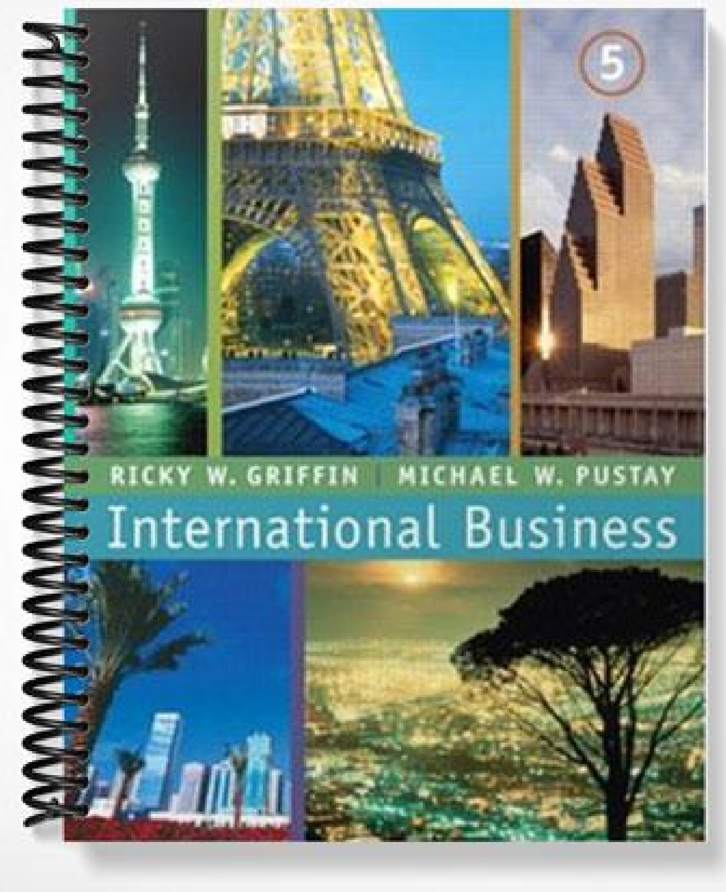
TEST BANK



Multiple Choice

1. Why do businesses trying to internationalize their operations sometimes fail?
   a. lack of market potential
   b. lack of capital for expansion
   c. lack of information about the international environment
   d. poor management
   e. investor limitations
   (c; moderate; p. 26; AACSB: Globalization)

2. Which of the factors listed below affects the patterns of trade and investment in international business?
   a. linguistics
   b. cultural ties
   c. past political associations
   d. military alliances
   e. all of the above
   (e; moderate; p. 26; AACSB: Globalization)

3. Companies doing international business are more likely to be successful when they have all of the following *except*
   a. an understanding of basic geography
   b. knowledge of local market characteristics
   c. an ignorance of local politics
   d. a basic comfort level with the host culture
   (c; moderate; p. 26; AACSB: Globalization)

4. What is London's origin as a world financial center?
   a. military power of British Empire in the nineteenth century
   b. influence of royalty on its reputation
   c. rule over several former colonies
   d. prestige of the London Stock Exchange
   e. none of the above
   (a; difficult; p. 26)

5. All of the following countries are part of the Quad except _____________.
   a. Germany
   b. Canada
   c. Turkey
   d. Britain
   e. Japan
   (c; difficult; p. 26; AACSB: Globalization)

6. In the twenty-first century, growth rates in ____ and ____ have outpaced those in ____ and _____.
   a. the United States and China; India and Japan
   b. Canada and Japan; Germany and the United States
   c. Japan and India; China and Canada
   d. China and India; Germany and Japan
   e. Canada and the United States; Japan and China
   (d; difficult; p. 26; AACSB: Globalization)

7. Seventy-three percent of the world's GDP is produced by _____.
   a. the Triad
   b. the Quad
   c. the European Union
   d. the United States
   e. Japan
   (b; moderate; p. 26; AACSB: Globalization)

8. The Triad includes which group of countries and regions?
   a. Japan, Korea, and China
   b. Germany, France, and Great Britain
   c. Canada, the United States, and Mexico
   d. Japan, the European Union, and the United States
   e. Africa, Australia, and North America
   (d; moderate; p. 26; AACSB: Globalization)

