

Global Marketing, 8e (Keegan/Green)

Chapter 2 The Global Economic Environment

1) President Franklin Roosevelt launched the Works Progress Administration (WPA) which put millions of Americans back to work.

Answer: TRUE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

2) The Cold War decades that followed World War II saw the East and the West jockeying for geopolitical advantage.

Answer: TRUE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

3) People or organizations with needs and wants and the willingness and ability to buy or sell represent the definition of a market.

Answer: TRUE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

4) The BRICS nations and other emerging markets are also home to companies that are challenging established global giants at home and abroad.

Answer: TRUE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

5) The lack of employment as seen in the recent times is indicative of the fact that manufacturing is in decline.

Answer: FALSE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

6) Today, market capitalism is widely practiced around the world, most notably in North America and the European Union.

Answer: TRUE

Difficulty: Easy

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

7) In centrally planned socialism economic systems, the state allocates resources, whereas production resources are privately owned.

Answer: FALSE

Difficulty: Easy

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

8) In Sweden, where the government controls two-thirds of all expenditures, resource allocation is more "market" oriented than "command" oriented.

Answer: FALSE

Difficulty: Difficult

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

9) According to the 2013 Index of Economic Freedom compiled by the Heritage Foundation, Hong Kong is ranked as having the highest degree of economic freedom.

Answer: TRUE

Difficulty: Easy

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

10) As per the listings of the 2013 Index of Economic Freedom by the Heritage Foundation, there is a high correlation between the degree of economic freedom and the extent to which a nation's mixed economy is market-oriented.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

11) Cuba and North Korea are the only two countries where Coca-Cola is not available through authorized channels.

Answer: TRUE

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

12) The death of Venezuelan President Hugo Chavez in March 2013 marked the end of an era, where he toyed with the idea of pursuing a "third way" to economic growth.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

13) The World Bank has developed a four-category classification system for stages of marketing development which uses per capita gross national income (GNI) as a base.

Answer: TRUE

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

14) About 25% of the world population is included into the low-income economic countries category as per the World Bank classification system.

Answer: FALSE

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

15) Although Bangladesh is categorized in the low-income countries, they have genuine market opportunities, particularly in the garment industry.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Diverse and multicultural work environment

Course LO: Discuss the fundamental concepts of marketing

16) Myanmar, a low-income country in Southeast Asia with a population of 65 million people, can be considered as one of the emerging markets.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

17) According to the Asian Development Bank, only about one-quarter of Myanmar's population has access to reliable electricity, and power shortages and outages are not unusual.

Answer: TRUE

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

18) With a 2011 GNI per capita of \$1,410, India has transitioned out of the low-income category and is now classified as an upper-middle-income country, also known as an industrializing or developing country.

Answer: FALSE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

19) Grocery distribution companies in Brazil use logistics software to route their trucks; meanwhile, horse-drawn carts are still a common sight on many roads.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

20) In Brazil, Daimler AG works with a cooperative of farmers who transform coconut husks into natural rubber to be used in auto seats, headrests, and sun visors.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

21) Product and market opportunities in postindustrial society are heavily dependent upon new products and innovations.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

22) The thirty nations that belong to the OECD, who believe in market-allocation economic systems and pluralistic democracy, addressed the vexing problem of bribery by requiring members to cooperate when pursuing bribery allegations.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

23) The CEO of Otis Elevators says they measure elevator populations in countries as units installed per thousand people. According to this, China is about half an elevator per thousand people.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

24) The "balance of payments" is a record of all economic transactions between the residents of a country and the developed countries of the world.

Answer: FALSE

Difficulty: Moderate

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

25) A country with a positive current account balance has a trade deficit; that is, the outflow of money to pay for imports exceeds the inflow of money for sales of exports.

Answer: FALSE

Difficulty: Moderate

Chapter LO: 4

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

26) The important fact to recognize about the overall balance of payments is that it is always in balance, although imbalances do occur in subsets of the overall balance.

