

# Chapter 7

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

1. To make sure the Japanese operations replicated the "Starbucks experience" in North America, Starbucks insisted on all of the following except:
  - A. stores are required to adhere to the design parameters established in the U.S.
  - B. all store managers and employees are required to attend training classes similar to those given to U.S. employees.
  - C. transferring some employees to the Japanese operation.
  - D. not giving employees stock options until all requirements are adhered to.
  - E. reducing benefits and meals plans
2. When a firm invests directly in new facilities to produce and/or market a product in a foreign country, \_\_\_\_\_ occurs.
  - A. reciprocal foreign investment
  - B. cross-boarder international investment
  - C. international capital investment
  - D. international expansion
  - E. foreign direct investment
3. FDI is an acronym that stands for
  - A. Federation of Direct Investors.
  - B. Federal Diversification Initiative.
  - C. Foreign Direct Investment.
  - D. Formal Direct Internationalization.
  - E. Fund for Direct Investment
4. \_\_\_\_\_ occurs, according to the U.S. Department of Commerce, whenever a U.S. citizen, organization, or affiliated group takes an interest of 10 percent or more in a foreign business entity.
  - A. Cross-boarder international investment
  - B. Foreign direct investment
  - C. Reciprocal foreign investment
  - D. International capital investment
  - E. International currency transfer
5. If TransCanada Pipelines, a Canadian based corporation, purchased a 50% interest in a company in Italy, that purchase would be an example of
  - A. multinational investment.
  - B. reciprocal foreign investment.
  - C. foreign direct investment.
  - D. cross-boarder international investment.
  - E. foreign joint venture
6. If Siemens, a German firms, purchased a 20% interest in a manufacturing firm in Canada, Siemens would be engaging in
  - A. foreign direct investment.
  - B. global entrepreneurship.
  - C. cross-boarder international investment.
  - D. multinational investment.
  - E. minority interest acquisition

7. A(n) \_\_\_\_\_ is a company that conducts business in more than one country.
- A. cross-cultural enterprise
  - B. synergistic enterprise
  - C. multinational enterprise
  - D. international conglomerate
  - E. global enterprise
8. The establishment of a wholly new operation in a foreign country is referred to as a(n):
- A. outplacement.
  - B. greenfield investment.
  - C. new venture.
  - D. exporting.
  - E. turn-key investment
9. The \_\_\_\_\_ of foreign direct investment refers to the amount of FDI undertaken over a given period (normally a year). The \_\_\_\_\_ of foreign direct investment refers to the total accumulated value of foreign-owned assets at any time.
- A. portfolio; current
  - B. flow; stock
  - C. stock; flow
  - D. stockpile; portfolio
  - E. annual accumulation; total accumulation
10. The flow of foreign direct investment out of a country is
- A. forfeiture of national investment.
  - B. loss of national investment.
  - C. expenditure of FDI.
  - D. outflow of FDI.
  - E. a reflection of the loss of jobs
11. The flow of foreign direct investment into a country is referred to as the
- A. inflow of FDI.
  - B. FDI capture.
  - C. FDI gain.
  - D. accrual of FDI.
  - E. FDI wealth accrual
12. Generally speaking, there has been a(n) \_\_\_\_\_ since the 1990s.
- A. increase in the stock but not in the flow of FDI in the world economy
  - B. marked increase in both the flow and stock of FDI in the world economy
  - C. marked decrease in both the flow and stock of FDI in the world economy
  - D. increase in flow but not the stock of FDI in the world economy
  - E. greater restrictions on the outflow, while liberalization of the inflow of FDI
13. Which of the following two statements accurately reflects the trend in foreign direct investments over the past 20 years?
- A There has been a rapid increase in the total volume of FDI undertaken and there has been a change in . the importance of various countries as sources for FDI
  - B There has been a rapid increase in the total volume of FDI undertaken and the countries that have been . instrumental as sources of FDI have remained the same
  - C There has been a rapid decrease in the total volume of FDI undertaken and there has been a change in . the importance of various countries as sources for FDI.
  - D There has been a rapid decrease in the total volume of FDI undertaken and the countries that have been . instrumental as sources of FDI have remained the same
  - E There has been a slow increase in the total volume of FDI undertaken and there has been no change in . the importance of various countries as sources for FDI

14. For the most part FDI flows have \_\_\_\_\_ since the 1990s.
- A. shrunk
  - B. stayed the same
  - C. varied
  - D. grown
  - E. averaged \$1.2 billion
15. Over time, cross-border M & As have shifted away from primary and manufacturing to \_\_\_\_\_?
- A. developed economies
  - B. developing economies
  - C. mining
  - D. services
  - E. resource extraction
16. \_\_\_\_\_ has not contributed to the increase in FDI over the past several years.
- A. Globalization of the world economy
  - B. The desire to have production facilities close to major customers
  - C. A strong U.S. economy
  - D. Dramatic shift towards socialist and communist political institutions
  - E. Increasing corporate profits
17. Since World War II, the largest source country for FDI outflows has been \_\_\_\_\_
- A. Canada
  - B. China
  - C. United States
  - D. United Kingdom
  - E. Japan
18. Since 2000, the number of regulatory changes less favourable to FDI has \_\_\_\_\_
- A. shrunk
  - B. stayed the same
  - C. grown
  - D. totaled \$2.4 billion
  - E. totaled \$3.5 million
19. Historically, most FDI has been directed at \_\_\_\_\_?
- A. developed nations
  - B. developing nations
  - C. China
  - D. India
  - E. the Middle East
20. Besides the United States, other important source countries for FDI include?
- A. China
  - B. Spain
  - C. Greece
  - D. India
  - E. Japan
21. The United States, the United Kingdom, France and Japan account for \_\_\_\_\_% of all FDI outflows in 2009
- A. 3.5%
  - B. 7%
  - C. 10%
  - D. 20%
  - E. 23%

22. Which of the following is not true about why firms prefer to acquire existing assets rather than undertake green-field investments?
- A. Foreign firms are acquired because those firms have valuable strategic assets.
  - B. Firms make acquisitions because they believe they can increase the efficiency of the acquired unit by transferring capital, technology, or management skills.
  - C. Firms make acquisitions because they believe it will make more profits for the home firm and home country.
  - D. Mergers and acquisitions are quicker to execute than green-field investments.
  - E. Mergers and acquisitions are cheaper than green-field investments
23. For the most part Canadian FDI outflow in last few years went to \_\_\_\_\_
- A. the U.S. multinational corporations
  - B. Chinese manufacturers
  - C. Canadian affiliates and subsidiaries
  - D. British domestic companies
  - E. Japanese autoparts manufacturers
24. The \_\_\_\_\_ is a theory of foreign direct investment that combines two other perspectives into a single holistic explanation of FDI.
- A. versatile model
  - B. internationalization model
  - C. globalization paradigm
  - D. eclectic paradigm
  - E. unified theory of FDI
25. Four Seasons Hotels and Resorts has shifted their focus from the acquisition of foreign properties to offering management contracts for local owners of hotel properties. This shift has taken place, because \_\_\_\_\_.
- A. the FDI climate is less favourable to hotel developments
  - B. the low Canadian dollar in the early 2000s made foreign acquisitions prohibitively expensive
  - C. they preferred to license their business system
  - D. international travel and tourism went into a steep decline after the terrorist attacks of 9/11
  - E. service was such an important component of their brand and because it ensured a steady income
26. \_\_\_\_\_ involves producing goods at home and then shipping them to the receiving country for sale.
- A. Foreign direct investment
  - B. Licensing
  - C. Franchising
  - D. Exporting
  - E. Offshoring
27. If 3M, an American firm, produces adhesive tape in St. Paul, Minnesota, and ships the tape to South Korea to be sold, that is an example of:
- A. exporting
  - B. licensing
  - C. franchising
  - D. cross-border investing
  - E. international trade
28. Which of the following involves granting a foreign entity the right to produce and sell the firm's product in return for a royalty fee on every unit sold?
- A. Franchising
  - B. Exporting
  - C. Licensing
  - D. Foreign Direct Investment
  - E. Merger

29. When transportation costs are added to production costs, it becomes unprofitable to ship some products over a large distance. This is particularly true of products that have a:
- A. high value-to-weight ratio
  - B. moderate value-to-weight ratio
  - C. low value-to-weight ratio
  - D. extremely high value-to-weight ratio
  - E. value to weight ratio
30. FDI is often undertaken as a response to:
- A. exporting
  - B. FDI outflows
  - C. FDI inflows
  - D. threatened import tariffs
  - E. high GDP levels
31. The licensor \_\_\_\_\_ in return for licensing one of its products to a foreign firm.
- A. gets preferential trade treatment from the country of the licensee
  - B. gets a special subsidy from the country of the licensee
  - C. collects a royalty fee on every unit the licensee sells
  - D. gets a one time payment from the licensee
  - E. protects their local market
32. Some of Toyota's competitive advantage is due to its superior ability to manage the design, engineering and manufacturing of its automobiles. Despite the fact that some of its products could be licensed for production by another company it does not do so because \_\_\_\_\_.
- A. Toyota does not want to lose control over its technology
  - B. Toyota are strong believers in the internalization theory
  - C. Toyota does not want to share profits and it is a large enough company to enter every market
  - D. another company could not be as efficient a producer of cars as Toyota
  - E. all of these answers are correct
33. According to the textbook, FDI is expensive because
- A. a firm must pay a high franchising fee to participate in foreign direct investment in most countries.
  - B. a firm must pay the transportation costs to ship domestically produced products overseas.
  - C. a firm must establish production facilities in a foreign country or acquire a foreign enterprise.
  - D. a firm must pay a high licensing fee to participate in foreign direct investment in most countries.
  - E. a firm must pay taxes in both countries
34. Much foreign direct investment is undertaken as a response to actual or threatened
- A. trade barriers.
  - B. economic sanctions.
  - C. legal action.
  - D. international appeals.
  - E. market opportunities
35. \_\_\_\_\_, a branch of economics, seeks to explain why firms often prefer foreign direct investment to licensing as a strategy for entering foreign markets.
- A. Comparative advantage theory
  - B. Globalization theory
  - C. Cosmopolitan theory
  - D. Internalization theory
  - E. Patterns of FDI