9. In which industry is global strategic thinking typical?
   a. airlines
   b. banking
   c. securities
   d. automobiles
   e. all of the above
   (e; easy; p. 26; AACSB: Globalization)

10. Companies doing international business are more likely to be successful when they have all of the following *except*
   a. an understanding of basic geography
   b. knowledge of local market characteristics
   c. an ignorance of local politics
   d. a basic comfort level with the host culture
   (c; moderate; 26; AACSB: Globalization)

11. Which of the following countries is *not* part of North America?
    a. the United States
    b. Caribbean islands
    c. Iceland
    d. Greenland
    e. All of these are part of North America.
    (c; difficult; p. 27)

12. Which country has the highest per capita income in North America?
    a. the United States
    b. Caribbean islands
    c. Canada
    d. Mexico
    e. Greenland
    (a; easy; p. 27)

13. _______ possesses the world's largest economy, accounting for almost 30 percent of the world's GDP in 2004.
    a. China
    b. India
    c. Japan
    d. Mexico
    e. The United States
    (e; difficult; p. 27)

14. The countries of North America produce approximately ______ percent of the world's output.
    a. 10
    b. 25
    c. 33
    d. 55
    e. 67
    (c; difficult; p. 27)

15. _____ is the currency in which the sale of goods and services is denominated.
    a. Flight capital
    b. Euro
    c. Invoicing currency
    d. Capital substitution
    e. Keiretsu
    (c; moderate; p.27)

16. The prime market for lower-income countries that are trying to raise their living standards through exports is
    a. the United States
    b. Japan
    c. Britain
    d. Germany
    e. China
    (a; difficult; p. 27)

17. _____ is the money sent out of a politically or economically unstable country to one perceived as a safe haven.
    a. Invoicing currency
    b. Flight capital
    c. Capital substitution
    d. Capital investment
    e. Keiretsu
    (b; moderate; p. 27)

18. When a firm makes a sale of goods denominated in Japanese yen, the yen is referred to as
    a. flight capital
    b. export capital
    c. the invoicing currency
    d. the transaction currency
    e. export capital
    (c; moderate; p. 27)

19. Which country listed below commonly attracts flight capital?
    a. Germany
    b. Canada
    c. the United States
    d. Hong Kong
    e. Singapore
    (c; easy; p. 27)

20. U.S. exports of goods and services in 2005 accounted for about _____ percent of U.S. GDP.
    a. 10
    b. 20
    c. 30
    d. 40
    e. 50
    (a; difficult; p. 27; AACSB: Globalization)

21. The single largest bilateral trading relationship in the world in 2004 was between
  a. Canada and the United States
  b. Mexico and the United States
  c. China and the United States
  d. India and China
  e. India and the United States
  (a; difficult; p. 30; AACSB: Globalization)

22. Which of the following is *not* true of Mexico?
  a. It is the world’s largest Spanish-speaking nation.
  b. It has been increasing its protectionist measures in recent years.
  c. It has been promoting privatization of industries.
  d. It is part of NAFTA.
  e. It has signed free trade pacts with El Salvador, Guatemala, and Honduras.
  (b; difficult; p. 31)

23. _____ is the dominant market for Canadian goods.
  a. Cuba
  b. The United States
  c. European Union
  d. China
  e. Mexico
  (b; moderate; p. 30; AACSB: Globalization)

24. Benefits of investing in Canada include all of the following *except*
  a. Canada’s proximity to the U.S. market
  b. Canada’s stable political systems
  c. the long-standing conflict between French-speaking Canadians and English-speaking Canadians
  d. Canada’s strong infrastructure
  e. Canada’s stable legal system
  (c; difficult; p. 31; AACSB: Globalization)

25. How many countries currently participate in the European Union’s common currency, the euro?
  a. 12
  b. 17
  c. 22
  d. 25
  e. all European Union countries
  (a; difficult; p. 31; AACSB: Globalization)

26. Which of the following is *not* a member of the Triad?
    a. China
    b. the United States
    c. the European Union
    d. Japan
    e. All of the above.
    (a; easy; p. 26; AACSB: Globalization)