Answer: TRUE

Difficulty: Difficult

Chapter LO: 5

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

27) The foreign exchange market consists literally of a buyer's and a seller's market where currencies are traded for both spot and future delivery on a continuous basis. The *forward* market is for immediate delivery and the *spot* market is for future delivery.

Answer: FALSE

Difficulty: Difficult

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

28) When a company conducts business across boundaries in countries with different currencies, it is thrust into the turbulent world of exchange risk.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

29) A country's currency would be overvalued if the Big Mac price (converted to dollars) is lower than the U.S. price.

Answer: FALSE

Difficulty: Moderate

Chapter LO: 6

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

30) Hedging exchange rate exposure involves establishing an offsetting currency position such that the loss or gain of one currency position is offset by a corresponding gain or loss in some other currency.

Answer: TRUE

Difficulty: Moderate

Chapter LO: 6

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

31) During the past two decades, the world economic environment has become increasingly dynamic. To achieve success, executives and marketers must take into account all of the following realities *except*:

A) capital movements have replaced trade as the driving force of the world economy.

B) production has become "uncoupled" from employment.

C) the world economy dominates the scene.

D) the struggle between capitalism and socialism continues.

E) the growth of e-commerce diminishes the importance of national barriers.

Answer: D

Difficulty: Moderate

Chapter LO: 1

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

32) The Gross Domestic Product (GDP), a measure of a nation's economic activity, is calculated by all of the following factors *except*:

- A) consumer spending.
- B) investment spending.
- C) government purchases
- D) industry purchases.
- E) net exports.

Answer: D

Difficulty: Difficult

Chapter LO: 1

AACSB: Application of knowledge

Course LO: Discuss the fundamental concepts of marketing

33) The demise of communism as an economic and political system can be explained by all of the following facts *except*:

- A) communism is not an effective economic system.
- B) relatively superior performance of the world's market economies.
- C) communism works when the currency exchange rate is weak.
- D) difficult to manage national economies with a single central plan.
- E) increased public participation in matters of state.

Answer: C

Difficulty: Moderate

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

34) Traditionally economists identified main types of economic systems, which include all of the following *except*:

- A) market capitalism.
- B) market socialism.
- C) centrally planned socialism.
- D) centrally planned capitalism.
- E) centrally planned nationalism.

Answer: E

Difficulty: Moderate

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

35) Market capitalism is an economic system in which:

- A) individuals and firms allocate resources and production resources that are privately owned.
- B) the state has broad powers to serve the public interest as it sees fit.
- C) market resource allocation is commanded by both private and state ownership.
- D) there is no correlation between economic freedom and a nation's economy.
- E) market-oriented economies function in an identical manner.

Answer: A

Difficulty: Moderate

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

36) One of the distinguishing features of a Centrally Planned Capitalism economic system is:

- A) all production resources are privately owned.
- B) the state has broad powers to serve the public interest as it sees fit.
- C) command resource allocation is utilized extensively in a private resource ownership environment.
- D) market allocation policies are permitted within an environment of state ownership.
- E) none of the above

Answer: C

Difficulty: Moderate

Chapter LO: 2

AACSB: Analytical thinking

Course LO: Discuss the fundamental concepts of marketing

37) For decades, the economies of China, the former Soviet Union, and India functioned according to the tenets of:

- A) market capitalism.
- B) market socialism.
- C) centrally planned socialism.
- D) centrally planned capitalism.
- E) market capitalism and socialistic capitalism.

Answer: C

Difficulty: Moderate

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

38) The Swedish government has significant holdings in key business sectors and has a hybrid economic system that incorporates:

- A) market capitalism and centrally planned socialism.
- B) centrally planned socialism and market socialism.
- C) centrally planned socialism and capitalism.
- D) market socialism and market capitalism.
- E) market capitalism and socialistic capitalism.

