Module 4 Exam: Global Business, Strategy, & Entrepreneurship

Instructions

- This is an exam—please do not talk.
- Your books and notes must be put completely away, out of sight.
- Do not open the exam until you are told to begin.
- Keep the questions when you leave and pick up the next syllabus.
- You need a Scantron 882 ES or E and a #2 pencil; if you are without either, raise your hand.
- While you are waiting to begin, enter the following on your Scantron:
  - Name: Last (family) name, First name Middle initial
  - Subject: Your student identification number
  - Test No.: (A, B, C, or D) [That is, the test version.]
  - Date: 4 (i.e., the module number)
  - Hour: Your section number

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1. Bangladesh has a comparative advantage relative to Canada in textiles. Consequently, which would we be most likely to see?

   A. Bangladesh import textiles from Canada.
   B. Canada import textiles from Bangladesh.
   C. The Canadian dollar appreciate relative to the Bangladeshi taka.
   D. Canadians invest in improving their textile manufacturing.

2. The same resources that produce one yurt in Mongolia would produce (allowed to be raised) 2 yaks in Mongolia, ten yurts in the US, and 4 yaks in the US. Consequently, which would we be most likely to see?

   A. Mongolia has an absolute advantage relative to the US in yaks, while the US has an absolute advantage relative to Mongolia in yurts.
   B. Mongolia has a comparative advantage relative to the US in yaks, while the US has a comparative advantage relative to Mongolia in yurts.
   C. Mongolia has a comparative advantage relative to the US in yurts, while the US has a comparative advantage relative to Mongolia in yaks.
   D. The US has a comparative advantage relative to Mongolia in both yaks and yurts.

3. Which of the following is a barrier to trade?

   A. A comparative advantage in a particular good.
   B. An absolute advantage in a particular good.
   C. A quota on imports.
   D. A floating exchange rate.

4. Today, the exchange rate for euros is $1.50/euro. By this time next year, suppose the euro has depreciated by 10%. The new exchange rate a year from now is

   A. Can’t tell, depends on what happens to US interest rates.
B. Can’t tell, depends on what happens to US current account deficit.
C. $1.65/euro.
D. $1.35/euro.

**D. Lecture 1:** If a currency depreciates relative to the dollar, its price, in dollars, falls. Ten percent of $1.50 is $0.15 and $1.50 − $0.15 = $1.35.

5. The US is a net importer of oil. If the Federal Reserve steeply reduces US interest rates, the most likely impact on gasoline prices in the US will be
A. for them to fall.
B. for them to rise.
C. for them to remain unchanged.
D. The price of gasoline has nothing to do with interest rates.

**B. Lecture 1:** A reduction in US interest rates reduces foreign demand for US assets. So the dollar depreciates. If the dollar depreciates, the price of imports goes up (Lecture 2). So oil, and thus gasoline, will be more expensive.

6. As a consequence of the various scandals concerning Chinese-made toys and other products, Chinese imports to the US fall. It follows, therefore, that
A. Chinese acquisition of American assets (e.g., treasury bills, stocks, bonds, etc.) will decrease.
B. Chinese acquisition of American assets will increase.
C. The American capital account surplus vis-à-vis the Chinese increases.
D. The Chinese current account surplus vis-à-vis the US increases.

**A. Lecture 1:** Balance of payments — if we import less from abroad, then foreigners must buy less of our assets.

7. When doing business on behalf of an American company in a foreign country with rampant bribery you are prohibited from bribing foreign officials by what?
B. The Foreign Corrupt Practices Act (FCPA).
C. The General Agreement on Tariffs and Trade (GATT).
D. Nothing, it is perfectly legal under US law for a representative of a US company to bribe a foreign official.

**B. Lecture 2, slide 28.**
8. If you were considering building a factory in Pakistan, analyzing the potential consequences of the current political unrest there would be part of what activity?
   A. AURA analysis.
   B. SWOT analysis.
   C. Country risk assessment.
   D. A currency hedging strategy.
   
