Test Bank for International Financial Management 15th Edition by Madura, Zipfel

ISBN: 9798214040684

Name:________________________ Class:________________ Date:__________

Chapter 1 Multinational Financial Management An Overview

True / False

1. A product cycle is the process by which a firm provides a specialized sales or service strategy, support assistance, and possibly an initial investment in a franchise in exchange for periodic fees.
   a. True
   b. False

ANSWER: False

2. Licensing is the process by which a firm provides its technology (copyrights, patents, trademarks, or trade names) in exchange for fees or some other specified benefits.
   a. True
   b. False

ANSWER: True

3. Franchising is the process by which national governments sell state-owned operations to corporations and other investors.
   a. True
   b. False

ANSWER: False

4. The parent of an MNC can implement compensation plans that directly reward the subsidiary managers for enhancing the value of the MNC.
   a. True
   b. False

ANSWER: True

5. If a publicly traded MNC's managers make poor decisions that reduce its value, that may encourage other firms to acquire the MNC.
   a. True
   b. False

ANSWER: True

6. Institutional investors such as mutual funds or pension funds that have large holdings of an MNC's stock do not normally want to take control of it and therefore have no influence over management of the MNC.
   a. True
   b. False

ANSWER: False

7. Imperfect markets reflect conditions under which factors of production are immobile.
   a. True
   b. False

ANSWER: True

8. The Sarbanes-Oxley Act (SOX), enacted in 2002, required MNCs and other firms to implement an internal reporting process that could be easily monitored by executives and the board of directors.
   a. True

b. False

ANSWER: True

9. If markets were perfect, then labor and other costs of production would be perfectly stable (no movement across borders).

a. True

b. False

ANSWER: False

10. The valuation of an MNC is reduced if the required rate of return on its investments in foreign countries is reduced.

a. True

b. False

ANSWER: False

11. The goal of a multinational corporation (MNC) is the maximization of shareholder wealth.

a. True

b. False

ANSWER: True

12. A centralized management style, where major decisions about a foreign subsidiary are made by the parent company, results in an increase in agency costs.

a. True

b. False

ANSWER: False

13. If a U.S. firm sets up a plant in Mexico to benefit from low-cost labor, it will likely have a comparative advantage over other firms in Mexico that sell the same product.

a. True

b. False

ANSWER: False

14. Although MNCs may need to convert currencies occasionally, they do not face any exchange rate risk, as exchange rates are stable over time.

a. True

b. False

ANSWER: False

15. One of the most prevalent factors conflicting with the realization of the goal of an MNC is the existence of agency problems.

a. True

b. False

ANSWER: True

16. A centralized management style for an MNC results in relatively high agency costs when compared to a decentralized management style.

a. True

b. False

ANSWER: False

17. The imperfect markets theory states that factors of production are somewhat immobile, allowing firms to capitalize on a foreign country's resources.

a. True

b. False

ANSWER: True

18. If a U.S.-based MNC focused entirely on importing, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

a. True

b. False

ANSWER: False

19. MNCs commonly consider acquiring an existing foreign operation because it is less expensive than establishing a new subsidiary of the same size.

a. True

b. False

ANSWER: False

20. If a U.S.-based MNC focused entirely on exporting, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

a. True

b. False

ANSWER: False

21. If markets were perfect, then labor and other costs of production would be easily transferable.

a. True

b. False

ANSWER: True

22. The valuation of an MNC accounts for all the cash flows received by the foreign subsidiaries plus all the cash flows remitted by the subsidiaries.

a. True

b. False

ANSWER: False

23. A microeconomic perspective focuses on external forces such as economic conditions that can affect the value of an MNC.

a. True

b. False

ANSWER: False

24. Assume that an MNC has a subsidiary in Italy, which exports its products to various countries in Europe. Since all of the countries where it exports use the euro as their currency, this MNC is not subject to exchange rate risk.

a. True

b. False

ANSWER: False

25. A decentralized management style results in relatively high agency costs for an MNC.

a. True

b. False

ANSWER: True

26. MNCs commonly consider establishing a new foreign subsidiary to replace their exporting business because it allows them to avoid exchange rate risk.