Answer: C

Difficulty: Moderate

Chapter LO: 2

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

39) The Washington, D.C.-based Heritage Foundation survey consists of over 175 countries ranked by degree of economic freedom. The key economic variables considered for this ranking includes all of the following *except*:

- A) taxation policy.
- B) government consumption of economic output.
- C) percent foreign ownership.
- D) banking policy.
- E) wage and price control.

Answer: C

Difficulty: Moderate

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

40) The only two countries where Coca-Cola is not available through authorized channels are:

- A) India and China.
- B) North Korea and South Korea.
- C) Cuba and North Korea.
- D) Cuba and Venezuela.
- E) Singapore and Indonesia.

Answer: C

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Discuss the fundamental concepts of marketing

41) Singapore banned the import, manufacture, and sales of chewing gum in the country since wads of gum were making a mess on sidewalks, buses, and subway trains. Violators are subject to severe penalties, and before buying a pack consumers must register their names and addresses. This, according to author William Greider, demonstrates that Singapore's government:

- A) is harshly autocratic.
- B) administers a paranoid control over Singaporeans.
- C) administers a paranoid control over press and politics.
- D) runs an effective welfare state.
- E) all of the above

Answer: E

Difficulty: Easy

Chapter LO: 3

AACSB: Diverse and multicultural work environment

Course LO: Discuss the fundamental concepts of marketing

42) Venezuelan President Hugo Chavez believed in all of the following aspects *except*:

- A) nationalization of international companies.
- B) imposition of currency controls.
- C) free-market economic policies.
- D) capitalism is a structural crisis.
- E) energy pact known as Petrocrife.

Answer: E

Difficulty: Easy

Chapter LO: 3

AACSB: Diverse and multicultural work environment

Course LO: Discuss the fundamental concepts of marketing

43) Low-income countries have a GNI per capita of \$1,025 or less. The general characteristics shared by countries at this income level include all of the following *except*:

- A) high literacy rates.
- B) high birth rates.
- C) heavy reliance on foreign aid.
- D) political unrest.
- E) high agricultural population.

Answer: A

Difficulty: Easy

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

44) Myanmar is considered as one of the emerging markets open for business. All of the following facts pertain to Myanmar *except*:

- A) Myanmar is a low-income country in Southeast Asia.
- B) Myanmar has a population of 65 million people.
- C) Myanmar is one of the countries considered as "Stans."
- D) Myanmar's citizens elected a president.
- E) Only one quarter of Myanmar's population has access to electricity.

Answer: C

Difficulty: Moderate

Chapter LO: 3

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

45) The majority of the world's population is included in the following economic category:

- A) high-income countries.
- B) upper-middle-income countries.
- C) lower-middle-income countries.
- D) low-income countries.
- E) lower-upper-income countries.

Answer: C

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

46) With a 2011 GNI per capital of \$1,410, India has transitioned out from the former category and now is classified as a(n):

- A) low-income country.
- B) upper-middle-income country.
- C) lower-middle-income country.
- D) upper-income country.
- E) lower-upper-income country.

Answer: C

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

47) Upper-middle-income countries, also known as industrializing or developing countries are those with GNI per capita ranging from:

- A) \$996 to \$3,945.
- B) \$4,036 to \$12,475.
- C) \$12,475 or higher.
- D) less than \$995.
- E) None of the above

Answer: B

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

48) Among the upper-middle-income countries, also known as industrializing or developing countries, the following aspects are observed *except*:

- A) the CNI per capita ranges from \$4,036 to \$12,475.
- B) the percentage of the population engaged in agriculture drops sharply.
- C) people move to the industrial sector.
- D) the degree of urbanization increases.
- E) None of the above

Answer: E

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

49) The general characteristics shared by low-income countries do not include:

- A) high birth rates.
- B) low literacy rates.
- C) concentration in Africa south of the Sahara.
- D) heavy reliance on foreign aid.
- E) lack of genuine market opportunities.

