***Test Syllabus: International Business: Environments and Operations,* 15e, Global Edition (Daniels et al.)—For student use only; do not repost or redistribute.**

Chapter 10 Global Debt and Equity Markets

1) Global Positioning Solutions Inc. is a Utah in the USA based company that ________.
A) provides location assistance for global executives who travel frequently
B) is a division of a banking syndicate in the Western part of the United States
C) assists firms that have foreign-exchange needs but that lack in-house foreign-exchange teams
D) started out by providing foreign exchange services that were not being offered by commercial banks
2) A major challenge to Global Positioning Systems in providing foreign-exchange services to its clients is that ________.
A) GPS lacks access to major foreign exchange quoting services
B) GPS has to constantly upgrade the quality of the services it offers
C) GPS cannot provide individualized attention to its customers, so it has to commoditize its product lines
D) new regulations have stopped GPS from selling foreign-exchange services that compete with the banks
3) The long-term financing dimension of cash management ________.
A) deals with the selection, issuance, and management of long-term debt and equity
B) is unaffected by currency changes because everyone borrows in U.S. dollars
C) focuses on the analysis of investment opportunities
D) is independent of the capital structure of an MNE
4) The financial management activity that determines the proper mix of debt and equity is ________.
A) capital structure
B) long-term financing
C) capital budgeting
D) working capital management
5) The CFO's (Chief Financial Officer) function in a company focuses on ________.
A) improving distributor relationships
B) acquiring financial resources
C) handling accounting issues
D) creating financial statements
6) Acquiring and allocating financial resources among the company's activities and projects is the responsibility of the ________.
A) accounting function of the firm
B) external auditors
C) CFO
D) financial marketing manager
7) The degree to which a firm funds the growth of a business by debt is known as ________.
A) leveraging
B) equity financing
C) hedging
D) after-tax cost of debt

8) The concept of leveraging in finance refers to ________.
A) the degree to which companies rely on foreign exchange to fund operations
B) how a company hedges its foreign currency obligations
C) the degree to which a firm funds the growth of a business by debt
D) how much cash the CFO has in the bank
9) According to 2010 data, which of the following statements about the mix of debt and equity to fund operations is true?
A) The debt/asset ratio has risen in Japan since 2007.
B) A growing number of Russian firms are relying more on debt.
C) The equity/asset ratio fell for firms in France and Germany since 2007.
D) In most emerging markets, shares of stock are broadly held, like in the U.S.
10) MNEs most likely use offshore debt markets ________.
A) to hide their cash from tax authorities
B) to take advantage of their ability to access capital in different countries
C) since debt in foreign countries is always cheaper than in the home country market
D) because investors don't like to invest in companies that only raise capital in their home markets
11) Which of the following is NOT an advantage associated with Eurocurrencies?
A) more convenience for users
B) better yield for lenders
C) tighter U.S. regulation
D) cheaper lending rates
12) Which of the following is a characteristic of the Eurocurrency market?
A) The Eurocurrency market is both short and medium term.
B) Private borrowers are the major players in the Eurocurrency market.
C) The Eurocurrency market is a retail, rather than wholesale, market.
D) The interest rates in the Eurocurrency market are about the same as in domestic markets.
13) LIBOR is best defined as the ________.
A) interest rate of the National Bank of London
B) short-term interest rate for dollars held in the Eurodollar market
C) interest rate of the European Union
D) deposit rate that applies to commercial loans in the European Union
14) A situation in which several banks pool resources in the Eurocurrency market to extend credit to a borrower and spread the risk is known as ________.
A) credit collaboration
B) leverage equity financing
C) syndication
D) short-term Eurocurrency financing
15) A bond issue floated by a U.S. company in dollars in London, Luxembourg, and Switzerland by a syndication of bonds is an example of a ________.
A) global bond
B) domestic bond
C) Eurobond
D) foreign bond