27. Economic development in the Caribbean islands has benefited from
    a. political instability in the area
    b. chronic U.S. military intervention
    c. inadequate educational systems
    d. import limitations by the U.S.
    e. none of the above
    (e; moderate; p. 31)

28. The European Union is comprised of _____ countries.
    a. 10
    b. 12
    c. 15
    d. 20
    e. 25
    (e; moderate; p. 31; AACSB: Globalization)

29. The goal of the European Union is
    a. to become the wealthiest trading bloc in the world
    b. to become internally self-sufficient
    c. to increase trade barriers to outsiders and insiders
    d. to promote European peace and prosperity
    e. to encourage privatization of major industries
    (a; moderate; p. 31; AACSB: Globalization)

30. Why does Germany play a major role in formulating economic policies for the EU?
    a. Germany has a strong economy.
    b. Germany's government is strict in its anti-inflationary policies.
    c. Germany initiated the EU.
    d. both a and b
    e. both a and c
    (d; difficult; p. 33)

31. Which EU country has drawn criticism for promoting an agenda of economic nationalism, and in particular, for protecting its farmers under the guise of the Common Agricultural Policy?
    a. Germany
    b. the United Kingdom
    c. France
    d. Italy
    e. Spain
    (c; difficult; p. 33)

32. Perestroika refers to
    a. openness
    b. political restructuring
    c. economic restructuring
    d. social revolution
    e. the downfall of communism
    (c; easy; p. 33)

33. Who was responsible for introducing glasnost and perestroika to the Soviet Union?
    a. Czar Nicholas II
    b. Boris Yeltsin
    c. Vladimir Putin
    d. Mikhail Gorbachev
    e. none of the above
    (d; difficult; p. 33)

34. ________ ranks among the worst countries in Transparency International's annual corruption analysis.
    a. England
    b. Germany
    c. The United States
    d. Canada
    e. Russia
    (e; moderate; p. 36; AACSB: Ethics)

35. Which of these countries is a member of the EU?
    a. Iceland
    b. Norway
    c. Switzerland
    d. Liechtenstein
    e. none of the above
    (e; easy; p. 33; AACSB: Globalization)

36. Glasnost means _____ in Russian.
    a. economic restructuring
    b. hello
    c. to your health
    d. openness
    e. none of the above
    (d; easy; p. 33; AACSB: Globalization)

37. What country holds the world's largest land mass?
    a. the United States
    b. Russia
    c. China
    d. India
    e. Canada
    (b; moderate; p. 33)

38. Who was Russia's first democratically elected president?
    a. Mikhail Baryshnikov
    b. Mikhail Gorbachev
    c. Boris Yeltsin
    d. Vladimir Putin
    e. Ayn Rand
    (c; easy; p. 33)

39. The Newly Independent States refers to _____.
    a. the Central European countries
    b. the former Soviet republics
    c. the nations of Africa
    d. Puerto Rico and Guam
    e. the Four Tigers
    (b; difficult; p. 33)

40. Which of the following countries is considered to be farther along in their economic restructuring than other former communist countries?
    a. the Czech Republic
    b. Russia
    c. Croatia
    d. Slovenia
    e. Romania
    (a; difficult; p. 36)

41. Russia's natural resources include all of the following *except* _____.
    a. oil
    b. diamonds
    c. natural gas
    d. gold
    e. grain
    (e; difficult; p. 36)

42. In what year did the Soviet Union collapse?
    a. 1985
    b. 1989
    c. 1991
    d. 1993
    e. 1997
    (c; difficult; p. 33)

43. All of the following Central European countries *except* _____ are classified as upper-middle-income countries by the World Bank.
    a. Albania
    b. the Czech Republic
    c. Hungary
    d. Poland
    e. All are classified as upper-middle-income countries.
    (a; difficult; p. 36)

44. In which country listed below are MNCs reluctant to invest in due to the economic problems resulting from the wars in the former Yugoslavia in the 1990s?
    a. Kosovo
    b. Bosnia
    c. Serbia
    d. Montenegro
    e. all of the above
    (e; moderate; p. 36)

45. Asia is a primary source for which of the following?
    a. high-quality products
    b. low-quality products
    c. highly-skilled labor
    d. low-skill labor
    e. all of the above
    (e; easy; p. 36; AACSB: Globalization)