36. According to internalization theory, licensing has three major drawbacks as a strategy for exploiting foreign market opportunities. Each of the following is a drawback of licensing except:
- A. licensing may result in a firm's giving away valuable technological know-how to a potential foreign competitor.
  - B. licensing does not give a firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to maximize its profitability.
  - C. licensing helps a firm avoid making a direct foreign investment in a foreign country.
  - D. when a firm's competitive advantage is based not so much on its products as on the management, marketing, and manufacturing capabilities that produce those products, licensing fails to capture those advantages
  - E. none of these answers is correct
37. Control over manufacturing, marketing, and strategy is granted to a licensee in return for:
- A. increased taxation.
  - B. decreased taxation.
  - C. a royalty fee.
  - D. company stock given to the government.
  - E. profit sharing
38. High transportation costs and/or tariffs imposed on imports help explain why many firms prefer \_\_\_\_\_ over \_\_\_\_\_.
- A. foreign direct investment or licensing; exporting
  - B. foreign direct investment or licensing; joint ventures
  - C. exporting; foreign direct investment or licensing
  - D. strategic alliances; foreign direct investment or licensing
  - E. licensing; foreign direct investment
39. When \_\_\_\_\_, a firm will favor FDI over exporting as an entry strategy, according to the textbook.
- A. interest rates or government policy make exporting unattractive
  - B. transportation costs or trade barriers make exporting unattractive
  - C. cultural barriers or trade barriers make exporting unattractive
  - D. cultural barriers or government policy make exporting unattractive
  - E. internalization theory is not applicable
40. According to the textbook, a firm will favor \_\_\_\_\_ over \_\_\_\_\_ when it wishes to maintain control over its technological know-how, or over its operations and business strategy.
- A. foreign direct investment; exporting
  - B. licensing; foreign direct investment
  - C. foreign direct investment; licensing
  - D. exporting; foreign direct investment
  - E. exporting; licensing
41. One theory used to explain foreign direct investment patterns is based on the idea that firms follow their domestic competitors overseas. First expounded by \_\_\_\_\_, this theory has been developed with regard to oligopolistic industries.
- A. F.T. Knickerbocker
  - B. William P. Smith
  - C. Michael Porter
  - D. Eli Heckscher
  - E. Roy Thompson

42. An industry composed of a limited number of large firms (i.e. an industry in which four firms control 80 percent of a domestic market) is referred to as a(n):
- A. syndicate.
  - B. cartel.
  - C. oligopoly.
  - D. monopoly.
  - E. stratified polity
43. If one firm in a(n) \_\_\_\_\_ cuts prices, this can take market share away from its competitors, forcing them to respond with similar price cuts in order to retain their market share.
- A. monopoly
  - B. oligopoly
  - C. multipoint competition
  - D. cartel
  - E. price fixing agreement
44. Several studies of U.S. enterprises suggest that firms based in \_\_\_\_\_ industries tend to imitate each other's foreign direct investment patterns.
- A. oligopolistic
  - B. monopolistic
  - C. syndicated
  - D. munificent
  - E. related
45. When two or more enterprises encounter each other in different regional markets, national markets, or industries, \_\_\_\_\_ arises.
- A. a monopoly
  - B. an oligopoly
  - C. a cartel
  - D. multipoint competition
  - E. international competition
46. Camelot Baby Carriages decided to enter the European market. Sam's Strollers followed to ensure that Camelot would not gain competitive advantage in Europe that could lead to the same thing occurring in Asia. Sam's then decides to enter the Australian market, and Camelot follows. This is an example of:
- A. monopoint competition.
  - B. multipoint competition.
  - C. lead and follow competition.
  - D. competition life cycle.
  - E. oligopolic competition
47. Firms undertake FDI at \_\_\_\_\_ is Raymond Vernon's view of foreign direct investment.
- A. unpredictable stages in the life cycle of a product they have pioneered
  - B. late stages in their corporate histories
  - C. early stages in their corporate histories
  - D. particular stages in the life cycle of a product they have pioneered
  - E. early stages in the product life cycle of a product another company has pioneered
48. Vernon's theory says that firms invest in a foreign country when:
- A. demand is high and supply is low.
  - B. demand in that country will support foreign economic conditions.
  - C. demand in that country will support local production.
  - D. demand is high and raw materials in that country can meet production needs.
  - E. market demand is growing

49. The eclectic paradigm has been championed by the British economist \_\_\_\_\_.  
A. John Dunning  
B. Edward Luty  
C. William Spencer  
D. Andrew Ferguson  
E. Francis Knockerbocker
50. Advantages that arise from using resource endowments or assets that are tied to a particular location and that a firm finds valuable to combine with its own unique assets are referred to as:  
A. geographic specific preferences  
B. unique geographic advantages  
C. locale-specific preferences  
D. location-specific advantages  
E. factor endowment advantages
51. Dunning argues that combining location specific assets or resource endowments and the firm's own unique capabilities often requires:  
A. mergers.  
B. FDI.  
C. local production.  
D. home country training.  
E. cross cultural literacy
52. \_\_\_\_\_ are knowledge spillovers that occur when companies in the same industry locate in the same area.  
A. Inward overflows  
B. Cognitive overflows  
C. Concentric overflows  
D. Externalities  
E. Synergy
53. Silicon Valley has a \_\_\_\_\_ in the generation of knowledge related to the computer and semiconductor industries, when looked at by Dunning's theory.  
A. demographic specific advantage  
B. trade specific advantage  
C. location specific advantage  
D. null advantage  
E. critical mass advantage
54. The \_\_\_\_\_ view of FDI traces its roots to Marxist political and economic theory.  
A. radical  
B. free market  
C. pragmatic nationalism  
D. conservative  
E. social democratic
55. Radical writers believe that \_\_\_\_\_ extract profits from the host country and take them to their home country, giving nothing of value to the host country in exchange.  
A. FDI  
B. MNEs  
C. SNEs  
D. PNCs  
E. MNCs



56. Which of the following is not a reason that the radical position of MNEs was in retreat by the end of the 1980s?
- A. The strong economic performance of those developing countries that embraced capitalism rather than radical ideology
  - B. The collapse of communisms in Eastern Europe
  - C. The rise of democracy in the Western countries
  - D. A growing belief by many radical countries that FDI can be an important source of technology and job . and can stimulate economic growth
  - E. The move to deregulate Western economies
57. The \_\_\_\_\_ view argues that international production should be distributed among countries according to the theory of comparative advantage.
- A. conservative
  - B. pragmatic nationalism
  - C. free market
  - D. radical
  - E. liberal
58. The MNE is seen as an instrument for dispersing the production of goods and services to those locations around the globe where they can be produced most efficiently, according to the \_\_\_\_\_ view.
- A. radical
  - B. free market
  - C. capitalist
  - D. pragmatic nationalism
  - E. liberal
59. The \_\_\_\_\_ view is that FDI has both benefits and costs.
- A. radical
  - B. conservative
  - C. free market
  - D. pragmatic nationalist
  - E. liberal
60. In a \_\_\_\_\_ view, FDI should be allowed only if the benefits outweigh the costs.
- A. communist
  - B. socialist
  - C. pragmatic nationalism
  - D. radical
  - E. liberal
61. \_\_\_\_\_ are three main benefits of inward FDI for a host country.
- A. The resource-transfer effect, the employment effect, and the balance-of-payments effect
  - B. The capital-transfer effect, the technology effect, and the currency exchange effect
  - C. The cultural awareness effect, the technology effect, and the balance-of-payments effect
  - D. The resource-transfer effect, the technology effect, and the currency exchange effect
  - E. Balance of payments effect, currency exchange effect, and the technology effect
62. The beneficial effects of FDI may be reduced if most management and highly skilled jobs in the subsidiaries of foreign firms are reserved for \_\_\_\_\_ nationals.
- A. host-country
  - B. third-country
  - C. home-country
  - D. local
  - E. expatriate

