

Question 5

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

1. Managenal 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: (P99)

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. (P132)
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? (P142)

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. (P28)
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?** (P311-2)

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?** (P188)

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 (P205)
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:

- (P193)
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?

(P96)

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?

(P116)

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

**MNI301J**

(496244)

October/November 2012

GLOBAL BUSINESS ENVIRONMENT

Duration 2 Hours

70 Marks

 EXAMINERS
 FIRST
 SECOND

 MR RA AREGBESHOLA
 PROF JW STRYDOM

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[TURN OVER]

SECTION A **MULTIPLE CHOICE QUESTIONS** **[20 MARKS]**

Question 1

The modern **global business environment** can best be described as volatile and chaotic, and turbulence can now be seen as the new normality. Which one of the following is **NOT** a **contributing factor to the realisation of this 'age of turbulence'?**

- 1 The changing nature of competition globally
- 2 Increased global terrorism
- 3 The renewed trade protectionist measures
- 4 The new legal and regulatory frameworks

Question 2

The term 'globalisation' is widely used in every quarter and on many platforms by individuals and interest groups to denote a particular viewpoint regarding the level of interdependence that exists among people, communities and nation states around the world. Which of the following statements best **describes globalisation?**

- (PL)
- 1 A holistic process, through which people's interactions, interdependence and mutually benefitting coexistence is achieved
 - 2 A holistic global progression of the socio-political and economic interdependence of people, systems and structures
 - 3 A pre-emptive approach by the bourgeois political elites to cogently unite people and economies across the world without recourse to mutual benefits
 - 4 A precipitous process of global interdependence of economies, institutions and societies in a mutually benefitting way, especially in favour of the less developed countries

Question 3

The **born-global firms** are documented exceptions to the conventional modular approach largely adopted by firms in their internationalisation process. Which of the following statements allude to the documented success of born-global firms?

- (PI6-17)
- 1 Overcoming internationalisation inertia from the beginning of their operation
 - 2 Overcoming cross-border trade barriers more easily than the conventional firms
 - 3 Overcoming competitive pressures by adopting market segmentation and product diversification in offshore markets

[TURN OVER]

- 4 Overcoming internationalisation challenges in a supernatural way that defies intellectual comprehension

Question 4

The theory of absolute advantage propounded by Adam Smith emphasises, among other things, the need for specialisation through division of labour. According to the theory, the main benefit of division of labour is to ensure

- 1 an increased production of goods and services that can be exported to the less competitive overseas countries
- 2 an increased production of goods and services that may lead to an increase in the corporate tax, and invariably, the national income
- 3 an increase in the production of goods and services that are capable of improving the quality of life and ultimately, the wealth of a nation
- 4 an increase in the operational efficiency of firms in a way that brings about national competitive advantage that is premised on low operational costs

Question 5

The international business environment is highly complex and requires multinational enterprises to manoeuvre through a system of diverse institutional arrangements. The political systems differ, the regulations and laws governing operations change, the role of the state is different, all of which have profound implications for doing business. Which of the following statements best describes the operating environments that confront multinational corporations?

- 1 The political economy of international business
- 2 The geopolitical, economic and investment environments of international business
- 3 The legal, social, economic, demographic and cultural dynamics of offshore investment
- 4 The politics of economic development and legal framework of foreign countries

Question 6

In international business, the strength of the legal framework of both the home and host countries plays an important part in dispute settlement and recourse to legal proceedings. Of what importance is international law in international legal contracts?

(P37)

- 1 International laws are treated as superior to national laws in case the country involved is a signatory to that law

[TURN OVER]

- 2 International laws are generally stronger than national laws but they lack necessary instruments for interpretation and implementation
- 3 International laws are applied as the standard rule in case of a breach in international legal contracts
- ④ International laws are instruments of trade that guarantees the right of plaintiffs in case of a breach in international business contracts

Question 7

Which of the following options best describe the recent dynamics of technology?

- (P40)
- 1 Technology transfer requires high adaptive capability from the innovator
 - 2 Technology innovation requires more capital than knowledge and competence
 - 3 Technology transfer is another fad through which the developed countries exhibit their dominance over the less developed countries
 - ④ Technology transfer is a complex, time-consuming and costly process

Question 8

The level of economic development, size and purchasing power of the population, as well as the future economic prospects of a country, significantly influence not only the consumption pattern of the people, but their buying behaviour as well. Which one of the following measures of inflation is a concern for a bond/mortgage payer?

- (P115)
- ① CPIX at constant prices
 - 2 CPI at constant prices
 - 3 Manufacturing price index
 - 4 Exchange rates volatility

Question 9

The concept of a market economy is based on the belief that individual interests should supersede group interests because groups are bound to benefit when individuals are rewarded for their initiative and achievements. Which of the following best describes how production function is regulated in a market economy?

- (P96)
- ① Price mechanism
 - 2 Price volatility
 - 3 Exchange rates volatility

[TURN OVER]

4 Price control and regulation

Question 10

Which of the following economic production function component differentiate between Gross National Product and Gross Domestic Product? (P104)

- 1 Compensation of employees and property income
- 2 Rents, wages and salaries
- 3 Factor payments from abroad
- 4 Value of net export/import

Question 11

Which of the following statements best describe economic growth? (P110)

- 1 A relative increase in the efficiency of production system to improve national productivity over a period of one year
- 2 A relative increase in the volume of goods and services offered for consumption over a period of one year
- 3 A relative increase in the volume of goods and services produced by a country over a period of one year
- 4 A relative increase in the volume and quality of consumer goods and non-perishable services produced within a country over a period of one year

Question 12

Which of the following is NOT one of the drivers of privatisation? (P121-122)

- 1 The changes in political ideology and economic principles
- 2 The changes in the geophysical and demographic dynamics
- 3 Economic pressure that forces firms to be more competitive
- 4 Increasing political awareness and demand for the proceeds of democracy

Question 13

Which of the following is NOT a motivation for a firm to increase its level of cultural awareness?