a. True

b. False

ANSWER: False

27. A macroeconomic perspective focuses on the investment and financing decisions that affect the value of an MNC.

a. True

b. False

ANSWER: False

28. In determining the valuation of foreign projects, an MNC will use the same required rate of return as it would for its domestic projects.

a. True

b. False

ANSWER: True

29. A U.S.-based MNC having many foreign subsidiaries in Europe and not expecting to increase its investment there should see its value increase if the value of the euro weakens over time.

a. True

b. False

ANSWER: False

30. If managers of foreign subsidiaries make decisions that maximize the values of their respective subsidiaries, they automatically maximize the value of the entire corporation.

a. True

b. False

ANSWER: False

31. A decentralized management style, where subsidiary managers make the relevant decisions regarding their subsidiary, may result in better decision making, as subsidiary managers are generally better informed about their subsidiary's operations.

a. True

b. False

ANSWER: True

32. U.S.-based MNCs are typically not monitored by mutual funds and pension funds, as these institutions rarely hold

stock in MNCs.

a. True

b. False

ANSWER: False

33. The Sarbanes-Oxley Act requires a more transparent process for managers to report on the productivity and financial condition of their firm.

a. True

b. False

ANSWER: True

34. The theory of comparative advantage begins by assuming that a given firm first becomes established in its home country and may subsequently penetrate foreign markets via geographic or product differentiation.

a. True

b. False

ANSWER: False

35. Under the imperfect markets theory, it is assumed that factors of production are entirely mobile, so that firms can capitalize on a foreign country's resources.

a. True

b. False

ANSWER: False

36. Under the product cycle theory, foreign demand can be initially satisfied by exporting.

a. True

b. False

ANSWER: True

37. Licensing allows firms to use their technology in foreign markets without a major investment in foreign countries.

a. True

b. False

ANSWER: True

38. International trade is the most common form of direct foreign investment (DFI).

a. True

b. False

ANSWER: False

39. When the parent's home currency is weak, remitted funds from foreign subsidiaries will convert to a smaller amount of the home currency.

a. True

b. False

ANSWER: False

40. A purely domestic firm may be affected by exchange rate fluctuations if it faces at least some foreign competition.

a. True

b. False

ANSWER: True

41. One form of exposure to political risk is terrorism.

a. True

b. False

ANSWER: True

Multiple Choice

42. The commonly accepted goal of an MNC is to:

a. maximize short-term earnings.

b. maximize shareholder wealth.

c. minimize risk.

d. maximize international sales.

ANSWER: b

43. With regard to corporate goals, an MNC is mostly concerned with maximizing ____, and a purely domestic firm is mostly concerned with maximizing ____.

a. shareholder wealth; short-term earnings

b. shareholder wealth; shareholder wealth

c. short-term earnings; sales volume

d. short-term earnings; shareholder wealth

ANSWER: b

44. How do agency costs for an MNC compare to those of a purely domestic firm?

a. The MNC has zero cost.

b. An MNC's costs are greater.

c. An MNC's costs are smaller.

d. Their costs are the same.

ANSWER: b

45. Which of the following forms of corporate control could reduce agency problems for an MNC?

a. stock options as managerial compensation

b. hostile takeover threat

c. investor monitoring

d. All of these choices are correct.

ANSWER: d

46. The valuation of an MNC should rise when an event causes the expected cash flows from foreign subsidiaries to ____ and when the foreign currencies denominating these cash flows are expected to ____.

a. decrease; appreciate

b. increase; appreciate

c. decrease; depreciate

d. increase; depreciate

ANSWER: b

47. Which of the following theories identifies specialization as a reason for international business?

a. theory of comparative advantage

b. imperfect markets theory

c. product cycle theory

d. None of these are correct.

ANSWER: a

48. Which of the following theories identifies the nontransferability of resources as a reason for international business?

a. theory of comparative advantage

b. imperfect markets theory

c. product cycle theory

d. None of these are correct.

ANSWER: b

49. Which of the following theories suggests that firms seek to penetrate new markets over time?

a. theory of comparative advantage

b. imperfect markets theory

c. product cycle theory

d. None of these are correct.