63. A country's \_\_\_\_\_ tracks both its payments to and its receipts from other countries.
- pluses and minuses account
  - debits and credits account
  - checks and balances account
  - balance-of-payments account
  - current account
64. What is the record of a country's export and import of goods and services referred to as?
- Current account
  - Foreign account
  - Internal account
  - Tariff account
  - National account
65. The establishment of Japanese automakers' branch plants in Canada does not help the U.S. in terms of its \_\_\_\_\_.
- Current account
  - International accounts
  - National account
  - Foreign Currency account
  - Balance of payments accounts
66. Three main costs of inward FDI concern host countries. These are:
- the employment effect, the perceived loss of national sovereignty and autonomy, and the resource transfer effect
  - the possible adverse effects of FDI on competition with the host country, the resource transfer effect, and the perceived loss of national sovereignty and autonomy
  - the resource transfer effect, the employment effect, and the possible adverse effects of FDI on competition within the host country
  - the possible adverse effects of FDI on competition within the host country, adverse effects on the balance of payments, and the perceived loss of national sovereignty and autonomy
  - Loss of national sovereignty, increased materialism, increased income and wealth inequities
67. How can FDI help a country achieve a current account surplus?
- If the FDI is a substitute for exports of goods or services, the effect can be to improve the current account of the host country's balance of payments.
  - When the MNE uses a foreign subsidiary to import goods and services to other countries.
  - When the MNE uses a foreign subsidiary to export goods and services to other countries.
  - If the FDI is a substitute for imports of goods or services, the effect can be positive on the current account of the home-country's balance of payments.
  - When the MNE transfers monies to finance the FDI
68. Which is a possible adverse effect of FDI on a host country's balance-of-payments position?
- When a foreign subsidiary exports a substantial number of its outputs abroad.
  - When a foreign subsidiary gets a substantial number of its inputs from its host-country.
  - When most of the foreign subsidiary's management team is from the home country.
  - Set against the initial capital inflow that comes with FDI must be the subsequent outflow of income as the foreign subsidiary repatriates earnings to its parent company.
  - the increased competition weakens domestic companies reducing local production and increasing imports
69. Regarding the costs of FDI for the home country, the most important concerns center around:
- the balance-of-payments and employment effects of outward FDI
  - the technology capture effect and the perceived loss of national sovereignty
  - the resource transfer effect and the inflationary pressures caused by FDI
  - the perceived loss of national sovereignty and inflationary pressures caused by FDI
  - the technology transfer loss and increased competition

70. If a Canadian corporation decides to create FDI in Mexico because the new plant site has lower costs, this can cause Canada to:
- A. lose out on taxes because Mexico will receive them for the new site.
  - B. deteriorate its trade position.
  - C. have an increase in its unemployment rate.
  - D. have a decrease in its unemployment rate.
  - E. experience increased corporate profits
71. International trade theory tells us that home country concerns about the negative economic effects of offshore production:
- A. are typically right on
  - B. may be misplaced
  - C. are typically irrelevant
  - D. are typically negligible
  - E. should be addressed
72. According to the International Trade Theory, FDI may cause all of the following except:
- A. stimulate economic growth.
  - B. cause product prices to fall.
  - C. cause higher taxes in host-countries.
  - D. cause the loss of market share to international competitors if a company were prohibited from FDI and low-cost production locations.
  - E. all of these answers are correct
73. Many investor nations now have government backed insurance programs to cover major types of foreign investment risk. The types of risks insurable through these programs include all of the following except:
- A. the risk of expropriation
  - B. war losses
  - C. the inability to transfer profits back home
  - D. strategic business blunders
  - E. currency restrictions
74. As a further incentive to encourage domestic firms to undertake FDI, many countries have eliminated double taxation of foreign income. Double taxation of foreign income refers to:
- A. taxation of income in both the host country and the home country
  - B. double taxation of income in the host country
  - C. double taxation of income in the home country
  - D. taxation that must be paid to both the host country and the IMF
  - E. double sales taxes payable on exporting and importing
75. Countries have been known to occasionally manipulate \_\_\_\_\_ to try to encourage their firms to invest at home.
- A. safety regulations
  - B. tax rules
  - C. environmental rules
  - D. the stock market
  - E. the media
76. Canada continues to restrict FDI into \_\_\_\_\_.
- A. railroads
  - B. nuclear power generation
  - C. the Alberta tar sands
  - D. airlines
  - E. land

77. It is increasingly common for governments to:
- A. offer incentives to firms that invest in their countries
  - B. penalize firms that invest in their countries
  - C. offer incentives to firms from developed countries to invest in their countries, but not to firms from developing countries
  - D. offer incentives to firms from developing countries to invest in their countries, but not to firms from developed countries
  - E. restrict the use of incentives to foreign investors to level the playing field for their local industries
78. \_\_\_\_\_ is not a common incentive that governments offer foreign firms to invest in their countries.
- A. Grants or subsidies
  - B. Free media advertising
  - C. Low-interest loans
  - D. Tax concessions
  - E. None of these answers is correct
79. Host governments use a range of controls to restrict FDI. The two most common are
- A. monetary restraints and performance requirements.
  - B. technology transfer restraints and employment restraints.
  - C. ownership restraints and performance requirements.
  - D. employment restraints and repatriation limitations.
  - E. foreign corporate tax levies and ownership restraints
80. A Paris-based intergovernmental organization of "wealthy" nations whose purpose is to provide its 29 member states with a forum in which governments can compare their experiences, discuss the problems they share, and seek solutions that can be applied within their own national contexts is referred to as
- A. Council for Economic Strength.
  - B. Federation of Emerging Nations.
  - C. Organization for Economic Cooperation and Development.
  - D. Organization for Economic Strength and Global Leadership.
  - E. Organization for Economic Equality and Development
81. The members of the Organization for Economic Cooperation and Development include
- A. most South American countries, Japan, France, and Germany.
  - B. most North American countries, Great Britain, France, and Germany.
  - C. most Asian countries, the United States, Canada, and Mexico.
  - D. most European countries, the United States, Canada, Japan, and South Korea.
  - E. most European countries, the United States, Canada, Japan and China
82. McDonalds has expanded into foreign markets primarily through
- A. franchising.
  - B. licensing.
  - C. FDI.
  - D. exporting.
  - E. turn-key
83. Although it normally involves much longer-term commitments, franchising is essentially the service industry version of:
- A. exporting.
  - B. licensing.
  - C. FDI.
  - D. turnkey projects.
  - E. business system transfer

84. Because they \_\_\_\_\_, the product life-cycle theory and Knickerbocker's theory of FDI tend to be less useful from a business perspective.
- A. are descriptive rather than analytical
  - B. have not stood the test of time
  - C. are not widely known
  - D. have not been empirically validated
  - E. have not been widely used
85. Which is not one of the factors that a party's bargaining power depends upon when negotiating?
- A. Each party's time horizon
  - B. The value each side places on what the other has to offer
  - C. The size of each party's market share
  - D. The number of comparable alternatives available to each side
  - E. All of these answers are correct
86. Thirty years ago, Starbucks was a single store. Today, it is a global roaster and retailer of coffee with more than 875 stores located in Japan.  
True False
87. When a firm exports to a foreign country, foreign direct investment occurs.  
True False
88. The stock of foreign direct investment refers to the total accumulated value of foreign-owned assets at a given time.  
True False
89. The flow of foreign investment refers to the number of countries a firm is investing in at any given point in time.  
True False
90. There has been a rapid decrease in the total volume of FDI over the past 20 years.  
True False
91. Historically, there have been high levels of FDI outflows from the United States.  
True False
92. Most FDI has been directed at the developed nations of the world as firms based in advanced countries invested in the others' markets.  
True False
93. The trend towards liberalization throughout the world is continuing to increase.  
True False
94. The largest source country for FDI is Japan.  
True False
95. The eclectic paradigm is a theory of FDI that combines two other perspectives into a single holistic explanation of FDI.  
True False
96. Granting a foreign entity the right to produce and sell the firm's product in return for a royalty fee on every unit the foreign entity sells is called FDI.  
True False
97. In general, foreign direct investment is less expensive and less risky than either licensing or exporting.  
True False

98. Because a firm must establish production facilities in a foreign country or acquire a foreign enterprise, FDI is expensive.  
True False
99. Because of the problems associated with doing business in a different culture where the "rules of the game" may be very different, FDI is risky.  
True False
100. There is a branch of economic theory known as internationalization theory that seeks to explain why firms often prefer exporting to foreign direct investment.  
True False
101. A rationale for wanting control over the operations of a foreign entity is that the firm might wish to take advantage of differences in factor costs across countries, producing only part of its final product in a given country, while importing other parts from where they can be produced at a lower cost.  
True False
102. A firm will favor foreign direct investment over exporting as an entry strategy when transportation costs or trade barriers make exporting unattractive.  
True False
103. An industry composed of a large number of large firms is referred to as an oligopoly.  
True False
104. Raymond Vernon's view of foreign direct investment is that firms undertake FDI at particular stages in the life cycle of a product they have pioneered.  
True False
105. The eclectic paradigm has come under sharp criticism by British economist John Dunning.  
True False
106. Externalities are knowledge spillovers that occur when companies in the same industry locate in the same area.  
True False
107. In practice, many countries have adopted neither a radical policy nor a free market policy toward FDI, but instead a policy that can best be described as pragmatic nationalism.  
True False
108. The three main benefits of inward FDI for a host country are the resource-transfer effect, the government effect, and the balance-of-payment effect.  
True False
109. Technology can be incorporated in a product or a production process.  
True False
110. Technology takes jobs away from a host country that would otherwise remain there.  
True False
111. Regarding FDI, many host governments are concerned that key decisions that can affect the host country's economy will be made by a local instead of foreign parent.  
True False
112. Offshore production refers to FDI undertaken to serve the home market.  
True False
113. Eliminating double taxation of foreign income is one incentive many countries have created to encourage domestic firms to undertake FDI.  
True False

