

File: c12; Chapter 12: International Resource Movements and Multinational Corporations

Multiple Choice

1. Portfolio investments refer primarily to:
 - a. direct investments
 - b. bonds
 - c. liquid assets
 - d. short-term assets

2. Direct investments usually involve the transfer of:
 - a. capital
 - b. technology
 - c. management
 - d. all of the above

3. Which of the following is not true with regard to direct investments?
 - a. U.S. direct investments abroad and foreign direct investments in the U.S. grew very rapidly from 1950 to 2004
 - b. the amount of U.S. direct investments abroad is similar to the amount of foreign direct investments in the U.S.
 - c. U.S. direct investments in Canada are higher than in Europe
 - d. U.S. private holdings of foreign long-term securities grew very rapidly from 1950 to 2004

4. Two-way international capital flows can be explained by the desire to:
 - a. earn higher yields abroad
 - b. avoid tariffs
 - c. diversify risks
 - d. all of the above

5. Portfolio theory tells us that by investing in securities with yields that are inversely related over time:
 - a. a given yield can be obtained at a smaller risk
 - b. a higher yield can be obtained for the same level of risk
 - c. a two-way capital flow may be required to achieve a balanced portfolio
 - d. all of the above

6. The reason the residents of a nation do not borrow from other nations and themselves undertake real investments in their own nation is that:
 - a. multinationals want to retain control over their own technology

- b. banks do not want to lend to foreigners
 - c. vertical integration is not possible for foreigners
 - d. multinationals want to avoid horizontal integration
7. Which is not a reason for private foreign direct investments?
- a. horizontal and vertical integration
 - b. to maximize profits and diversify risks
 - c. to stimulate development
 - d. to avoid tariffs
8. Which of the following is not a beneficial effect of direct investments on the investing country:
- a. the transfer of technology
 - b. higher profits
 - c. risk diversification
 - d. avoids the possible loss of export markets
9. Foreign direct investment benefits the host nation because it:
- a. increases the K/L ration
 - b. increases the productivity of labor
 - c. increases per capita income
 - d. all of the above
10. U.S. labor generally
- a. opposes U.S. investments abroad
 - b. favors U.S. investments abroad
 - c. is indifferent to U.S. investments abroad
 - d. we cannot say without additional information
11. Labor in developing countries generally
- a. opposes an inflow of foreign direct investments from abroad
 - b. favors an inflow of foreign direct investments from abroad
 - c. is indifferent to foreign direct investments from abroad
 - d. we cannot say without additional information
12. Owners of capital in developing countries generally
- a. oppose an inflow of foreign direct investments from abroad
 - b. favor an inflow of foreign direct investments from abroad
 - c. are indifferent to foreign direct investments from abroad
 - d. we cannot say without additional information

13. The basic reason for the existence of MNC is the:
- a. competitive advantage of a global network of production and distribution.
 - b. incentives provided by the investing nation
 - c. incentives provided by the host nation
 - d. imperfections of international capital markets
14. Transfer pricing refers to:
- a. risk diversification
 - b. the pricing of the technology transferred
 - c. the artificial overpricing of components shipped to an affiliate in a higher tax nation
 - d. portfolio theory
15. The brain drain refers to the transfer of:
- a. technology from developed to developing nations
 - b. skilled labor and professionals from developed to developing nations
 - c. unskilled labor from developing to developed nations
 - d. skilled labor and professionals from less advanced to more advanced nations
16. U.S. holdings of foreign long-term securities (stocks and bonds) have _____ over the last fifty years.
- a. decreased
 - b. increased
 - c. remained unchanged
 - d. been volatile, at times increasing and at time decreasing
17. Foreign holdings of U.S. long-term securities (stocks and bonds) have _____ over the last fifty
- a. decreased
 - b. increased
 - c. remained unchanged
 - d. been volatile, at times increasing and at time decreasing
18. Today's multinational corporations account for roughly what percentage of world output
- a. 10%
 - b. 25%
 - c. 50%
 - d. 75%
19. In 2007 the percentage of Americans that were not born in the United States was roughly
- a. 5 %

- b. 12 ½ %
- c. 25 %
- d. 37 ½ %

20. The most prominent form of private international economic organization today is the
- a. European Union
 - b. World Trade Organization
 - c. multinational corporation
 - d. individual investor

Short Answer

21. What are the basic motives for international portfolio investments?

22. Discuss the changes in the magnitude of foreign investment into the U.S. and U.S. investment overseas over the last fifty years.

23. What is vertical integration and how is it related to direct foreign investment?

24. Explain how international capital transfers impact employment in the receiving and investing nation.

Essay

25. Discuss the motives for international labor migration.