

**MNI301J**

(475956)

May/June 2010

GLOBAL BUSINESS ENVIRONMENT (BUSINESS MANAGEMENT 301)

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

PROF PN PALMER

SECOND

MR RA AREGBESHOLA

EXTERNAL

PROF K OJAH (WITWATERSRAND)

Use of a non-programmable pocket calculator is permissible

This paper consists of **8 pages** plus instructions for the completion of a mark-reading sheet

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INSTRUCTIONSThis paper comprises two sections, namely **SECTION A** and **SECTION B****SECTION A**

- Section A comprises **TWENTY COMPULSORY** multiple-choice-questions
- Each question counts **ONE MARK**
- The total for this section is **20 MARKS**
- All the questions in this section must be answered in the **MARK-READING SHEET**

SECTION B

- Section B comprises **THREE** essay-type questions
- You must answer **ANY TWO** of the three questions
- Each question is worth **25 MARKS**
- The total for this section is **50 MARKS**
- Clearly indicate the numbers of questions you have answered in your examination answer booklet
- Also indicate the **numbers** of questions that you have answered on the **cover** of the examination answer booklet

This is a **closed-book examination** You may not consult notes of any kind, or any person except the invigilator, during the examination session

[TURN OVER]

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

Question 1

Which of the following best describes globalisation?

- 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?

- 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?

- 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 criterion 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

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?

- 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?

- 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?

- 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?

- 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?

- 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?

- 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-subsidary 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

SECTION B

- Answer **ANY TWO** of the following three questions in your examination answer book
- Indicate the numbers of the questions that you answered clearly and correctly in your examination answer book
- Also indicate the number of questions answered on the **COVER** of the booklet

QUESTION B1

- B1 1 Briefly discuss **FOUR** main forces, as identified by Stonehouse et al, that drive globalisation [5 marks]
- B1 2 Fully justify the use of non-tariff barriers as an instrument by governments to regulate free trade [10 marks]
- B1 3 Explain **dumping**, and how a government can address it? [5 marks]
- [25 marks]**

Question B2

- B2 1 Discuss and evaluate the key issues and environmental forces that have a direct impact on a company's understanding of the international business environment [10 marks]
- B2 2 Discuss and evaluate the various foreign exchange exposures that are peculiar to international business operation [8 marks]
- B2 3 Explain what transfer pricing is, and discuss its advantages? [7 marks]
- [25 marks]**

Question B3

- B3 1 Explain ways in which economic activity can be measured as a means of determining the level of economic development of a country [10 marks]
- B3 2 Discuss the **THREE** economic classifications of countries as suggested by Hough and Neuland [10 marks]
- B3 3 Briefly comment on the importance of purchasing power parity (PPP) in measuring the economic growth of a country [5 marks]
- [25 marks]**

[TOTAL MARKS FOR SECTION B: 50]

PART 1 (GENERAL/ALGEMEEN) DEEL 1

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INITIALS AND SURNAME
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For use by examination invigilator
 Vir gebruik deur eksamenopsiener

IMPORTANT

- 1 USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
- 2 MARK LIKE THIS
- 3 CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
- 4 ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
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- 7 CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
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PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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Specimen only

MARK READING SHEET INSTRUCTIONS

Your mark reading sheet is marked by computer and should therefore be filled in thoroughly and correctly

USE ONLY AN HB PENCIL TO COMPLETE YOUR MARK READING SHEET

PLEASE DO NOT FOLD OR DAMAGE YOUR MARK READING SHEET

Consult the illustration of a mark reading sheet on the reverse of this page and follow the instructions step by step when working on your sheet

Instruction numbers ① to ⑩ refer to spaces on your mark reading sheet which you should fill in as follows

- ① Write your paper code in these eight squares, for instance

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- ② The paper number pertains only to first-level courses consisting of two papers

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- ③ Fill in your initials and surname
- ④ Fill in the date of the examination
- ⑤ Fill in the name of the examination centre
- ⑥ WRITE the digits of your student number HORIZONTALLY (from left to right). Begin by filling in the first digit of your student number in the first square on the left, then fill in the other digits, each one in a separate square
- ⑦ In each vertical column mark the digit that corresponds to the digit in your student number as follows [-]
- ⑧ WRITE your unique paper number HORIZONTALLY
NB Your unique paper number appears at the top of your examination paper and consists only of digits (e.g. 403326)
- ⑨ In each vertical column mark the digit that corresponds to the digit number in your unique paper number as follows [-]
- ⑩ Question numbers 1 to 140 indicate corresponding question numbers in your examination paper. The five spaces with digits 1 to 5 next to each question number indicate an alternative answer to each question. The spaces of which the number correspond to the answer you have chosen for each question and should be marked as follows [-]
- ◆ For official use by the invigilator. Do not fill in any information here