114. Flexible interest rates and loans are the most common incentives governments offer to get foreign firms to invest in their countries.  
True False
115. Ownership restraints and profit requirements are the two most common ways host governments restrict FDI.  
True False
116. In 1995, the OECD initiated talks to draft a Multilateral Agreement on Investment that would make it illegal for signatory states to discriminate against foreign investors.  
True False
117. Other things being equal, investing in countries that are permissive to FDI is preferable to investing in countries that restrict FDI.  
True False
118. What is meant by the term Foreign Direct Investment? Describe the difference between the flow of foreign direct investment and the stock of foreign direct investment.
119. Describe what is meant by the eclectic paradigm? Who is its principle champion? Does this paradigm make sense as a rationale for FDI?
120. Despite its advantages, FDI has been described as an "expensive" and "risky" international growth strategy. Other things being equal, why is FDI expensive and risky? Compare the risks involved with FDI to the risks involved with exporting and licensing.
121. How do transportation costs affect the attractiveness of exporting?

122.Name three reasons that licensing may not be an attractive option.

123.What are the benefits of inward FDI (i.e. FDI coming into a country from foreign sources) for the host country? Are these benefits compelling?

124.How does a potential host government's attitude toward FDI affect a company's willingness to engage in FDI in that country? Should a host government's attitude toward FDI be a major consideration when making a FDI decision? Why?

125.A traditional criticism among Canadian nationalists of inward FDI is that we will become a branch plant economy. Branch plants are a foreign subsidiary of a multinational parent corporation. Branch plants, usually of United States corporations, are common in the Canada. Canadian nationalists claim that they have helped to obstruct the growth of a Canadian economy that is independent of other countries interests and self-directed. However, some Canadian economists argue that they are been an important factor in stimulating our economy and supporting our standard of living. What is your position? Explain.

126.Chinese state owned companies have recently been blocked from buying into large American corporations because of concerns over national security. State owned companies are not always free to act solely from the perspective of business interests. There may be times when their owners the government will tell them to act to support the national interests of the country. Should the attitude towards state owned companies particularly those from non-democratic countries?



127. To make sure the Japanese operations replicated the "Starbucks experience" in North America, Starbucks insisted on all of the following except:
- A. stores are required to adhere to the design parameters established in the U.S.
  - B. all store managers and employees are required to attend training classes similar to those given to U.S. employees.
  - C. transferring some employees to the Japanese operation.
  - D. not giving employees stock options until all requirements are adhered to.
  - E. reducing benefits and meals plans
128. When a firm invests directly in new facilities to produce and/or market a product in a foreign country, \_\_\_\_\_ occurs.
- A. reciprocal foreign investment
  - B. cross-boarder international investment
  - C. international capital investment
  - D. international expansion
  - E. foreign direct investment
129. FDI is an acronym that stands for
- A. Federation of Direct Investors.
  - B. Federal Diversification Initiative.
  - C. Foreign Direct Investment.
  - D. Formal Direct Internationalization.
  - E. Fund for Direct Investment
130. \_\_\_\_\_ occurs, according to the U.S. Department of Commerce, whenever a U.S. citizen, organization, or affiliated group takes an interest of 10 percent or more in a foreign business entity.
- A. Cross-boarder international investment
  - B. Foreign direct investment
  - C. Reciprocal foreign investment
  - D. International capital investment
  - E. International currency transfer
131. If TransCanada Pipelines, a Canadian based corporation, purchased a 50% interest in a company in Italy, that purchase would be an example of
- A. multinational investment.
  - B. reciprocal foreign investment.
  - C. foreign direct investment.
  - D. cross-boarder international investment.
  - E. foreign joint venture
132. If Siemens, a German firm, purchased a 20% interest in a manufacturing firm in Canada, Siemens would be engaging in
- A. foreign direct investment.
  - B. global entrepreneurship.
  - C. cross-boarder international investment.
  - D. multinational investment.
  - E. minority interest acquisition
133. A(n) \_\_\_\_\_ is a company that conducts business in more than one country.
- A. cross-cultural enterprise
  - B. synergistic enterprise
  - C. multinational enterprise
  - D. international conglomerate
  - E. global enterprise

134. The establishment of a wholly new operation in a foreign country is referred to as a(n):
- A. outplacement.
  - B. greenfield investment.
  - C. new venture.
  - D. exporting.
  - E. turn-key investment
135. The \_\_\_\_\_ of foreign direct investment refers to the amount of FDI undertaken over a given period (normally a year). The \_\_\_\_\_ of foreign direct investment refers to the total accumulated value of foreign-owned assets at any time.
- A. portfolio; current
  - B. flow; stock
  - C. stock; flow
  - D. stockpile; portfolio
  - E. annual accumulation; total accumulation
136. The flow of foreign direct investment out of a country is
- A. forfeiture of national investment.
  - B. loss of national investment.
  - C. expenditure of FDI.
  - D. outflow of FDI.
  - E. a reflection of the loss of jobs
137. The flow of foreign direct investment into a country is referred to as the
- A. inflow of FDI.
  - B. FDI capture.
  - C. FDI gain.
  - D. accrual of FDI.
  - E. FDI wealth accrual
138. Generally speaking, there has been a(n) \_\_\_\_\_ since the 1990s.
- A. increase in the stock but not in the flow of FDI in the world economy
  - B. marked increase in both the flow and stock of FDI in the world economy
  - C. marked decrease in both the flow and stock of FDI in the world economy
  - D. increase in flow but not the stock of FDI in the world economy
  - E. greater restrictions on the outflow, while liberalization of the inflow of FDI
139. Which of the following two statements accurately reflects the trend in foreign direct investments over the past 20 years?
- A There has been a rapid increase in the total volume of FDI undertaken and there has been a change in . the importance of various countries as sources for FDI
  - B There has been a rapid increase in the total volume of FDI undertaken and the countries that have been . instrumental as sources of FDI have remained the same
  - C There has been a rapid decrease in the total volume of FDI undertaken and there has been a change in . the importance of various countries as sources for FDI.
  - D There has been a rapid decrease in the total volume of FDI undertaken and the countries that have been . instrumental as sources of FDI have remained the same
  - E There has been a slow increase in the total volume of FDI undertaken and there has been no change in . the importance of various countries as sources for FDI
140. For the most part FDI flows have \_\_\_\_\_ since the 1990s.
- A. shrunk
  - B. stayed the same
  - C. varied
  - D. grown
  - E. averaged \$1.2 billion

141. Over time, cross-border M & As have shifted away from primary and manufacturing to \_\_\_\_\_?  
A. developed economies  
B. developing economies  
C. mining  
D. services  
E. resource extraction
142. \_\_\_\_\_ has not contributed to the increase in FDI over the past several years.  
A. Globalization of the world economy  
B. The desire to have production facilities close to major customers  
C. A strong U.S. economy  
D. Dramatic shift towards socialist and communist political institutions  
E. Increasing corporate profits
143. Since World War II, the largest source country for FDI outflows has been \_\_\_\_\_.  
A. Canada  
B. China  
C. United States  
D. United Kingdom  
E. Japan
144. Since 2000, the number of regulatory changes less favourable to FDI has \_\_\_\_\_.  
A. shrunk  
B. stayed the same  
C. grown  
D. totaled \$2.4 billion  
E. totaled \$3.5 million
145. Historically, most FDI has been directed at \_\_\_\_\_.  
A. developed nations  
B. developing nations  
C. China  
D. India  
E. the Middle East
146. Besides the United States, other important source countries for FDI include?  
A. China  
B. Spain  
C. Greece  
D. India  
E. Japan
147. The United States, the United Kingdom, France and Japan account for \_\_\_\_\_% of all FDI outflows in 2009  
A. 3.5%  
B. 7%  
C. 10%  
D. 20%  
E. 23%