Answer: E

Difficulty: Easy

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

50) All of the following facts pertain to Brazil *except*:

- A) Brazil is the largest country in Latin America.
- B) Brazil boasts the richest reserves of natural resources in the hemisphere.
- C) Brazil's top trading partner is China.
- D) Brazil's GNI has grown at an average annual rate of 4 percent over the past 8 years.
- E) Brazil lacks logistics software, horse-drawn carts are still a common sight on many roads.

Answer: E

Difficulty: Difficult

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

51) All of the following facts pertain to China *except*:

- A) China is in the upper-middle-income category.
- B) China is the largest single destination for foreign investment in the developing world.
- C) China is a member of the World Trade Organization.
- D) China has sprawling bureaucracy.
- E) China lacks infrastructure.

Answer: D

Difficulty: Moderate

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

52) Prahalad and Hammond have identified several assumptions and misconceptions about the "bottom of the pyramid" (BOP) that need to be corrected. All of the following mistaken assumptions are correct *except*:

- A) The poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods.
- B) The goods sold in developing markets are so expensive that there is no room for a new market entrant to make a profit.
- C) The poor have no money.
- D) People in BOP markets cannot use advanced technology.
- E) Global companies that target BOP markets will be criticized for exploiting the poor.

Answer: B

Difficulty: Difficult

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

53) Global marketers should take note of the fact that almost half of the world's population is located in:

- A) low-income countries.
- B) lower-middle-income countries.
- C) upper-middle-income countries.
- D) high-income countries.
- E) higher-middle-income countries.

Answer: B

Difficulty: Easy

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

54) The United Nations designates 50 countries in the bottom ranks of the low-income category named as:

- A) Low-income countries.
- B) Lower-middle-income countries.
- C) BRIC countries.
- D) Developing countries.
- E) LDCs (least-developed countries).

Answer: E

Difficulty: Easy

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

55) Upper-middle-income countries are also known as:

- A) Industrializing countries.
- B) BRIC countries.
- C) Stabilized countries.
- D) Manufacturing countries.
- E) Agricultural countries.

Answer: A

Difficulty: Easy

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

56) Upper-middle-income countries that achieve the highest rates of economic growth are sometimes referred to collectively as:

- A) LDCs.
- B) BEMs.
- C) BRICs.
- D) NIEs.
- E) BOPs.

Answer: D

Difficulty: Easy

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

57) Which of the following nations fall in the lower-middle-income category?

- A) Burundi
- B) Bangladesh
- C) Egypt
- D) Venezuela
- E) none of the above

Answer: C

Difficulty: Moderate

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

58) Nike produces only a small portion of its output in China, but when the firm refers to China as a "two-billion-foot market," it is referring to the fact that:

- A) the Chinese do not wear shoes.
- B) the Chinese shoe market is very competitive.
- C) China can develop its own shoe market.
- D) it will take a long time for China to develop future market.
- E) China is a potential future market.

Answer: E

Difficulty: Moderate

Chapter LO: 5

AACSB: Diverse and multicultural work environment

Course LO: Identify and describe the processes and tools of strategic marketing

59) According to the authors of the *Harvard Business Review* article, "Serving the World's Poor, Profitably", which of the following is a mistaken assumption that global companies might have about the BOP (bottom of the pyramid)?

- A) The poor have no money.
- B) The poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods.
- C) People in BOP markets will be criticized for exploiting the poor.
- D) People in BOP markets cannot use advanced technology.
- E) All of the above are mistaken assumptions discussed by the authors.

Answer: E

Difficulty: Difficult

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

60) Pursuing alternative sources of energy, such as wind and solar power, is important due to the fact that:

- A) people in developing countries are more conscious about the environment.
- B) global marketers are more interested in publicizing environmental issues.
- C) it is easy to develop solar power in many parts of the world.
- D) heavy reliance on fossil fuels contributes to global warming.
- E) people worldwide can afford to buy power generated from wind and solar.

