

**MNI301J**

( 480765)

May/June 2013.

**GLOBAL BUSINESS ENVIRONMENT**

Duration 2 Hours

70 Marks

**EXAMINERS**  
 FIRST  
 SECOND  
 EXTERNAL

 MR RA AREGBESHOLA  
 MS LA NTISO  
 PROF OO FATOKI

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

 This paper consists of **9 (NINE) pages** plus instructions for the completion of a mark-reading sheet

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**INSTRUCTIONS**
 This paper comprises two sections, namely **SECTION A** and **SECTION B**
**SECTION A**

- Section A comprises **TWENTY COMPULSORY** multiple-choice-questions
- Each question counts **ONE MARK**
- The total for this section is **20 MARKS**
- All the questions in this section must be answered in the **MARK-READING SHEET**

**SECTION B**

- Section B comprises **THREE** essay-type questions
- You must answer **ANY TWO** of the three questions
- Each question is worth **25 MARKS**
- The total for this section is **50 MARKS**
- Clearly indicate the numbers of questions you have answered in your examination answer booklet
- Also indicate the **numbers** of questions that you have answered on the **cover** of the examination answer booklet

 This is a **closed-book examination** You may not consult notes of any kind, or any person except the invigilator, during the examination session

[TURN OVER]

**Section A**

**MULTIPLE CHOICE QUESTIONS**

**[20 MARKS]**

**Question 1**

Which of the following is **NOT ONE** of the ideological pillars on which the essential features of communism were located?

- 1 The abolition of all rights of inheritance.
2. State ownership of factories and agriculture, and the full utilization of state resources.
3. The establishment of private property and confiscation of all public property that would then become private property.
4. Free education for all children in public schools and the abolition of child labour in all industries, irrespective of the ownership structure

**Question 2**

Which of the following best describes the *demand conditions* of Porter's diamond of national competitive advantage?

1. A nation's position with regard to production factors that enable the firm to compete in a given industry
- 2 The degree of healthy competition that a firm must face in its local market.
- 3 The presence/absence of supplier and related industries that are locally and globally competitive.
- 4 Conditions in the home industry that either hinder or aid the firm's ability to create, organise and manage the nature of domestic and international rivalry.

**Question 3**

Allowing some individual economic freedom but restricting political participation is the characteristic of which of the following political system?

- 1 Tribal totalitarianism.
- 2 Right-wing totalitarianism.
3. Communist totalitarianism.
- 4 Economic totalitarianism.

**Question 4**

What is the aim of economic union as a stage of economic integration?

- 1 To liberalise movement of regional production factors.
- 2 To establish a common tariff and other trade policies towards non-member countries.
3. To abolish tariffs and non-tariff barriers between member nations
4. To harmonise fundamental economic policies among member nations

**Question 5**

The success of regional trade blocs and trade agreements depends on the following principles, **EXCEPT:**

1. Managerial and labour union capabilities are necessary.
2. Members should be geographically close and have easy access to each other.
3. Natural resources need to be available
4. An entrepreneurial culture is important.

**Question 6**

The following are the determinants of economic freedom as deemed by the Index of Economic Freedom, **EXCEPT:**

1. The efficiency of the rule of law in the judiciary and the ability to enforce contracts.
2. The fiscal burden of government, which encompasses income tax rates.
3. Labour market regulations, such as established work weeks and mandatory separation pay
4. Formal market activities excluding corruption, piracy and smuggling

**Question 7**

Culture is rooted in history and passed on from one generation to the next, implying that culture is bound to evolve and change over time. Which of the following implies that culture is relative?

1. Culture is not specific to individuals.
2. Cultures are different from one another to a greater or a lesser extent
3. Culture is learned behaviour and is based on human capacity to change
4. Culture is transgenerational and intergenerational

**Question 8**

Religion generally influences the social and business environments. What values of Hindu society are important for international management?

1. Religious values, beliefs and traditions relating to work ethic, religious holidays and dietary habits may affect the effective operation of international firms.
2. Honesty and trust could result in companies readily committing resources in terms of collaborative arrangements and alliances.
3. Profits earned in fair business are justified, but may not result from exploitation or deceit.
4. Individuals with relatively greater political and economic freedom are expected to help in creation of entrepreneurial free market capitalism and entrepreneurial initiative.

**Question 9**

According to Aregbeshola et.al, **ONE** of the benefits of privatisation is

1. Narrowing and levelling capital markets
2. Attracting local production and foreign investment
3. Improving enterprise efficiency and performance
4. Assuming the mode of unrealistic perfect competition.

**Question 10**

Which **ONE** of the PESTEL model factors lays credence on the market size of the host country?

1. Legal factors
2. Economic factors.
3. Political factors
4. Technological factors.

**Question 11**

The decline in the value of a currency has no effect on the local deposit and purchasing power in the local market. Why does translation exposure have a negative effect on the ownership of shares?

1. The currency value of the parent MNEs in the consolidated balance sheet would decrease.
2. The initially unprofitable translation exposure can become lucrative.
3. The perceived solvency and debt-to-equity ratio would provide for more opportunity for borrowing in future.
4. The perceived negative effect on the company's earnings as a result of translation exposure could lead to an increase in its share prices on the stock markets.

**Question 12**

Which of the following statements best describes the motivation for adopting an import substitution strategy?