148. Which of the following is not true about why firms prefer to acquire existing assets rather than undertake green-field investments?
- A. Foreign firms are acquired because those firms have valuable strategic assets.
  - B. Firms make acquisitions because they believe they can increase the efficiency of the acquired unit by transferring capital, technology, or management skills.
  - C. Firms make acquisitions because they believe it will make more profits for the home firm and home country.
  - D. Mergers and acquisitions are quicker to execute than green-field investments.
  - E. Mergers and acquisitions are cheaper than green-field investments
149. For the most part Canadian FDI outflow in last few years went to \_\_\_\_\_
- A. the U.S. multinational corporations
  - B. Chinese manufacturers
  - C. Canadian affiliates and subsidiaries
  - D. British domestic companies
  - E. Japanese autoparts manufacturers
150. The \_\_\_\_\_ is a theory of foreign direct investment that combines two other perspectives into a single holistic explanation of FDI.
- A. versatile model
  - B. internationalization model
  - C. globalization paradigm
  - D. eclectic paradigm
  - E. unified theory of FDI
151. Four Seasons Hotels and Resorts has shifted their focus from the acquisition of foreign properties to offering management contracts for local owners of hotel properties. This shift has taken place, because \_\_\_\_\_.
- A. the FDI climate is less favourable to hotel developments
  - B. the low Canadian dollar in the early 2000s made foreign acquisitions prohibitively expensive
  - C. they preferred to license their business system
  - D. international travel and tourism went into a steep decline after the terrorist attacks of 9/11
  - E. service was such an important component of their brand and because it ensured a steady income
152. \_\_\_\_\_ involves producing goods at home and then shipping them to the receiving country for sale.
- A. Foreign direct investment
  - B. Licensing
  - C. Franchising
  - D. Exporting
  - E. Offshoring
153. If 3M, an American firm, produces adhesive tape in St. Paul, Minnesota, and ships the tape to South Korea to be sold, that is an example of:
- A. exporting
  - B. licensing
  - C. franchising
  - D. cross-border investing
  - E. international trade
154. Which of the following involves granting a foreign entity the right to produce and sell the firm's product in return for a royalty fee on every unit sold?
- A. Franchising
  - B. Exporting
  - C. Licensing
  - D. Foreign Direct Investment
  - E. Merger

155. When transportation costs are added to production costs, it becomes unprofitable to ship some products over a large distance. This is particularly true of products that have a:
- A. high value-to-weight ratio
  - B. moderate value-to-weight ratio
  - C. low value-to-weight ratio
  - D. extremely high value-to-weight ratio
  - E. value to weight ratio
156. FDI is often undertaken as a response to:
- A. exporting
  - B. FDI outflows
  - C. FDI inflows
  - D. threatened import tariffs
  - E. high GDP levels
157. The licensor \_\_\_\_\_ in return for licensing one of its products to a foreign firm.
- A. gets preferential trade treatment from the country of the licensee
  - B. gets a special subsidy from the country of the licensee
  - C. collects a royalty fee on every unit the licensee sells
  - D. gets a one time payment from the licensee
  - E. protects their local market
158. Some of Toyota's competitive advantage is due to its superior ability to manage the design, engineering and manufacturing of its automobiles. Despite the fact that some of its products could be licensed for production by another company it does not do so because \_\_\_\_\_.
- A. Toyota does not want to lose control over its technology
  - B. Toyota are strong believers in the internalization theory
  - C. Toyota does not want to share profits and it is a large enough company to enter every market
  - D. another company could not be as efficient a producer of cars as Toyota
  - E. all of these answers are correct
159. According to the textbook, FDI is expensive because
- A. a firm must pay a high franchising fee to participate in foreign direct investment in most countries.
  - B. a firm must pay the transportation costs to ship domestically produced products overseas.
  - C. a firm must establish production facilities in a foreign country or acquire a foreign enterprise.
  - D. a firm must pay a high licensing fee to participate in foreign direct investment in most countries.
  - E. a firm must pay taxes in both countries
160. Much foreign direct investment is undertaken as a response to actual or threatened
- A. trade barriers.
  - B. economic sanctions.
  - C. legal action.
  - D. international appeals.
  - E. market opportunities
161. \_\_\_\_\_, a branch of economics, seeks to explain why firms often prefer foreign direct investment to licensing as a strategy for entering foreign markets.
- A. Comparative advantage theory
  - B. Globalization theory
  - C. Cosmopolitan theory
  - D. Internalization theory
  - E. Patterns of FDI

162. According to internalization theory, licensing has three major drawbacks as a strategy for exploiting foreign market opportunities. Each of the following is a drawback of licensing except:
- A. licensing may result in a firm's giving away valuable technological know-how to a potential foreign competitor.
  - B. licensing does not give a firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to maximize its profitability.
  - C. licensing helps a firm avoid making a direct foreign investment in a foreign country.
  - D. when a firm's competitive advantage is based not so much on its products as on the management, marketing, and manufacturing capabilities that produce those products, licensing fails to capture those advantages
  - E. none of these answers is correct
163. Control over manufacturing, marketing, and strategy is granted to a licensee in return for:
- A. increased taxation.
  - B. decreased taxation.
  - C. a royalty fee.
  - D. company stock given to the government.
  - E. profit sharing
164. High transportation costs and/or tariffs imposed on imports help explain why many firms prefer \_\_\_\_\_ over \_\_\_\_\_.
- A. foreign direct investment or licensing; exporting
  - B. foreign direct investment or licensing; joint ventures
  - C. exporting; foreign direct investment or licensing
  - D. strategic alliances; foreign direct investment or licensing
  - E. licensing; foreign direct investment
165. When \_\_\_\_\_, a firm will favor FDI over exporting as an entry strategy, according to the textbook.
- A. interest rates or government policy make exporting unattractive
  - B. transportation costs or trade barriers make exporting unattractive
  - C. cultural barriers or trade barriers make exporting unattractive
  - D. cultural barriers or government policy make exporting unattractive
  - E. internalization theory is not applicable
166. According to the textbook, a firm will favor \_\_\_\_\_ over \_\_\_\_\_ when it wishes to maintain control over its technological know-how, or over its operations and business strategy.
- A. foreign direct investment; exporting
  - B. licensing; foreign direct investment
  - C. foreign direct investment; licensing
  - D. exporting; foreign direct investment
  - E. exporting; licensing
167. One theory used to explain foreign direct investment patterns is based on the idea that firms follow their domestic competitors overseas. First expounded by \_\_\_\_\_, this theory has been developed with regard to oligopolistic industries.
- A. F.T. Knickerbocker
  - B. William P. Smith
  - C. Michael Porter
  - D. Eli Heckscher
  - E. Roy Thompson

168. An industry composed of a limited number of large firms (i.e. an industry in which four firms control 80 percent of a domestic market) is referred to as a(n):
- A. syndicate.
  - B. cartel.
  - C. oligopoly.
  - D. monopoly.
  - E. stratified polity
169. If one firm in a(n) \_\_\_\_\_ cuts prices, this can take market share away from its competitors, forcing them to respond with similar price cuts in order to retain their market share.
- A. monopoly
  - B. oligopoly
  - C. multipoint competition
  - D. cartel
  - E. price fixing agreement
170. Several studies of U.S. enterprises suggest that firms based in \_\_\_\_\_ industries tend to imitate each other's foreign direct investment patterns.
- A. oligopolistic
  - B. monopolistic
  - C. syndicated
  - D. munificent
  - E. related
171. When two or more enterprises encounter each other in different regional markets, national markets, or industries, \_\_\_\_\_ arises.
- A. a monopoly
  - B. an oligopoly
  - C. a cartel
  - D. multipoint competition
  - E. international competition
172. Camelot Baby Carriages decided to enter the European market. Sam's Strollers followed to ensure that Camelot would not gain competitive advantage in Europe that could lead to the same thing occurring in Asia. Sam's then decides to enter the Australian market, and Camelot follows. This is an example of:
- A. monopoint competition.
  - B. multipoint competition.
  - C. lead and follow competition.
  - D. competition life cycle.
  - E. oligopolic competition
173. Firms undertake FDI at \_\_\_\_\_ is Raymond Vernon's view of foreign direct investment.
- A. unpredictable stages in the life cycle of a product they have pioneered
  - B. late stages in their corporate histories
  - C. early stages in their corporate histories
  - D. particular stages in the life cycle of a product they have pioneered
  - E. early stages in the product life cycle of a product another company has pioneered
174. Vernon's theory says that firms invest in a foreign country when:
- A. demand is high and supply is low.
  - B. demand in that country will support foreign economic conditions.
  - C. demand in that country will support local production.
  - D. demand is high and raw materials in that country can meet production needs.
  - E. market demand is growing

175. The eclectic paradigm has been championed by the British economist \_\_\_\_\_.  
A. John Dunning  
B. Edward Luty  
C. William Spencer  
D. Andrew Ferguson  
E. Francis Knockbocker
176. Advantages that arise from using resource endowments or assets that are tied to a particular location and that a firm finds valuable to combine with its own unique assets are referred to as:  
A. geographic specific preferences  
B. unique geographic advantages  
C. locale-specific preferences  
D. location-specific advantages  
E. factor endowment advantages
177. Dunning argues that combining location specific assets or resource endowments and the firm's own unique capabilities often requires:  
A. mergers.  
B. FDI.  
C. local production.  
D. home country training.  
E. cross cultural literacy
178. \_\_\_\_\_ are knowledge spillovers that occur when companies in the same industry locate in the same area.  
A. Inward overflows  
B. Cognitive overflows  
C. Concentric overflows  
D. Externalities  
E. Synergy
179. Silicon Valley has a \_\_\_\_\_ in the generation of knowledge related to the computer and semiconductor industries, when looked at by Dunning's theory.  
A. demographic specific advantage  
B. trade specific advantage  
C. location specific advantage  
D. null advantage  
E. critical mass advantage
180. The \_\_\_\_\_ view of FDI traces its roots to Marxist political and economic theory.  
A. radical  
B. free market  
C. pragmatic nationalism  
D. conservative  
E. social democratic
181. Radical writers believe that \_\_\_\_\_ extract profits from the host country and take them to their home country, giving nothing of value to the host country in exchange.  
A. FDI  
B. MNEs  
C. SNEs  
D. PNCs  
E. MNCs