Answer: D

Difficulty: Difficult

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

61) Which two companies are sourcing product components from small-scale enterprises, which in turn are helping preserve old-growth forests as well as economic opportunities in Brazil?

- A) Ford Motor Company and Armani
- B) Daimler AG and Hermes
- C) General Motors and Hugo Boss
- D) Volkswagen and Coach
- E) Coca-Cola and Nestlé

Answer: B

Difficulty: Moderate

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

62) Product and market opportunities in a postindustrial society are more heavily dependent upon new products and innovations than in industrial societies. An example of this would be:

- A) Nestlé marketing Bono brand cookies in Brazil.
- B) Coca-Cola Company developing a beverage Vintago in low-income countries.
- C) New e-commerce markets for interactive forms of electronic communication.
- D) Hermes creating handbags called Amazonia.
- E) India's Suzlon Energy using wind-driven turbines.

Answer: C

Difficulty: Moderate

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

63) Which country was upgraded from "emerging" to "developed" status by the Financial Times Stock Exchange (FTSE) in 2009?

- A) United States
- B) South Korea
- C) Britain
- D) Italy
- E) Malaysia

Answer: B

Difficulty: Moderate

Chapter LO: 5

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

64) The Organization for Economic Cooperation and Development (OECD) is comprised of:

- A) the 34 high-income countries.
- B) countries that believe in market-allocation economic systems.
- C) pluralistic democracies.
- D) countries that demonstrate progress toward economic reform.
- E) All of the above statements are applicable.

Answer: E

Difficulty: Moderate

Chapter LO: 5

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

65) The term "Expanded Triad" includes all of the following countries or regions *except*:

- A) Japan.
- B) United States.
- C) Canada.
- D) Mexico.
- E) Russia.

Answer: E

Difficulty: Moderate

Chapter LO: 5

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

66) Recently, the Organization for Economic Cooperation and Development (OECD) has become more focused on global issues, social policy, and labor market regulations as seen by:

- A) addressing the vexing problem of bribery.
- B) requiring members to cooperate when pursuing bribery allegations.
- C) helping members candidly assess their own economic policies.
- D) member nations working together in committees to review social policies.
- E) all of the above

Answer: E

Difficulty: Moderate

Chapter LO: 4

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

67) Which of the following is true about the Triad?

- A) Triad countries account for approximately one-third of world income and one-third of world population.
- B) Triad countries account for approximately 75% of world income as measured by GNP.
- C) Triad countries are those in which consumer products, industrial products, and the services sector each contribute one-third to GDP.
- D) Triad countries account for approximately 25% of world income as measured by GNP.
- E) Triad countries account for approximately 50% of world income as measured by the World Bank.

Answer: B

Difficulty: Moderate

Chapter LO: 4

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

68) Which of the following statements is not accurate?

- A) India's teledensity—a measure of ownership of private telephones—is only 20% of population.
- B) In China, saturation levels of private motor vehicles and personal computers (PCs) are quite low.
- C) In 2001, EU had 49 cars per 100 people.
- D) In Russia, 200 people out of 1,000 own cars.
- E) In India, 150 people out of 1,000 own cars.

Answer: E

Difficulty: Moderate

Chapter LO: 5

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

69) The "balance of payments" is a record of all economic transactions between the residents of a country and the rest of the world. It is divided into the current and capital accounts. Current accounts include all of the following *except*:

- A) balance on goods.
- B) portfolio investments.
- C) balance on services.
- D) goods imports.
- E) goods exports.

Answer: B

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

70) Measuring elevator populations in countries measured as units installed per thousand people gives an estimate of the market for elevators. That China has about one half an elevator per thousand people is indicative of:

- A) low product saturation level.
- B) high product saturation level.
- C) high population level.
- D) high technological level.
- E) low technological level.

