

Multinational Business Finance, 16e (Eiteman/Stonehill/Moffett)

Chapter 1 Multinational Financial Management: Opportunities and Challenges

1.1 The Global Financial Marketplace

1) Financial globalization has NOT resulted in:

- A) continuing imbalances of balance of payments.
- B) an increase in quantity and speed in the flow of capital across the world.
- C) capital markets less open and a decrease in the availability of capital for many organizations.
- D) uniform ways of ownership, control, and governance across the world.

Answer: D

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

2) Financial globalization has NOT resulted in:

- A) continuing imbalances of balance of payments.
- B) an increase in quantity and speed in the flow of capital across the world.
- C) capital markets more open and an increase in the availability of capital for many organizations.
- D) an increase in the flow of capital into and out of industrialized markets.

Answer: C

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

3) The institutions of global finance are:

- A) central banks.
- B) commercial banks.
- C) investment banks.
- D) All of the above are institutions of global finance.

Answer: D

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

4) A well-established, large U.S.-based MNE will probably NOT be able to overcome which of the following obstacles to maximizing firm value?

- A) an open marketplace
- B) high-quality strategic management
- C) access to capital
- D) none of the above

Answer: D

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

5) A well-established, large, China-based MNE will probably be most adversely affected by which of the following elements of firm value?

- A) an open marketplace
- B) high-quality strategic management
- C) access to capital
- D) access to qualified labor pool

Answer: A

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

6) A well-established, large, Brazil-based MNE will probably be most adversely affected by which of the following elements of firm value?

- A) an open marketplace
- B) high-quality strategic management
- C) access to capital
- D) access to qualified labor pool

Answer: C

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

7) A major cost avoided in the eurocurrency markets is the payment of deposit insurance fees, such as:

- A) Federal Deposit Insurance Corporation — FDIC.
- B) Office of the Comptroller of the Currency — OCC.
- C) International Monetary Fund — IMF.
- D) World Bank — WB.

Answer: A

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

8) The modern eurocurrency market was born shortly after:

- A) World War II.
- B) World War I.
- C) Korean War.
- D) Bosnian War.

Answer: A

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

9) The reference rate of interest in the eurocurrency market is the:

- A) London Interbank Offered Rate.
- B) Prima rate.
- C) Federal funds rate.
- D) Treasury rate.

Answer: A

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

10) Interest spreads in the eurocurrency market are small for many reasons EXCEPT:

- A) Eurocurrency loans are secured loans.
- B) Eurocurrency deposits and loans are made in amounts of \$500,000 or more on an unsecured basis.
- C) The eurocurrency is a wholesale market.
- D) Borrowers are usually large corporations or government entities.

Answer: A

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

11) Multinational enterprises (MNEs) are firms, both for-profit companies and not-for-profit organizations, that have operations in more than one country, and conduct their business through foreign subsidiaries, branches, or joint ventures with host country firms.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

12) Ownership, control, and governance changes radically across the world. The publicly traded company is not the dominant global business organization—the privately held or family-owned business is the prevalent structure—and their goals and measures of performance differ dramatically.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

13) The securities at the heart of the global capital markets are the Mortgage Backed Securities (MBS). The health and security of the global financial system rely on the quality of these securities.

Answer: FALSE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

14) The U.S. dollar has been the focal point of currency trading since the 1940s. As a result, most of the world's currencies are quoted against the dollar.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

15) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the euro is always quoted as "dollars per euro."

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

16) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the British pound is always quoted as "dollars per pound."

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

17) Several of the world's major currency exchange rates follow a specific quotation convention that is the result of tradition and history. The exchange rate between the U.S. dollar and the Japanese yen is always quoted as "dollars per Japanese yen."

Answer: FALSE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

18) Your authors suggest that one way to characterize the global financial marketplace is through its assets, institutions, and linkages.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

19) Eurocurrencies are domestic currencies of one country on deposit in a second country.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

20) A eurodollar deposit is a demand deposit.

Answer: FALSE

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

21) Eurocurrency markets serve two valuable purposes: .1) Eurocurrency deposits are an efficient and convenient money market device for holding excess corporate liquidity; and 2) the Eurocurrency market is a major source of short-term bank loans to finance corporate working capital needs, including the financing of imports and exports.

Answer: TRUE

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

22) The key factor attracting both depositors and borrowers to the Eurocurrency loan market is the narrow interest rate spread within that market.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

23) The Eurocurrency market continues to thrive because it is a large international money market relatively free from governmental regulation and interference. Recent events may lead to greater regulation.

Answer: TRUE

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Recognition

AACSB: Application of knowledge

24) The theme dominating global financial markets today is the complexity of risks associated with financial globalization. List and explain examples of the complexity of risks affecting the leading and managing of multinational firms in the rapidly moving marketplace.

Answer: The following is a sampling of this complexity of risks: 1) The international monetary system is under constant scrutiny. The rise of the Chinese renminbi is changing much of the world's outlook on currency exchange, reserve currencies, and the roles of the dollar and the euro. 2) Large fiscal deficits, including the current eurozone crisis, plague most of the major trading countries of the world, complicating fiscal and monetary policies, and ultimately, interest rates and exchange rates. 3) Many countries experience continuing balance of payments imbalances, and in some cases, dangerously large deficits and surpluses. 4) Ownership, control, and governance vary radically across the world. 5) Global capital markets that normally provide the means to lower a firm's cost of capital, and even more critically, increase the availability of capital, have in many ways shrunk in size and have become less open and accessible to many of the world's organizations. 6) Financial globalization has resulted in the ebb and flow of capital in and out of both industrial and emerging markets, greatly complicating financial management.

Diff: 1

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

25) Business involves the interaction of individuals and individual organizations for the exchange of products, services, and capital through markets. The global capital markets are critical for the conduct of this exchange. The authors suggest that one way to characterize the global financial marketplace is through its assets, institutions, and linkages. Explain how each of the three dimensions characterize the global financial marketplace.

Answer: 1) The financial assets at the heart of the global capital markets are the debt securities issued by governments. These low-risk or risk-free assets (e.g., U.S. Treasury Bonds) form the foundation for the creation, trading, and pricing of other financial assets like bank loans, corporate bonds, and equities (stock). In recent years, a number of additional securities have been created from existing securities-derivatives, whose value is based on market value changes of the underlying securities. The health and security of the global financial system relies on the quality of these assets. 2) The institutions of global finance are the central banks, which create and control each country's money supply; the commercial banks, which take deposits and extend loans to businesses, both local and global; and the multitude of other financial institutions created to trade securities and derivatives. These institutions take many shapes and are subject to many different regulatory frameworks. The health and security of the global financial system relies on the stability of these financial institutions. 3) The links between the financial institutions, the actual fluid or medium for exchange, are the interbank networks using currency. The ready exchange of currencies in the global marketplace is the first and foremost necessary element for the conduct of financial trading, and the global currency markets are the largest markets in the world. The exchange of currencies, and the subsequent exchange of all other securities globally via currency, is the international interbank network.

Diff: 2

L.O.: 1.1 The Global Financial Marketplace

Skill: Conceptual

AACSB: Application of knowledge

1.2 The Theory of Comparative Advantage

1) The theory that suggests specialization by country can increase worldwide production is:

- A) the theory of comparative advantage.
- B) the theory of foreign direct investment.
- C) the international Fisher effect.
- D) the theory of working capital management.

Answer: A

Diff: 1

L.O.: 1.2 The Theory of Comparative Advantage

Skill: Recognition

AACSB: Application of knowledge