182. Which of the following is not a reason that the radical position of MNEs was in retreat by the end of the 1980s?
- A. The strong economic performance of those developing countries that embraced capitalism rather than radical ideology
  - B. The collapse of communisms in Eastern Europe
  - C. The rise of democracy in the Western countries
  - D. A growing belief by many radical countries that FDI can be an important source of technology and job . and can stimulate economic growth
  - E. The move to deregulate Western economies
183. The \_\_\_\_\_ view argues that international production should be distributed among countries according to the theory of comparative advantage.
- A. conservative
  - B. pragmatic nationalism
  - C. free market
  - D. radical
  - E. liberal
184. The MNE is seen as an instrument for dispersing the production of goods and services to those locations around the globe where they can be produced most efficiently, according to the \_\_\_\_\_ view.
- A. radical
  - B. free market
  - C. capitalist
  - D. pragmatic nationalism
  - E. liberal
185. The \_\_\_\_\_ view is that FDI has both benefits and costs.
- A. radical
  - B. conservative
  - C. free market
  - D. pragmatic nationalist
  - E. liberal
186. In a \_\_\_\_\_ view, FDI should be allowed only if the benefits outweigh the costs.
- A. communist
  - B. socialist
  - C. pragmatic nationalism
  - D. radical
  - E. liberal
187. \_\_\_\_\_ are three main benefits of inward FDI for a host country.
- A. The resource-transfer effect, the employment effect, and the balance-of-payments effect
  - B. The capital-transfer effect, the technology effect, and the currency exchange effect
  - C. The cultural awareness effect, the technology effect, and the balance-of-payments effect
  - D. The resource-transfer effect, the technology effect, and the currency exchange effect
  - E. Balance of payments effect, currency exchange effect, and the technology effect
188. The beneficial effects of FDI may be reduced if most management and highly skilled jobs in the subsidiaries of foreign firms are reserved for \_\_\_\_\_ nationals.
- A. host-country
  - B. third-country
  - C. home-country
  - D. local
  - E. expatriate

189. A country's \_\_\_\_\_ tracks both its payments to and its receipts from other countries.
- A. pluses and minuses account
  - B. debits and credits account
  - C. checks and balances account
  - D. balance-of-payments account
  - E. current account
190. What is the record of a country's export and import of goods and services referred to as?
- A. Current account
  - B. Foreign account
  - C. Internal account
  - D. Tariff account
  - E. National account
191. The establishment of Japanese automakers' branch plants in Canada does not help the U.S. in terms of its \_\_\_\_\_.
- A. Current account
  - B. International accounts
  - C. National account
  - D. Foreign Currency account
  - E. Balance of payments accounts
192. Three main costs of inward FDI concern host countries. These are:
- A. the employment effect, the perceived loss of national sovereignty and autonomy, and the resource transfer effect
  - B. the possible adverse effects of FDI on competition with the host country, the resource transfer effect, and the perceived loss of national sovereignty and autonomy
  - C. the resource transfer effect, the employment effect, and the possible adverse effects of FDI on competition within the host country
  - D. the possible adverse effects of FDI on competition within the host country, adverse effects on the balance of payments, and the perceived loss of national sovereignty and autonomy
  - E. Loss of national sovereignty, increased materialism, increased income and wealth inequities
193. How can FDI help a country achieve a current account surplus?
- A. If the FDI is a substitute for exports of goods or services, the effect can be to improve the current account of the host country's balance of payments.
  - B. When the MNE uses a foreign subsidiary to import goods and services to other countries.
  - C. When the MNE uses a foreign subsidiary to export goods and services to other countries.
  - D. If the FDI is a substitute for imports of goods or services, the effect can be positive on the current account of the home-country's balance of payments.
  - E. When the MNE transfers monies to finance the FDI
194. Which is a possible adverse effect of FDI on a host country's balance-of-payments position?
- A. When a foreign subsidiary exports a substantial number of its outputs abroad.
  - B. When a foreign subsidiary gets a substantial number of its inputs from its host-country.
  - C. When most of the foreign subsidiary's management team is from the home country.
  - D. Set against the initial capital inflow that comes with FDI must be the subsequent outflow of income as the foreign subsidiary repatriates earnings to its parent company.
  - E. the increased competition weakens domestic companies reducing local production and increasing imports
195. Regarding the costs of FDI for the home country, the most important concerns center around:
- A. the balance-of-payments and employment effects of outward FDI
  - B. the technology capture effect and the perceived loss of national sovereignty
  - C. the resource transfer effect and the inflationary pressures caused by FDI
  - D. the perceived loss of national sovereignty and inflationary pressures caused by FDI
  - E. the technology transfer loss and increased competition

- 196.If a Canadian corporation decides to create FDI in Mexico because the new plant site has lower costs, this can cause Canada to:
- A. lose out on taxes because Mexico will receive them for the new site.
  - B. deteriorate its trade position.
  - C. have an increase in its unemployment rate.
  - D. have a decrease in its unemployment rate.
  - E. experience increased corporate profits
- 197.International trade theory tells us that home country concerns about the negative economic effects of offshore production:
- A. are typically right on
  - B. may be misplaced
  - C. are typically irrelevant
  - D. are typically negligible
  - E. should be addressed
- 198.According to the International Trade Theory, FDI may cause all of the following except:
- A. stimulate economic growth.
  - B. cause product prices to fall.
  - C. cause higher taxes in host-countries.
  - D cause the lose of market share to international competitors if a company were prohibited from FDI and . low-cost production locations.
  - E. all of these answers are correct
- 199.Many investor nations now have government backed insurance programs to cover major types of foreign investment risk. The types of risks insurable through these programs include all of the following except:
- A. the risk of expropriation
  - B. war losses
  - C. the inability to transfer profits back home
  - D. strategic business blunders
  - E. currency restrictions
- 200.As a further incentive to encourage domestic firms to undertake FDI, many countries have eliminated double taxation of foreign income. Double taxation of foreign income refers to:
- A. taxation of income in both the host country and the home country
  - B. double taxation of income in the host country
  - C. double taxation of income in the home country
  - D. taxation that must be paid to both the host country and the IMF
  - E. double sales taxes payable on exporting and importing
- 201.Countries have been known to occasionally manipulate \_\_\_\_\_ to try to encourage their firms to invest at home.
- A. safety regulations
  - B. tax rules
  - C. environmental rules
  - D. the stock market
  - E. the media
- 202.Canada continues to restrict FDI into \_\_\_\_\_.
- A. railroads
  - B. nuclear power generation
  - C. the Alberta tar sands
  - D. airlines
  - E. land

203. It is increasingly common for governments to:
- A. offer incentives to firms that invest in their countries
  - B. penalize firms that invest in their countries
  - C. offer incentives to firms from developed countries to invest in their countries, but not to firms from developing countries
  - D. offer incentives to firms from developing countries to invest in their countries, but not to firms from developed countries
  - E. restrict the use of incentives to foreign investors to level the playing field for their local industries
204. \_\_\_\_\_ is not a common incentive that governments offer foreign firms to invest in their countries.
- A. Grants or subsidies
  - B. Free media advertising
  - C. Low-interest loans
  - D. Tax concessions
  - E. None of these answers is correct
205. Host governments use a range of controls to restrict FDI. The two most common are
- A. monetary restraints and performance requirements.
  - B. technology transfer restraints and employment restraints.
  - C. ownership restraints and performance requirements.
  - D. employment restraints and repatriation limitations.
  - E. foreign corporate tax levies and ownership restraints
206. A Paris-based intergovernmental organization of "wealthy" nations whose purpose is to provide its 29 member states with a forum in which governments can compare their experiences, discuss the problems they share, and seek solutions that can be applied within their own national contexts is referred to as
- A. Council for Economic Strength.
  - B. Federation of Emerging Nations.
  - C. Organization for Economic Cooperation and Development.
  - D. Organization for Economic Strength and Global Leadership.
  - E. Organization for Economic Equality and Development
207. The members of the Organization for Economic Cooperation and Development include
- A. most South American countries, Japan, France, and Germany.
  - B. most North American countries, Great Britain, France, and Germany.
  - C. most Asian countries, the United States, Canada, and Mexico.
  - D. most European countries, the United States, Canada, Japan, and South Korea.
  - E. most European countries, the United States, Canada, Japan and China
208. McDonalds has expanded into foreign markets primarily through
- A. franchising.
  - B. licensing.
  - C. FDI.
  - D. exporting.
  - E. turn-key
209. Although it normally involves much longer-term commitments, franchising is essentially the service industry version of:
- A. exporting.
  - B. licensing.
  - C. FDI.
  - D. turnkey projects.
  - E. business system transfer