- 1 An increase in the number and scope of international involvement
- 2 An increase in the geographical span of its operations
- 3 An increase in the number and diversification of human capital

[TURN OVER]

- 4 An enlargement of the internal structure and corporate posture of the firm

Question 14

Which of the following statements best explain the reasons for variation in cultural orientation across countries?

- 1 Communities of people share essential cultural attributes that are perpetuated through tradition
- 2 Communities and societies exhibit inherent cultural orientation that is unique and transgenic in nature
- 3 People of similar cultural backgrounds share, nurture and worship some peculiar traditions, symbols and rituals
- 4 People of the same cultural orientation are sacrilegious and ardent on the traditional believes and customs

Question 15

Religion generally influences the social and business environments in the following important ways, EXCEPT

- 1 Religion often places constraints on the roles of individuals, groups and businesses in society
- 2 In some cultures, religion places constraints on gender issues such as limiting job and career opportunities for women
- 3 Religion influences a person's attitude towards initiative and work
- 4 Major holidays are always strictly linked to all religious systems

Question 16

Which of the following is NOT a function of the Bank for International Settlements (BIS)?

- (P168-9)
- 1 The BIS serves as a databank for central bankers and regulators on exchange markets, euro markets and new financial instruments
 - 2 The BIS provides necessary instruments for market participants to offset the systemic risks that pervade the global capital market
 - 3 The BIS serves as a bank for central banks, coordinating best practice among market participants across countries
 - 4 The BIS serves as a provider of rules and guidelines that foster cross-border prudential banking, such as the capital adequacy rule encapsulated in the Basel Accords (I, II and III)

[TURN OVER]

Question 17

Which **ONE** of the following is a key *distinguishing* feature between foreign direct investment (FDI) and foreign portfolio investment (FPI)?

- 1 International portfolio investments 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 international portfolio investment transaction must involve the use of capital markets in ways that do not destabilise the domestic capital market
- 4 International portfolio investments always imply a controlling ownership stake in the domestic firm

Question 18

The following are *functions of investment promotion agencies*, **EXCEPT** (P125)

- 1 Give informed guidelines to current and potential offshore investors
- 2 Policy advocacy to advance investor-friendly macroeconomic policies
- ③ Possible financial and morale-boosting support for investors
- 4 Give institutional, regulatory and legal supports to foreign competitors

Question 19

Which **ONE** of the following best describes the approach through which international financial management could be a *source of competitive advantage*?

- ① Minimising the cost of capital (P303)
- 2 Maximising the investible capital
- 3 Disuse of multilateral netting
- 4 Constrict source of investible capital

Question 20

Which **ONE** of the following is a *function of the foreign exchange market*?

- ① Conversion of foreign earnings into local currency
- 2 Preparing a company's accounts in a way that reflects foreign earnings
- 3 Conversion of one foreign currency into another foreign currency for domestic transaction purpose
- 4 Preparing a company's accounts in a way that reflects transfer pricing within the organisation

[TURN OVER]

**MNI301J**

(473342)

May/June 2012

GLOBAL BUSINESS ENVIRONMENT

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EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

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[TURN OVER]

SECTION A **MULTIPLE CHOICE QUESTIONS** **(20 MARKS)**

Question 1

The term 'globalisation' is widely used in every quarter and on many platforms by individuals and interest groups to denote a particular viewpoint. Given the controversy that clouds the understanding and usage of the term, how best can we define globalisation?

- 1 The continued interdependence of social structures on a global basis, transgressing individual's value systems and norms
- 2 The continued interdependence of nation states, individuals and ideologies, transgressing international borders
- 3 The continued interdependence of nation states on economic and security issues in a way that advances sectional interests
- 4 The process of economic and cultural dominance by the powerful Western countries, suppressing the interest of the weaker nations

Question 2

To achieve a sustainable competitive advantage, multinational corporations venture into foreign markets in the face of various instabilities that pervade such a strategic move. Which **ONE** of the following constitutes the prime motivation for overseas expansion of firms?

- 1 To counter competitors' moves into overseas markets
- 2 To sabotage competitors' moves in the overseas markets where they encounter
- 3 To seek location-specific advantages
- 4 To seek geographic dominance

Question 3

Which **ONE** of the following is a motivation for entrepreneurs to seek the attainment of a competitive advantage?

- 1 To capture a higher percentage of the market share
- 2 To ensure unequal profitability
- 3 To ensure long term sustainability
- 4 To avoid bankruptcy

[TURN OVER]

Question 4

A nation's **competitive advantage is determined by** (P20-1)

- 1 its increasing dependence on trade liberalisation to improve capital formation
- 2 its dependence on investments of multinational enterprises and their overseas subsidiaries
- 3 its national values, culture, economic structures, institutions and histories
- 4 the extent of its immunity to the international debt crisis

Question 5

One of the main criticisms of economic integration is its susceptibility to fostering trade diversion, which ultimately displaces efficiency in the production and distribution of goods and services to the detriment of the consumers. Which **ONE** of the following **approaches can be used to redress trade diversion?** (P59)

- 1 Increased competition among member countries that produce similar goods and services
- 2 Decrease importation from non-member countries that produce similar goods and services
- 3 Encourage intra-regional trade protection against non-member countries through tariffs
- 4 Erect protectionist barriers against member countries that fail to comply with the intra-regional tariff arrangements

Question 6

Privatisation of state assets is an ongoing event, especially in the new economic era where capitalism have almost totally dismissed communism. Which **ONE** of the following is a **motivation to privatise state assets?** (P122)

- 1 Privatisation improves the communal spirit among people and discourages individualistic quest for materialism
- 2 Privatisation improves the efficiency and functionality of previously moribund state assets
- 3 Privatisation helps government to generate investible capital by converting the physical assets into tradable assets
- 4 Privatisation helps to absorb more unemployed semi-skilled workers by enlarging the responsibilities and scope of the sector in which the privatisation takes place

[TURN OVER]

Question 7

While all societies are stratified to some degree, they do, however, differ in ways that are of importance in terms of the **influence of culture on business**. Which **ONE** of the following is an **example of such a divergence?**