46. Immediately following World War II, Japan's Ministry for International Trade and Investment encouraged firms to concentrate on
    a. steel and shipbuilding
    b. automobiles and electronics
    c. financial services
    d. apparel and footwear
    e. none of the above
    (a; difficult; p. 38)

47. The Japanese term, sogo sosha, refers to a(n) _____.
    a. major Japanese bank
    b. family of interrelated companies
    c. export trading company
    d. supplier
    e. import trading company
    (c; difficult; p. 39)

48. The Japanese term, keiretsu, refers to a(n) _____.
    a. major Japanese bank
    b. family of interrelated companies
    c. export trading company
    d. supplier
    e. an import trading company
    (b; easy; p. 39)

49. New Zealand's exports accounted for about ______ percent of the country's 2004 GDP.
    a. 10
    b. 15
    c. 20
    d. 25
    e. 30
    (c; difficult; p. 39; AACSB: Globalization)

50. Samsung, Hyundai, Daewoo Group, and LG are all examples of
    a. chaebol
    b. keiretsu
    c. glasnost
    d. perestroika
    e. sogo sosha
    (a; difficult; p. 40)

51. Which country does *not* conduct significant trade with New Zealand?
    a. Australia
    b. Japan
    c. the United States
    d. France
    e. All conduct significant amounts of trade with New Zealand.
    (d; difficult; p. 39; AACSB: Globalization)

52. All of the following *except* _____ are typical exports from New Zealand.
    a. dairy products
    b. meat
    c. wool
    d. petroleum
    e. All are typical exports from New Zealand.
    (d; difficult; p. 39; AACSB: Globalization)

53. The Four Tigers are also called _____.
    a. newly industrialized countries
    b. newly independent states
    c. commonwealth of independent states
    d. commonwealth of industrialized countries
    e. none of the above
    (a; moderate; p. 39)

54. The Four Tigers refers to the countries listed below *except* _____.
    a. South Korea
    b. China
    c. Taiwan
    d. Hong Kong
    e. Singapore
    (b; easy; p. 39)

55. The World Bank classifies the Four Tigers as _____.
    a. developing
    b. middle-income
    c. newly developed
    d. high-income
    e. under-developed
    (d; moderate; p. 39)

56. In what year was the Korean War cease fire declared, which effectively created South Korea?
    a. 1950
    b. 1951
    c. 1952
    d. 1953
    e. 1954
    (d; moderate; p. 39)

57. The Korean term, chaebol, refers to _____.
    a. a family-based conglomerate
    b. a keiretsu
    c. harmony
    d. economic restructuring
    e. a bank
    (a; easy; p. 40)

58. Which of the following is *not* an important South Korean conglomerate?
    a. Samsung
    b. Hyundai
    c. Daewoo Group
    d. LG
    e. All are South Korean conglomerates.
    (e; easy; p. 40)

59. The Republic of China is commonly known as _____.
    a. China
    b. Taiwan
    c. Vietnam
    d. Laos
    e. Singapore
    (b; easy; p. 41)

60. Within which industry is Taiwan a primary competitor?
    a. low-wage manufacturing
    b. electronics
    c. assembly plants
    d. farming

e. petroleum
(b; moderate; p. 41; AACSB: Globalization)

61. Singapore's economic wealth is largely due to its abilities in _____.
a. textiles
b. apparel
c. high-technology industries
d. farming
e. automotive products
(c; moderate; p. 41; AACSB: Technology)

62. Singapore was formerly a colony of _____.
a. the United States
b. France
c. the United Kingdom
d. Spain
e. Singapore was never under colonial rule.
(c; moderate; p. 41)

63. Because of its excellent port facilities, Singapore thrives on _____.
a. shipping
b. oil refining
c. telecommunications
d. reexporting
e. none of the above
(d; moderate; p. 41; AACSB: Globalization)

64. _____ is the world's most populous country.
a. India
b. China
c. Africa
d. The United States
e. Australia
(b; easy; p. 42)

65. India was a colony of which country?
a. the United States
b. France
c. Pakistan
d. the United Kingdom
e. none of the above
(d; easy; p. 43)

66. Which two countries make up the Indian subcontinent?
a. Afghanistan and Egypt
b. India and Pakistan
c. Afghanistan and India
d. Pakistan and Kazakhstan
e. India and Iran
(b; easy; p. 43)