Answer: A

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

71) The United States' growing trade deficit reflects a number of factors which exclude:

- A) increased imports from China.
- B) a seemingly insatiable consumer demand for imported goods.
- C) the enormous cost of military operations in the Middle East.
- D) the services trade surplus.
- E) record goods sales to developing countries.

Answer: D

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

72) The fastest-growing sector of world trade includes:

- A) travel and entertainment.
- B) accounting and legal services.
- C) royalties and license fees.
- D) engineering services.
- E) all of the above

Answer: E

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

73) Devaluation can result from government action or an economic crisis. In August 1998, the Russian economy imploded. As a result, all of the following listed events happened *except*:

- A) the ruble plunged in value.
- B) the government defaulted on its foreign debt obligation.
- C) many Russians faced wage cuts and layoffs.
- D) Russia's economy did not recover from the impact.
- E) savings were wiped out as banks collapsed.

Answer: D

Difficulty: Moderate

Chapter LO: 6

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

- 74) To the extent that a country sells more goods and services abroad than it buys, there will be:
- A) a greater demand for its currency.
 - B) a surplus production of goods and services.
 - C) a scarcity of goods and services within the country.
 - D) a need for revaluation of its currency.
 - E) time for fluctuating its currency.

Answer: A

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

- 75) The top global merchandise exporter is:

- A) China.
- B) Germany.
- C) the United States.
- D) Japan.
- E) Korea.

Answer: A

Difficulty: Easy

Chapter LO: 6

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

- 76) The Big Mac Index shows that the price of the Big Mac in China converted from the local currency, yuan, to be \$2.18, whereas its price in the United States is \$3.73. This shows that:

- A) the Big Mac is more popular in China than in the United States.
- B) the Big Mac is less expensive in the United States than in China.
- C) the Chinese yuan is overvalued when compared to US \$.
- D) the Chinese yuan is undervalued against the US \$.
- E) beef is less expensive in China than in the United States.

Answer: D

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

77) One Friday a few years ago, the Big Mac Index suggested that the yen was overvalued relative to the dollar by 70%. When currency markets opened on the following Monday, anyone using the Big Mac Index would conclude that the yen was only 20% overvalued relative to the dollar. What is the most likely explanation for this?

- A) Japan's Central Bank acted to prop up the yen.
- B) Inflation in Japan suddenly spiked upward.
- C) McDonald's headquarters stopped hedging.
- D) McDonald's Japan reduced the yen price of a Big Mac.
- E) McDonald's Japan increased the yen price of a Big Mac.

Answer: D

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

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78) If an American tourist in Tokyo pays more in dollars for the same amount of yen that she bought last week, then:

- A) a Japanese tourist in San Francisco pays more in yen for the same amount of dollars that she bought the week before.
- B) the dollar has depreciated relative to the yen.
- C) the yen has depreciated relative to the dollar.
- D) the dollar has appreciated relative to the yen.
- E) the dollar and yen both remained same in value.

Answer: B

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

79) Porsche relies on currency hedging rather than price increases in order to:

- A) boost pretax profits on sales of its automobiles.
- B) balance the relative value of the dollar compared to the euro.
- C) protect all earnings from foreign-exchange movements.
- D) generate about 45% of its sales in the United States.
- E) A, B, and C

Answer: E

Difficulty: Difficult

Chapter LO: 6

AACSB: Analytical thinking

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80) When countries or regions experience currency and/or economic stress, all of the following events can take place *except*:

- A) increased exposure to certain risks.
- B) new profit opportunities.
- C) lower local currency financing costs.
- D) bad debts occur.
- E) cancellation of aircraft equipment sales.

Answer: C

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

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81) The world economic environment is changing very rapidly and has become increasingly competitive. In order to achieve success, based on author William Greider's analysis, what are the realities that executives and marketers should take into account in such a dynamic environment?