- 1 They differ from one another with regard to the significance they place on social strata in a business context
- 2 They differ from one another with regard to the significance attached to social norms and value systems in a business context
- 3 They differ from one another with regard to the insignificant attention attached to the degree of mobility between social strata among business associates
- 4 They differ from one another with regard to the care-free attitude towards individual opinions, traditional beliefs and cultural orientation

Question 8

One of the main **advantages of currency swap** is that this approach helps **(P175)**

- 1 companies to sell their tradable assets as quickly as possible to offset short term credit demand
- 2 multinational organisations can use this approach to hedge against financial exposures more easily
- 3 this approach can be adopted by individual holiday makers to circumvent exchange rates volatility by identifying private fund users in foreign countries
- 4 this approach can be adopted to forestall currency volatility by ensuring that both parties to the agreement are domestic competitors

Question 9

'Before a country is liable to comply with the provisions of a treaty or a convention, it must have signed the original protocol. Once the treaty has been signed, the method of enforcement depends on terms expressed in the treaty or the convention'. Which **ONE** of the following is the **common way to punish any country that flouts the provisions of a treaty or convention?**

- 1 Sanctions against the erring country
- 2 Trade diversion from the erring country
- 3 Trade creation within the erring country
- 4 Sanctions against non-member countries

[TURN OVER]

Question 10

Which **ONE** of the following is a **key distinguishing feature** between foreign direct investment (FDI) and international portfolio investment?

- 1 International portfolio investments 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 international portfolio investment transaction must involve the use of capital markets in ways that do not destabilise the domestic capital market
- 4 International portfolio investments always imply a controlling ownership stake in the domestic firm

Question 11

One of the most **important advantages** of the Eurocurrency market is that

- 1 it is largely free from financial instabilities (P183)
- 2 it could be used to circumvent translation exposure
- 3 it is free from government regulation and interference
- 4 it could be used to offset transaction exposure

Question 12

Governments, in general, advocate the application of tariff barriers for four major reasons Which **ONE** of the following statements best summarise the reasons?

- 1 National strategic interest (P187)
- 2 National competitive interest
- 3 National political interest
- 4 National social interest

Question 13

Which **ONE** of the following is **NOT an instrument of trade policy?**

- 1 Ad valorem tariffs (P190-2)
- 2 Transit tariffs
- 3 Voluntary export restraint
- 4 Antidumping

[TURN OVER]

Question 14

Foreign direct investment (FDI) is known to have many advantages over portfolio investment. Which **ONE** of the following represents the justification for the preference of FDI over portfolio investment? (P201)

- 1 The use of capital market in a regulated way that fosters stability in the domestic capital market
- 2 The use of capital market in a deregulated manner, which fosters instability in the host capital market
- 3 FDI offers both the host and home country market participants the opportunity to raise investible capital from the corporation
- 4 FDI is preferable to portfolio investment because it creates an avenue where labour unions can be formed and, interest of workers is primary to the investors

Question 15

One of the major drawbacks of David Ricardo's theory of comparative advantage is that the theory (P203)

- 1 overemphasises the importance of labour force at the expense of the other input resources
- 2 underestimates the importance of labour force as it deemphasises the relevance of this crucial input material
- 3 overstates the importance of abundant natural resources, such as coal, steel and other such scarce resources
- 4 deemphasises the need to study the current and potential markets for the end product in order to seek suitable source of input material

Question 16

The use of modern technology is one of the identified sources of competitive advantage in the contemporary business world. Through which **ONE** of the following processes does technological diffusion take place in the host market?

- 1 Spillover effects of technologically imbibed assets and production processes
- 2 Spillover effects of home-tailored technology that previously exists in the host country
- 3 Spillover effects of obsolete technology that was previously used by the investing firm in the home country
- 4 Spillover effects of technologically imbibed trade unions in the host country

[TURN OVER]

Question 17

When multinational enterprises (MNEs) emphasise the realisation of **location and experience curve economies in the** production and marketing of largely low cost, standardised products they are said to follow

- 1 an international strategy
- 2 a global strategy
- 3 a multidomestic strategy
- 4 a transnational strategy

(P260)

Question 18

Which **ONE** of the following is **NOT** a **motivation for a strategic decision to outsource?**

- 1 Ability to change suppliers as informed by changes in consumer preferences
- 2 Ability to source from the low-cost suppliers without compromising quality
- 3 Ability to diversify production lines without any meaningful restructuring
- 4 Ability to achieve continuous product innovation through internal restructuring

Question 19

Which of the following best explains **why a high inflation rate triggers an increase in interest rates?**

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

(P116-7)

Question 20

Which **ONE** of the following international **financial management approaches** is characterised by the **fiduciary risk of tax avoidance** on the part of multinationals firms?

- 1 Multilateral netting
- 2 Centralising depositories
- 3 Transfer pricing
- 4 Minimising cash balances

(P307-8)

[TURN OVER]

**MNI301J**

(471292)

October/November 2011

GLOBAL BUSINESS ENVIRONMENT

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70 Marks

 EXAMINERS
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 SECOND
 EXTERNAL

 MR RA AREGBESHOLA
 PROF PN PALMER
 PROF K OJAH (WITWATERSRAND)

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[TURN OVER]

SECTION A

MULTIPLE-CHOICE QUESTIONS

(20 MARKS)

Question 1

In his research into the influence of national culture on international business engagement, Hofstede identified some cultural dimensions that generally account for perceived cultural differences. Which of the following alternatives is **NOT** correct in this regard?

- 1 Time orientation
- 2 Individualism and collectivism
- 3 Uncertainty avoidance
- 4 Masculinity and fascism

Question 2

Which **ONE** of the following statements about culture is true?

- 1 Culture is transgenic in nature as it transmits from one generation to the other, thereby losing its originality
- 2 Culture in societies affects almost everything people do, see, feel and achieve
- 3 The various cultural components are mutually exclusive and not interrelated; a change in one element does not bring about any change in other elements
- 4 People, as members of a nation state, society, group or organisation do not share a common culture

Question 3

Religion, worldwide, has a profound influence on lifestyles, values, beliefs, attitudes and ethical issues. Religion also influences the way people in a society act toward each other and toward those in other societies. Which of the following is a characteristic of Protestantism?