16) Which of the following countries has the largest market for domestic bonds?
A) the U.K.
B) the U.S.
C) Japan
D) China
17) A bond issued by a Brazilian company in British pounds in London is a ________.
A) Eurobond
B) global bond
C) local bond
D) foreign bond
18) Firms most likely borrow money in the international bond market to ________.
A) guarantee high yields and low rates
B) enable diversification of funding sources
C) protect against costly government regulations
D) allow emerging markets to invest in foreign exchange
19) Brooke buys shares of stock in a small bakery in a foreign country in return for an ownership position and promised capital gains. This is an example of ________.
A) equity securities
B) debt financing
C) playing the stock market
D) investing in Euroequities
20) The market for shares sold outside the boundaries of the issuing company's home country is the ________.
A) Eurocurrency market
B) international bond market
C) international equity market
D) Euroequity market
21) The stock market is also known as the ________.
A) capital market
B) foreign-exchange market
C) bond market
D) equity-capital market
22) A negotiable certificate issued by a U.S. bank to represent the underlying shares of a foreign corporation's stock is called a(n) ________.
A) Euroequity
B) American Depositary Receipt
C) Global Depositary Receipt
D) European Depositary Receipt
23) The best way for a Euroequity to get a listing in the United States is to issue a(n) ________.
A) Global Depositary Receipt
B) European Depositary Receipt
C) American Depositary Receipt
D) Domestic Depositary Receipt

24) When Sistema, a Russian company, issued a U.S. dollar stock offering in London, its shares were classified as a(n) ________.
A) Global Depositary Receipt
B) American Depositary Receipt
C) European Depositary Receipt
D) International Depositary Receipt
25) What is the main challenge companies face in listing ADRs in the United States?
A) paying costly fees and tariffs
B) complying with SEC reporting requirements
C) listing shares in U.S. dollars instead of Eurodollars
D) conducting time-consuming performance evaluations
26) A city or country that provides large amounts of funds in currencies other than its own is a(n) ________.
A) offshore financial center
B) ADR facilitator
C) interbank market
D) currency regulator
27) Which of the following is a characteristic of most offshore financial centers?
A) strict domestic regulation
B) minimal banking activities
C) large foreign currency markets
D) nominal or non-existent tax rates
28) Which of the following has extensive banking activities involving short-term financial transactions?
A) booking center
B) operational center
C) foreign-exchange market
D) international regulatory market
29) What is the primary concern about offshore financial centers?
A) engaging in illegal activities
B) enabling firms to avoid taxation
C) allowing the transfer of large funds
D) existing in politically risky environments
30) Capital budgeting is best described as the ________.
A) process that determines which countries will receive capital investment funds
B) procedure for determining the proper mix of debt and equity for a country
C) proper management of a country's current assets and liabilities
D) simplification of corporate tax procedures
31) Which of the following is unique to foreign project assessment in the capital budgeting decision?
A) Project cash flows must be determined.
B) Parent cash flows and project cash flows are the same.
C) Local tax issues affect the determination of free cash flows and the remittance of earnings.
D) Inflation is not an issue, because companies use the same inflation rate in both the domestic and international setting in order to make the analysis more comparative.

32) Vale, the large Brazilian mining company, is trying to decide if it wants to invest in a Canadian nickel mine. Which of the following questions is LEAST relevant to Vale's capital budgeting decision?
A) How will differing rates of inflation in Canada and Brazil affect the parent and subsidiary?
B) How will dividends be affected by the Canadian and Brazilian tax systems?
C) What is the difference in inflation rates between Brazil and Canada?
D) Does Brazil or Canada have the absolute advantage in exporting?
33) One way to account for the challenge of the variability of future cash flows is to ________.
A) adjust the hurdle rate for the project
B) use the most likely cash flow estimate
C) ignore different rates of inflation to prevent confusion
D) leave out a consideration of the terminal value of an investment
34) Which of the following is NOT a major internal source of funds available to MNEs?
A) intercompany loans
B) equity investments by the parent company in its subsidiaries
C) equity capital raised within the country where the subsidiary is located
D) intercompany receivables and payables
35) The process of coordinating cash inflows and outflows among subsidiaries so that only the balance in cash is transferred is known as ________.
A) dividend remissions
B) transfer pricing
C) multilateral netting
D) currency hedging
36) Multilateral netting in global cash management is best described as ________.
A) establishing a safety net so companies don't run out of cash
B) coordinating cash inflows and outflows among subsidiaries
C) transferring currencies among subsidiaries to exhibit transparency
D) transferring funds in the absence of a good cash budget or loan arrangement
37) A foreign-exchange exposure that occurs because of a change in the value of exposed assets or liabilities of foreign currency financial statements is a(n) ________.
A) translation exposure
B) transaction exposure
C) economic exposure
D) hedge exposure
38) The effect of an exchange-rate change on the financial statements of a foreign subsidiary ________.
A) generally results in a foreign-exchange gain
B) generally results in a foreign-exchange loss
C) is neither a gain nor a loss because of accounting rules
D) is either a net gain or a net loss
39) FTX, a U.S. electronics firm, has operations in Japan. Currently, the yen is rising against the dollar. Which of the following will most likely occur?
A) Translated earnings will be higher than before the strengthening of the exchange rate.
B) Translated earnings will be lower than before the strengthening of the exchange rate.
C) There will be no gain or loss on translating the financial statements into dollars.
D) The gains or losses will not affect earnings per share and stock prices.

