #22Difficulty: EasyLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 23. | If the price of potatoes is $300 per ton, with free trade the price of tomatoes can be any of the numbers below EXCEPT

|  |  |
| --- | --- |
| A.  | $600 |

|  |  |
| --- | --- |
| B.  | $750 |

|  |  |
| --- | --- |
| C.  | $900 |

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| --- | --- |
| **D.**  | All of these numbers can be the equilibrium price of tomatoes |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #23Difficulty: MediumLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 24. | If the total world production of potatoes is 2000 tons, how much tomatoes will be produced in Russia?

|  |  |
| --- | --- |
| A.  | 1000 tons |

|  |  |
| --- | --- |
| B.  | 500 tons |

|  |  |
| --- | --- |
| C.  | 666.67 tons |

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| --- | --- |
| **D.**  | 333.33 tons |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #24Difficulty: MediumLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 25. | If people in both countries eat the same dish that requires 0.1 kg of tomatoes and 1.4 kg of potatoes to prepare, how much potatoes will be produced in the Republic of Belarus?

|  |  |
| --- | --- |
| A.  | None |

|  |  |
| --- | --- |
| B.  | 333.33 tons |

|  |  |
| --- | --- |
| **C.**  | 500 tons |

|  |  |
| --- | --- |
| D.  | 666.67 tons |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #25Difficulty: HardLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 26. | If people in both countries eat the same dish that requires 0.1 kg or tomatoes and 1.4 kg of potatoes to prepare, and the price of potatoes is $1000 per ton, what is the GDP in Republic of Belarus?

|  |  |
| --- | --- |
| A.  | $165,000 |

|  |  |
| --- | --- |
| B.  | $333,333 |

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| --- | --- |
| **C.**  | $1,000,000 |

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| D.  | None of these |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #26Difficulty: HardLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 27. | If people in both countries eat the same dish that requires 0.1 kg or tomatoes and 1.4 kg of potatoes to prepare, how much tomatoes are CONSUMED in Republic of Belarus?

|  |  |
| --- | --- |
| **A.**  | Less than 100 tons |

|  |  |
| --- | --- |
| B.  | At least 100 tons but less than 200 tons |

|  |  |
| --- | --- |
| C.  | At least 200 tons but less than 400 tons |

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| --- | --- |
| D.  | More than 400 tons |

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| *Accessibility: Keyboard NavigationBrean - Chapter 01 #27Difficulty: HardLearning Objective: Gains from trade: The theory of comparative advantage* |

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| 28. | What is special about international finance?  The three major dimensions that set international finance apart from domestic finance are (1) foreign exchange risk and political risk, (2) differences in regulations, tax law and government policies and (3) the greater set of business opportunities for production and investment. |

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| *Brean - Chapter 01 #28Learning Objective: What is Special about International Finance?* |

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| 29. | What is the goal of sound financial management?  The goal of financial management is shareholder wealth maximization in domestic and international finance. This goal is generally accepted in the "Anglo-Saxon" countries but less so in other parts of the world where other stakeholders are also considered important. |

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| *Brean - Chapter 01 #29Learning Objective: Goals for international financial management* |

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| 30. | What are some of major recent trends in globalization?  The major trends are (1) the emergence of globalized financial markets, (2) the advent of the euro, (3) trade liberalization and economic integration, and (4) privatization. |

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| *Brean - Chapter 01 #30Learning Objective: Globalization of the world economy: recent trends* |

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| 31. | What is the specific Canadian perspective on international finance?  Canada has very close commercial ties to the United States. Ninety percent of Canadians live within 100 km of the US border, Canada and the US generate the largest bilateral volume of trade in the world. Eighty-five percent of exports are shipped to the United States. Money and capital flows freely back and forth across the Canada-US border, leading to highly integrated stock and bond markets. Both countries, together with Mexico, are part of NAFTA (the North American Free Trade Agreement). Thus, international transactions by Canadian firms are largely transactions with the US. Nevertheless, Canada maintains its independence, own currency, central bank and the like, and therefore has its unique perspective on international finance. |

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| *Brean - Chapter 01 #31Learning Objective: What is Special about International Finance?* |

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| 32. | What is Political risk?  Political risk is the risk associated with the ability of a sovereign nation to change the "rules of the game". Such risk ranges from unexpected changes in tax rules to outright expropriation of assets held by foreigners. |

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| *Brean - Chapter 01 #32Learning Objective: What is Special about International Finance?* |

Chapter 1 Summary

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