- 1 A religious culture espousing hard work, honesty and socialistic values
- 2 A religious culture espousing reinvestment, productivity and wealth creation.
- 3 A religious culture espousing wealth creation, honesty and communism
- 4 A religious culture of productivity, hard work and feudalism.

[TURN OVER]

Question 4

Islam basically supports capitalism, but places relatively more emphasis on an individual's obligations to society. Which of the following does NOT support this statement?

- 1 All Muslims are expected to act justly, charitably and humbly in business
- 2 Islam stresses the importance of honouring contractual agreements and obligations.
- 3 Islamic nations exert strong political pressure to preserve religious traditions
- 4 The wealthy and successful have no obligation to help the disadvantaged

Question 5

Which ONE of the following abilities and characteristics is NOT needed by the global manager in order to function in flexible organisations?

- 1 High tolerance for ambiguity, new levels of creativity and inventiveness in organisational design
- 2 The ability to identify diverse employee upbringing, and traditional beliefs for the ongoing renewal of the organisation
- 3 The ability to coordinate complicated financial, human resource, marketing and manufacturing interdependencies
- 4 The ability to recognise different manufacturing, marketing and organisational problems and priorities across different locations and to accommodate these with new structures and processes

Question 6

The political structure of any country has an enormous impact on how business is conducted domestically and internationally. ONE of the challenges that confront MNEs in global business is _____

- 1 countries are characterised by different political, economic and legal policies, all of which work in favour of MNEs
- 2 the complex regulatory frameworks in foreign countries, which necessitate MNEs involving political parties in their decisions
- 3 the need for careful analysis and interaction between corporate policies and the political framework of the host nation
- 4 the prospect of political instability in a host country which may pose serious threats to MNEs and their investments, thereby increasing consumer confidence

[TURN OVER]

Question 7

The **global mindset** of an organisation is the ability of an enterprise to _____

- 1 be open to new experiences, but to remain the same over time
- 2 be willing to learn new skills and competencies in order to ensure a competitive local presence
- 3 operate on the premise that cultures are the same globally without being superior or inferior to management
- 4 accept diversity and heterogeneity as natural and as a source of opportunities and strengths, rather than a necessary evil

Question 8

"When a **leader** focuses on the goal, such as getting a particular job done, the focus will be on **positive interactions with those who have specialised skills** and knowledge that contribute towards attaining the goal" This represents which type of leadership?

- 1 Transformational
- 2 Charismatic
- 3 Transactional
- 4 Laissez-faire

Question 9

A strategic alliance is one of the strategies used by MNEs for entering foreign markets. Which **ONE** of the following is a **motivation for adopting this strategic approach?**

- 1 Securing economies of scale and achieving horizontal integration
- 2 Gaining access to new technology and diversifying into new businesses
- 3 Acquiring a means of distribution and forming alliances with competitors
- 4 Overcoming economic barriers and other entry barriers in the host nation.

Question 10

If the management of an international organisation emphasise the realisation of **location and experience curve economies** in the production and marketing of largely, low cost, standardised products, they are said to follow _____

- 1 an international strategy
- 2 a global strategy
- 3 a multi-domestic strategy
- 4 a transnational strategy

[TURN OVER]

Question 11

Which **ONE** of the following **market entry modes** is characterised by the advantages of **protection of technology, the ability to engage** in global coordination and the ability to realise location and experience economies?

- 1 Exporting
- 2 Franchising
- 3 Turnkey projects
- 4 Wholly-owned subsidiaries

Question 12

Which of the following is **ONE** of the key **advantages of licensing**, as a mode of foreign market entry?

- 1 Low level of market entry costs
- 2 Low level of control over foreign operation
- 3 High possibility of achieving experience curve economies
- 4 High possibility of transferring technological know-how to the licensee

Question 13

The Trade, Development and Cooperation Agreement (TDCA) is an important bilateral trade agreement between South Africa and the European Union. Which of the following makes the **agreement important to the SADC region?** (P88)

- 1 The free flow of goods and services from the EU to the entire SADC region, thereby lowering the income generated through tariffs by the regional members
- 2 The SADC regional market could be exposed to sub-standard products coming from EU manufacturers
- 3 The manufacturing industry, within the SADC region could benefit from scale economies by exporting to the EU
- 4 The "agreement" could lead to a shortage of manufactured products in the SADC region as manufacturers will be more interested in exporting to the EU rather than selling within the SADC market

Question 14

While some African countries have performed well over the past few years, there are others that have recorded disappointing economic results, or which have been undermined by political instability. How best can Africa achieve rapid economic growth?

- 1 By encouraging the development of economically viable industrial sectors
- 2 Through the successful exploration of available mineral and natural resources
- 3 By restricting trade and labour mobility among member nations on the continent
- 4 Through the abolition of free trade so as to expand local, industrial and market capacities

Question 15

Which one of the following reasons is NOT a reason why African economies have stagnated?

- 1 the lack of creation of economic value by state-owned enterprises
- 2 emigration of skilled workers from the continent.
- 3 the protection of unproductive public enterprises.
- 4 increased rural-urban migration and resettlement

Question 16

Which ONE of the following is a driver of successful regional economic integration?

- 1 The maintenance of colonial boundaries
- 2 The economic viability of member states
- 3 The creation of regional economic partnership agreements
- 4 The implementation of the NEPAD strategy.

Question 17

Which ONE of the following factor(s) influences the choice of strategic alliance(s), as a mode of foreign market penetration? (P268)

- ① Careful selection of the alliance partners
- 2 Equal allocation of alliance obligations
- 3 Prior, deep friendship among alliance partners
- 4 Competitive skills and competence of proposed alliance partners

[TURN OVER]

Question 18

Which **ONE** of the following is a traditional function of a global financial manager?