67. Which characteristic do India and Britain have in common?
a. parliamentary system
b. independent judiciary
c. professional bureaucracy
d. language
e. all of the above
(e; moderate; p.43)

68. Which country asked Coca-Cola to reveal its secret soft drink formula as a condition of continuing to do business in that country?
a. Russia
b. China
c. India
d. North Korea
e. Brazil
(c; difficult; p. 43)

69. What region is Afghanistan a part of?
a. Central Europe
b. the Middle East
c. Central Asia
d. Western Europe
e. Africa
(c; difficult; p. 43)

70. Thailand, Malaysia, and Indonesia were all recipients of significant FDI during the 1980s and 1990s because
a. they have strong domestic currencies
b. they have low labor costs
c. they have few trade barriers
d. they are geographically well-positioned for exports to China
e. they have large domestic markets
(b; moderate; p. 44; AACSB: Globalization)

71. Because of its past colonial relationship, France has a competitive advantage in the countries listed below *except* _____.
   a. Niger
   b. Chad
   c. Cote d'Ivoire
   d. Kenya
   e. Senegal
   (d; difficult; p. 44)

72. Because of its past colonial relationship, the United Kingdom has a competitive advantage in the countries listed below *except* _____.
   a. Kenya
   b. Zimbabwe
   c. Senegal
   d. the Republic of South Africa
   e. All were colonies of the United Kingdom.
   (c; difficult; p. 44)

73. What region is sometimes called the cradle of civilization?
   a. Central Asia
   b. the European Union
   c. the Middle East
   d. The Far East
   e. Africa
   (c; moderate; p. 47)

74. Which of the following religions was *not* born in the Middle East?
   a. Buddhism
   b. Christianity
   c. Judaism
   d. Islam
   e. All were born in the Middle East.
   (a; difficult; p. 47)

75. A policy that attempts to stimulate development of local industry by discouraging imports through tariffs and nontariff barriers is called _____.
   a. export substitution
   b. import substitution
   c. development stimulation
   d. protectionism
   e. none of the above
   (b; moderate; p. 48)

76. A policy that encourages economic growth through export expansion is called _____.
    a. export expansion
    b. export substitution
    c. export promotion
    d. development stimulation
    e. none of the above
    (c; moderate; p. 48; AACSB: Globalization)

77. Export promotion has been successfully applied by all the countries listed below *except* _____.
    a. Taiwan
    b. Hong Kong
    c. South Korea
    d. Brazil
    e. Singapore
    (d; easy; p. 48)

True/False

78. The Caribbean islands are part of North America.
    (T; moderate; p. 27)

79. China possesses the world's largest economy.
    (F; moderate; p. 27)

80. Money sent out of a politically or economically unstable country to one perceived as a safe haven is known as protected capital.
    (F; easy; p. 27)

81. The currency in which the sale of goods and services is denominated is the invoicing currency.
    (T; easy; p. 27)

82. Mexico has trade agreements in place with El Salvador and Guatemala.
    (T; difficult; p. 31; AACSB: Globalization)

83. International trade accounts for a large part of the U.S. economy.
    (F; difficult; p. 27; AACSB: Globalization)

84. The trading relationship between China and the United States represents the single largest bilateral trading relationship in the world.
    (T; difficult; p. 30; AACSB: Globalization)

85. A threat to the political stability of Canada is the conflict between the nation's English-speaking and French-speaking populations.
(T; moderate; p. 31)

86. All European Union member countries share a common currency–the Euro.
(F; moderate; p. 31; AACSB: Globalization)

87. The Czech Republic, Hungary, and Poland are classified as upper-middle-income countries by the World Bank.
(T; moderate; p. 36)

88. Asia is a source of both skilled and unskilled labor.
(T; easy; p. 36; AACSB: Globalization)

89. Japan's economic success has been facilitated by its keiretsu.
(T; difficult; p. 39)

90. International trade is a major component of the U.S. economy.
(F; moderate; p. 27; AACSB: Globalization)

91. The large size of the U.S. explains its lower reliance on international trade.
(T; easy; p. 27; AACSB: Globalization)