210. Because they \_\_\_\_\_, the product life-cycle theory and Knickerbocker's theory of FDI tend to be less useful from a business perspective.
- A. are descriptive rather than analytical
  - B. have not stood the test of time
  - C. are not widely known
  - D. have not been empirically validated
  - E. have not been widely used
211. Which is not one of the factors that a party's bargaining power depends upon when negotiating?
- A. Each party's time horizon
  - B. The value each side places on what the other has to offer
  - C. The size of each party's market share
  - D. The number of comparable alternatives available to each side
  - E. All of these answers are correct
212. Thirty years ago, Starbucks was a single store. Today, it is a global roaster and retailer of coffee with more than 875 stores located in Japan.  
True False
213. When a firm exports to a foreign country, foreign direct investment occurs.  
True False
214. The stock of foreign direct investment refers to the total accumulated value of foreign-owned assets at a given time.  
True False
215. The flow of foreign investment refers to the number of countries a firm is investing in at any given point in time.  
True False
216. There has been a rapid decrease in the total volume of FDI over the past 20 years.  
True False
217. Historically, there have been high levels of FDI outflows from the United States.  
True False
218. Most FDI has been directed at the developed nations of the world as firms based in advanced countries invested in the others' markets.  
True False
219. The trend towards liberalization throughout the world is continuing to increase.  
True False
220. The largest source country for FDI is Japan.  
True False
221. The eclectic paradigm is a theory of FDI that combines two other perspectives into a single holistic explanation of FDI.  
True False
222. Granting a foreign entity the right to produce and sell the firm's product in return for a royalty fee on every unit the foreign entity sells is called FDI.  
True False
223. In general, foreign direct investment is less expensive and less risky than either licensing or exporting.  
True False

224. Because a firm must establish production facilities in a foreign country or acquire a foreign enterprise, FDI is expensive.  
True False
225. Because of the problems associated with doing business in a different culture where the "rules of the game" may be very different, FDI is risky.  
True False
226. There is a branch of economic theory known as internationalization theory that seeks to explain why firms often prefer exporting to foreign direct investment.  
True False
227. A rationale for wanting control over the operations of a foreign entity is that the firm might wish to take advantage of differences in factor costs across countries, producing only part of its final product in a given country, while importing other parts from where they can be produced at a lower cost.  
True False
228. A firm will favor foreign direct investment over exporting as an entry strategy when transportation costs or trade barriers make exporting unattractive.  
True False
229. An industry composed of a large number of large firms is referred to as an oligopoly.  
True False
230. Raymond Vernon's view of foreign direct investment is that firms undertake FDI at particular stages in the life cycle of a product they have pioneered.  
True False
231. The eclectic paradigm has come under sharp criticism by British economist John Dunning.  
True False
232. Externalities are knowledge spillovers that occur when companies in the same industry locate in the same area.  
True False
233. In practice, many countries have adopted neither a radical policy nor a free market policy toward FDI, but instead a policy that can best be described as pragmatic nationalism.  
True False
234. The three main benefits of inward FDI for a host country are the resource-transfer effect, the government effect, and the balance-of-payment effect.  
True False
235. Technology can be incorporated in a product or a production process.  
True False
236. Technology takes jobs away from a host country that would otherwise remain there.  
True False
237. Regarding FDI, many host governments are concerned that key decisions that can affect the host country's economy will be made by a local instead of foreign parent.  
True False
238. Offshore production refers to FDI undertaken to serve the home market.  
True False
239. Eliminating double taxation of foreign income is one incentive many countries have created to encourage domestic firms to undertake FDI.  
True False

240. Flexible interest rates and loans are the most common incentives governments offer to get foreign firms to invest in their countries.  
True False
241. Ownership restraints and profit requirements are the two most common ways host governments restrict FDI.  
True False
242. In 1995, the OECD initiated talks to draft a Multilateral Agreement on Investment that would make it illegal for signatory states to discriminate against foreign investors.  
True False
243. Other things being equal, investing in countries that are permissive to FDI is preferable to investing in countries that restrict FDI.  
True False
244. What is meant by the term Foreign Direct Investment? Describe the difference between the flow of foreign direct investment and the stock of foreign direct investment.
245. Describe what is meant by the eclectic paradigm? Who is its principle champion? Does this paradigm make sense as a rationale for FDI?
246. Despite its advantages, FDI has been described as an "expensive" and "risky" international growth strategy. Other things being equal, why is FDI expensive and risky? Compare the risks involved with FDI to the risks involved with exporting and licensing.
247. How do transportation costs affect the attractiveness of exporting?

248. Name three reasons that licensing may not be an attractive option.

249. What are the benefits of inward FDI (i.e. FDI coming into a country from foreign sources) for the host country? Are these benefits compelling?

250. How does a potential host government's attitude toward FDI affect a company's willingness to engage in FDI in that country? Should a host government's attitude toward FDI be a major consideration when making a FDI decision? Why?

251. A traditional criticism among Canadian nationalists of inward FDI is that we will become a branch plant economy. Branch plants are a foreign subsidiary of a multinational parent corporation. Branch plants, usually of United States corporations, are common in Canada. Canadian nationalists claim that they have helped to obstruct the growth of a Canadian economy that is independent of other countries' interests and self-directed. However, some Canadian economists argue that they have been an important factor in stimulating our economy and supporting our standard of living. What is your position? Explain.

252. Chinese state-owned companies have recently been blocked from buying into large American corporations because of concerns over national security. State-owned companies are not always free to act solely from the perspective of business interests. There may be times when their owners, the government, will tell them to act to support the national interests of the country. Should the attitude towards state-owned companies, particularly those from non-democratic countries, be different?



## Chapter 7 Key

1. (p. 226, 227) D
2. (p. 228) E
3. (p. 228) C
4. (p. 228) B
5. (p. 228) C
6. (p. 228) A
7. (p. 228) C
8. (p. 228) B
9. (p. 228) B
10. (p. 228) D
11. (p. 228) A
12. (p. 229) B
13. (p. 229) A
14. (p. 229) D
15. (p. 229) D
16. (p. 229) D
17. (p. 229) C
18. (p. 232) C
19. (p. 232) A
20. (p. 232) E
21. (p. 232) E
22. (p. 233) C
23. (p. 237) C
24. (p. 237) D
25. (p. 238) E
26. (p. 237) D
27. (p. 237) A
28. (p. 237) C
29. (p. 238) C
30. (p. 238) D
31. (p. 239) C
32. (p. 240) D
33. (p. 237-238) C
34. (p. 238) A
35. (p. 239) D
36. (p. 239, 240) C

37. (p. 239) C
38. (p. 238) A
39. (p. 238) B
40. (p. 239) C
41. (p. 240) A
42. (p. 241) C
43. (p. 241) B
44. (p. 241) A
45. (p. 241) D
46. (p. 241) B
47. (p. 241, 242) D
48. (p. 241, 242) C
49. (p. 242) A
50. (p. 242) D
51. (p. 242) B
52. (p. 243) D
53. (p. 242) C
54. (p. 243) A
55. (p. 243) B
56. (p. 243, 244) C
57. (p. 244) C
58. (p. 244) B
59. (p. 245) D
60. (p. 245) C
61. (p. 246-249) A
62. (p. 247) C
63. (p. 248) D
64. (p. 248) A
65. (p. 248) E
66. (p. 249-250) D
67. (p. 248) C
68. (p. 249) D
69. (p. 251) A
70. (p. 251) B
71. (p. 251) B
72. (p. 251) C
73. (p. 252) D
74. (p. 252) A

75. (p. 252) B
76. (p. 253) D
77. (p. 253) A
78. (p. 253) B
79. (p. 253) C
80. (p. 254) C
81. (p. 254) D
82. (p. 256) A
83. (p. 256) B
84. (p. 256) A
85. (p. 257) C
86. (p. 226) TRUE
87. (p. 228) FALSE
88. (p. 228) TRUE
89. (p. 228) FALSE
90. (p. 229) FALSE
91. (p. 229) TRUE
92. (p. 232) TRUE
93. (p. 229) TRUE
94. (p. 229) FALSE
95. (p. 237) TRUE
96. (p. 237) FALSE
97. (p. 237) FALSE
98. (p. 237) TRUE
99. (p. 237) TRUE
100. (p. 239) FALSE
101. (p. 239) TRUE
102. (p. 238) TRUE
103. (p. 241) FALSE
104. (p. 241, 242) TRUE
105. (p. 242) FALSE
106. (p. 243) TRUE
107. (p. 245) TRUE
108. (p. 246-249) FALSE
109. (p. 247) TRUE
110. (p. 247) FALSE
111. (p. 250) FALSE
112. (p. 251) TRUE

113. (p. 252) TRUE

114. (p. 253) FALSE

115. (p. 252, 253) FALSE

116. (p. 254) TRUE

117. (p. 256) TRUE

The flow of foreign direct investment refers to the amount of FDI undertaken over a given period (normally a year). The stock of foreign direct investment refers to the total accumulated value of foreign-owned assets at a given time.

118. (p. 228) Foreign direct investment (FDI) occurs when a firm invests directly in new facilities to produce and/or market a product in a foreign country. To be more precise, the U.S. Department of Commerce describes FDI as follows: FDI occurs whenever a U.S. citizen, organization, or affiliated group takes an interest of 10 percent or more in a foreign business entity.