- (P303)
- 1 Maintain an optimum capital structure for the firm
 - 2 Maintain equality of current assets and current liability
 - 3 Adopt an aggressive capital budgeting approach
 - 4 Mitigate the effects of inflation on trade creditors

Question 19

To minimise the effects of economic exposure, financial managers in international business are often required to pay adequate attention to all of the following, **EXCEPT**

- 1 the purchasing power parity of the home/host country
- 2 the performance of the balance of payments in the host country
- 3 the costs of advertisements and exchange rates in the home nation
- 4 the costs of major activities/input materials in the subsidiaries

Question 20

All of the following are disadvantages of using strategic alliances as a means of penetrating a protected foreign market, **EXCEPT**:

- (P264)
- 1 loss of control over the business venture
 - 2 distraction of participating company's management and key players
 - 3 sustainable, long – term collaboration efforts directed at the attainment of individual and mutual goals
 - 4 marginal control of proprietary information and intellectual property

[TOTAL MARKS FOR SECTION A: 20]

[TURN OVER]

**MNI301J**

(479864)

May/June 2011

GLOBAL BUSINESS ENVIRONMENT (BUSINESS MANAGEMENT 301)

Duration 2 Hours

70 Marks

 EXAMINERS
 FIRST
 SECOND
 EXTERNAL

 MR RA AREGBESHOLA
 PROF PN PALMER
 PROF K OJAH (WITWATERSRAND)

Use of a non-programmable pocket calculator is permissible

This paper consists of **10 pages** plus instructions for the completion of a mark-reading sheet

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[TURN OVER]

SECTION A **MULTIPLE CHOICE QUESTIONS** **(20 MARKS)**

Question 1

Which of the following best describes the concept of global business?

- 1 Any form of business activity that spreads across the wide range of a country's geophysics
- 2 Any form of business activity that spreads across a regional economic arrangement
- 3 Any form of business activity that spreads across a continent with the view of reaping location specific advantages
- 4 Any form of business activity that spreads across both the European Union and the NAFTA for the sole purpose of making profit

Question 2

The challenges facing international management are represented by the following, EXCEPT:

- 1 Future growth prospects for international business will, primarily, come from emerging markets
- 2 The global emphasis on customer and service excellence
- 3 The need for visionary leadership so that MNE's can adapt their business cultures to a changing business environment
- 4 Stakeholder participation in the process of abandoning globalisation on the grounds that it is neither feasible nor desirable

Question 3

A global mindset expresses the following, EXCEPT:

- 1 the need for global managers to develop and use global, strategic skills
- 2 an appropriate response to the challenges inherent in managing change and transition
- 3 a global managers' response to managing cultural diversity

- 4 the need for global managers to serve the particular interests of the developing world

Question 4

Globally integrated firms follow global strategies that emphasise

- 1 local responsiveness in a bid to realise the full benefits from economies of scale, learning effects and location economies ,
- 2 the realisation of location and experience curve economies in the production and marketing of largely low-cost, standardised products ,
- 3 the realisation of increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, learning effects and location economies ,
- 4 the simultaneous realisation of low costs through location economies, economies of scale and learning effects, which differentiate product offerings across geographic markets

Question 5

The oligopoly model is largely applicable to capital-intensive industries, with low returns on capital Which ONE of the following industries represents this model in modern business?

- 1 The grocery-retail industry
- 2 The automobile industry
- 3 The book-publishing industry
- 4 The mining industry

Question 6

Which of the following options best describe the concept of "Power distance" as a cultural dimension of cross-cultural leadership? (P154)

- 1 Employing local citizens to do business in a particular cultural context ,
- 2 A willingness to conform to the value systems and norms of a particular culture ,
- 3 The extent to which less powerful members of institutions and organisations accept that power is distributed unequally ,
- 4 Acknowledging that differences in culture affect the practice of international business as regards the distribution of power along a gender dimension

Question 7

Despite the obvious benefits to be gained from globalisation, the recent agitation against its spread emanates from the following allegations **EXCEPT**:

- 1 The process of globalisation has contributed meaningfully to the further isolation of the developing countries from the rest of the world
- 2 The impact of falling trade barriers on the destruction of manufacturing jobs and wage incomes in the host nations, especially in the developing countries
- 3 Globalisation has enhanced the contribution to world output through increased foreign direct investment, the reduction of trade barriers and increased exports
- 4 Globalisation has contributed to the growing divide between the haves and the have-nots, which has left many in the third world in dire poverty

Question 8

Managers operating in low-context cultures

- 1 tend to be disinterested in other markets and cultures and insensitive to foreign business opportunities ,
- 2 are inherently satisfied with their domestic operations, being disinterested in foreign markets ,

[TURN OVER]

- 3 place more importance on specific terms of agreements and transactions ,
- 4 are inclined to create a network of partnerships, alliances and relationships over time in a bid to respond to changing threats and opportunities

Question 9

High interest rates reduce consumer appetite for credit. As a home bond payer, which of the following measures of inflation components should be of peculiar interest to you?

- 1 The Consumer Price Index (CPI) headline inflation rate
- 2 The Production Price Index (PPI)
- 3 The Consumer Price Index excluding interest rates on mortgage bonds (CPIX)
- 4 The CPI relating to food and consumables

Question 10

As a regional financial manager of a multinational enterprise that operates in developing countries that are characterised by unstable macroeconomic policies, which ONE of the following exposures confronts your business in the long run?

- 1 Translation exposure
- 2 Transactional exposure
- 3 Economic exposure
- 4 Monetary exposure

Question 11

Which ONE of the following strategies is suitable to prevent the effect of the exposure identified in question 9?

- 1 Currency options
- 2 Forward exchange contracts
- 3 Currency swops
- 4 Geographical dispersion of operational facilities

Question 12

The following is **ONE** of the reasons why multinational enterprises (MNEs) adopt transfer pricing

- 1 To reduce tax liabilities payable to the home country
- 2 To reduce the effect of inflation on the company's consolidated accounts
- 3 To increase the excise duties payable to the host country
- 4 To increase intra-subsidiary trading between the subsidiaries of the firm

Question 13

"A tariff (also called a duty) is the most common type of trade control and a tax that governments levy on goods shipped internationally" They generally

- 1 require less administration and supervision
- 2 discourage special interest privileges
- 3 weaken supply and demand patterns
- 4 widen the choices available to consumers

Question 14

Which **ONE** of the following highlights the economic and business implications of Islam?