92. Like the U.S., Mexico's president is elected every four years.
(F; difficult; p. 31)

93. Products sold in Canada must come packaged with information in both English and French.
(T; easy; p. 31; AACSB: Globalization)

94. The United Kingdom is known as a strong supporter of free trade.
(T; moderate; p. 33; AACSB: Globalization)

95. Japan's remarkable growth rate has continued into the twenty-first century.
(F; moderate; p. 39)

96. The Russian term glasnost means economic restructuring.
(F; difficult; p. 33)

97. The U.S.S.R. emerged from the disintegration of the Russian Empire in World War I.
(T; moderate; p. 33)

98. Twelve of the 15 Newly Independent States established a forum called the Commonwealth of Independent States.
(T; easy; p. 33)

99. All of the countries that were aligned with the former Soviet Union are classified as lower-income countries.
(F; moderate; p. 36)

100. A sogo sosha is typically a member of a keiretsu.
(T; easy; p. 39)

101. Asia produces 25 percent of the world's GDP.
(T; moderate; p. 36; AACSB: Globalization)

102. All four countries that are part of the Four Tigers have a Chinese heritage.
(F; difficult; p. 39)

103. The Four Tigers are the only countries that were once categorized as less developed but have now achieved high-income status.
(T; difficult; p. 39)

104. Singapore's economy relies on reexporting.
(T; easy; p. 41; AACSB: Globalization)

105. Taiwan was once a British colony.
(F; moderate; p. 41)

106. Singapore's exports represent 168 percent of its GDP.
(T; moderate; p. 41; AACSB: Globalization)

107. Hinduism is the dominant religion in India.
(T; easy; p. 43)

108. Since World War II, India's economic development plan has focused on state ownership of key industries such as power and transportation.
(T; moderate; p. 43)

109. Coca-Cola turned over its secret soft drink formula to the Indian government in order to remain in the country.
(F; moderate; p. 43)

110. The Middle East is known for its oil-rich countries.
(T; easy; p. 47)

111. In Saudi Arabia, oil makes up 90 percent of its total export earnings.
(T; moderate; p. 47)

Short Answer

112. List the countries/regions of the world that make up the Quad. Why is the Quad such an important consideration for international businesses?
Answer: Japan, the United States, Canada, and the European Union. The 909 million residents of the Quad account for 73 percent of the world's GDP. (moderate; p. 26; AACSB: Globalization)

113. Which country possesses the world's largest economy?
Answer: The United States has the world's largest economy, accounting for almost 30 percent of the world's GDP. (moderate; p. 27)

114. How important is international trade to the U.S. economy?
Answer: International trade is a relatively small component of the U.S. economy and accounts for only about 10 percent of the country's GDP. (moderate; p. 27; AACSB: Globalization)

115. What country is the United States' largest trading partner?
Answer: Canada. (moderate; p. 27; AACSB: Globalization)

116. Define the term invoicing currency.
Answer: Invoicing currency is the currency in which the sale of goods and services is denominated. (easy; p. 27)

117. What is flight capital?
Answer: Flight capital is money sent out of a politically or economically unstable country to one perceived as a safe haven. (easy; p. 27)

118. What is the purpose of the Commonwealth of Independent States?
Answer: The CIS was formed as a forum to discuss issues of mutual concern among its members. (moderate; p. 33)

119. Name the countries that compose Central Europe.
Answer: Central Europe is made up of the Czech Republic, Hungary, Poland, Albania, Bulgaria, Romania, Slovenia, Croatia, Macedonia, Serbia, Montenegro, Bosnia, and Kosovo. (difficult; p. 36)

120. What economic challenges face the countries of Central Europe?
Answer: These countries had to adjust to the loss of guaranteed export markets when the Soviet Union broke down. They also had to restructure their own economies from centrally planned communist systems to decentralized market systems. (difficult; p. 36)

121. Explain the meaning of the term keiretsu.
Answer: A keiretsu is a large family of interrelated companies. (moderate; p.18/ 39)

122. What is a sogo sosha?
Answer: Sogo sosha is an export trading company used by keiretsu members to export their products. (moderate; p. 39)

123. What comprises the majority of Australia's merchandise exports?
Answer: Australia's merchandise exports are comprised primarily of natural resource products such as gold, iron ore, and coal, and of agricultural goods. (moderate; p. 39)