ANSWER: c

50. An industry based on which of the following would most likely take advantage of lower costs in some less developed foreign countries?

a. assembly line production

b. specialized professional services

c. nuclear missile programs

d. development of more sophisticated computer technology

ANSWER: a

51. Due to the risks involved in international business, firms should:

a. only consider international business in major countries.

b. maintain international business to no more than 20% of total business.

c. maintain international business to no more than 35% of total business.

d. consider and assess each type of risk.

ANSWER: d

52. Goal incongruency and conflict between a firm's managers and its owners or shareholders is referred to as the:

a. legal agency.

b. agent-shareholder dilemma.

c. agency problem.

d. subsidiary.

ANSWER: c

53. An MNC may be more exposed to agency problems if most of its shares are held by a:
    a. few mutual funds.
    b. widely dispersed set of individual investors.
    c. few pension funds.
    d. few individuals.

ANSWER: b

54. The Sarbanes-Oxley Act improved corporate governance of MNCs because it:
    a. made executives more accountable for verifying financial statements.
    b. eliminated stock options as a form of compensation.
    c. tied executive compensation to firm performance.
    d. placed a limit on the amount of funds that managers can spend.

ANSWER: a

55. MNCs can improve their internal control process by all of the following EXCEPT:
    a. establishing a centralized database of information.
    b. ensuring that all data are reported consistently among subsidiaries.
    c. ensuring that the MNC always borrows from countries where interest rates are lowest.
    d. using a system that checks internal data for unusual discrepancies.

ANSWER: c

56. Four MNCs generate the same level of sales. The MNC likely to have the most direct foreign investment could be the one that:
    a. exports all its products.
    b. produces and sells its products locally.
    c. imports products from unrelated firms in other countries and sells them locally.
    d. acquires a foreign firm that produces most of its products to be sold in that foreign country.

ANSWER: d

57. Which of the following is an example of direct foreign investment for a U.S.-based MNC?
    a. exporting to a country
    b. licensing arrangements that will allow a foreign country to use the MNC's technology
    c. purchasing existing companies in a country
    d. investing directly (without brokers) in foreign stocks

ANSWER: c

58. According to the text, licensing allows a firm to:
    a. import without being subject to government restrictions.
    b. provide its technology for a fee.
    c. export without government restrictions.
    d. establish a joint venture.

ANSWER: b

59. Assume that an MNC purchases a foreign manufacturing operation to make a key product needed to expand its business and penetrate the foreign market. This would be an example of:
    a. a foreign acquisition.
    b. franchising.
    c. a licensing agreement.
    d. exporting.

ANSWER: a

60. Jamal Company expects cash flows of $200,000 from its U.S. domestic business and 1,000,000 pesos from its Mexican subsidiary. The 1,000,000 pesos is equivalent to $95,000 U.S. dollars. What is the expected total cash flow?
    a. $200,000
    b. $105,000
    c. $295,000
    d. $1,200,000

ANSWER: c

61. Which of the following does NOT represent one of the possible forms of direct foreign investment?
    a. international trade
    b. joint ventures
    c. acquisitions of existing operations
    d. establishment of new foreign subsidiaries

ANSWER: a

62. Which of the following is NOT one of the ways in which agency problems can be reduced through corporate control?
    a. executive compensation
    b. threat of hostile takeover
    c. acquisition of a foreign subsidiary
    d. monitoring by large shareholders

ANSWER: c

63. With regard to the variety of methods or models companies have to conduct international business, international trade:
    a. is a relatively conservative approach to foreign market penetration.
    b. entails minimal risk.
    c. does not require a large amount of investment.
    d. does all of these.

ANSWER: d

64. Assume that a U.S. firm wants to engage in international business without making a major investment in the foreign country. Which method is LEAST appropriate in this situation?
    a. international trade
    b. licensing
    c. franchising

d. direct foreign investment

ANSWER: d

65. An MNC's value depends on which of the following?
    a. the MNC's required rate of return
    b. the amount of the MNC's cash flows in a particular currency
    c. the exchange rate at which cash flows are converted to dollars
    d. all of these

ANSWER: d

66. Which of the following is NOT an example of political risk?
    a. Government may impose taxes on a subsidiary.
    b. Government may impose barriers on a subsidiary.
    c. Consumers may boycott the MNC.
    d. Consumers' income levels may decrease, thus decreasing consumption.