   **C. This is a large part of what country risk assessment is.**

9. The corporate form of organizing a firm dates back to?
   A. 1600.
   B. 1700.
   C. 1800.
   D. 1900.
   
   **A. Lecture 6, Slide 16. The first corporation was the East India Company, chartered in 1600.**

10. In an IPO, the role of the investment bank is to?
    A. Provide angel financing.
    B. Help your company make investments overseas.
    C. Underwrite the stock offering.
    D. Assist you in selling bonds.
    
    **C. Lecture 7, Slide 23.**

11. **SWOT** analysis is largely subsumed by
    A. An analysis employing Murphy’s Law.
    B. An analysis using only the Porter Five Forces Model
    C. An analysis employing the 5 + 2 model and the AURA model.
    D. An analysis using the 5Ds and the 4Ps.
    
    **C. Lecture 4, Slide 3. Using the 5 + 2 model and the AURA model will cover strengths, weaknesses, opportunities, and threats.**

12. You own a downtown restaurant. Which of the following would you least like to see open near you?
    A. A video rental store.
    B. A movie theater.
    C. A parking garage.
D. A repertory theater.

A. Lecture 3, the 5 + 2 model: Choices B–D are all complementary products to a dinner out. Choice A is not. Indeed, it is arguably a complement to a substitute product, namely dining at home.

13. Your company sells bottled unsweetened iced tea. Due to increased demand for ethanol, the prices of sweeteners and, thus, the prices of carbonated soft drinks (e.g., colas) rise. This is

A. Bad for your company.
B. Good for your company.
C. Something that cannot affect your company either positively or negatively.
D. Something you could have hedged against by buying currency futures.

B. Lecture 3, the 5 + 2 model: The price of a substitute good rises, which increases demand for your product.

14. The following are all potential threats from suppliers except

A. Lack of price rivalry among suppliers.
B. Concentrated supply industry (i.e., only a few potential suppliers).
C. Entry into the supply industry.
D. Foreclosure.

C. Lecture 3, the 5+2 model: (C) is good for you because it increases competition in the supply industry, thereby making it feasible to get supplies at lower prices. The other choices are all threats.

15. Which of the following is not one of the 5 + 2 forces?

A. Complements.
B. International trade.
C. Customers.
D. Substitutes.

B. Lecture 3, the 5 + 2 model.

16. Under the AURA model, if your firm has a resource that is advantageous, unique, but replicable, then a relevant strategic issue is?

A. Determining if the resource provides you an absolute or comparative advantage.
B. Is your firm able to exploit the resource and, if not, how does your firm fix that?
C. Is your firm locked in to that resource and is it, thus, vulnerable to holdup?

D. Determining how to get rid of the resource as quickly as possible.

B. Lecture 4, Slide 8.

17. The “u” in aura stands for

A. Ubiquity.
B. Understanding.
C. Uncompetitive.
D. Uniqueness.

D. Lecture 4.

18. You manage a chip fabricator. Your firm develops and patents a way to manufacture chips more cheaply than competitors. From the standpoint of the aura model, your strategic focus should be?

A. Designing your strategy to exploit the short-run advantage you now enjoy.
B. Designing your strategy to exploit the long-run advantage you now enjoy.
C. Raise prices to take advantage of your cost advantage.
D. SWOTting your rivals by launching a price war.

B. Lecture 4. A patent eliminates replicability, so this is a long-run advantage.

19. The dimension you least want to compete on is?

A. Quality.
B. Reputation.
C. Price.
D. Time.

C. This is the golden rule of competitive strategy (see Lectures 3 and 7).

20. Which of the following is not a reason that new businesses fail?

A. Managerial incompetence.
B. Weak control systems.
C. Insufficient capital.
D. Attracting the attention of VC firms.

D. See p. 87 of Ebert & Griffin. (D) is a reason firms succeed.
21. Which of the following is unlikely to be a concern when considering how much to invest in pollution controls in a factory you build in a foreign country?

   A. Likelihood of civil unrest in the foreign country.
   B. Different legal systems.
   C. Domestic repercussions.
   D. United States product-safety regulations.

**D. Lecture 2:** US product-safety regulations pertain to the product, not how it is made.

22. In Figure 1, if Firm B were to move at the bottom node for Firm B (i.e., following “original product”), it would choose

   A. Do nothing.
   B. Keep price.
   C. Neither of the above two actions as both are incredible threats.
   D. Cut price.

**B. Lecture 5:** 7 > 6, so Keep Price beats Cut Price. This means Keep Price is a credible threat. (A) is not an option at that node.