124. List the countries collectively known as the Four Tigers.
Answer: South Korea, Hong Kong, Singapore, and Taiwan. (easy; p. 39)

125. Explain the meaning of the term chaebol.
Answer: A chaebol is a family of interrelated firms in South Korea. (easy; p. 40)

126. How is it possible that Singapore's exports total 133 percent of its GDP?
Answer: Singapore is a major reexporter because of its shipping ports and facilities. (difficult; p. 41; AACSB: Globalization)

127. How did Hong Kong come to be ruled by the British?
Answer: As a consequence of the "opium war," Hong Kong was ceded to the British. In 1860, the British obtained possession of Kowloon and later they were granted a 99-year lease on the area. (difficult; p. 41)

128. How does the income gap between China's urban and rural populations affect the country?
Answer: In recent years, China's cities have boomed economically; however, the country's 800 million rural residents have not shared in the prosperity. Now the country must deal with the growing income gap between the two groups. (difficult; p. 42)

129. Which event led to the separation of Taiwan from China?
Answer: In the aftermath of the civil war in China between the nationalist forces and the communist forces, General Chiang Kai-shek fled to Taiwan. He declared the island the Republic of China and himself the rightful governor. (difficult; p. 41)

130. Why is the Middle East considered risky for international businesses?
Answer: The Middle East has a long history of political unrest. (moderate; p. 47)

131. Explain how import substitution policies are used.
Answer: Countries using import substitution policies attempt to stimulate the development of local industry by discouraging imports via high tariffs and nontariff barriers. (moderate; p. 48)

Essay

132. In Japan, many industries are dominated by organizations called keiretsus. Define the meaning of a keiretsu and describe how a keiretsu operates. What are the advantages of a keiretsu?
Answer: A keiretsu is a family of interrelated companies that is typically centered around a major Japanese bank. The bank meets the keiretsu's financing needs. The members act as suppliers to each other and are even shareholders for the other member companies. This protects the Japanese market from outsiders and the member companies from hostile takeovers. (difficult; p. 39)

133. Consider why it is important for companies to have a good understanding of global marketplaces and business centers.
Answer: Businesses trying to internationalize their operations frequently make mistakes because they fail to obtain information vital to their success. Managers that are ignorant of basic geography, market characteristics, culture, and politics may cause a company to lose profits or even cause a venture to fail entirely. Managers need to understand linguistic and cultural ties, past political associations, and military alliances, and how they shape world trade and investment patterns, and the opportunities available to companies. (moderate; p. 26; AACSB: Globalization)

134. China has designated Hong Kong as special administrative region. How did this occur? What does this mean for Hong Kong? Be sure to address how this designation relates to international business concerns.
Answer: Hong Kong was ceded to the British following the Opium War in 1842. In 1860, the British also obtained possession of Kowloon on the Chinese mainland, and in 1898 they were granted a 99-year lease. The lease expired on July 1, 1997 and China resumed political control of Hong Kong and designated it a special administrative region. As a SAR, Hong Kong has its own legislature, economic freedom, free-port status, and a separate taxation system. This status will last until 2047. From an international business perspective, China's designation of Hong Kong as a SAR went far in terms of reassuring MNCs with operations in Hong Kong. (moderate; p. 41)

135. China has gone through three stages since communist forces took power in 1949. Name these stages and explain how each has affected China's economic power.
Answer: The three stages include the Great Leap Forward, the Cultural Revolution, and free-market policy. The Great Leap Forward sought to force industrialization through the growth of small, labor-intensive factories. Its failure led to the Cultural Revolution, which attempted to reinforce the communist doctrine. After Mao Tse-tung's death, the government adopted limited free-market policies. China continues to develop in this stage. It continues to adopt market-oriented economic policies while maintaining political control. (difficult; p. 42)

136. Discuss India's reforms and their effect on the country's economy.
Answer: In 1991, Indian Prime Minister Rao implemented various reforms including reduced trade barriers, designed to open India's economy to foreigners, and modernizing its financial sector. Today, the effect of the reforms is evident in the country's growing GDP, and the FDI from MNCs based in Quad countries; however, government policy is still unclear causing confusion for some investors. (moderate; p. 43)