1. The more an economy relies on foreign supply for critical goods and services, the more vulnerable it becomes to the supplier influence
2. The more the country attracts foreign direct investment, the more foreign investors dominate industries where the country lacks competence and compatibility.
3. The more manufacturing activities take place in a country, the more efficiently wealth is distributed among economic agents.
4. Governments may use sanctions against countries with poor human right records, child labour practice and political tyranny

**Question 13**

The Eclectic Paradigm or the Ownership-Location-Internalisation (OLI) framework of John Dunning compares the rationale for adopting various entry modes by multinational enterprises. Using the framework, which **ONE** of the following entry modes should be adopted by a firm that is concerned with absolute control over resources and technology?

1. Foreign Direct Investment
2. Franchising
3. Licensing.
4. Exporting.

**Question 14**

An antidumping policy is designed to redress the unfair trade practice. This policy is applied in order to:

1. Establish the framework for conducting and practicing free trade.
2. Foster greater trade integration and liberalisation
3. Protect domestic producers against unfair competition.
4. Increase local manufacturing capacity of component parts at the expense of mere assembling

**Question 15**

According to internalisation theory, decision-making is based on a comparison between organising activities through the market or firm. Therefore, the practical application of this theory may suggest that

1. MNEs exist in order to organise interdependence between subsidiaries in different operational facilities in various overseas countries
2. MNEs aim to appropriate all returns from their technological advantages in order to create a sustainable competitive advantage.
3. MNEs in a low marginal productivity of capital country will transfer capital to a higher marginal productivity country.
4. The local firm determines technology transfer via the consideration of spillover costs to MNEs

**Question 16**

Inflation is defined as the continuing general price increase of goods and services. In South Africa, the indices that are used to measure consumer related prices include the following, **EXCEPT**:

1. The price changes of all goods and services that the typical consumer buys.
2. The price changes of all goods and services excluding mortgage bonds in the urban areas
3. The price changes of imported goods, calculated at the point of entry
4. The price changes of all goods and services excluding fresh meat, fruit and vegetables and interest on bank overdraft and value added tax.

**Question 17**

Which **ONE** of the following statements is a motivation for a country to move from a command to a market economy?

1. New opportunities for the country to achieve information and knowledge transfer.
2. New opportunities to protect the home market from competitive pressures from foreign investors.
3. New opportunities for foreign investors to exploit the fragility of the economy to their own advantage.
4. New opportunities for a country to attain cross-cultural literacy

**Question 18**

Which of the following statements best explains why high inflation rates could potentially trigger an increase in interest rate?

1. Interest rates are raised to discourage domestic credit consumption
2. Interest rates are raised to improve the purchasing power of the domestic currency
3. Interest rates are raised to discourage domestic savings in the face of a rapidly growing economy.
4. Interest rates are raised to attract cheaper foreign imports in the face of lower domestic production

**Question 19**

Which of the following statements is a key distinguishing feature of foreign direct investment (FDI) and international portfolio investment (IPI)?

- 1 PIs are always responsive to the needs and aspirations of domestic communities
- 2 The foreign investor's stake must be of the equity ownership form in the case of FDI.
- 3 The IPI transaction must involve the use of capital markets in ways that do not destabilise the domestic capital market.
- 4 IPI always imply a controlling ownership stake in the domestic firm.

**Question 20**

The aim of operating financial strategies is to minimise the effect of changing exchange rates on the local firm's profitability. In guarding against currency appreciation and high inflation, the host-country local subsidiary must do all of the following, **EXCEPT**:

1. Pay all debts that are denominated in strong currencies as quickly as possible.
2. Delay as far as possible paying obligations denominated in local currency.
3. Collect their debts as quickly as possible.
4. Take opportunity to sell fixed assets that cannot be affected by inflation

**SECTION B**

**[50 MARKS]**

**SECTION B**

- Answer **ANY TWO** of the following three questions in your examination answer book
- Indicate the numbers of the questions that you answered clearly and correctly in your examination answer book
- Also, indicate the number of questions answered on the **COVER** of the examination answer booklet

**Question B 1**

“An economic system can be defined as a set of economic principles, processes and technologies by which a country decides and organizes the ownership of resources and allocation of economic resources in a way that fosters the economic philosophy of the people or country”

In line with the above citation, you are expected to respond to the following assessment criteria:

**Assessment criteria:**

- B1.1 Briefly discuss and distinguish between the THREE different types of economic systems  
[9 marks]
- B1.2 South Africa is considered to lie somewhere between developing and developed economies. What characteristics does South Africa possess that render this statement to be true?  
[6 marks]
- B1.3 Explain the role of inflation as an important factor that international management has to consider in doing business with or investing in another country  
[10 marks]
- [25 marks]**

**Question B 2**

- B2.1 Discuss and explain the role and benefits of quotas as one of the most prominent tariff barriers in the history of international business.  
[12 marks]
- B2.2 Clarify the implications of trade barriers on both domestic and international economies.  
[6 marks]
- B2.3 To what extent can the application of instruments of trade policy affect developing countries?  
[7 marks]
- [25 marks]**



**Question B 3**

B3.1 Your client, a South African small firm, identifies an export opportunity and decides to enter into an international trade agreement with another firm in China. What advice, as a Business Strategic Consultant, can you provide to your client with regard to steps used in export/import transactions? [15 marks]

B3.2 Identify and explain the FOUR techniques that MNEs can use in positioning funds to optimize their internal resources [10 marks]

**[25 marks]**

**[TOTAL MARKS FOR SECTION B: 50]**

**PART 1 (GENERAL/ALGEMEEN) DEEL 1**

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INITIALS AND SURNAME  
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For use by examination invigilator  
 Vir gebruik deur eksamenopsiener

- IMPORTANT**
- USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
  - MARK LIKE THIS
  - CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
  - ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
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  - CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
  - CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
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**PART 2 (ANSWERS/ANTWOORDE) DEEL 2**

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Specimen only