This paradigm does make sense as a rationale for FDI. For example, as described in the text, an obvious example of Dunning's arguments is natural resources, such as oil and other minerals, which are specific to certain locations. Dunning suggests that to exploit such foreign resources a firm must undertake FDI. Many U.S. oil companies have done this. They have had to invest in refineries in the areas of the world where the oil is located in order to combine their technological and managerial capabilities with these valuable location-specific resources. Another example is California's Silicon Valley, where a substantial portion of the world's R&D in terms of computer technology is taking place. It might make sense for a foreign producer of computer chips to locate their R&D facility in the Silicon Valley to be near this community of computer chip researchers and manufacturers.

119. (p. 237) The principle champion of the eclectic paradigm is British economist John Dunning. Dunning argues that in addition to other factors, location-specific advantages are also of considerable importance in explaining both the rationale for and the direction of foreign direct investment. By location-specific advantages, Dunning means the advantages that arise from utilizing resource endowments or assets that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets. Dunning accepts the arguments of internationalization theory, that it is difficult for a firm to license its own unique capabilities and know-how. Therefore, he argues that combining location-specific assets or resource endowments and the firm's own unique capabilities often require FDI in production facilities.

120. (p. 237-240) FDI is expensive because a firm must bear the costs of establishing production facilities in a foreign country or of acquiring a foreign enterprise. FDI is risky because of the problems associated with doing business in another culture where the "rules of the game" may be very different. As a result, relative to firms native to a culture, there is a greater probability that a firm undertaking FDI in a foreign culture will make costly mistakes due to ignorance. When a firm exports, it need not bear the costs of FDI, and the risks associated with selling abroad can be reduced by using a native sales agent. Similarly, when a firm licenses its know-how, it need not bear the costs or risks of FDI, since there are born by the native firm that licenses the know-how.

121. (p. 238) When transportation costs are added to production costs, it becomes unprofitable to shift some products over a long distance. This is particularly true of products that have a low value-to-weight ratio and can be produced at almost any location (e.g., cement, soft drinks, beer, etc.). For such products, relative to either FDI or licensing, the attractiveness of exporting decreases. For products with a high value-to-weight ratio, however, transport costs are normally a very minor component of total landed costs (e.g. jewelry, medical equipment, computer chips). In such cases, transportation costs have little impact on the attractiveness of exporting.

122. (p. 239, 240) First, licensing may result in a firm's giving away its know-how to a potential foreign competitor. There are many documented cases of where licensees learned how to produce a product from its licensor, and quickly exited the licensing agreement and started producing a similar product on its own. Second, licensing does not give a firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to profitably exploit its advantage in know-how. With licensing, control over production, marketing, and strategy is granted to a licensee in return for a royalty fee. However, for both strategic and operational reasons, a firm may want to retain control over these functions. Third, a firm's know-how may not be amenable to licensing. This is particularly true of management and marketing know-how.

These arguments are compelling, but must be weighed against the costs of FDI. The arguments against FDI include: the possible adverse effects of FDI on competition within the host nation, adverse effects on the balance-of-payments, and the perceived loss of national sovereignty and autonomy.

*The Balance-of-Payment Effects:* The effect of FDI on a country's balance-of-payments account is an important policy issue for most host governments. Governments typically like to see a balance-of-payments surplus rather than a deficit. There are two ways that FDI can help a host country experience a balance-of-payments surplus. First, if the FDI is a substitute for imports of goods or services, it can improve a country's balance of payments. For example, the Japanese auto plants in the U.S. produce cars that act as "substitutes" for Japanese imports. Second, FDI may result in an increase in exports. A portion of the goods and services that are produced as a result of FDI may be exported to other countries.

*The Employment Effects:* The beneficial employment effects claimed for FDI is that foreign direct investment brings jobs to a host country that would otherwise not be created there. For instance, the Japanese auto factories in the United States have provided thousands of jobs for U.S. workers.

*The Resource-Transfer Effect:* FDI can make a positive contribution to a host country by supplying capital, technology, and management resources that would otherwise not be available. The provision of these skills by a multinational company (through FDI) may boost a country's intellectual capital and economic growth rate.

123. (p. 246-249) The three main benefits of FDI for the host country are the resources-transfer effect, the employment effect, and the balance-of-payments effect. These potential benefits are explained in more detail below.

However, this issue is not straightforward. Many countries have a rather businesslike stance toward FDI. In such cases, a firm considering FDI usually must negotiate the specific terms of the investment with the host government. Such negotiations typically center on two issues. First, if the host country is trying to attract FDI, the negotiations will typically focus on the kind of incentives the host government is prepared to offer the foreign firm and what the firm will commit in exchange. On the other hand, if the host government is leery of FDI, the central issue is likely to be the concessions the firm will make to be allowed to go forward with its project.

124. (p. 256, 257) A host government's attitude toward FDI should be an important variable in making decisions about where to locate foreign production facilities and where to make a FDI. According to the author of the textbook, other things being equal, investing in countries that have permissive policies toward FDI is clearly preferable to investing in countries that resist FDI.

125. (p. 250) The student could agree with the nationalist position and then would argue questions of national sovereignty and autonomy. If the student took the opposite position the arguments could include employment benefits, balance of payments effects and resource transfer effects. The student could also take a middle ground between these two positions and argue that the Canadian government should act to reduce our dependence on the U.S. as a source of FDI.

126. (p. 245, 246) If the student argues in favour of allowing state owned companies to acquire companies in other countries than they should make the point that normal business interests will cause them to act in a way that is predictable and will not undermine the security of a given country. If they choose to make the opposite argument than they should differentiate between companies that are important national providers (such as energy) as opposed to non-strategic commercial enterprises.

127. (p. 226, 227) D

128. (p. 228) E

129. (p. 228) C

130. (p. 228) B

131. (p. 228) C

132. (p. 228) A

133. (p. 228) C

134. (p. 228) B

135. (p. 228) B

136. (p. 228) D

137. (p. 228) A

138. (p. 229) B

139. (p. 229) A

140. (p. 229) D

- 141. (p. 229) D
- 142. (p. 229) D
- 143. (p. 229) C
- 144. (p. 232) C
- 145. (p. 232) A
- 146. (p. 232) E
- 147. (p. 232) E
- 148. (p. 233) C
- 149. (p. 237) C
- 150. (p. 237) D
- 151. (p. 238) E
- 152. (p. 237) D
- 153. (p. 237) A
- 154. (p. 237) C
- 155. (p. 238) C
- 156. (p. 238) D
- 157. (p. 239) C
- 158. (p. 240) D
- 159. (p. 237-238) C
- 160. (p. 238) A
- 161. (p. 239) D
- 162. (p. 239, 240) C
- 163. (p. 239) C
- 164. (p. 238) A
- 165. (p. 238) B
- 166. (p. 239) C
- 167. (p. 240) A
- 168. (p. 241) C
- 169. (p. 241) B
- 170. (p. 241) A
- 171. (p. 241) D
- 172. (p. 241) B
- 173. (p. 241, 242) D
- 174. (p. 241, 242) C
- 175. (p. 242) A
- 176. (p. 242) D
- 177. (p. 242) B
- 178. (p. 243) D

179. (p. 242) C
180. (p. 243) A
181. (p. 243) B
182. (p. 243, 244) C
183. (p. 244) C
184. (p. 244) B
185. (p. 245) D
186. (p. 245) C
187. (p. 246-249) A
188. (p. 247) C
189. (p. 248) D
190. (p. 248) A
191. (p. 248) E
192. (p. 249-250) D
193. (p. 248) C
194. (p. 249) D
195. (p. 251) A
196. (p. 251) B
197. (p. 251) B
198. (p. 251) C
199. (p. 252) D
200. (p. 252) A
201. (p. 252) B
202. (p. 253) D
203. (p. 253) A
204. (p. 253) B
205. (p. 253) C
206. (p. 254) C
207. (p. 254) D
208. (p. 256) A
209. (p. 256) B
210. (p. 256) A
211. (p. 257) C
212. (p. 226) TRUE
213. (p. 228) FALSE
214. (p. 228) TRUE
215. (p. 228) FALSE
216. (p. 229) FALSE

217. (p. 229) TRUE
218. (p. 232) TRUE
219. (p. 229) TRUE
220. (p. 229) FALSE
221. (p. 237) TRUE
222. (p. 237) FALSE
223. (p. 237) FALSE
224. (p. 237) TRUE
225. (p. 237) TRUE
226. (p. 239) FALSE
227. (p. 239) TRUE
228. (p. 238) TRUE
229. (p. 241) FALSE
230. (p. 241, 242) TRUE
231. (p. 242) FALSE
232. (p. 243) TRUE
233. (p. 245) TRUE
234. (p. 246-249) FALSE
235. (p. 247) TRUE
236. (p. 247) FALSE
237. (p. 250) FALSE
238. (p. 251) TRUE
239. (p. 252) TRUE
240. (p. 253) FALSE
241. (p. 252, 253) FALSE
242. (p. 254) TRUE
243. (p. 256) TRUE

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## Chapter 7 Summary

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	42
Difficulty: Hard	58
Difficulty: Medium	152
Hill - Chapter 07	252