23. In the solution (subgame-perfect equilibrium) to the game in Figure 1, firm A’s payoff is

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A. 5.
B. 0.
C. 3.
D. 2.

C. Lecture 5: The subgame-perfect equilibrium is Firm A produces its original product and Firm B keeps its price.

24. Suppose, prior to the start of the game in Figure 1, Firm A sued and had B’s patent invalidated. Now B cannot sue A for copying its product (i.e., that “branch” of the “tree” is removed). The effect on the solution of the game would be?

A. It wouldn’t change the solution because Firm B would never sue in the original game.
B. It wouldn’t change the solution because Firm B’s decision in the original game proved to be deciding between cutting price and keeping it where it was.
C. It would change the game because now Firm A does better to copy B’s product.
D. It wouldn’t change the solution because Firm A does better to offer its original product regardless of what it thinks Firm B would do were it to copy.

C. Lecture 5: $5 > 3$ and $5 > 2$.

25. Which of the following strategies is likely the worst way to deter entry?

A. Create a frequent-buyer program.
B. Sign all the relevant suppliers to long-term contracts.
C. Build excess capacity.
D. Threaten a price war even though a price war wouldn’t be in your interest.

D. Lecture 5: (D) is an incredible threat.

26. It is better for the firms to be in an industry that is not concentrated because?

A. It is feasible to establish price discipline (tacit collusion).
B. More firms mean more “pieces of the pie.”
C. Price competition is fierce.
D. It isn’t better for firms to be in an industry that is not concentrated.

D. Lecture 3: From $5 + 2$ analysis, it is better to be in a concentrated industry.
27. The statement that small businesses are the main engines of job creation is misleading because?
   A. Small businesses only hire a few people.
   B. Small businesses are notoriously reluctant to hire.
   C. Small businesses often fail or contract, so they destroy roughly as many jobs as they create.
   D. It is not a misleading statement in the least.
   
   C. Lecture 6, Slide 8.

28. An advantage of the corporate form is
   A. Limited liability.
   B. The separation of ownership and control.
   C. The fact that profits are first taxed using the corporate tax rate.
   D. The fact that holders of common stock have priority over all other security holders.
   
   A. Lecture 6. (B) and (C) are disadvantages. (D) is factually incorrect.

29. In the United States, incorporation is done at the ______ level.
   A. Federal.
   B. State.
   C. County.
   D. Municipal.
   
   B. Lecture 7.

30. The residual claimants in a corporation are
   A. No one.
   B. Holders of common stock.
   C. Banks that have lent the corporation money.
   D. Holders of corporate bonds.
   
   B. Lecture 6. Holders of common stock have lowest priority; they get what’s left over.

31. Webvan was a poorly conceived business because
   A. people hate having their groceries delivered.
   B. it had no significant advantages over existing supermarket chains.
   C. its website required too much bandwidth given the then prevalent technology.
D. the firm did not properly use the foreign exchange markets to reduce its exposure to currency risk.

B. Section.

32. Applying the AURA model to an entrepreneur, you should launch your company only if

A. your concept (i.e., product, service, etc.) is common and easily replicated.
B. you have a successful IPO.
C. your concept is currently unique, but readily replicated and can’t be protected under IP law.
D. your concept is unique and can’t be quickly copied.

D. Lecture 7.

33. Obtaining VC financing

A. is something that only a partnership can do.
B. means giving up a certain amount of control over your firm.
C. means obtaining your productive assets via leasing.
D. is the same thing as obtaining financing from angel investors.

B. Lecture 7.

34. Entrepreneurship is difficult because

A. it is impossible to obtain financing.
B. it is nearly impossible to incorporate a new company.
C. there is no “low-hanging fruit” ($100 bills on the sidewalk).
D. most entrepreneurs don’t start high-tech businesses.

C. Lecture 7. (A) and (B) are clearly false. (D) isn’t a logical answer.

35. This is version A. Write A on the identification section of your Scantron and bubble in A for this question.