40) Diego is a Brazilian mining company that has operations in Canada. Currently, the Canadian dollar is falling against the Brazilian real. Which of the following will most likely occur?
A) Translated earnings will be lower after the fall in the dollar.
B) Translated earnings will be lower than before the strengthening of the dollar.
C) Translated earnings will be higher than when the Brazilian real was worth more.
D) The gains or losses on translated earnings will not affect earnings per share and stock prices.
41) A transaction exposure for a U.S. company ________.
A) occurs when the dollar value of a payable from exports changes as the exchange rate changes
B) generally takes place when foreign currencies weaken against the dollar
C) occurs when reporting systems are inadequate
D) does not result in a gain or loss in cash flows
42) If a U.S. company exports to Canada and the sale is denominated in Canadian dollars, which of the following is true?
A) The U.S. company would report a gain if the U.S. dollar rises against the Canadian dollar.
B) The Canadian company would report a gain if the Canadian dollar falls against the U.S. dollar.
C) The U.S. company would report a loss if the Canadian dollar falls against the U.S. dollar.
D) Exports do not result in a gain or loss.
43) If a British company exports to a German company and the export is denominated in euros, which of the following is true?
A) The German company would experience a loss if the euro strengthens against the pound.
B) The British company would experience a gain if the euro strengthens against the pound.
C) The British company would not experience a gain or a loss because the sale is denominated in euros, not pounds.
D) Exports result in translation exposures but not transaction exposures.
44) A Japanese company exports merchandise to a U.S. importer for ¥1,000,000 when the exchange rate is ¥107 per dollar. Payment is not due until the end of the month. At the end of the month, the exchange rate has moved to ¥105 per dollar, and the U.S. importer pays the Japanese exporter for the merchandise. From the standpoint of the U.S. importer, ________.
A) there is no transaction exposure since they will sell the merchandise in the United States for dollars
B) the merchandise will be carried on the books at $93,468 (rounded)
C) the Japanese exporter will be paid $9,524
D) the exposure is considered to be a translation exposure, not a transaction exposure
45) Which term refers to the potential for change in expected cash flows that arises from the pricing of products and the location of investments?
A) translation exposure
B) transaction exposure
C) economic exposure
D) hedge exposure
46) An economic exposure ________.
A) occurs when reporting systems are inadequate
B) generally takes place when foreign currencies weaken against the dollar
C) occurs when the sourcing and costs of components change as exchange rates change
D) is the same as a translation exposure