ANSWER: d

67. Compared to other methods of international business, international trade generally results in ____ exposure to international political risk and ____ exposure to international economic conditions.
    a. higher; lower
    b. higher; higher
    c. lower; higher
    d. lower; lower

ANSWER: d

68. Assume that Boca Co. wants to expand its business to Japan and wants to work with foreign importers and foreign exporters. Which description of expected cash flows will Boca Co experience?
    a. cash inflows from both importing and exporting
    b. cash inflows from exporting and cash outflows to pay for importing
    c. cash outflows from exporting and cash inflows from importing
    d. cash inflows from licensing and cash outflows from importing

ANSWER: b

69. Assume that Live Co. has expected cash flows of $200,000 from domestic operations, 200,000 Swiss francs from Swiss operations, and 150,000 euros from Italian operations at the end of the year. The Swiss franc's value and the euro's value are expected to be $0.83 and $1.29, respectively, at the end of this year. What are the expected dollar cash flows of Live Co?
    a. $200,000
    b. $559,500
    c. $582,500
    d. $393,500

ANSWER: b

70. Saller Co. has a subsidiary in Mexico. The expected cash flows in pesos to be received in the future from this subsidiary have not changed since last month, but the valuation of Saller Co. has declined since last month. What could

have caused this decline in value?

a. a weaker Mexican economy

b. lower Mexican interest rates

c. depreciation of the Mexican peso

d. appreciation of the Mexican peso

ANSWER: c

71. Jensen Co. wants to establish a new subsidiary in Mexico that will sell computers to Mexican customers and remit earnings back to the U.S. parent. The value of this project will be favorably affected if the value of the peso ____ while Jensen establishes the new subsidiary and ____ when the subsidiary starts operations.

a. depreciates; appreciates

b. appreciates; appreciates

c. appreciates; depreciates

d. depreciates; depreciates

ANSWER: a

72. Licensing obligates a firm to provide _____, while franchising obligates a firm to provide _____.

a. a specialized sales or service strategy; its technology

b. its technology; a specialized sales or service strategy

c. its technology; its technology

d. a specialized sales or service strategy; a specialized sales or service strategy

ANSWER: b

73. The goal of an MNC is to:

a. minimize taxes on funds remitted from foreign subsidiaries.

b. establish subsidiaries in any country where operations would provide a return over and above the cost of capital, even if better projects are available domestically.

c. maximize shareholder wealth.

d. maximize the social benefits resulting from actions such as the employment of foreign managers.

ANSWER: c

74. Agency costs faced by MNCs may be larger than those faced by purely domestic firms because:

a. monitoring of managers located in foreign countries is more difficult.

b. foreign subsidiary managers raised in different cultures may not follow uniform goals.

c. MNCs are relatively large.

d. All of these choices are correct.

ANSWER: d

75. Which of the following is one of the more common methods used by MNCs to improve their internal control process?

a. establishing a decentralized database of information

b. ensuring that all data are reported consistently among subsidiaries

c. prohibiting transactions in foreign currencies and using only dollar-denominated transactions

d. requiring the use of banks and financing mechanisms located only in the United States

ANSWER: b

Name:________________________ Class:________________ Date:__________

Chapter 1 Multinational Financial Management An Overview

76. Which of the following is NOT mentioned in the text as a theory of international business?
   a. theory of comparative advantage
   b. imperfect markets theory
   c. product cycle theory
   d. All of these choices are mentioned in the text as theories of international business.

ANSWER: d

77. When conducting international business, firms generally face the most risk when they:
   a. engage in franchising.
   b. make acquisitions of existing operations.
   c. set up an import-export business.
   d. engage in international trade.

ANSWER: b

78. The least risky method by which firms conduct international business is:
   a. franchising.
   b. acquisitions of existing operations.
   c. international trade.
   d. the establishment of new subsidiaries.

ANSWER: c

79. Livingston Co. has a subsidiary in Korea. The subsidiary reinvests half of its net cash flows into operations and remits half to the parent. Livingston's expected cash flows from domestic business are $100,000, and the Korean subsidiary is expected to generate 100 million Korean won at the end of the year. The expected value of the won is $0.0012. What are the expected dollar cash flows of Livingston Co.?
   a. $100,000
   b. $200,000
   c. $160,000
   d. $60,000

ANSWER: c