Answer: (a) Capital movements have replaced trade as the driving force of the world economy; (b) production has become "uncoupled" from employment; (c) the world economy dominates the scene; individual country economies play a subordinate role; (d) the struggle between capitalism and socialism is largely over; and (e) the growth of e-commerce diminishes the importance of national barriers and forces companies to reevaluate their business models.

Difficulty: Moderate

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

82) Traditionally economists identified four main types of economic systems. However, due to globalization it is harder to categorize the systems narrowly. What will be more robust descriptive criteria that can be used for classification?

Answer: (a) type of economy; (b) type of government; (c) trade and capital flows; (d) the commanding heights; (e) services provided by the state and funded through taxes; (f) institutions; and (g) markets.

Difficulty: Moderate

Chapter LO: 1

AACSB: Reflective thinking

Course LO: Identify and describe the processes and tools of strategic marketing

83) What are the distinguishing features between Centrally Planned Socialism and Centrally Planned Capitalism? Give examples of countries which follow these systems.

Answer: In Centrally Planned Socialism, the state has broad powers to serve the public interest as it sees fit. Ownership of entire industries as well as individual enterprises belongs to the government. The elements of the marketing mix are not used as strategic variables. In Centrally Planned Capitalism, economic system command resource allocation is utilized extensively in an overall environment of private resource ownership. In Sweden, the government controls two-thirds of all expenditures, and the resource allocation is more "command" oriented than "market" oriented. This would be an example of centrally planned socialism although it can have elements of capitalism. China is an example of centrally planned socialism.

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

84) A decade ago, a number of countries in Central Europe, Latin America, and Asia were expected to experience rapid economic growth. Today much attention is focused on opportunities in Brazil, Russia, India, and China. Give reasons for this shift using an example of a manufacturer.

Answer: These four countries are collectively known as BRIC. Microsoft's experience illustrates the nature of the market opportunity in these countries: In fiscal 2008, the software giant's collective revenues from BRIC grew 54%, compared with overall global revenue growth of 18%. Experts predict that the BRIC nations will be key players in global trade even as their track records on human rights, environmental protection, and other issues come under closer scrutiny by their trading partners. The BRIC government leaders will also come under pressure at home as their developing market economies create greater income disparity.

Difficulty: Difficult

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

85) The newly independent countries of the former Soviet Union present an interesting situation: income is declining, and there is considerable economic hardship. The potential for disruption is certainly high. Are they problem cases, or are they attractive opportunities with good potential for moving out of the low-income category?

Answer: These countries are good example of risk-reward trade-off. Many companies have taken the plunge, but many others are still assessing whether to take risk. Belarus and Turkmenistan are rated quite low in the rankings in terms of economic freedom. Russia itself has slipped within the upper-middle-income category. However, there are still some former Soviet-dominated countries which have opportunities for economic growth. It much depends on the actions taken by the Soviet republic. For example, the launching of a military action in Georgia creates a ripple effect and causes economic and political instability.

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

86) Authors Prahalad and Hammond have identified several assumptions and misconceptions about the "bottom of the pyramid" (BOP). Explain these assumptions, giving examples.

Answer: (1) The poor have no money. In Bangladesh villagers spend considerable sums to use village phones operated by local entrepreneurs; (2) the poor are too concerned with fulfilling basic needs to "waste" money on nonessential goods. Consumers who are too poor to purchase a house do buy luxury goods such as televisions and cell phones; (3) the goods sold in developing markets are so inexpensive that there is no room for a new market entrant to make a profit. Since the poor often pay higher prices for many goods, there is an opportunity for efficient competitors to realize attractive margins by offering quality and low prices; (4) people in BOP markets cannot use advanced technology. Residents of rural areas can and do quickly learn to use cell phones and PCs; and (5) global companies that target BOP markets will be criticized for exploiting the poor. A global company offering basic goods and services that improve a country's standard of living can earn a reasonable return while benefiting society.