- 1 Islamic countries are economically better developed as a result of the work ethic they embrace
- 2 The pursuit of an ascetic lifestyle of material and physical self-denial, discourages entrepreneurial initiative
- 3 The religious prescript that the wealthy and successful have an obligation to help the disadvantaged enhances business ethics
- 4 The absence of a caste system and a less extreme ascetic lifestyle provide for greater mobility and a more flexible labour market

Question 15

A balance of payment (BOP) is a financial record of transactions conducted by a country within a period, usually a year. Such transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. Which of the following best describes the use of BOP to a manager in a global business?

- 1 The BOP warns international firms of policy changes in a foreign country that could affect the business climate
- 2 The BOP identifies the increased risk of borrowing investment capital from the capital market of specific countries
- 3 An increase in BOP indicates that a country's currency will depreciate in the future
- 4 A decrease in BOP suggests that the country's foreign reserve is dwindling, thereby requiring foreign aid

Question 16

One of the motivations for multinational corporations to venture abroad is to reap location specific advantages. Which ONE of the following strategies best leverages and protects organisational processes and expertise

- 1 Corroboration agreements
- 2 Wholly-owned subsidiary
- 3 Franchising
- 4 Turnkey project

Question 17

The goal of free trade agreements is to

- 1 rationalise manufacturing jobs in certain countries or industries resulting in poverty and homelessness ,
- 2 lower the wages of unskilled workers who are seldom in a position to re-skill themselves for more advanced jobs ,

- 3 abolish all tariffs and duties between member countries ,
- 4 facilitate the imposition of import quotas on member states

Question 18

One of the main criticisms of regional trading blocs is the possibility of uncompetitiveness of member nations that results from "protectionism" Which ONE of the following is an example of these trade protections?

- 1 Trade creation
- 2 Trade diversion
- 3 Trade dimension
- 4 Trade omission

Question 19

The loss of economic freedom in a country results in the following EXCEPT

- 1 the erosion of that country's political and civil liberties ,
- 2 the absence of government restrictions on the production processes and resources ,
- 3 the erosion of average per capita gross domestic product, life expectancy, quality of life and higher levels of corruption ,
- 4 Or increase in the immigration of a skilful workforce that results in economic growth

Question 20

Which of the following measures more accurately describes the cost of living in a country as informed by the country's level of economic development and growth?

- 1 The Gross National Product (GNP)
- 2 The Purchasing Power Parity (PPP)
- 3 The Gross Domestic Product (GDP)
- 4 The Gross National Income (GNI)

MNI301J

(489663)

October/November 2010

GLOBAL BUSINESS ENVIRONMENT (BUSINESS MANAGEMENT 301)

Duration 2 Hours

70 Marks

EXAMINERS
FIRST
SECOND
EXTERNALPROF PN PALMER
MR RA AREGBESHOLA
PROF K OJAH (WITWATERSRAND)

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[TURN OVER]

SECTION A **MULTIPLE CHOICE QUESTIONS**

Question 1

Which of the following best describes globalisation?

- 1 An entrepreneurial activity that cuts across international boundaries
- 2 An entrepreneurial activity that cuts across international diplomatic relations
- 3 A shift towards a more integrated and interdependent world economy
- 4 A shift towards greater ideological and political conflicts and resolution

Question 2

Technological renewal enhances greater participation of enterprises in the developed world in global trade and investment. Which of the following statements supports this assertion?

- 1 Advanced economies are generally known as global political leaders and better administrators of public funds
- 2 Advanced countries are naturally blessed with better technology, innovation and entrepreneurial skills.
- 3 Advanced economies are known leaders in technological advancement and innovativeness
- 4 Advanced countries generally replicate technological expertises that are invented in the developing world

Question 3

Which of the following is a useful guideline for managers on what to expect when interacting with and having to manage people in a foreign country? (P154)

- 1 In societies where uncertainty avoidance is high, short-term planning and ensuring security should be emphasised
- 2 With high power distance, organisation structures tend to be flatter and decision-making more participative, with more mobility within the organisation
- 3 Where power distance tends to be low, decisions tend to be centralised, organisational mobility low, organisational structures tall, and there is a preference for direction from superiors
- 4 In countries with high individualism, performance appraisal systems would work best if directed towards rewarding the individual rather than the group

Question 4

Free Trade Agreements are engines of growth and progress for the member countries. Which of the following statements is TRUE? (P90)

- 1 They promote efficiency and competition outside the free trade area
- 2 They promote specialisation and division of labour within the trading arrangement
- 3 They expand the size of the important markets, thereby creating unhealthy competition
- 4 They exploit company comparative advantages within and outside of the trading arrangement

Question 5

Which ONE of the following options best describes the concept of purchasing power parity? (P105)

- 1 The relative ability of one currency to buy the same level of goods and services in every country
- 2 The relative ability of two currencies to buy the same level of goods and services in the two countries under consideration
- 3 The relative ability of two currencies to buy the same level of goods but not services in the two countries under consideration
- 4 The relative ability of two currencies to buy the same level of services but not goods in the two countries under consideration

Question 6

Some of the abilities and characteristics needed by the global manager in order to function in flexible organisations include all of the following, EXCEPT:

- 1 the ability to identify diverse employee behaviours for ongoing renewal of the organisation
- 2 high tolerance for ambiguity, new levels of creativity and inventiveness in operational design
- 3 the ability to learn to be responsive and become more efficient
- 4 the ability to coordinate complicated financial, human resource, marketing and manufacturing interdependencies

Question 7

Hinduism basically supports capitalism, but places more emphasis on an individual's spiritual development. Which one of the following does NOT support this statement? (P142)

- 1 All Hindus are expected to act justly, charitably and humbly in business
- 2 Hinduism stresses the importance of honesty and faithfulness
- 3 Hindustani nations exert strong political pressure to reverse religious traditions
- 4 The ultimate human success is measured through spiritual purification

[TURN OVER]

Question 8

The complexities that international managers and leaders face in business operations are largely due to a number of inescapable competing factors that confront them. Which **ONE** of the following does **NOT** fall into this category of factors?

