

# Seminar: International economic environment

## Multiple Choice Questions

1) Which of the following is NOT true about cultural diversity?

- A) Companies may gain competitive advantages by bringing together people of diverse backgrounds.
- B) Cultural diversity is most successful when domestic and foreign firms establish joint ventures.
- C) Cultural diversity may help a company gain deeper knowledge about products and services.
- D) The process of bringing people of different national cultures together is often difficult.

Answer: B

2) Which of the following is the MOST accurate statement about culture?

- A) Cultural variables can easily be isolated from other factors such as economic and political conditions.
- B) Although most cultural variables are universal, the forms these variables take differ from culture to culture.
- C) Most cultural variables are superficial and can easily be influenced by environmental factors.
- D) Within a culture, everyone responds to particular cultural variables the same way.

Answer: B

3) Which of the following ideas holds that a government should NOT interfere in business affairs?

- A) collectivism
- B) laissez-faire
- C) the rule of man
- D) pluralism

Answer: B

4) Businesspeople seeking to understand more about another culture in order to successfully conduct business within that culture would be best advised to do which of the following?

- A) Observe the behavior of people who have gained respect within that cultural environment.
- B) Rely on stereotypes, which are based on averages, to gain an understanding of the culture.
- C) Avoid cultural research studies because they perpetuate unjustified stereotypes and behaviors.
- D) Memorize the cultural variations that are typically encountered in a specific cultural environment.

Answer: A

5) Certain attitudes can link groups, such as managers, from different nations more closely than managers within a given nation. As a result, international businesspeople should most likely

- A) assume that there are few significant cultural differences among nations
- B) examine relevant groups when comparing nations
- C) adopt universal operating methods
- D) avoid cultural imperialism

Answer: B

## True/False Questions

1) Emerging economies exhibit improving productivity, rising income, and growing prosperity, particularly relative to slower growing developing economies.

Answer: TRUE

2) Market liberalization restricts foreign investments and growing exports, deregulation and privatization improve business efficiency, and expanding opportunities encourage entrepreneurialism.

Answer: FALSE

3) There is a positive correlation between economic freedom and economic growth.

Answer: TRUE

4) In a mixed economy, the state reasons that it must make tactical decisions about strategic industries in order to optimize market performance.

Answer: TRUE

5) The calculation of GNI per capita takes into account the differences in the cost of living from one country to another.

Answer: FALSE

# Review Questions

- 1. There are five levels of economic integration. What is meant by this statement? Be complete in your answer.**

The statement means that there are five degrees of economic integration. These include:

(a) free trade areas, which are economic integration arrangements in which all barriers to trade among member countries are removed; (b) customs unions, which are forms of economic integration in which tariffs between member countries are eliminated and a common trade policy toward non-member countries is established; (c) common markets, which are characterized by an absence of trade barriers among member nations, a common external trade policy and mobility of factors of production among member countries; (d) economic unions, which are characterized by the free movement of goods, services, and factors of production between member countries and full integration of economic policies, a unified currency and tax rates and structures that are uniform for all members; and (e) political unions, in which all economic policies are unified and there is a single government, as occurs among the states in the United States.

- 2. How can a health and safety regulation become a trade barrier? Provide examples.**

A health and safety regulation might require expensive investments. A country that already has such an investment in place could make it a requirement that all companies selling their products in that country follow the same regulations. For example, a developed country that already has a host of health and safety regulations might impose the same regulations on a company in the developing world that is exporting products into that country. To do this effectively, the foreign firm might have to restructure—and this would take time and investment.

- 3. How can different environmental circumstances make one country's regulations inefficient in another country?**

The answer to this question can be seen in the two examples provided in the case. While it might be efficient for beer producers in Ontario to use recyclable bottles, imports from the United States face different circumstances. Transporting beer bottles back and forth from the United States to Canada would be extremely expensive and as damaging to the environment as using aluminium cans.

Similarly, while recycled pulp might be a solution to environmental problems in Canada, to transport recycled paper back to the United States would be extremely costly.

- 4. In what way do ethnocentrism and misconceptions about other cultures inhibit those doing business internationally?**

Ethnocentrism is the belief that one's own way of doing things is superior to that of others. This inhibits doing business internationally because it prevents the manager from being flexible and open minded when dealing with people from other cultures. The manager is convinced that the way things are done in the home country is better.

- 5. Why are cultural differences an important factor when adapting products for new overseas markets?**

Cultural differences are important because they define the preferences of individuals. The more obvious example is language. For example, computer software sold in Latin America must give instructions in Spanish or Portuguese, not in English. A more subtle difference would include a preference for quieter air conditioners in Japan, where silence and calm are highly praised. In terms of marketing, the labels and instructions should be in the language of the targeted market.

More importantly, advertisements should give due consideration to the values and morals of the targeted market

**6. Why is an understanding of the institutional norms, regulations and practices of other countries important for international firms? Give examples to illustrate your answer.**

Firms must adhere to the laws of the nations in which they work. For example, firms must follow labor laws and regulations, which are a reflection of the culture of each nation. It is also important to know the subtle ways in which things are done. For example, a US manager who clearly delineates his requirements to an official in another country might find that the official perceives his behavior as blunt and demanding.

**7. Why are work attitudes of importance to MNEs? Cite and describe two examples.**

Work attitudes are important to MNEs because they influence both the quality and the quantity of employee output. People who have a positive attitude toward work are likely to do more and better work than those who have negative attitudes. The MNEs would like to know about these attitudes, so they are better able to anticipate the type and quality of work they are likely to get from employees in various cultures. For example, in Japan, there is a positive attitude toward work and everyone believes they should attend every day. This is good news for MNE employers. In some South American countries, however, tardiness is acceptable. This is not good news for local MNE employers, unless they can change this work attitude.

**8. What are the benefits of and the problems for a polycentric MNE?**

Polycentric firms tend to act like a federation of semiautonomous organizations with financial controls or strict reporting structures holding them together. Subsidiaries are able to reflect the local cultural norms, and headquarters appreciates the need for different organization designs, procedural norms, rewards systems, and so on, as long as profits flow to the center. While this might altogether eliminate cultural clashes, it also eliminates internal communication that might lead to efficiencies and to learning from each other. A key problem is that the firm is not able to reap the economies of scale that come from standardizing organizational routines, processes, systems and human resources procedures. That is, it is more costly and more complex to operate multiple procedural systems, each led by subsidiary managers.

**9. What are the advantages and disadvantages of using a nation as a point of reference for a culture?**

Answer: The nation, as opposed to the State, provides a workable definition of a culture for international business because basic similarity among people is both a cause and an effect of national boundaries. The laws governing business operations also apply primarily along national lines. Within the bounds of a nation are people who largely share essential attributes, such as values, language, and race. However, these shared attributes do not mean that everyone in a country is alike, nor do they suggest that each country is unique in all respects.