47) Assume a U.S. exporter sells to a British importer and denominates the sale in dollars. If the dollar rises over time against the British pound, what types of economic exposure and/or possible strategies could the exporter or importer face?
A) The U.S. exporter has no economic risk because the sale is denominated in dollars.
B) The British importer has only economic risk if the dollar falls against the pound.
C) The U.S. exporter could lower prices in order to reduce the cost to the importer and thereby keep up sales volume.
D) The U.S. exporter does not face an economic exposure, but the British importer does because it must pay in dollars.
48) An example of an operational hedging strategy against foreign-exchange risk is ________.
A) using a forward contract to establish a fixed exchange rate for future transactions
B) using local debt to balance local assets
C) using a foreign currency option to ensure access to foreign currency at a fixed exchange rate for a specific period of time
D) not using leads and lags for intercompany payments
49) A hedging instrument that allows one to establish a fixed exchange rate for future transactions where delivery is required is a(n) ________.
A) option
B) investment contract
C) future spot contract
D) forward contract
50) Assume that a Canadian exporter sells to a French importer and denominates the sale in euros, which opens the exporter up to foreign-exchange risk. Also, assume that the exporter goes to its investment bank and enters into a contract with the bank to gain the right but not the obligation to deliver euros for Canadian dollars at an agreed-upon exchange rate. This is an example of a ________.
A) lead strategy
B) lag strategy
C) foreign-currency option
D) forward contract
51) A U.S. importer buys merchandise from a German manufacturer worth €100,000 when the exchange rate is €0.6451 per dollar with payment due in 30 days. The importer decides to enter into a forward contract to deliver dollars for euros for €0.6329. At the time the payment is due, the spot rate is €0.6711. Based on this, which of the following is true?
A) The importer would have paid more for the merchandise at the future spot rate than at the forward rate.
B) The importer will have to pay $67,110 for the merchandise.
C) There is no foreign-exchange risk to the importer since the sale is denominated in euros.
D) The exporter will receive €100,000 for the sale.
52) Foreign branch income is ________.
A) deferred from U.S. taxation until a dividend is remitted to the parent company
B) considered passive income and therefore not subject to U.S. taxation
C) directly included in the parent's taxable income in the year in which it is earned
D) considered active income and therefore deferred until future years

53) Foreign source income that is derived from the active conduct of a trade or business and therefore subject to U.S. taxation is known as ________.
A) passive income
B) active income
C) uncontrollable foreign corporation income
D) tax haven income
54) Subpart F income is ________.
A) usually earned by a branch rather than a corporation
B) not taxed to the parent unless a dividend is remitted
C) not eligible for the tax credit
D) passive and usually derived from operations in a tax-haven country
55) According to U.S. tax law, if a foreign subsidiary earns income, ________.
A) its income is immediately taxable to the parent, irrespective of the type of income earned
B) that income is not taxable to the parent company as long as the subsidiary pays income taxes in the country where it is earned
C) passive income is taxable to the parent unless the parent company is a controlled foreign corporation
D) active income is taxable to the parent when it is remitted as a dividend
56) A price on goods and services sold by one member of a corporate family to another is known as a(n) ________.
A) transfer price
B) tax credit price
C) passive price
D) active price
57) If a foreign subsidiary is located in a low tax country, the parent company would probably use a ________.
A) high transfer price on inventory shipped from the parent to the subsidiary
B) high transfer price on goods sold by the subsidiary to the parent
C) low transfer price on inventory shipped from the subsidiary to the parent
D) tax credit price to minimize local tax liabilities
58) The OECD is concerned about transfer pricing practices because ________.
A) transfer pricing can help maximize a company's worldwide tax liability
B) transfer prices tend to be higher in industrial than developing countries
C) governments use transfer prices to manipulate companies' investment strategies
D) companies use transfer prices to manipulate prices and therefore taxes
59) The principle by which the tax authorities allow firms to reduce their tax liability by the amount of income taxes paid to foreign governments is known as ________.
A) transfer pricing
B) a tax credit
C) lag strategies in tax planning
D) passive income reductions

60) Assume that U.S. MNE A earns $100,000 of foreign source income, that the tax rate in the foreign country is 40 percent, and that the tax rate in the United States is 35 percent. How much total (both domestic and foreign) tax would the company pay on that foreign source income, assuming that the tax credit principle applies?
A) $40,000
B) $35,000
C) $75,000
D) $5,000
61) You are the chief financial officer at an MNE. What are your main responsibilities in this position? What taxation issues have a significant effect on the decisions you make?
62) What is an offshore financial center? What are the main characteristics of OFCs?
93) What is multilateral netting? What are the advantages of multilateral netting?
64) What is foreign currency translation exposure? How can this type of exposure affect an MNE?
65) What is capital budgeting? What types of risks are involved? How can an MNE manage these risks?
66) What is a transfer price? Why are transfer prices used?
67) What are the major sources of external funds for an MNE's normal operations? Why do MNEs use offshore financial centers to raise funds?
68) How do countries differ in terms of taxation? In regards to taxation, why do some MNEs turn to offshore financial centers? Why are offshore financial centers a concern to the OECD?
69) What are the major sources of internal funds for MNEs? Why do many MNEs acquire external funds through the Eurodollar market?
70) What is the difference between translation exposure, transaction exposure, and economic exposure?