- 1 The fact that future growth in international business will, primarily, come from development economies and emerging markets
- 2 The emphasis on customer and service excellence.
- 3 The need for visionary leadership so that MNE's can adapt their business cultures to a changing business environment
- 4 Collective participation in the process of abandoning globalisation on the grounds that it is neither feasible nor desirable

Question 9

A global financial manager is expected to perform **ONE** of the following traditional functions

- ① maintain an optimum capital structure for the firm
- 2 maintain equality of current assets and current liability
- 3 adopt an aggressive capital budgeting approach
- 4 mitigate the effects of inflation on trade creditors

Question 10

Transfer pricing is one of the controversial financial practices in international business. As the financial manager of a multinational enterprise, which of the following reasons will motivate you to adopt transfer pricing? (P307)

- ① to reduce tax liabilities payable to the home nation
- 2 to reduce the effect of inflation on the corporate accounts
- 3 to increase the excise duties payable to the host nation
- 4 to increase trading between the subsidiaries of the firm

Question 11

The importance of developing a global mindset stems from the following **EXCEPT**:

- ① the need for global managers to develop and use global, strategic skills
- 2 the challenges inherent in managing change and transition
- 3 the challenges of managing cultural diversity
- 4 the need for global managers to serve the particular interests of the developing world

Question 12

Cross-cultural leadership presupposes the following EXCEPT

- 1 a willingness to conform to the value systems and norms of a particular culture
- 2 acknowledging that how global business leaders manage cross-border activities is in keeping with their own values
- 3 employing local citizens to do business in a particular culture
- 4 understanding how differences in culture affect the practice of international business

Question 13

Participation in decision-making, through the use of opinion leaders and proper timing are regarded as

- 1 characteristics of managers in a high-context culture
- 2 characteristics of managers in a low-context culture
- 3 distinguishing characteristics of Western business practices
- 4 factors to consider when deciding on how to institute change

Question 14

Which ONE of the following is NOT regarded as a characteristic of culture?

- 1 Culture is inherited (P132)
- 2 Culture is adaptive
- 3 Culture is relative
- 4 Culture is pervasive

Question 15

When multinational enterprises (MNE's) emphasise the realisation of location and experience curve economies in the production and marketing of largely low cost standardised products, they are said to be adopting

- 1 an international strategy
- 2 a global strategy
- 3 a multi-domestic strategy
- 4 a transnational strategy

Question 16

Which **ONE** of the following **foreign market entry modes** is characterised by high market complexity and low product diversity?

- 1 franchising
- 2 joint venture
- 3 exporting
- 4 foreign (wholly owned) subsidiary(ies)

(P263)

Question 17

Contemporary democratic political systems share all of the following **EXCEPT**

- 1 freedom of opinion, expression, press and freedom to organise
- 2 an a-political bureaucracy and defence infrastructure
- 3 unlimited terms for elected officials
- 4 an independent, fair court system with high regard for individual rights and property

Question 18

Identify the **INCORRECT** alternative from the following

(P40)

- 1 Technology transfer has become an inexpensive, relatively simple process in recent years
- 2 The application of technology is not dependent on the techniques used to convert inputs into outputs
- 3 High technology is conducive to the transformation of economies, education and consumer habits
- 4 Technology transfer is essential for attaining a high level of individual capability and competitiveness

Question 19

To **minimise the effects of economic exposure**, financial managers in international business are often required to **pay adequate attention** to all of the following, **EXCEPT**

- 1 the purchasing power parity of the home/host country
- 2 the performance of the balance of payments in the host country
- 3 the costs of advertisements and exchange rates in the home nation
- 4 the costs of major activities/input materials in the subsidiaries

(P317)

Question 20

The following are the reasons why African economies have remained less developed over years, **EXCEPT**

- 1 lack of creation of economic value
- 2 poverty-induced attrition
- 3 lack of monopolistic interventions
- 4 Increased rural-urban resettlement

[20 marks]

SECTION B

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Question B1

B1.1 Define “strategic alliances” as useful vehicles for entering into a protected international market and justify the strategic use of collaborative agreements in global business environments **[10 marks]**

B1.2 Discuss the benefits and risks associated with strategic alliances **[5 marks]**

B1.3 List and discuss the various types of foreign market entry modes and justify the relevance of each of these approaches **[10 marks]**

[25 marks]

Question B2

B2.1 The quality and characteristics of leadership is one of the determining factors of an organisation’s performance in the global business environment. Critically differentiate between the following types of leadership

- Charismatic leadership
- Transactional leadership
- Transformational leadership **[12 marks]**

B2.2 List and discuss the different types of globalisation **[8 marks]**

B2.3 Explain dumping, and how a government can address it? **[5 marks]**

[25 marks]

[TURN OVER]

**MNI301J**

(475956)

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[TURN OVER]

SECTION A **MULTIPLE CHOICE QUESTIONS** **(20 MARKS)**

Question 1

Which of the following best describes globalisation?

(P4)

- 1 A process through which economic and political barriers are removed between nations
- 2 A process through which economic and social barriers are removed between nations
- 3 A process through which all forms of artificial barriers are removed between nations
- 4 A process through which political and social barriers are removed between nations

Question 2

Which one of the following options is NOT a motivation for embracing globalisation?

- 1 Globalisation enhances the manufacturing capability of developing nations
- 2 Globalisation results in the more efficient utilisation of economic resources
- 3 Globalisation leads to lower prices for consumer goods and services
- 4 Globalisation globally increases per capita income in equal proportion

Question 3

Which one of the following plays an important role in influencing international business operations?

- 1 The inequality in the application of global trade regulations by the WTO
- 2 The increasing measure of regional integration across the world
- 3 The increasing lack of competitiveness of global businesses
- 4 The positive impact of trade diversion within the EU

Question 4

The increasing interdependence of nations has furthered the need for every business to pay adequate attention to the macroeconomic issues around the world

Which of the following is regarded as an external environmental risk?