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

87) Some people believe that marketing is relevant only in affluent, industrialized countries, whereas others believe that the role of marketing is to identify people's needs and wants worldwide, irrespective of the economy. Giving examples of companies involved in energy conservation and technology, support the latter argument.

Answer: People everywhere need affordable and safe drinking water. Recognizing this fact, Nestlé launched Pure Life bottled water in Pakistan. The Coca-Cola Company recently began to address dietary and health needs of low-income countries by developing a beverage, Vitango, which has several nutritional and health benefits. Technology is another area which can benefit countries all over the world. Intel's World Ahead is developing a \$550 computer that is powered by a car battery. Hewlett-Packard engineers are working to develop solar-powered communication devices that can link remote areas to the Internet.

Difficulty: Moderate

Chapter LO: 3

AACSB: Analytical thinking

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88) The table below is taken from the Big Mac Index. After reviewing it, answer the questions listed below.

Country	Big Mac Prices in U.S. dollars or local currency	Official Exchange Rate	(-)/(+) Under/Over Valuation against \$, %
United States	\$3.73		
China	Yuan 14.5	6.65/\$1	
Norway	Kroner 45	6.25/\$1	
Thailand	Baht 70	32.3/\$1	
Mexico	Peso 32	12.8/\$1	

What is meant by PPP? According to this table, which is the most overvalued and undervalued currency? Fill the last column showing under or over valuation of local currencies. Give reasons for your answer. What is the primary drawback of this index? How can this be used?

Answer: PPP stands for purchasing power parity, and this concept is used in adjusting national income data to improve comparability. The table shows by how much, in Big Mac PP terms, selected currencies were over- or undervalued at that time. The most overvalued currency is Norway. On the other hand the most undervalued currency is Thailand, followed by China and Mexico. It should be noted that the PPP-theory-based Big Mac index is too simplistic. Exchange rates are affected by different factors such as interest rate and monetary policies, not by price alone.

Country	Big Mac Prices in U.S. dollars or local currency	Official Exchange Rate	(-)/(+) Under/Over Valuation against \$, %
United States	\$3.73		
China	Yuan 14.5	6.65/\$1	Under valued
Norway	Kroner 45	6.25/\$1	Over valued
Thailand	Baht 70	32.3/\$1	Under valued
Mexico	Peso 32	12.8/\$1	Under valued

Difficulty: Difficult

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

89) What is "Economic exposure," and how does it impact companies like Nestlé, Daimler AG, Royal Dutch Shell, and Astra Zeneca? Assess the impact of a weaker dollar on the financial performance of these corporations.

Answer: Economic exposure refers to the impact of currency fluctuations on the present value of a company's expected future cash flows. Economic exposure is directly proportional to the amount of business a company conducts outside its home market. Nestlé, for example, has 98% of annual sales taking place outside of Switzerland and therefore faces critical economic or currency exposure. Similarly, Daimler AG, Royal Dutch Shell and Astra Zeneca generate over one-third of their sales from the United States. They are all in the eurozone. If the dollar becomes weak relative to the euro, all of these companies will face economic exposure. On the other hand, U.S. companies will be less exposed compared to these companies.

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

Course LO: Identify and describe the processes and tools of strategic marketing

90) Porsche relies on currency hedging rather than price increases to boost pretax profits on sales of its automobiles. What is the advantage of doing this, and how does hedging work?

Answer: Hedging exchange rate exposure involves establishing an offsetting currency position such that the loss or gain of one currency position is offset by a corresponding gain or loss in some other currency. Porsche manufactures all of its cars in Europe but generates about 45% of its sales in the United States. It therefore faces economic exposure stemming from the relative value of the dollar compared to the euro. Thus, Porsche is considered to be fully hedged, which means it takes currency positions to protect all earnings from foreign-exchange movements.

Difficulty: Moderate

Chapter LO: 6

AACSB: Analytical thinking

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