(P234)

- 1 Managers' inability to forestall labour disputes and unrest in the host nation
- 2 The abolition of import and export controls by the host government
- 3 Stable macroeconomic policies in the host nation
- 4 Political interventions such as government takeovers, nationalisation of industries and expropriation of private property in the home country

Question 5

Which one of the following **market entry modes** is characterised by high market complexity and low product diversity?

- 1 Contract manufacturing
- 2 Joint venture
- 3 Exporting
- 4 Foreign branching

Question 6

Which one of the following **best describes Tariffs?** (P190)

- 1 They are instruments used by governments to generate revenue or to discourage the importation of certain goods
- 2 They are administrative bottlenecks established by governments to generate revenue or to discourage the importation of certain goods
- 3 They are instruments used by governments to widen the choices of goods available to consumers
- 4 They are administrative bottlenecks established by governments to discourage special interest privileges

Question 7

Regional trade blocks are associations of nations at a governmental level that promotes trade within the block and defend its members against global competition. Which of the following principles is a **criteria for a successful regional trade bloc arrangement?**

- 1 Geographical proximity of member nations
- 2 Availability of equal natural resources among member nations
- 3 Equal economic growth in member nations
- 4 Trade diversion within the trade bloc

Question 8

In **order to achieve economic growth**, a country confronted with a **balance of payment deficit** can adopt one of the following measures

- 1 Encourage the inflow of foreign capital
- 2 Discourage exports
- 3 Discourage foreign direct investment
- 4 Encourage the inflow of foreign manufactures

IMPORTS > EXPORTS

Question 9

Religion generally influences the social and business environments in some important ways. Which of the following options best describes the role of religion on global business?

(P139)

- 1 In every society, religion generally militates against career opportunity of female workers
- 2 Religions generally limit the use of personal inclinations and initiatives at the workplace
- 3 Religion places constraints on the roles of individuals, groups and businesses as a member of the society
- 4 Major religious holidays generally reduce the productive hours of adherents, thereby resulting in corporate losses

Question 10

Which of the following measures more accurately describes the cost of living in a country as informed by the country's level of economic development and growth?

(P104)

- 1 The Gross National Product (GNP)
- 2 The Purchasing Power Parity (PPP)
- 3 The Gross Domestic Product (GDP)
- 4 The Gross National Income (GNI)

Question 11

Countries are usually classified according to their level of economic development and growth. From a developmental perspective, countries are classified as developed, developing or less developed. Which of the following best describes a developing country?

(P109)

- 1 Advanced levels of political, legal and judicial arrangements
- 2 A highly educated and literate population with increasing civilisation
- 3 A high level of innovative and entrepreneurial activity
- 4 A diversifying economy with increasing industrialisation

Question 12

Which one of the following options best describes the concept of purchasing power parity?

- 1 The relative ability of one currency to buy the same level of goods and services in every country
- 2 The relative ability of two currencies to buy the same level of goods and services in the two countries under consideration
- 3 The relative ability of two currencies to buy the same level of goods but not services in the two countries under consideration
- 4 The relative ability of two currencies to buy the same level of services but not goods in the two countries under consideration

Question 13

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

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

Question 14

Inflation is defined as a sustained increase in the general level of prices for goods and services in an economy over a period of time, usually a year. Which one of the following is NOT an effect of inflation?

(P116)

- 1 High inflation rates lead to high interest rates
- 2 High inflation rates can reduce domestic demand for goods and services
- 3 High inflation rates weaken the purchasing power of the local currency
- 4 High inflation rates relatively reduce the pricing of imported goods

Question 15

High interest rates have been observed to reduce consumer appetite for credit consumption. As a home bond payer, which of the following measures of inflation components should be of peculiar interest to you? (P115)

- ① The Consumer Price Index (CPI) headline inflation rate
- 2 The Production Price Index (PPI)
- 3 The Consumer Price Index excluding interest rates on mortgage bonds (CPIX)
- 4 The CPI food and consumables

Question 16

A balance of payment (BOP) is a financial record of transactions conducted by a country within a period, usually a year. Such transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. Which of the following best describes the use of BOP to a manager in global business? (P118)

- ① The BOP warns international firms of policy changes in a foreign country that could affect the business climate
- 2 The BOP identifies increased risk of borrowing investment capital from the capital market of specific countries
- 3 An increase in BOP indicates that a country's currency will depreciate in the future
- 4 A decrease in BOP suggests that the country's foreign reserve is dwindling, thereby requiring foreign aid

Question 17

A global financial manager is expected to perform one of the following traditional functions

- ① Maintain an optimum capital structure for the firm
- 2 Maintain equality of current assets and current liability
- 3 Adopt an aggressive capital budgeting approach
- 4 Mitigate the effects of inflation on trade creditors

Question 18

The following is one of the reasons why multinational enterprises (MNEs) adopt transfer pricing

- ① To reduce tax liabilities payable to the home country
- 2 To reduce the effect of inflation on the company's consolidated accounts
- 3 To increase the excise duties payable to the host country
- 4 To increase intra-subsidiary trading between the subsidiaries of the firm

Question 19

To achieve shareholder wealth maximisation, an international financial manager is expected to effectively manage the cash flow of the organisation, invest wisely, and minimise foreign exchange risks. Which of the following motives best describes the cash and liquidity levels of an international firm?

- 1 The need to hold cash at a safety margin to serve as a financial reserve
- 2 The need to hold excess cash in order to acquire as much assets as possible
- 3 The need to hold marginal cash in order to offset petty cash vouchers
- 4 The need to hold cash as a safety net in case of cash scarcity in the country

Question 20

The growing volatility in the functioning of global financial institutions has further widened the uncertainties that characterises international business operations. Which of the following is NOT a strategy and tactic for managing foreign exchange risks?

- 1 Forward exchange contracts
- 2 Currency swaps
- ③ Backward exchange contracts
- 4 Currency options

